ENABLING DREAMS

INTEGRATED ANNUALREPORT2013/14

MAKING IT HAPPEN TOGETHER

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ithala
DEVELOPMENT FINANCE CORPORATION LIMITED

VISION

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

MISSION

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

VALUES

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

CONTENTS

COMPANY INFORMATION

Group Company Secretary: LS Mahamba

Bankers: ABSA Bank Ltd

Auditors: The Auditor-General

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

Business Address: 17 Isilo Drive, Umlazi, 4066
PO Box 2801, Durban, 4000, KwaZulu-Natal, South Africa

Contact Details: Telephone: +27 31 907 8911 • Facsimile: +27 31 907 5685
Website: www.ithala.co.za

ABOUT THIS REPORT

Welcome to our first integrated annual report covering the period 1 April 2013 to 31 March 2014. It aims to provide a simple and concise overview of the performance and prospects of the Ithala Development Finance Corporation (Ithala, or IDFC), presenting the company's mandate, business model, strategy, the material issues it faces and its governance. Ithala's aim, as a state-owned entity, is to be responsive in its reporting to a breadth of stakeholders, including the Province of KwaZulu-Natal, our regulators, as well as our customers, employees and other stakeholder groups, including the communities in which we have played a role over the past 50 years. The reporting period covering the scope and boundary of the report includes the conclusion of the disposal of the undertaking of a significant portion of KZN Growth Fund Managers SOC Ltd and, as such, only key financial data pertaining to this entity is included in the Annual Financial Statements. Changes to the Ithala Act should further be noted, whereby Ithala Limited is now referred to as "Ithala SOC Limited".

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 36 to 40). Materiality is determined by the Board, in line with our mandate and the information requirements of our shareholder and regulators as well as other key stakeholder groups. In the drafting of this report, we have also taken account of the International Integrated Reporting Council (IIRC) Integrated Reporting Framework released in December 2013. We have further been guided by the South African Generally Accepted Accounting Principles (SA GAAP), the Companies Act, Act No. 71 of 2008 (Companies Act), the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and the King Code of Governance for South Africa (2009) (King III).

While this report marks the outset of our integrated reporting project, integrated thinking has to be the hallmark of our strategy into the future, as the organisation re-asserts its relevance in creating value in delivering on its developmental mandate.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking. These relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Ithala. Words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will' and 'should' and similar expressions are typically indicative of a forward-looking statement. 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.

ASSURANCE

The Ithala Audit Committee is responsible for reviewing and recommending the integrated report and the Annual Financial Statements to the Board for approval. The Board has applied its mind to the integrated report and believes that it addresses all material issues and fairly presents the performance of the Group. We have adopted a combined assurance model, which ensures a co-ordinated approach to assurance and aims to optimise the assurance coverage obtained. We employ a three lines of defence strategy, whereby management provides the first line of defence, risk provides the second line of defence, while internal audit and external assurance (Auditor-General) provides the effectiveness of our risk management of material issues.

Chairman

AUDITOR-GENERAL'S COMMENT

The Auditor-General has reviewed financial and non-financial parameters including the reporting of the Annual Performance Plan. The reported performance against pre-determined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well-defined, verifiable, specific, measurable and time-bound) and relevant, as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings on the performance information report concerning the usefulness and reliability of the information.

Auditor-General

Auditor-General

NAVIGATION

For ease of use, the cross-reference icon refers the reader to the parts of the report that contain relevant information.

WHO WE ARE

Who we are	• State-owned entity • KwaZulu-Natal's provincial development finance agency • Established and governed by statute, the revised Ithala Act 5 of 2013, enacted with effect from December 2013
Our mandate	• To promote, support and facilitate social and economic development in the Province of KwaZulu-Natal, in accordance with the Province's growth and development strategy and in an appropriate and sustainable manner
Our strategy	• Repositioning strategy: creating a compliant and capacitated organisation equipped to deliver on our developmental mandate • Drive to become self-sustaining through utilisation of all possible resources • Expand and upgrade existing properties and undertake new property developments
Business units within the Corporation	• Properties • Business Finance • Corporate Services
Subsidiaries of the Group	• Ithala SOC Limited • Ubuciko Twines and Fabrics (Pty) Limited • KZN Growth Fund Managers SOC Limited
Associate	• Ntingwe Tea Estate
Total assets	• Total assets of R4,5bn
Sources of funding	• Total equity of R2bn • Grant of R185m pa from Department of Economic Development, Tourism and Environmental Affairs for on-lending to SMMEs and Co-operatives • Self-funding mix for operations comprising deposits from Ithala SOC Limited • Loan book collections, interest income, rentals from properties, revenue from utilities (water and electricity) in industrial estates • Commission and fee income
Performance highlights	• Improved corporate risk, governance and internal audit structures and systems • Structural and business process re-engineering in Business Finance, Properties and Ithala SOC Limited, unlocking service delivery bottlenecks, directly translating to improved customer experience • Ubuciko Twines and Fabrics moving towards break-even and profitability • Reduction in non-performing loans within Business Finance • Large Properties projects commissioned during the course of the year • Enterprise Resource Planning System (JD Edwards) improvements in cross-functional and business information efficiencies • Health, safety and environmental strategy developed and adoption of an Integrated Health, Safety and Environment Management System framework • Internal performance management systems improved
Employee profile	• 903 employees, of whom 864 are Black • 516 (57%) are skilled or professionally qualified or higher • 447 (50%) are female
Financial performance	• Total income of R1,116bn • Profit up from R78,2m to R133,5m

WHO WE ARE

Business Unit Highlights	
Business Finance	• Profits up 135% year-on-year to R178,9m from loss of R75,9m • Credit impairments down 122% year-on-year to R46,3m from R102,9m • Advances of R435m • Credit collections up 10% year-on-year to R209m
Properties	• Gross lettable area of Ithala properties portfolio available to support growth is: Industrial - 984 822m², Retail - 171 524m² and SMME development - 38 031m² • Development of the Ithala Trade Centre office complex at Durban Point • Commencement of re-development of three shopping centres and the building of a new light industrial park at Mount Edgecombe • Increase in maintenance expenditure by R10,9m
Subsidiary Performance	
Ithala SOC Limited	• Turn-around strategy under implementation • Implementation of first phase of Hosted Banking System solution • Launch of new products
Ubuciko Twines and Fabrics (Pty) Ltd	• Intervention by business turn-around specialists • Strong increase in customer base • Positive moves in profitability levels towards break-even • IDFC to implement exit strategy
Associate	
Ntingwe Tea Estate	• Ithala 38% ownership • Employs 600 to 800 people in rural KwaZulu-Natal • Ithala finalised a turn-around strategy during 2013/14 • New funding being sought

Ithala has a 50-year legacy of development and empowerment among the historically disadvantaged communities of KwaZulu-Natal.

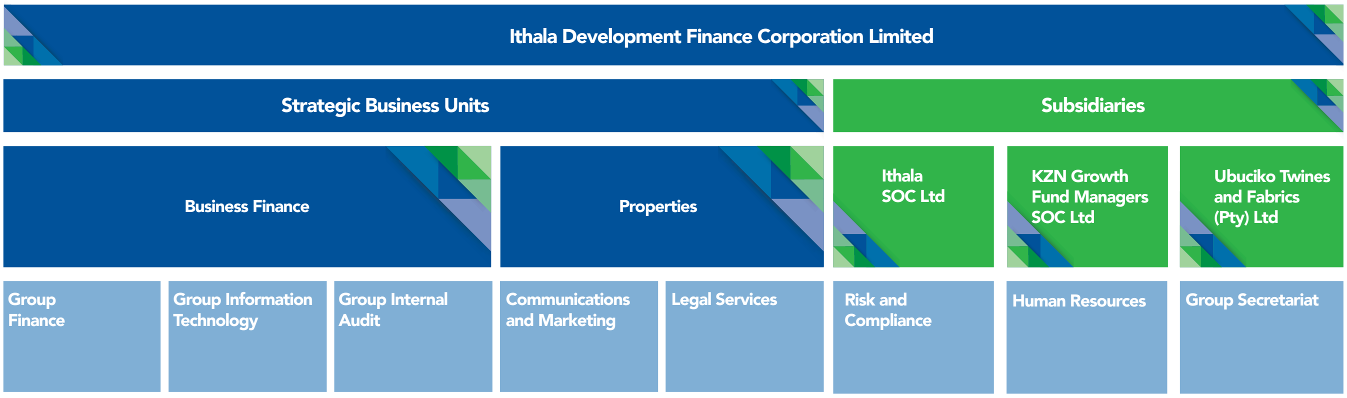
As a development finance institution, we are one of the key channels through which Government funding reaches communities.

We are pioneers in Small, Medium and Micro Enterprise (SMME) development, and are also the first to bank the unbanked communities and establish shopping centres in rural areas, stimulating development in remote regions of the Province. Ithala plays a finite role in improving the quality of life of people in its geographical focus areas.

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

We engage in a targeted range of activities including:
- Funding business enterprises, SMMEs and co-operatives;
- Entrepreneurial support and skills development;
- Commercial and industrial property development and management; and
- Savings, loans, insurance, home loans and banking services.

OPERATIONAL STRUCTURE



BUSINESS FINANCE

Business Finance provides financial and support services to SMMEs and co-operatives within KwaZulu-Natal.

Lending is focused on sectors in line with the Provincial Spatial Economic Development Strategy (PSEDS).

Cross Reference
See pages 47-48

PROPERTIES

Our Properties business is responsible for the management and development of Ithala's property portfolio that consists of large industrial, retail, light industrial and SMME properties.

In addition, Ithala Properties is an implementing agent for the construction and upgrade of schools and health clinics on behalf of the Province.

Cross Reference
See pages 49-50

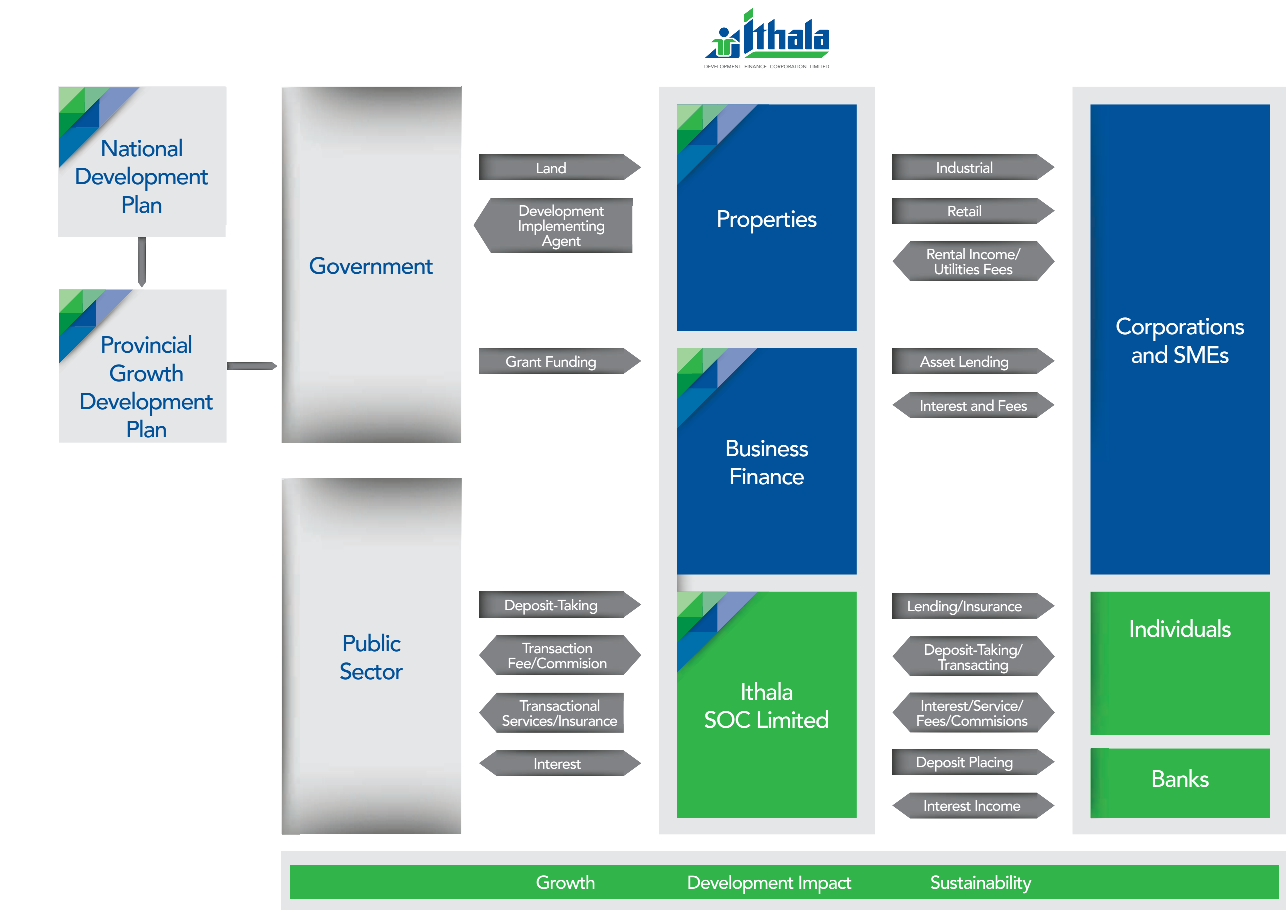
ITHALA SOC LIMITED

Ithala SOC Limited is a deposit-taking institution providing lending and insurance to individuals and the public sector.

This subsidiary operates under an exemption notice as a deposit-taking institution.

Cross Reference
See pages 51

OUR BUSINESS MODEL



Key:

Provides

Receives

As a result of our Business Model, our mandated development impact has resulted in the following:

Jobs created by funded SMMEs and Co-operatives	Over five years, 16 413 jobs created through our lending activities This year, 4 415 jobs created
Jobs created through property developments and maintenance	The continued support of about 40 000 jobs during the past five years This year, 384 jobs created
New SMMEs financed	The establishment of 1 053 new businesses during the past five years This year, 226 new SMMEs established
Total value of new financing approved	Total loans of R2,03bn advanced during the past five years This year, R832 million approved of which R435m was advanced
Agri-land financed	Advanced funding to provide 8 994ha of agricultural land

Cross Reference

Read about the values we create on pages 32-36

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DEVELOPMENT FINANCE CORPORATION LIMITED

MEC'S FOREWORD

Mr Michael Mabuyakhulu (MPP)

MEC for Economic Development, Tourism and Environmental Affairs

OUR PROVINCIAL FOCUS ON CONTRIBUTING TOWARDS THE ACHIEVMENT OF THE 20-YEAR NATIONAL DEVELOPMENT PLAN IS ABSOLUTE.

The KwaZulu-Natal Provincial Government has a bold vision; to transform KwaZulu-Natal into a key gateway to South and Southern Africa by 2030.

Accordingly, we need to drive and sustain economic growth and provide a catalytic role in order to achieve meaningful economic transformation and development, in the knowledge that we, in this Province, face the triple development challenges of poverty, inequality and unemployment.

These are, however, challenges we can overcome with a co-ordinated approach to the task at hand by all role-players.

We have taken our lead from the National Development Plan, which offers a long-term perspective and describes the roles various sectors must play if we are, indeed, to reach the identified destination.

Our Provincial Growth and Development Plan has been aligned to National imperatives and provides a clearly defined strategic direction for the future of our Province.

It is important, in this regard, that the public entities of the Provincial Government fill very specific spaces, deliver on their individual mandates and - in a post-election environment - adopt a synchronised approach to vigorously driving economic development.

Ithala Development Finance Corporation Limited, a public entity and member of our Economic Cluster, operates in a particularly critical space, facilitating development finance and promoting economic growth and empowerment throughout KwaZulu-Natal.

We have in recent times employed significant resources to ensure that through our four clusters, controlled by the Planning Commission in the Premier's Office, all participating organisations have the ability to perform specialist functions and work towards the achievement of a range of pre-set deliverables in the quest to realise a common goal... a prosperous, economically-advanced Province and better life for all.

Great effort has gone into ensuring the re-alignment of all such institutions, so enabling the establishment of a platform for a co-ordinated push for appreciably improved levels of economic development and lasting solutions to prevailing socio-economic obstacles.

Our Provincial focus on contributing towards the achievement of the 20-year National Development Plan is absolute. Ithala's role - in conjunction with our other like-minded players - within our Provincial Growth and Development Plan is clear.

Consequently, I have every confidence that we have the right agencies and the right people in the right spaces to impact meaningfully in taking our economy forward.

We should be aware that an improved and resilient economy will give effect to increased revenue generation, with the consequent creation of new permanent employment opportunities and improved levels of household income; developments which will go a long way towards easing poverty levels in KwaZulu-Natal.

It should be remembered that economic resilience may best be attributed to the effectiveness of policies and strategies implemented.

Features which give rise to the maintenance of such economic resilience include macro-economic stability, micro-economic efficiency, adherence to the principles of good governance and the efficient management of public resources and social development.

In essence and in the pursuit of developing in KwaZulu-Natal a resilient and compelling regional economy, we - together with our aligned public entities - are actively working towards the introduction of Special Economic Zones, lobbying National Government with regard to speedy implementation of infrastructural development, looking to introduce beneficiation programmes, promoting inward investment and the like.

In Ithala, we have an organisation occupying a space which has enabled the banking of poor, unbanked and marginalised communities, championed industrial estate and commercial centre development in rural areas and was one of the first to actively provide financial support for the emergent Small, Medium and Micro Enterprise business sector.

The development finance niche Ithala fills is a crucial component of our economic drive, given that it works to empower those whose futures and the futures of their children and grand-children was significantly inhibited as a result of being previously excluded from direct participation in the mainstream economy.

Looking forward and with the earlier implementation of a bold repositioning strategy, designed to ensure Ithala's improved sustainability and enhanced influence in vital areas of socio-economic development, the organisation has embedded itself as a key Provincial Government vehicle for the meaningful delivery of economic empowerment interventions for the direct benefit of the people of KwaZulu-Natal.

Given the organisation's track-record and the professionalism it has demonstrated in pursuing renewed business excellence, I have every confidence in Ithala's capacity now to continue making a telling contribution to our Province's growing economic growth curve.

Accordingly, I must express my most sincere thanks to the Chairman of the Board, Dr Mandla Gantsho, his fellow Directors and members of the organisation's Executive team for the leadership they have shown in steering Ithala on a new course.

This is a course destined to enable it to better deliver against its mandate, improving the lives of those for which it exists to serve.

With support, the resolve of its Board and the determination of its Executive Management and staff, Ithala's future lies in assisting us to bring to fruition the Province we envision, a Province which stands tall as a leading gateway to South and Southern Africa and one which offers all our people a safe, healthy and sustainable environment.

With our co-ordinated approach and unswerving focus, such an outcome for our Province is an indisputably attainable goal.

Mr Michael Mabuyakhulu (MPP)
MEC for Economic Development, Tourism and Environmental Affairs

STATEMENTS FROM OUR LEADERSHIP

Chairman's Letter to Stakeholders

Dr Mandla Gantsho

ITHALA HAS BECOME AN INCREASINGLY INFLUENTIAL CHANNEL FOR ECONOMIC GROWTH AND DEVELOPMENT IN KWAZULU-NATAL, MAKING IT A KEY PROVINCIAL ASSET.

The year under review has seen a renewed commitment and demonstrable progress towards reasserting Ithala Development Finance Corporation Limited (Ithala) as an effective and sustainable development group of entities which conform with best practice good corporate governance principles.

Development finance institutions, such as Ithala, play an important role in mobilising finance, expertise and technology generally, but more so during times of slowing economic activity which manifests itself in rising unemployment, inequality and poverty.

It is at times like these, when private capital market failure is exposed, that public sector institutions must step-up to fill the vacuum left by private capital flight to safety. Ithala is well-placed to provide strategic financing, technical support and catalytic entrepreneurial and empowerment solutions for creating income-generating opportunities and employment for small businesses and the marginalised poor people of the KwaZulu-Natal Province.

Therefore, I am pleased to report that the 2013/14 financial year was a hallmark period for Ithala as the organisation adapted to the circumstances by continuing and accelerating its organisational repositioning and instilling a culture of good governance, while at the same time, mobilising its own resources to implement key initiatives that are aimed at capacitating the retail and industrial economy and also empowering individuals and communities within the Province.

ORGANISATIONAL REPOSITIONING

During the 2011/12 financial year, the Board directed that the restructuring of the Business Finance Division should be concluded and lessons learnt be rolled-out to the Properties Division and retail banking subsidiary, Ithala SOC Limited.

It is gratifying to report that Ithala's Business Finance operating model and credit management processes have been overhauled, resulting in a demonstrable improvement in the quality of the loan portfolio and of our balance sheet.

The repositioning of the Properties Division and Ithala SOC Limited has begun in earnest.

The injection of new expertise into the Properties Division will continue during the forthcoming financial year, but it is worth noting that capacity enhancements during the year under review have yielded positive results when measured in terms of new property developments, such as the Ithala Trade Centre and Mount Edgecombe Paramount Park, which Ithala supported after a long stagnation in this area.

This will add more capacity to retail and industrial economic activity in the Province. The Board also directed that Ithala SOC limited should be restructured to reduce its cost-to-income ratio to below 91% and, thus, return it to profitability within the next two years. This will unfortunately result in some rural branches being closed or transformed into mobile banking facilities, making more use of technology and less of bricks and mortar infrastructure. During the year under review, Ithala SOC Limited installed a mission-critical core banking system aimed at boosting its ability to diversify its revenue base.

The ultimate objective for Ithala SOC Limited is for it to be granted a permanent banking licence and to attract a strategic partner to assist it scale-up its activities and broaden its client base and geographical scope of operational coverage.

All Ithala businesses are well positioned to actively participate in and support growth initiatives and opportunities presented by strategic economic development policies and strategies, such as the Special Economic Zones initiative, spearheaded by the Provincial Department of Economic Development, Tourism and Environmental Affairs.

In essence, significant progress has been made during the implementation of the current phase of the organisational repositioning strategy towards the goals of instilling a culture of good governance in our business, significantly reducing the large non-performing loan book in Business Finance, stemming rental revenue losses within the Properties Division and returning Ithala SOC Limited to profitability.

GOVERNANCE

The Board of Ithala is totally committed to attaining and maintaining the highest possible standards of corporate governance and the promotion of ethical business behaviour, with zero tolerance for any form of fraud, theft or corruption.

This commitment, and the strides made towards achieving it, are borne-out by the fact that during the year under review, Ithala received the cleanest ever audit report from the Auditor-General.

I commend the Honourable MEC, Mr Michael Mabuyakhulu, and the Board of Directors for driving the 'clean audit' initiative for our organisation.

As a public entity, we go further than our own corporate structures and practices, seeking to inculcate the very same core governance values of accountability, responsibility, transparency and fairness with our clients, suppliers, shareholder and, indeed, the broader KwaZulu-Natal public.

This is an ongoing endeavour and one which we believe must evolve in line with the changing business and social environment in which we operate.

Linked to our fiduciary responsibilities, as detailed in the King Report on Governance for South Africa and related codes, a key decision by our Board during the 2013/14 financial year was to adopt an integrated approach to our annual performance review, thus embracing best practice in integrated reporting going forward.

Accordingly, this review of our 2013/14 financial year provides, for the first time, a holistic and integrated presentation of our organisation's performance in terms of both its finances and its sustainability, whilst also presenting forward-looking information to allow stakeholders to make an informed assessment of the future value creation ability of our organisation.

THE FUTURE

Looking ahead, Ithala is positioned to play an active role in the facilitation of identified Special Economic Zone initiatives in the Province and to proactively create and co-ordinate business projects in various economic sectors, so as to maximise impact, as opposed to limiting responses only to proposals presented by applicants.

In addition, we will continue to explore alternative funding sources, beyond grant funding by Government, in order to advance small business lending activities, so stimulating economic activity, nurturing entrepreneurship and supporting employment creation.

We are also readying the Group to bank the public sector, so as to accelerate inclusive banking and lay solid foundations for the establishment of a Black-owned and managed bank in South Africa.

APPRECIATION

On behalf of the Board, the entire Ithala family, and in my personal capacity, I express my deepest condolences to the family and friends of Mrs Nomcebo Zondi, who passed away in May 2014 after a short illness.

Mrs Zondi was a Non-Executive Director of Ithala Development Finance Corporation for many years and she acted as Chairperson between November 2009 and May 2011. Her dedication to her work and steadfast belief in the ideal of a developed and poverty-free world will continue to inspire us. She was a dependable source of wise counsel to both my Board colleagues and myself. Her contribution to the Board and the people of KwaZulu-Natal will be sorely missed.

I record my continued appreciation to Mr Michael Mabuyakhulu (MPP), MEC for Economic Development, Tourism and Environmental Affairs, for his confidence in and support and guidance to me, as well as Ithala, during the past year.

We are also most grateful to the officials of the Department of Economic Development, Tourism and Environmental Affairs and, in particular, Head of Department, Mr Desmond Golding, for his ongoing support to our organisation.

I remain most grateful to my fellow Board members for their unfailing commitment to taking Ithala forward.

Their wisdom has been instrumental in guiding the organisation to where it is today.

Finally, I applaud Ms Yvonne Zwane, our Group Chief Executive, for her exceptional stewardship of the organisation.

In the same breath, I thank the entire Executive Management Team and our members of staff for their sterling effort in executing the strategies and interventions designed to position our organisation on the road to financial and developmental sustainability.

With a sound financial year behind us, I am convinced of Ithala's future ability to continue to improve and deliver development finance and empowerment solutions for the benefit of the people of KwaZulu-Natal.

I pledge Ithala's continued strong and smart partnership with the Government of KwaZulu-Natal in their effort to grow the Provincial economy, create employment and eradicate poverty and inequality.

Dr Mandla SV Gantsho
Chairman

Group Chief Executive Officer's Overview

Ms Yvonne Zwane

ITHALA HAS UNDERGONE SIGNIFICANT TRANSFORMATION IN ORDER TO ADDRESS PREVIOUS GOVERNANCE AND OPERATIONAL CHALLENGES.

INTRODUCTION

Leading academic institutions and business schools often remind us that while strategy lies at the heart of unlocking value, people remain at the heart of unlocking strategy.

In the case of Ithala's 2013/14 financial year, this view was most certainly reinforced, as the reporting period proved to be an energetic and invigorating period for all concerned and who, commendably, brought their very best to bear on the organisation's performance.

Whilst people continue to remain key to unlocking strategy, it is also people who remain the key recipients of successful strategy. As a pivot, a catalyst and a critical role-player in Provincial growth and development, Ithala continued to forge alliances, explore partnerships and broaden its focus areas as it delivered on its mandate.

During the past three years and under the guidance of the Department of Economic Development, Tourism and Environmental Affairs, Ithala has undergone significant transformation in order to address previous governance and, particularly, operational challenges.

Major strides have been made in that time, with the establishment of enhanced governance structures and the comprehensive strengthening of leadership across the Group.

As a direct consequence, overall business performance has reflected noteworthy improvement, as has the quality of our loan portfolio. Increased levels of business lending and the rejuvenation of our property portfolio indicate that Ithala is most definitely on an upward trajectory.

Importantly, too, such improvements came during a period which represented the middle, and most critical, phase of our organisation's repositioning strategy, which was implemented during the previous fiscal period.

This phase was designed and dedicated to entrench Ithala's position as the Province's pivotal development institution by expanding our existing business operations, strengthening business capacity, extracting value through cross-business unit synergies and supporting large-scale developmental projects.

At the level of service delivery, Ithala performed an enabling role which contributed substantially to Provincial economic development by supporting a range of objectives, inclusive of:

- **Job Creation**
  - Direct and indirect job opportunities were generated through funding, business support and other partnership opportunities;
- **Poverty Alleviation**
  - Ithala created and/or supported activities which contributed to poverty alleviation, including employment opportunities flowing from these activities;
- **Business Facilitation**
  - A variety of small business and co-operative ventures were launched through Ithala's provision of critical finance and business support;
- **Job Sustainability**
  - Through its catalytic interventions, Ithala provided infrastructure that facilitated economic activity and job sustainability;
- **Accessibility**
  - Ithala continued to make its Province-wide business properties portfolio accessible to urban and rural business communities at preferential rates;
- **Infrastructure**
  - Acting as a catalyst for strategic developmental infrastructure opportunities in the Province, Ithala partnered with the likes of the Department of Health and the Department of Education to provide crucial funding and/or support;
- **Affordability**
  - Ithala made affordable banking services accessible to the urban, the unbanked and the rural market segments of KwaZulu-Natal;
- **Housing**
  - Through its Permission to Occupy home loans programme, Ithala assisted in addressing Province-wide housing concerns.

In essence, Ithala demonstrated significant progress against set objectives. It should, however, be noted that our approach during the past two years has been inwardly focused.

With most of the milestones reached in this regard, the organisation is better capacitated now to engage in outward-focused initiatives to an ever greater degree to the benefit of our stakeholders and citizens of KwaZulu-Natal.

FINANCIAL PERFORMANCE

The Group recorded a profit of R133,5 million for the 2013/14 financial year which represents an increase of 71% year-on-year, but which remains 53% below the budgeted projection of R203,8 million. This can largely be attributed to the short-term effects brought on by organisational shifts as Ithala geared itself within the parameters of its repositioning strategy.

Ithala's Business Finance unit posted a profit of R178,9 million against a forecast of R235,1 million, which is R56,1 million adverse to budget. The Properties unit achieved a profit of R124,4 million, which is R23,6 million below budget. In this regard, the following issues impacted on the business units' performance:

Business Finance - The adverse variance is mainly due to the non-receipt of grant income of R37 million, which has been redirected to the Small Business Development Agency (SBDA), as well as the non-achievement of interest income budget.

Properties - The adverse variance is mainly due to the lack of the sale of assets resulting in non-achievement of profit on sale of these assets.

Ithala SOC Limited - Our deposit-taking subsidiary, posted a loss of R69,9 million, due primarily to the non-achievement of the fee income budget.

As mentioned in my previous report, a strategy to address this issue has been formulated and has since been implemented. The intent is to rapidly return Ithala SOC Limited to profitability.

MAXIMISING SOCIO-ECONOMIC VALUE CONTRIBUTION

It is worth recording that during the past five years we have:

- Created 16 413 employment opportunities through our lending activities;
- Supported approximately 40 000 jobs, particularly through our industrial property portfolio, where attractive rental rates are offered;
- Extended loans to a total value of R2,03 billion to support both SMME development and home purchases;
- Assisted in the establishment of 1 053 new business enterprises;
- Advanced funding to provide for 8 994 hectares of agricultural land; and
- Managed infrastructure spend on behalf of the Provincial Departments of Education and Health to build schools (R388 million) and clinics (R554 million).

During this period, it has been gratifying to realise the re-emergence of Ithala as a force for development.

It has been particularly satisfying to have, during recent years, overseen the rejuvenation and strengthening of an entity which represents a major asset to the Province and which should be a key instrument in giving effect to Provincial socio-economic growth and development strategies and programmes.

SEGMENT STRATEGIES

Ithala comprises three segmented operational entities tasked with strategy implementation and, of course, service delivery. They include Business Finance, Properties and Ithala SOC Limited.

All three have specific focus areas, although the strategic intent has always been that their respective mandates align to create a seamless customer value proposition.

Such service integration, however, hasn't been absolute, although Ithala is dedicated to creating a singular customer experience which continuously strives to exceed expectations. Apart from the above cross-functional focus of the business, the individual units have adopted segment-specific strategies which are specifically designed to contribute to the overall performance of the brand.

A range of these strategies are detailed below according to entity.

Business Finance

- Adopt a proactive position in facilitating business opportunities, as opposed to only responding to opportunities presented by applicants;
- Increase values and volumes of loan disbursements, inclusive of increasing the organisation's loan book, thus creating more business opportunities, ultimately leading to job creation;
- Reduce the percentage of non-performing loans; and
- Restructure lending products in order to align the application screening process to specific transaction types.

Properties

- Halt revenue leakages and strengthen internal systems to improve financial accounting and performance tracking;
- Optimise business models to enable best possible asset management and returns;
- Renew deteriorating assets to increase value and attract additional business through maintenance and development; and
- Initiate new large-scale projects and enable other revenue-generating property development opportunities.

Ithala SOC Limited

- Implement enabling technologies to support diversified customer transaction needs;
- Increase banking product offerings in order to stimulate transaction volumes, thus increasing transactional income;
- Venture into other banking offerings and markets to improve fee income, such as vehicle finance and public sector banking; and
- Maintain healthy liquidity levels and effectively meet criteria required to extend the organisation's exemption from the need for a banking licence.

CROSS-FUNCTIONAL INTEGRATION

Cross-functional integration is, perhaps, one of the most challenging issues affecting modern business today due to the fact that as corporate entities evolve, silo-like thinking often becomes a risk-mitigation tool that ensures strategic and operational focus.

While silo-like thinking isn't a critical issue for Ithala, individual units do, however, have fairly distinct focus. In this regard, cross-business synergies were explored during the period under review.

Progress, however, was somewhat hampered by the process of re-packaging business solutions, undertaken by the respective units during the reporting period, in line with the Group's repositioning strategy.

Group Chief Executive Officer's Overview

Cross-selling opportunities were, however, realised and these include such efforts as Ithala's Business Finance products being offered in conjunction with Ithala insurance products, together with the creation of leads into Business Finance product offerings and Ithala Limited banking products gathered at career and small business exhibitions by the Group Marketing and Communications Division.

There is, however, still room for improvement in this respect.

CHALLENGES

Equally, we face a number of challenges as we begin forging towards improved levels of sustainability. Our wholly-owned subsidiary, Ithala SOC Limited, posted a loss of R69,9 million in 2013/14.

However, the company has embarked on the expansion of other lending products to diversify its portfolio and mitigate against the concentration risk in its home loans book.

Its transactional accounts were dominated by savings at 61% of the deposits in the company's books, clearly emphasising the developmental role the company plays in mobilising savings in the financial market.

We are also attempting to secure alternative funding sources to supplement funding awarded by the shareholder towards SMME lending.

The requirement for additional funding is further necessitated by a need to support a properties infrastructure programme, inclusive of upgrading existing properties and constructing new buildings. Such assets upgrade will increase value and attract new business.

THE ROAD AHEAD - OUTLOOK AND PROSPECTS

Given that Ithala's success is dependent on our organisation's ability to facilitate employment opportunities, fund SMMEs and co-operatives, make possible industrial and commercial project development, acquire customers and explore, as well as support, appropriate infrastructural development opportunities, Ithala is now, more than ever, geared for success owing to the fact that:

- Our organisation is equipped with a strong and focused leadership team capable of delivering on our mandate, as well as further improving performance and accountability across all organisational systems;
- We have achieved more positive results from the business finance environment and seen an evident reduction of non-performing loans. Ithala has the capacity to manage additional resources in order to further facilitate business enablement through funding and business support;
- A revised Properties strategy will give fresh direction to a range of market opportunities which are readily available for Ithala to optimise and further open revenue streams, critically needed by the organisation to improve cash flow;
- Entry into the Public Sector banking environment has been given support by senior Provincial principals who have already set a target for some Government banking business to come to Ithala; and
- Ithala SOC Limited has implemented enabling technologies, albeit after a disappointing nine-month delay, to support diversified customer transacting needs and increase banking product offerings, so as to stimulate transaction volumes, in turn, increasing transactional income.

A major focus for the future will be the continued enablement of cross-business synergies and cross-selling opportunities.

The installation of a Customer Relationship Management System will assist in facilitating this cross-functional interface.

CONCLUSION

The 2013/14 financial year proved to be an exciting and challenging period in our history, in that key efforts to address many of the organisation's past challenges reached fruition and bore positive results.

I am confident that the building blocks for a progressive and energetic brand are now in place and we must move to broadening our activity base, forging ahead with the final phase of our repositioning strategy and, in the process, becoming the financial services provider and banker of choice in all the critical sectors we target.

A number of people need to be thanked for their contributions to Ithala's success during the past financial year and, critical among these, are the people who tirelessly give of their best to make Ithala what it is today. I thank my Executive Management colleagues, the teams they lead each day and, of course, the men and women who stand at the coalface of delivery.

My sincere thanks and appreciation also go to our Chairman, Dr Mandla Gantsho, and his Board colleagues, for their visionary leadership, which has greatly assisted our organisation refocus its energies and gear-up for the future.

Finally, I am also most appreciative of the inspirational and intellectual support of our shareholder representative and MEC for Economic Development, Tourism and Environmental Affairs, Mr Michael Mabuyakhulu (MPP), and the Head of Department, Mr Desmond Golding.

Our repositioning strategy is in full-flow and, as we move into the final phase of its implementation, we can look back with pride on the turn-around we have achieved to date and look to the future with confidence and a new sense of purpose.

Together, we are making it happen!

Ms Yvonne Zwane
Group Chief Executive Officer

OPERATING CONTEXT

REGULATORY ENVIRONMENT

Ithala operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives.

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

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

Ithala is the Holding Company for a subsidiary that operates under an exemption notice as a deposit-taking institution.

This subsidiary is regulated by the provisions of the Banks Act and is under the direct supervision of the South African Reserve Bank.

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

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

This framework utilises a four phase approach to identify, assess, manage and monitor compliance risk.

We recognise the value of regulation in protecting customers. For example, the National Credit Act (NCA) intends to address a range of challenges in the financial services sector, such as affordability, reckless lending, legislative misinterpretation and enhancing consumer education.

The Financial Intelligence Centre Act (FICA) is aimed at preventing money laundering.

The purpose of the Companies Act of 2008 is to promote compliance with the Bill of Rights as provided for in the Constitution in the application of company law, thereby promoting the development of the South African economy by encouraging entrepreneurship and enterprise efficiency and encouraging transparency and high standards of corporate governance.

The Banks Act protects the public by regulating and supervising the entities which take their deposits.

The Financial Advisory and Intermediary Services Act regulates the rendering of certain financial advisory and intermediary services to clients, and the Public Finance Management Act (PFMA) regulates financial management in National and Local Government.

OPERATING CONTEXT

THE ITHALA ACT

Ithala is governed by the Ithala Act. During the year under review, the revised Ithala Act 5 of 2013 was enacted with effect from February 2014.

Changes were required to align Ithala SOC Limited to the Companies Act as well as to allow the Minister of Finance the ability to manage Ithala SOC Limited in line with other financial institutions by the inclusion of a new chapter (chapter 7) that spells out clearly the powers of the company, the compliance requirements to the Banks Act and winding-up of the company.

ECONOMIC CONTEXT

South Africa has experienced a prolonged period of stunted economic growth. During the 2013 calendar year as a whole, the economy grew by only 1,9%, down from 2,5% in 2012 and 3,5% in 2011.

Growth in real GDP in 2013 was, with the exception of 2009 when GDP contracted, the lowest during the past 15 years.

On average, GDP annual growth amounted to 2,8% in the four years, from 2010 to 2013, compared against an average of 3,7% in the preceding 10 years.

The immediate future outlook remains gloomy, with GDP growth forecast for 2014 remaining below 3%. Further challenges to economic growth are:

- The continued weakness of the currency as forecast by the Bureau for Economic Research (BER) is for the Rand to average R10.65/$ in the fourth quarter of 2014;
- Rising inflation, particularly as a result of a weaker Rand;
- Pressure on consumer spending, which has been the mainstay of South African GDP growth in the past four years. Consumer spending growth has been easing since the 4th quarter of 2010, driven largely by a slow-down in real disposable income growth. Increasing cost pressures from the sustained Rand weakness, high administrative prices and weak employment dynamics are expected to further dampen real consumer spending;
- High levels of consumer indebtedness, which are likely to be exacerbated by expected further repo rate hikes in 2014;
- Rising impaired loan ratio's, especially at institutions that focus on unsecured lending, has resulted in a tightening of credit standards. Data from the National Credit Regulator suggests that the growth in credit extension to households has started to ease, whilst growth in unsecured lending to the low-income groups in particular is still slowing; and
- Growth in fixed investment remains slow particularly after the boon that preceded the 2010 FIFA World Cup. Government consumption is not likely to be a big growth driver as the Government struggles to meet its fiscal deficit targets this year in the face of weaker-than-expected growth. Furthermore, municipal under-spending continues to depress Government fixed investment, whilst private sector investment is likely to remain muted as long as sentiment is subdued. According to the BER, overall fixed investment growth of less than 4% is expected for 2014.

During times of economic depression, Government can stimulate economic activity through resources and programmes implemented by developmental financial institutions.

Ithala is one such institution which targets economically disadvantaged areas and provides economic infrastructure at reasonable rentals to attract investors. Further, Ithala assists SMMEs to establish businesses, thereby, contributing to economic growth.

The implications for Ithala of this domestic economic scenario are increasingly challenging. Lower manufacturing activity means overall decline in the sector and translates to bigger vacancies in the industrial property sector. This has a negative bearing on rental income for Ithala Properties.

Both our Properties and Business Finance segments may face increased risk of customers' business failure, which also has implications for increased spend in business support.

We are responding by placing greater emphasis on operational efficiency and effectiveness, as well as innovation which should result in new products and a particular focus on non-interest income revenue streams.

These strategies have become more important for financial sustainability.

Changing trends in the economy, such as the growth of technology and green sectors, make it necessary that we develop new skills to understand related applications and be able to grant finance in these sectors.

The sluggishness of the commercial property sector poses challenges for Properties.

However, KwaZulu-Natal Provincial Government's economic development plans, such as the Small Towns Rehabilitation Programme and the Special Economic Zones present opportunities for our Properties business unit.

Cross Reference
See page 20 for PGDP detail

We are part of the Department of Economic Development, Tourism and Environmental Affair's project steering committee for District Industrial Development and this presents industrial development as well as business finance opportunities.

Given our industrial property development experience, we should demonstrate our capability to be the developer of choice.

While Small, Medium and Micro Enterprises (SMMEs) are seen by policy-makers and Government officials world-wide as the ideal vehicles for economic growth and job creation, levels of entrepreneurship and growth in the SMME sector remain low. The failure rate of SMMEs is estimated at a high 70-80% in South Africa.

The National Development Plan (NDP) identifies several ways to support SMMEs.

Ithala supports the objectives of the Plan through its targeted procurement to stimulate demand for services from SMMEs, providing access to finance, as well as contributing to skills training.

It is hoped that the NDP can help to increase these low levels of growth in the entrepreneurial and SMME sector. Ithala Development Finance Corporation remains critically relevant and is well positioned to deliver on its mandate.

STAKEHOLDER CONTEXT

The Board promotes a stakeholder-inclusive approach towards the governance of Ithala. In determining our strategy to deliver on our mandate, we are bound to incorporate the material issues of stakeholders that have a direct or indirect stake in Ithala due to their being in a position to affect or be affected by our actions, objectives, and policies.

Stakeholder Group's Material Issues	Engagement Method and Frequency	Material Stakeholder Issue	Ithala's Response
National Treasury	Ongoing engagements with the Banking Licence Committee.	Meeting of banking licence requirements for Ithala SOC Limited.	• Turn-around strategy and business plan compiled Cross Reference Ithala SOC Limited has published its own Integrated Annual Report available at www.ithala.co.za
Provincial Government – to ensure Ithala assists Government to achieve economic development and empowerment objectives	Quarterly performance reports. Quarterly meetings. Annual General Meeting. Meetings with Legislature/Portfolio Committee.	Financial sustainability and viability. Alignment with Provincial Government economic development agenda. Efficient and effective utilisation of allocated funds.	• Shareholder's Compact signed with Department of Economic Development, Tourism and Environmental Affairs • Annual Performance Plan (APP) aligned to the Provincial Growth and Development Strategy and plan compiled and submitted to Treasury and the department • Quarterly performance reports against the APP are compiled and submitted to the department • Quarterly engagements with the department to discuss performance and achievement of targets • Attendance at Portfolio Committee meetings as and when required • The Executive: Communications and Marketing is responsible for stakeholder relations
Clients – require quality service relating to access transactional services, finance and business premises	Business Finance: Clients – pre-funding/ application for funding interaction. Post-funding interaction Internal annual customer satisfaction survey.	Accessible financial services. Affordable financial services. Non-financial support services. Excellent customer services.	• Business Finance has business centres throughout the Province • 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 • Incorporation of customer centricity targets to the performance plans
	Properties: Clients/Tenants – monthly visits and engagements.	Well-maintained commercial and industrial properties. Affordable rentals. Business premises in prime development nodes.	• Increased allocations for capital and maintenance expenditure • Competitive rentals and, in most cases, highly favourable rentals • Industrial and commercial premises located in growth nodes
	Ithala SOC Limited clients - Daily interaction.	Service levels, viability and customer experience.	• Meeting customer requirements and satisfaction levels is incorporated into key performance indicators • Tailoring products and services to customer requirements • Strategy to ensure Ithala SOC Limited's ongoing viability

OPERATING CONTEXT

Stakeholder Group's Material Issues	Engagement Method and Frequency	Material Stakeholder Issue	Ithala's Response
Regulators – ensuring that development credit is conducted in a responsible manner Ensure compliance to all applicable legislation	Regulatory reporting.	Responsible lending. Fair treatment of clients. Safe-keeping of client records. Good corporate governance.	• All regulatory reports completed on time • A fully capacitated compliance unit established and audited • Board approved lending policy to ensure sensible lending practices
Employees – favourable working conditions and an environment where jobs are secured	Quarterly briefings by the Group Chief Executive. Online 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 • Training and development, especially compliance training • Approved talent management and incentive scheme
Service Providers – require a fair and transparent procurement system and payments for services rendered to be effected in a timely manner	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
Trade Unions	Ongoing meetings with the Labour Forum.	Fair treatment of staff. Acceptable remuneration packages. Safe and secure working environment.	• Human Resources policies are in place • Annual salary increases are negotiated with the trade unions • Continuous maintenance of the working environment.

OUR VALUE CREATION STRATEGY

During the past three years, under the guidance of the Department of Economic Development, Tourism and Environmental Affairs, the Ithala Group has undergone significant transformation to address previous challenges of governance and operational efficiency. The establishment of enhanced governance structures and strengthening of leadership across the Group is resulting in improved business performance, the improvement of the quality of the loan portfolio, increased levels of business lending and the rejuvenation of the property portfolio. Our deposit-taking subsidiary, Ithala SOC Limited, continues to face difficult trading conditions, although progress has, indeed, been made in implementing a comprehensive turn-around strategy, which envisages a return to profitability within two years. Our progress reiterates our continuing relevance.

ITHALA'S REPOSITIONING STRATEGY

Phase	Re-platform Business	Deepen Current Business	Broaden Business Portfolio
Timings	2012 - 13	2013 - 14	2014 - 15 2021 - 22
Theme	*"Stop the Bleeding"*	*"Deliver on the Mandate"*	*"Broaden Activities"*
Focus	• Remediate loss-making business activities • Address internal capabilities and capacity needed to build a sustainable business model • Instil a culture of governance and professionalism • Enhance human capital (skills and recruitment)	• Expand existing business operations - Enhance Property and Business Finance credentials • Deepen business capacity • Extract cross-business unit synergies • Support large-scale development projects	• Identify and target business growth opportunities - Further expand existing operations - Initiate 'green field' business activities • Lead large-scale development projects • Become a banker of choice for the Provincial Government

The initial phase of Ithala's strategy sought to strengthen our internal capacity to deliver.

We achieved successes in the following:

- Structural reforms in Business Finance, Properties and Ithala SOC Limited. These revisions have improved compliance levels;
- Stronger corporate risk, governance and internal audit structures and systems, resulting in reduced occurrences of fraud and maladministration; and
- Ubuciko Twines and Fabrics showing positive moves towards profitability levels and break-even.

The mid-phase of the strategy implementation focuses on addressing business delivery issues and has shown the following results:

- Reduction in non-performing loans within Business Finance;
- Continued drive in performance management systems aligned to value creation;
- Large Properties projects commissioned in the course of 2013/14, such as the Ithala Trade Centre and Mount Edgecombe Paramount Park;
- Successful installation of phase 1 of the Hosted Banking System at Ithala SOC Limited; and
- JD Edwards Enterprise Resource Planning (ERP) upgrades and installations to improve cross-functional and business information efficiencies.

Overall, the first two phases of the strategy implementation have been characterised by efforts to strengthen the business and stop financial bleeding. This manifested in lost revenues to the Group.

The latter phase of the strategy implementation (2014/15 onwards) will continue to focus on the environment serviced by Ithala. It calls for the significant drive of our developmental agenda in line with our assigned mandate. This latter phase gives attention to the creation of new business opportunities and sees us acting in line with our core mandate in ventures in the Province.

This will become evident as Ithala:

- Plays an active role in the facilitation of identified Special Economic Zones (SEZ) and Industrial Economic Hubs (IEH)

OUR VALUE CREATION STRATEGY

initiatives in the Province;
- Creates and co-ordinates business developments in the economic sectors where we are positioned to make the most impact, rather than a reactive approach;
- Seeks partnerships to increase trajectory of investments into the Province, thereby, increasing levels of sustainability; and
- Ventures into the public sector deposit-taking arena through Ithala SOC Limited in order to gain market share in the Government Departments and Government employee market sectors.

In the process of recapitalising the Group, core to these activities are the utilisation of the Ithala Development Finance Corporation's balance sheet which will allow investment capital/"war chest" to be created.

ALIGNMENT OF ITHALA'S STRATEGY TO THE PROVINCIAL GROWTH AND DEVELOPMENT PLAN

Our five strategic goals are aimed at ensuring that Ithala remains the premier development agency in the Province.

In formulating activities to achieve these strategic goals, Ithala aligns itself to the Provincial Growth and Development Plan, which is a sub-set of the National Development Plan and 20-year vision of Government.

Our strategic goals are detailed below:

Strategic Goals	Provincial Growth and Development Plan Strategic Objectives (PGDP)	Ithala's alignment to PGDP
Job Creation	• Unleash agricultural potential • Enhance sectoral development through trade and investment • Improve efficiency of Government-led job creation programmes • Promote SMME and entrepreneurial development • Develop knowledge base to enhance knowledge economy	• Accelerated funding of SMMEs and co-operatives • Non-financial support services to SMMEs and co-operatives • Jobs created by funded SMMEs and co-operatives
Human Resource Development	• Improve early childhood development, primary and secondary education • Support skills alignment to economic growth • Enhance youth skills development and life-long learning	• Bursaries to top-performing students • In-take of interns to enhance skills development • Developing and training qualified staff within KwaZulu-Natal
Human and Community Development	• Poverty alleviation and social welfare • Enhancing health of communities and citizens • Enhance sustainable household food security • Sustainable human settlements • Safety and security • Social capital	• Financial and non-financial support to co-operatives and SMMEs • Community support programmes • Rural home loans • Implementing agent in building schools and clinics • Teach a child to save initiative
Strategic Infrastructure	• Development of harbours • Development of airports • Development of road and rail networks • Development of ITC infrastructure • Improve water resource management and supply • Improve energy production and supply	• Ithala Properties develops industrial and commercial properties in line with the identified economic corridors and industrial economic hubs • Participation in schools and clinics construction programmes • Appropriate infrastructure
Environmental Sustainability	• Increase productive use of land • Advance alternative energy generation and reduce reliance on fossil fuels • Manage pressures on biodiversity • Adapting to climate change	• Support for green/renewable energy businesses through Isithebe Industrial Park • Providing a well-managed landfill site for our tenants in Ezakheni • Using roof space for energy conservation programmes
Governance and Policy	• Strengthening policy, strategy co-ordination and inter-governmental relations • Building Government capacity • Eradicating fraud and corruption • Promoting participative, facilitative and accountable governance	• Ithala committed to unqualified (clean) audits • Independent, competent and highly skilled Ithala Board of Directors to guide Ithala • Zero tolerance of fraud and corruption • Stakeholder relations across Government and private sector
Spatial Equity	• Actively promote spatial concentration and co-ordination of development activities • Effective spatial planning and land management systems are applied across the Province	• Property developments in line with industrial economic hubs and SEZs • Upgrades of existing industrial estates • Ndumo Development and Umbumbulu development

THE RISKS AND OPPORTUNITIES WE FACE

Our top12 identified material risks, opportunities and their mitigation controls:

Risk Name (Risk Category)	Strategic Goals	Opportunities	Mitigating Controls
Competitiveness in Market Place (Strategic risk)	Financial sustainability	• Improved customer relationships • Increased revenue	• Marketing and communication strategy • Market intelligence (Research, Development and Innovation) Department • Group marketing function • Properties and Business Finance strategies
Asset Quality - Properties (Financial risk)	Financial sustainability	• Diversification of funding sources • Public-Private Partnerships • Develop Properties turn-around strategy	• Risk management strategy • Tenant attraction and retention strategy • Defined disinvestment strategy for unproductive assets • Property marketing strategy
Funding (Financial sustainability)	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 • Enterprise Risk Committee and Board (governance structures) • Weekly cash flow forecasting • Funding requirements planning
Obtaining Permanent Banking Licence – Ithala SOC Limited (Strategic risk)	Development effectiveness	• Cost optimisation • Diversification of revenue streams • Optimised asset utilisation • Improved governance, risk and compliance management	• Banking licence committee • Budgets and operational plans • Capital management • Ongoing stakeholder interaction and agreement for exemption for three years reached
Asset Quality - Ithala SOC Limited (Financial risk)	Financial sustainability	• Improved loan book performance • Improved collections • Defined credit risk appetite	• Credit scoring system • Collections unit • Collections strategy • Credit risk policy • Credit committee • Enterprise risk committee
Human Capital - People and Leadership (People management and leadership)	Operational excellence and good corporate governance	• High performance culture • Proactive talent management • Building trust with organised labour • Skills development • Staff wellness	• 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
Supply Chain Management (Strategic risk)	Operational excellence and good corporate governance	• Cost optimisation • Revenue diversification	• Provincial Treasury cost-cutting directives • Budget setting • Review of actual results against budget • Refinement and review of budgeting exercise • Continuous monitoring of interest rate • Monitoring of project plan implementation • Performance management system • Zero tolerance of fraud and corruption
IT to meet Business Requirements (Technology and system risk)	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, Microsoft exchange • IT policy and framework (including IT governance) • IT strategy • Change control board
Stakeholder Management (Strategic risk)	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 covers performance information • Ithala Act and PFMA • Shareholder compact • Governance structures (MEC, Portfolio Committee reporting etc)

THE RISKS AND OPPORTUNITIES WE FACE

Risk Name (Risk Category)	Strategic Goals	Opportunities	Mitigating Controls
Governance and Compliance (Governance, compliance regulatory and reputational risk)	Operational excellence and good corporate governance	• Maintain good governance of risks and compliance with applicable legislation	• Regulatory universe of various legislation-types facing the Group • Compliance policy • Risk and compliance coverage plan • Enterprise risk management framework • Governance structures • Enterprise risk management framework implementation plan • Internal controls • Internal audit
Asset Quality - Business Finance (Financial risk)	Financial sustainability	• Improved customer service levels, including turn-around times and ease of doing business with Ithala • Improved loan book performance • Diversification of revenue streams	• Governance processes (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 • Compliance with legislation
Reputation of Ithala (Strategic risk)	Operational excellence and good corporate governance	• Increased stakeholder engagement to communicate plan successes and foster co-operation between role-players	• Occupational Health and Safety Department • 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 strategic business units • Anti-fraud pledge • Marketing and communication strategy • Code of ethics for Group

Key:

Priority 1

Priority 2

Priority 3

GOVERNANCE

The Board comprises a group of diverse and multi-skilled individuals who are dedicated to the socio-economic development of the people of KwaZulu-Natal.

BOARD OF DIRECTORS

GOVERNANCE

Leadership Profile				
Name of Board Member	**Date Appointed**	**Educational Qualifications**	**Area of Expertise**	**Other Boards on which Member Serves**
Dr MSV Gantsho (Chairperson) Age: 52 Independent Non-Executive Director	01 June 2011	• PhD • M.Phil • M.Sc • Chartered Accountant (SA) • BComm Honours	• Corporate strategy formulation and execution • Infrastructure development finance • Financial management and reporting • Investment and corporate banking	• South African Reserve Bank • Sasol Limited • Impala Platinum Limited • Africa Rising Capital (Pty) Ltd t/a Nova Capital Africa
Mr GNJ White (Deputy Chairperson) Age: 54 Independent Non-Executive Director	01 June 2011	• Executive Leadership Programme (USA) • BAdmin (Honours): Development Studies • BA (Economics)	• Infrastructure finance • Business strategy formulation and management • Human resources management	• Trans-Caledon Tunnel Authority • Ithala SOC Limited
Mrs N Zondi Age: 54 Independent Non-Executive Director	21 April 2008 (re-appointed 20 September 2011)	• B Proc	• Legal contracts • Mediation and dispute resolution	• Nothani Malangeni Enterprise
Ms NN Afolayan Age: 37 Independent Non-Executive Director	21 April 2008 (re-appointed 20 September 2011)	• MBA: Finance • Executive Leadership Programme • Institute of Chartered Shipbrokers • Advanced Business Management	• Enterprise risk management • Strategy development and projects • Organisational and change management • Qualified cost accountant	• Umgeni Water • Oju Trading • FS Capital Trading
Mr N Khambule Age: 38 Independent Non-Executive Director	21 April 2008 (re-appointed 20 September 2011)	• Post-Grad in Business Management • B.Tech in Business Management • National Diploma (Agriculture)	• Strategy • Performance audits • Human resources • Economic modelling • Corporate finance • Property development	• Ntingwe Tea (Pty) Ltd
Ms BC Bam Age: 55 Independent Non-Executive Director	15 September 2009	• BA Honours (Sociology) • BA Personnel Management • Project Management Diploma • Management Advancement Programme	• Strategic management • Organisational development • Change management • Training and development • Policy development, implementation, co-ordination, monitoring and evaluation	

Leadership Profile				
Name of Board Member	**Date Appointed**	**Educational Qualifications**	**Area of Expertise**	**Other Boards on which Member Serves**
Mr W Jacobs Age: 49 Independent Non-Executive Director	15 September 2009	• B Pharm • Certificate in Polyurethane Technology • Certificate in Theory of Constraints	• Management structures and systems • Business plans • Business risk • Business turn-around strategies	• Jacobs Capital (Pty) Ltd • Seashore Properties (Pty) Ltd • Wessel Jacobs Properties (Pty) Ltd • Indium (Pty) Ltd • Central Component Distributors (Pty) Ltd • Ubuciko Twines and Fabrics (Pty) Ltd • Da Gama Textiles (Pty) Ltd
Mr DM McLean Age: 57 Independent Non-Executive Director	15 September 2009	• Chartered Accountant (SA) • B Accounting • Tax Law Programme	• Financial management and reporting • Banking and financing (corporate finance, private equity, treasury and trading, capital and debt markets) • Taxation	• KZN Growth Fund Managers SOC Ltd • Labyrinth Solutions
Rev NNA Matyumza Age: 51 Independent Non-Executive Director	01 June 2011	• Chartered Accountant (SA) • LLB • B Compt (Honours) • B. Comm	• Financial management and reporting • Audit • Law • Strategy	• KZN Growth Fund Managers SOC Ltd • Cadiz Holdings • Hulamin Limited • Coasad Southern Africa (Pty) Ltd • Wilson Bayly Holmes-Ovcon Limited
Ms Yvonne Zwane Age: 54 Group Chief Executive Officer	01 December 2011	• MBL • University Education Diploma • B Com (Accounting) • Associate Diploma (CAID) • Management of Technology and Innovation Diploma	• Strategy • Banking	• University of KwaZulu-Natal • Durban Chamber of Commerce and Industry • Ithala SOC Limited

GOVERNANCE

GOVERNANCE IN ACTION

Our Governance Report focuses on the activities and main deliberations of the Board and its Committees during the year. Please find their Terms of Reference on our website: www.ithala.co.za/governance

KING III

All the areas that were indicated as partially applied and not applied in the King III gap analysis conducted in 2010 have been fully complied with, save for the succession and rotation plan for the Directors.

Whilst there is no formal rotation plan for the Directors, the Directors are appointed in a staggered manner. The development of a succession plan and rotation policy is planned for the 2014/15 financial year.

BOARD APPOINTMENTS

The Board is appointed by the MEC for Economic Development, Tourism and Environmental Affairs.

BOARD EFFECTIVENESS

The Board has an approved performance evaluation framework consisting of self-evaluation by Directors, collective evaluation of the Board, including the evaluation of the performance of the Chairman of the Board and Chairpersons of Board Committees, as well as peer evaluation.

The Board resolved that the performance evaluation for the 2013/14 financial year should focus on areas that were found to be non-satisfactory in the previous financial year. To that end, an abridged evaluation was conducted and the results indicated overall satisfaction with the performance of the Board.

The Board also resolved that an independent Board evaluation be conducted every three years. This will be undertaken during the 2014/15 financial year.

A formal Board training programme is being followed.

ITHALA BOARD

During the year under review the Board placed special emphasis on the implementation of the repositioning strategy and management of associated risks.

Progress with regard to the implementation of the repositioning strategy was a standing item on the agenda of the Board.

There was also a focus on the turn-around of the Properties portfolio, which saw construction recommence in the Point Precinct on the building now branded Ithala Trade Centre, which is expected to be completed by the end of the 2014/15 financial year.

BOARD AND COMMITTEES' MEETING ATTENDANCE

All Directors were re-appointed by the shareholder at the Annual General Meeting held on 26 November 2013

	Date of first appointment	Board	Audit Committee	Enterprise Risk Committee	Human Resources and Remuneration Committee	Credit and Investment Committee	Nominations, Governance, Social and Ethics Committee	Banking Licence Committee
Total Meetings Held		6	5	4	5	9	5	4
Dr MSV Gantsho	01/06/2011	6	-	-	-	-	4	2
Ms NN Afolayan	21/04/2008	3	1	-	3	3 appointed 01/07/2013	-	-
Ms BC Bam	15/09/2009	4	-	-	5	3	4	-
Mr W Jacobs	15/09/2009	6	-	4	-	9	-	-
Mr N Khambule	21/04/2008	4	-	-	-	8	2 Appointed 01/09/2013	-
Rev NNA Matyumza	01/06/2011	6	5	3	-	-	-	-
Mr DM McLean	15/09/2009	6	5	4	-	-	-	3 appointed 06/05/2013
Mr GNJ White	01/06/2011	6	4 appointed 28/06/2013	-	5	-	3	4
Ms N Zondi	21/04/2008	5	-	2	3	-	-	-
Ms M Mosidi (co opted to Enterprise Risk Committee 01/01/2013)	-	-	-	1	-	-	-	-
Ms YEN Zwane	01/12/2011	6	-	4	-	9	2 Appointed 01/09/2013	3

- = Not a member

The performance of subsidiaries and associated companies, Ithala SOC Limited and Ubuciko Twines and Fabrics (Pty) Ltd, as well as Ntingwe Tea, respectively, were and remain focus areas for the Board.

AUDIT COMMITTEE

During the year under review the Audit Committee focused on financial performance and performance against the Annual Performance Plan, as agreed upon with the Department of Economic Development, Tourism and Environmental Affairs and the Provincial Treasury in March 2013.

An area of concern requiring the attention of the Audit Committee was the financial performance of the Properties Department and the non-compliance with FICA of this Department.

The Committee directed that such non-compliance with FICA be resolved by the end of November 2014, which is being addressed.

Non-adherence to the supply chain management process, which resulted in instances of irregular expenditure, were also matters that the Committee dealt with, directing that disciplinary action be taken against all employees responsible for irregular expenditure.

Due to a high IT project focus, increased attention is being given to the IT environment.

INTERNAL CONTROL

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

Furthermore, consultative and forensic investigation services are provided by IGARAS. The independence and objectivity of IGARAS is underpinned by functional reporting to the Audit Committee and, administratively, to the Group Chief Executive Officer.

IGARAS's mandate is contained in the Internal Audit Charter submitted to and approved annually 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 have adopted a combined assurance model to provide a co-ordinated approach to all assurance activities and address all the significant risks facing the company, and a three lines of defence strategy as detailed in the Report of the Audit Commitee.

Roles and responsibilities for each line of defence have been identified and communicated. Internal audit, as the third line of defence, provides independent and objective assurance to management and the Board about the adequacy and effectiveness of the control environment of the organisation. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of combined assurance.

The end of the 2013/14 financial year denoted the end of the third year of the three-year rolling audit coverage plan, which was presented and approved by the Audit Committee in February 2011.

A comprehensive 2014/15 – 2016/17 three-year rolling plan was derived after conducting a formal risk assessment of the entire business. Subsequently, an annual audit plan was derived for the 2014/15 financial year. The audit universe included its strategic business units, support functions and other subsidiaries.

ENTERPRISE RISK COMMITTEE (ERC)

During the year under review the Enterprise Risk Committee's focus included occupational health, safety and environmental risk. This resulted in the recommendation to the Board and its approval of a health, safety and environmental strategy and the adoption of an integrated health, safety and environment management system framework.

To this end, the audit of occupational health, safety and environmental status of all Ithala entities was concluded and a plan developed for addressing identified gaps. The progress made in bridging identified gaps is a standing item on the agenda of the ERC.

There is also an occupational health and safety committee dealing with the related risks from an operational level, which reports to the Executive Committee (EXCO).

The ERC also focused on mitigation strategies against the top 12 risks, which were identified through a formal risk assessment conducted annually. Also considered separately, in order to give specific focus, were mitigating strategies against the repositioning strategy risk register.

Additional attention was also given to the risks associated with the performance of Ithala SOC Limited and implementation of phase 1 of the Hosted Banking System solution.

ENTERPRISE RISK MANAGEMENT

Effective management of risks and opportunities is a critical component to Ithala's strategy of expanding access to development finance and effectively integrating and implementing development solutions, primarily to previously disadvantaged people in the region.

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

As set-out in its Terms of Reference, the ERC meets at least four times per annum and its role includes:

- Oversight of the development and annual review of the relevant policies and risk management plan to recommend for approval to the Board and monitor implementation thereof;
- Making recommendations to the Board on acceptable risk appetite, tolerance levels and management thereof;
- Ensuring that risk assessments are performed regularly and on a continuous basis;
- Ensuring that management considers and implements appropriate risk intervention measures; and
- Expressing its opinion to the Board on the effectiveness of the systems and processes of risk management.

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

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

We are further embedding a risk management culture, requiring risk and compliance issues to be considered during the business decision-making process. We have conducted an ERM maturity and an ethics risk assessment and various risk and compliance training initiatives have been undertaken, including forensic investigation, SHE representatives training, a FAIS workshop, FICA training and advanced corporate credit and risk analysis.

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

Existing controls are in place for 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 Group Risk and Compliance and then reported to the Executive Committee (EXCO). Quarterly update reports are submitted to the ERC, ensuring management can execute its risk management responsibility in terms of the PFMA and King III.

IT GOVERNANCE

In line with King III guidelines, the Board takes responsibility for Information Technology ("IT") governance and has delegated the oversight role of IT risk and governance to the Enterprise Risk Committee ("ERC") by way of:

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

The ERC reports on a quarterly basis to the Board on its oversight responsibilities, including that of IT governance. For the financial period 2013/14, the following key outcomes were either recommended to or approved by the Board, or were reported as achieved in line with the ERC's delegated powers of authority:

- Approval by the Board of the ITC Strategy Implementation Policy and Plan;
- The successful implementation of Phase 1 of the Hosted Banking System solution for Ithala SOC Limited, which facilitated the roll-out of new products as part of its revenue generation and turn-around plan;
- Approval of the Disaster Recovery Strategy, which was formulated based on the organisation's Business Continuity Plan. In June 2013, the Business Continuity Site was successfully relocated to the Ithala Data Centre, which site provides the infrastructure and network connectivity to handle Ithala's requirements;
- The Wide Area Network backbone was successfully migrated between service providers with improvements on the performance of the Wide Area Network;
- Successful migration of Internet service to a new service provider, which brought much improved speed;
- On-going and effective monitoring of ITC activities and the use of IT resources, including the implementation of the vast number of concurrent ITC projects, developed to meet the ever-changing business automation and process requirements;
- Completion of the UPS roll-out; and
- Completion of selective JD Edwards ERP system modules.

THE YEAR AHEAD

In the coming year we will pursue the following risk management objectives:

- Increased integration of risk management through

embedding the risk culture into the organisation's day-to-day activities; and
- Improvement of the implementation of the combined assurance model to ensure efficient, continuous monitoring and reporting by direct and independent assurance functions.

HUMAN RESOURCES AND REMUNERATION COMMITTEE (HRR COMMITTEE)

During the year under review the HRR Committee focused on aligning the HR Department business plan with the Group strategy, directing that the outcomes of the Department's business plan be linked to the overall business strategy.

The HRR Committee also considered a talent management framework which is designed to be a springboard for the nurturing of talent and succession planning for the organisation. Initiatives to establish an Ithala Training Academy were also considered.

Another area of focus for the HRR Committee was the financial wellness of Ithala employees, which led to the development of a comprehensive employee wellness policy, inclusive of financial wellness.

The HRR Committee involved itself in the matter of an industrial dispute for which a resolution was achieved over 17 days and involved 220 employees, resulting in a loss of R1,95 million, the first such dispute in the history of Ithala.

It is envisaged that a closer working relationship with our key stakeholder, the Labour Forum, will decrease the occurrences of such events in future.

The Committee Chairman attends the Annual General Meeting to address all Executive and staff remuneration-related issues that may be raised by the shareholder.

REMUNERATION AND REWARD

In order for Ithala to achieve its strategic objectives, it requires, among other things, suitably qualified and skilled individuals.

In an effort to inculcate a culture of good governance and operational excellence in line with its strategic objectives, every Manager is evaluated in terms of his/her performance scorecard at all levels.

To achieve this, Ithala's remuneration policy covers the following:
- Payment of competitive salaries in the market place: On an annual basis, Ithala subscribes to generic salary surveys conducted by reputable organisations in the remuneration field. Every three years Ithala conducts an Ithala-specific salary benchmarking exercise in order to assess its position in the market place with regard to competitive remuneration;
- Salary increases for all management positions (D, E and F bands) are divided into two components, namely a cost of living increase and a performance assessment score;
- We have an approved guideline regarding recognising and rewarding good performance on an on-going basis, such as token vouchers and time-off. All managers are encouraged to use this tool as an informal way of recognising and rewarding their staff; and
- Ithala has identified all the scarce skills it requires. In order to retain these skills, it has developed a scarce skills retention guideline. This guideline takes into account any extraordinary measures that may have to be taken in order to attract and retain these skills. Amongst other things, the guideline includes payment of premium rates where necessary, succession planning and talent management.

CREDIT AND INVESTMENT COMMITTEE

The Credit and Investment Committee focused on (a) reviewing deals in excess of R10 million for approvals and (b) the performance of the loan book, particularly strengthening the credit assessment process prior to funding in order to maintain financial sustainability in line with the repositioning strategy.

The Committee has also undertaken an initiative to engage credit experts to review a sample of approved transactions to benchmark the processes followed by Ithala in approving transactions.

The Committee concentrated on improving post-investment initiatives which support early identification of potential loss-making transactions and early interventions.

Whilst the Properties portfolio is posting profits, it has not performed to expected levels.

The Committee has also focused on the performance of this portfolio. The Committee has called for a review of the Properties strategy.

NOMINATIONS, GOVERNANCE, SOCIAL AND ETHICS COMMITTEE

The Committee focused on fraud and ethics risk and environmental issues raised by the ERC. To this end, the

GOVERNANCE

Committee recommended for Board approval the Code of Conduct for Board members, which included sanctions for non-compliance.

The Committee also recommended that the Anti-Fraud and Corruption Pledge be posted on the intranet and that Executives should ensure that all employees familiarise themselves with and sign the pledge.

The Committee also recommended that:
- A comprehensive fraud and ethics reporting framework be implemented;
- There be consistency in dealing with fraudulent activities, sending a clear message of zero tolerance; and
- A set of values for employees be developed in order to inculcate culture change towards ethical behaviour.

ANTI-FRAUD AND CORRUPTION

We are committed to zero tolerance of any incidents of fraud and unethical behaviour and, therefore, place great store in preventing, detecting and combating fraud and unethical behaviour of every description.

All incidents of fraud and unethical behaviour are investigated when detected and reported.

To achieve these aims and to fulfill its responsibilities in terms of the Public Finance Management Act, under the guidance of our Nominations, Governance, Social and Ethics Committee, the Anti-Fraud and Ethics Committee (AFEC) oversees the anti-fraud and ethics framework which covers:
- Our code of ethics and business conduct;
- Declaration of interest framework;
- Sound internal controls;
- Physical and information security management;
- Risk management; and
- Internal audit.

The AFEC is an Executive oversight structure, chaired by the Group Chief Financial Officer and deals with all incidents of fraud and unethical behaviour of whatever nature. It engages various assurance units and relevant divisions within Ithala, including the forensic investigation unit, which works in collaboration with law enforcement agencies.

Ithala also encourages staff and external stakeholders to use the anonymous fraud reporting hotline which is provided by an independent external service provider and administered by the Group Internal Audit Division.

Currently, use of the hotline requires focus, with only five reported cases during the year. The AFEC is working on strategies to revive awareness of the anonymous hotline and ensure its effective utilisation. All internal and external reported incidents of fraud and corruption are fully investigated.

An ethics risk survey was conducted and an ethics risk profile was developed, incorporating proposed strategies that should be implemented by management to address negative risks, while taking advantage of ethics opportunities, such as visible leadership.

INCIDENTS OF FRAUD AND CORRUPTION

During the 2013/14 financial year, we have seen a 26% increase in the number of cases reported for investigation to 628 (2012/13: 503).

This may be mostly attributed to the continuous increase in disputed withdrawals (77%), around which management is devising strategies to eliminate, which mainly results from card cloning and debit card pin sharing.

Management is embarking on an excercise to educate clients about the utilisation of debit cards and debit card security.

Futhermore, the AFEC is actively seeking strategies to assist the business in ensuring that these are minimised.

To provide visible leadership on our zero tolerance approach to fraud and corruption, the Group Chief Executive and Senior Management of Ithala signed an anti-fraud declaration.

The Nominations, Governance Social and Ethics Committee also reviewed the employment equity statistics and directed the Human Resources and Remuneration Committee to review the Employment Equity Plan for the organisation.

The Committee monitored the Corporate Social Investment programmes undertaken by the organisation, requesting that they be aligned to the business strategy.

The Committee was satisfied with the level of Broad-Based Black Economic Empowerment spend for the 2013/14 financial year, in terms of which the target was achieved.

The Committee considered the advertising plan for the 2013/14 financial year and was satisfied that it was correctly aimed at the target market, as defined in the repositioning strategy.

Time was spent deliberating on how the issue of increasing the number of Executive Directors on the Board could be achieved and it was resolved that the matter be raised with the shareholder who, in terms of the Ithala Act (as amended), is responsible for the appointment of Directors to the Board.

The Committee also recommended the remuneration of Non-Executive Directors to the Board, which tabled a proposal to the shareholder for approval at the Annual General Meeting.

DEFALCATION REPORT

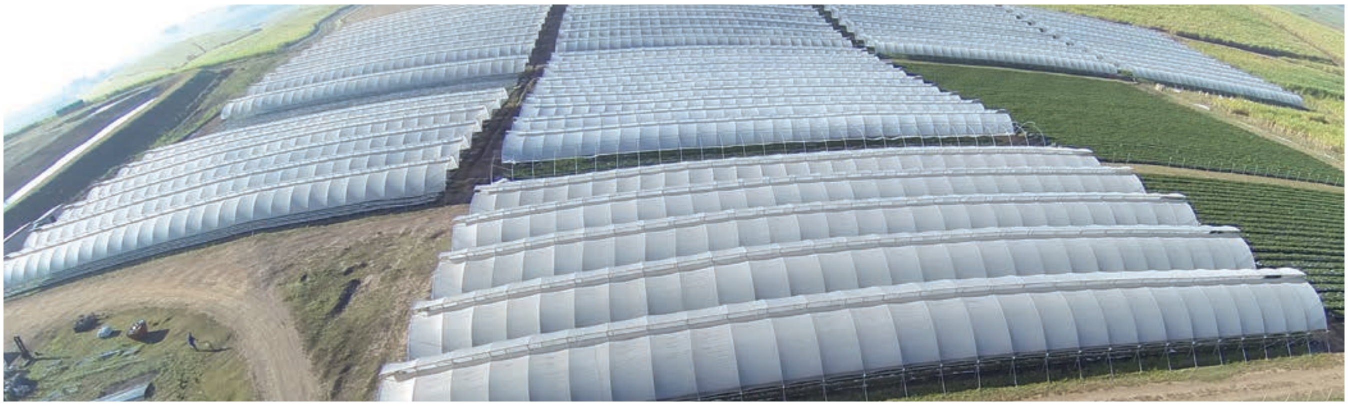
During the period 1 April 2013 to 31 March 2014, based on information supplied by management and investigations conducted by Ithala Group Internal Audit and Risk Assurance Services, various defalcations occurred, which can be summarised as follows:

DEFALCATION CATEGORY	NUMBER	GROSS LOSS VALUE (R'000)	EXPECTED RECOVERIES (R'000)
Fraud/theft/corruption by non-staff	17	1 034	1 034
Fraud/theft/corruption by staff	5	539	539
Total	**22**	**1 573**	**1 573**

BANKING LICENCE COMMITTEE

The Committee focused on the performance of Ithala SOC Limited as a significant subsidiary to the Group Board.

In so doing, the Committee commissioned, among other things, research on possible strategic partners for Ithala SOC Limited. This project is still underway.



THE VALUE WE CREATE

ECONOMIC PERFORMANCE

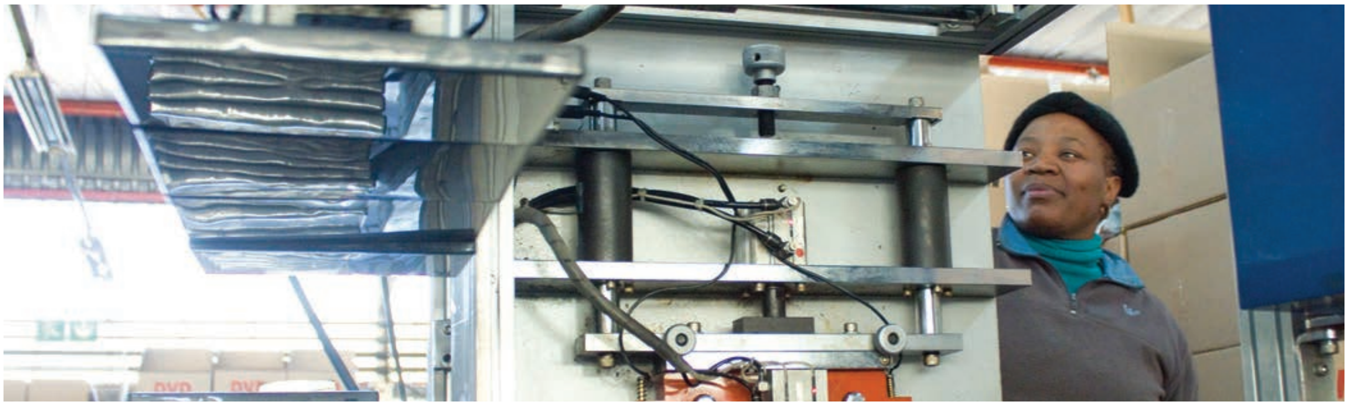
IN FORMULATING ACTIVITIES TO ACHIEVE OUR STRATEGIC GOALS, ITHALA ALIGNS ITSELF WITH THE PROVINCIAL GROWTH AND DEVELOPMENT PLAN

Financial Achievements

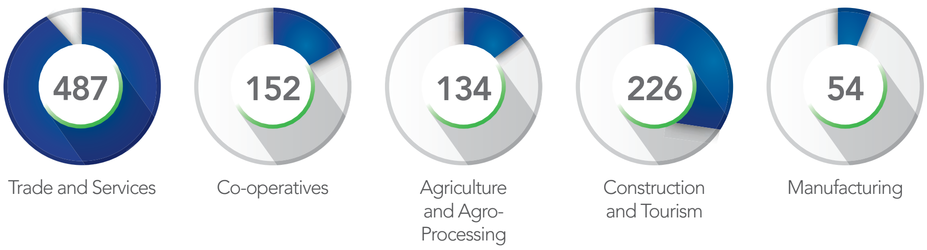
	2010	2011	2012	2013	2014
Interest received - R'm	343	292	279	247	256
Interest paid - R'm	97	74	69	57	66
Net income - R'm	75	42	102	78	133
Deposits - R'm	1 692	1 745	1 775	1 803	1 973
Total assets - R'm	4 663	4 707	4 691	4 819	4 535
Change in total assets - %	4	1	1	3	(6)
Loans and advances - R'm	1 527	1 629	1 728	1 704	2 150
Change in loans and advances - %	3	6	6	(1)	21
Capital invested - R'm	677	647	634	540	1 036

Developmental Dividend

	2010	2011	2012	2013	2014	Total
Total enterprises assisted	294	144	125	264	226	**1 053**
Agriculture and agro-processing	37	29	25	13	30	**134**
Construction and tourism	69	36	33	34	54	**226**
Manufacturing	20	10	14	3	7	**54**
Trade and services	85	66	46	164	126	**487**
Co-operatives	83	3	7	50	9	**152**



ENTERPRISES ASSISTED - FIVE YEARS



JOBS CREATED - FIVE YEARS = 16 413

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

While our mission centres on supporting the integration of Black people into the economy, we further contribute to Broad-Based Black Economic Empowerment in a number of ways, including skills development, providing equal opportunity and preferential procurement.

As a public entity, we are subject to the Public Finance Management Act (PFMA), which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources. As such, we maintain an appropriate procurement and provisioning system which aims to be fair, equitable, transparent, competitive and cost-effective.

Of our total procurement spend of R484 149 111 for the year, our preferential procurement spend was R439 246 853, or 90,73%.

Ithala is a value added service provider and the most recent scorecard shows a Level 5 provider which means an 80% procurement level can be used by our customers in their procurement levels.

BBBEE Level Status	Procurement Spend	BBBEE Spend	% BBBEE Spend
1	47 472 534	64 360 950	135,58%
2	64 585 055	81 463 397	126,13%
3	247 460 765	275 692 190	111,41%
4	14 140 017	14 270 735	100,92%
5	3 726 694	3 018 622	81,00%
6	81 280	49 378	60,75%
7	687 009	347 798	50,63%
8	437 829	43 783	10,00%
0	105 557 928	0	0%
	484 149 111	439 246 853	90,73%

THE VALUE WE CREATE

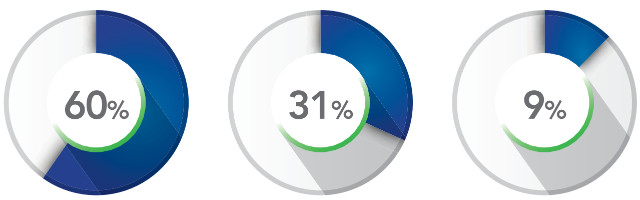
VALUE ADDED STATEMENT

We contributed value to the local economy and created wealth for our stakeholders during the reporting period, as follows:

For the year ended 31 March 2014	2014		2013	
	R'000	%	R'000	%
			Restated	Restated
Value Added				
Net Interest Income	**189 962**	**16**	189 836	17
Non-interest income	**1 025 936**	**84**	901 534	83
Other expenditure	**(630 493)**	**(52)**	(586 690)	(54)
	585 405	**48**	504 680	46
Value Allocated				
To employees:				
Staff costs	**349 557**	**60**	337 436	67
To Government:	**54 108**	**11**	45 922	9
Skills development levies	**2 399**	1	2 245	1
Value Added Taxation	**11 975**	**2**	10 195	2
Rates and taxes paid to local authorities	**35 205**	**7**	30 030	6
South African normal taxation	**4 529**	1	3 452	1
To retention for expansion and growth:	**181 739**	**31**	121 323	24
Depreciation	**47 321**	8	43 188	9
Retained income for the year	**134 418**	23	78 134	15
Total value allocated	585 405	100	504 680	100

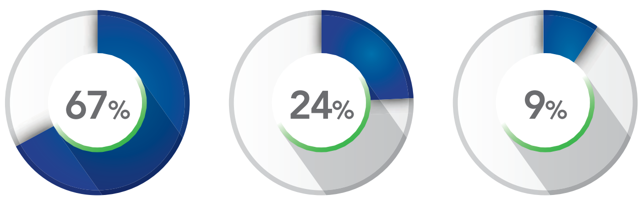
Note: *Included in staff costs are personnel taxation amounts directly sent to SARS and required deductions, such as Unemployment Insurance Fund*

2014



Employees | Retained for Expansion and Growth | Government

2013



Employees | Retained for Expansion and Growth | Government

PROPERTIES IN COMMUNITIES

Ithala attracts major investors through discounted rentals and by providing quality infrastructure.

These enterprises create employment opportunities locally in economically depressed communities/areas, igniting prospects and allowing wealth to circulate, so contributing to a significant multiplier effect and promoting economic development.

YOUTH WORK WEEK PROGRAMME

With one of the challenges facing graduates today being a lack of experiential training, we provided work experience opportunities for the youth, in partnership with companies at our Ezakheni and Isithebe Industrial Estates.

In support of the Province's Youth Development Strategy and in promoting job creation, the project targeted students from various tertiary institutions. These included local FET Colleges in the vicinity of Ithala Industrial Estates, such as Umfolozi FET College Mandeni and Sundumbili campuses as well as Mnambithi FET College.

The students spent a week during the July school holidays at various companies where they were placed according to their relevant areas of study. Industries which participated with us included AJ Charnaud & Co, Impala Stationery, SA Greetings, Cumi Thukela, Whirlpool, Aranda Textiles and Ithala at Isithebe Industrial Estate.

BURSARIES

As part of our developmental mandate, we fund students from disadvantaged backgrounds who excel in their matriculation examinations to study at various tertiary institutions.

In the 2013/14 financial year, Ithala financed three students:

- Thembinkosi Mngomezulu, ND Accounting at Durban University of Technology;
- Londiwe Shandu, BComm Accounting at the University of KwaZulu-Natal; and
- Bongeka Ndlovu, BComm Accounting at the University of KwaZulu-Natal.

CONNECTING RURAL WOMEN TO BUSINESS

In partnership with the Office of the MEC for Finance, Ithala and other stakeholders in the KZN Financial Literacy Association hosted a Financial Literacy Market Day in Eshowe during October 2013.

Some of the objectives of the Market Day were to create an opportunity to link rural producers to local and regional markets, create an environment for business information dissemination and sharing and to provide business finance skills for female entrepreneurs. Some 200 female entrepreneurs from the region attended a workshop on financial literacy, job creation and entrepreneurship.

THEMBINKOSI MNGOMEZULU'S STORY

It has been an exciting and a fruitful adventure studying at Durban University of Technology.

Ithala came to my rescue, when my dream of studying further almost collapsed due to a lack of finance, as a result of my under-privileged background.

I have now successfully completed my Diploma in Accounting and due to my good performance, Ithala has extended the contract to allow me to study towards the Bachelors Degree of Technology in Cost Management Accounting, which I will complete in 2014.

Thanks to Ithala for helping me realise my dream of studying.

If it wasn't for Ithala, I don't know how I would have financed my studies, as I know for a fact that my family would not have afforded to pay for my studies.

Ithala will always be in my heart.

This partnership has made me a better person.

I will forever be grateful to Ithala. With the knowledge I now have in my possession, I am ready to face the world.

I wish Ithala can continue making a difference and helping other underprivileged youth, like myself, realise their dreams of having a better life.

THE VALUE WE CREATE

FINANCIAL LITERACY

TEACH CHILDREN TO SAVE CAMPAIGN

Teach Children to Save South Africa (TCTS SA™) is a national savings campaign which was piloted in July 2008 by the South African banking industry and broader financial sector.

The aim of the project is to teach children to save, to foster a culture of saving and to promote volunteerism.

The programme highlights the important role that volunteer bankers and financial sector professionals can play in educating our nation's youth to become life-long savers.

Teach Children to Save SA™ 2013 was launched in KwaZulu-Natal by the MEC for Finance, Ms Ina Cronje, during a special event held at Intakemazolo Combined School in Hammarsdale.

Ithala has, for some years, partnered with the KZN Financial Literacy Association and has become an active player in rolling-out the project annually in the Province.

As part of the roll-out, 30 Ithala SOC Limited voluntary branch staff, trained by a Banking Association of South Africa consultant, visited nominated schools in their area between October and November 2013 spending time in classrooms promoting the concept of saving.

More than 1 000 learners from areas such as Greytown, Ladysmith, Newcastle, Port Shepstone and Izingolweni participated in the campaign.

PERFORMANCE SCORECARD

As a state-owned entity, each year we negotiate our performance objectives, measures and indicators, as well as our annual targets with our shareholder, the Department of Economic Development, Tourism and Environmental Affairs, and the Provincial Treasury, in line with the Public Finance Management Act (1999).

The Board reports to the shareholder on performance and related matters by way of annual and interim reports, while regular meetings are held between the Chairperson and the Group Chief Executive Officer.

Based on the Corporate Plan, the Board sets the organisation's strategic objectives and determines performance criteria.

Management is then charged with the detailed planning and implementation of those objectives, within appropriate risk parameters.

The table below reflects the Corporation's scorecard. For Ithala SOC Limited, KZN Growth Fund Managers SOC Limited and Ubuciko Twines and Fabrics (Pty) Limited, please refer to pages 125 to 132.

Strategic Goal 1: Financial Sustainability and Viability

Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Financial Sustainability	Minimum reserves	R59,7 million	R65 million	Target achieved
	Non-performing loans percentage	NPLs 47,92%	NPLs 22,25%	Target achieved
	Revenue growth percentage	24,74%	52%	Target achieved
	Amount of external funding raised	R50 million	R50 million	Target achieved
Financial Efficiency	Cost to income (incl grants)	69,8%	65,32%	Target achieved
	Cost to income (excl grants)	99,13%	104,16%	Target not achieved mainly due to non-achievement of interest income, rental income and fee income budgets, as well as the failure to dispose of assets which prevented the achievement of the profit on sale of assets budget. Favourable variances in operating expenditure have largely offset the aforementioned unfavourable variances
	Return on assets	5,74%	11,37%	Target achieved

Strategic Goal 2: Developmental Effectiveness				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Job Creation	No. of jobs created by funded SMMEs and Co-operatives	2 083 jobs	4 415 jobs	Target achieved
	No. of jobs created through property developments and maintenance	1 126 jobs	384 jobs	Target not achieved due to under-expenditure on capital and maintenance budget
SMME Capacity Develoment	Number of new businesses financed	250	226	Target not achieved due to funding of larger transactions to improve financial sustainability
	Total value of new financing approved	R275 million	R832 million	Target achieved
	Total value of disbursements	R250 million	R434,6 million	Target achieved
SMME Capacity Development	No. of SMMEs mentored	60	Nil	Target not achieved due to resource constraints and delays in finalising panel of mentors
	No. of entrepreneurs trained	200	Nil	Target not achieved as full attendance of training in all regions was not achieved due to inability of some clients to attend training, although they had initially accepted
To Provide Industrial and Retail Infrastructure to Generate Economic Activity	New gross lettable industrial space	0m²	Construction commenced – Mt Edgecombe	Target achieved
	New gross lettable retail space	0m²	Construction commenced – Ithala Trade Centre	Target achieved
	Revenue from property disposals	R30 million	R6,8 million	Target not achieved due to delays in finalising property disposal negotiations
	Investment in new properties	R67 million	R30,6 million	Target not achieved due to capacity constraints within the property projects unit
	Investments in existing properties	R165 million	R30,2 million	Target not achieved due to capacity constraints within the property projects unit
	Total portfolio return on investment	12,5%	12,9%	Target achieved
	Net yield (industrial portfolio)	3,0%	7%	Target achieved
	Net yield (retail portfolio)	10,0%	10,7%	Target achieved
	% of vacant space out of gross lettable area	12%	13,26%	Target not achieved due to vacancies as a result of tough economic conditions faced by businesses

Strategic Goal 2: Developmental Effectiveness				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
To be an Implementing Agent for Social Infrastructure	Number of projects delivered on behalf of clients	2	3	Target achieved
	Value of projects delivered on behalf of clients	R120 million	R43,8 million	Target not achieved due to Ithala not being awarded new projects by the Government
Strategic Goal 3: Operational Excellence and Good Corporate Governance				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Human Resources Excellence	The date on which Performance Agreements are signed	1 April 2013	80% signed by 1 April 2013	Target not achieved due to non-submission of signed agreements by the various business units
	The period in which performance reviews are completed after the end of quarter	Three weeks after quarter ended	Target not achieved	Target not achieved due to line managers not submitting the performance scorecards on time
	Percentage training completed linked to performance development plans	80%	70%	Target not achieved due to resources refocused to new training requirements linked to the banking system project, as well as delays in training during industrial action
	Percentage rating of employee satisfaction	Employee satisfaction rating of 50%	Employee satisfaction survey not conducted	Target not achieved due to employee satisfaction survey not being conducted and management reviewing feedback from previous survey
	Human resources productivity	Approved productivity measurement framework by April 2014	Productivity measurement framework not approved	Target not achieved due to framework not being developed as organisation was focusing on entrenching performance culture
IT Excellence: Delivery of Agile, Integrated and Modular Business Sytems within Budget, Schedule and Scope	Approved ITC strategy implementation plan	Approved plan by May 2013 for 2014/15	Plan approved on time	Target achieved
		Implementation of the plan - 90% complete	67% implementation of the approved plan	Target not achieved due to increase in number of projects during the year
	System availability	98% uptime	98% uptime	Target achieved
Strategic Planning and Financial Management	Full compliance with PFMA and Treasury Regulations: - Corporate plan - Annual performance plan - Annual budget - Quarterly performance reports	Corporate plan, APP and annual budget submitted to Department of Economic Development, Tourism and Environmental Affairs one month before start of financial year	Corporate plan, APP and annual budget submitted to Department of Economic Development, Tourism and Environmental Affairs one month before start of financial year	Target achieved

Strategic Goal 3: Operational Excellence and Good Corporate Governance				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
		Quarterly performance reports submitted on department's prescribed dates	All quarterly performance reports submitted on department's prescribed dates	Target achieved
	- Annual report	Annual report submitted five months after end of financial year	2012/13 annual report submitted in timely manner	Target achieved
	Effectiveness measures: - Audit opinion	Unqualified audit	Improvements in audit log	Target not achieved, but significant improvement in resolving the audit log
	- % Variance on annual budget	Max 4,5% budget variance	32,21%	Target not achieved
Effective Governance and Risk Management	Audit plan	Approved by 1 April	Audit plan approved	Target achieved
	Audit Committee rating on IGARAS	Minimum score of 3 out of 5	Score of 3	Target achieved
	Compliance with statutory reporting requirements	Adhere to reporting requirements of each legislation	Complied with all statutory reporting requirements	Target achieved
	Enterprise Risk Management (ERM) maturity level assessment	ERM maturity level assessment by 30 June 2013	ERM maturity level assessment completed	Target achieved
		Implementation report to improve maturity level by 31 March 2014	Maturity level not improved upon	Target not achieved. It requires a holistic approach and will form part of the Risk and Compliance Strategy, which is being reviewed

Strategic Goal 4: Forge Strategic Partnerships				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Enhance Organisational Capacity to Deliver on Mandate (Business Finance)	Funding sourced from other sources for on-lending	R100 million	R105 million	Target achieved
	Strategic co-lending alliances with other DFIs	R50 million	Nil	Target not achieved due to co-lender not finalising assessment process, so project co-funding could not be finalised
	Strategic alliances for non-financial support (No. of alliances)	3	3	
	Strategic alliances for skills transfer	50 employees trained through strategic alliances	Nil	Target not achieved

THE VALUE WE CREATE

Strategic Goal 4: Forge Strategic Partnerships				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Enhance Organisational Capacity to Deliver on Mandate (Properties)	Skills transfer	Five internships in Properties	Four interns within Properties	Target not achieved
	Leveraging funding	R232 million	Nil	Target not achieved due to funding not being leveraged, as the business unit did not require additional funding
	Strategic partnerships in property development	2	No strategic partners	Target not achieved due to delays in finalising negotiations with partners on time

Strategic Goal 5: Knowledge Management				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Entrepreneurial Development Hub (KTT)	Entrepreneurial skills centre	Leverage funding by April 2013 Entrepreneurial training centre by March 2014	No funding leveraged Training centre not implemented	Target not achieved due to shareholder establishing a new entity to render non-financial support services. Ithala was, therefore, no longer in a position to implement the information resource centre project
SMME Centre of Excellence	Knowledge information centre/ hubs/nodes	Leverage funding by April 2013 Information resource centre by March 2014	No funding leveraged Information resource centre not established	Target not achieved due to shareholder establishing a new entity to render non-financial support services. Ithala was, therefore, no longer in a position to implement the skills centre project
Business Process Management	Document all business processes	All corporate and departmental policies and strategies documented and available electronically by 30 November 2013	Corporate and departmental policies and strategies available electronically	Target achieved
	Implementation of quality management system	ISO 9001/2008 application and assessment by 31 March 2014	Application and assessment not achieved	Target not achieved due to capacity constraints as a result of new projects that required priority, which had to be implemented

STRIVING FOR OPERATIONAL EXCELLENCE

INFORMATION TECHNOLOGY AND COMMUNICATION


Mr Michael Matibe

During the year, the information technology and communications (ITC) focus was on delivering an IT infrastructure upgrade and the deployment of systems to improve service delivery.

ACHIEVEMENTS

- The relocation of our data centre to a rented, purpose-built data centre which meets data centre standards in June 2013;
- The establishment of a fully-equipped business continuity site capable of hosting 90 staff members;
- Automation of contract management activities in order to minimise non-conformance with supply chain management regulations went live in April 2014;
- The implementation of a municipal billing system for our industrial, light industrial and retail properties;
- The successful migration of the Wide Area Network backbone connecting our critical service centres between service providers;
- The successful migration of our internet service, resulting in improved speed;
- The replacement of old Uninterruptible Power Supply (UPS) in all Ithala SOC Limited branches is nearing completion. Ithala SOC Limited branches can now operate for up to 12 hours in cases where Eskom power has been disrupted; and
- The enablement of transactional account capability on Ithala SOC Limited's new Hosted Banking System went live on 20 January 2014.

We are in the process of finalising the business requirements definition for the Customer Relationship Management (CRM) solution.

Once implemented, it will be an extremely useful tool for gathering insights into customer needs, behaviours and transacting tendencies.

The business intelligence to be gathered from the CRM reports will add to the maturity of the organisation in using knowledge for business decision-making, product and service design and deployment.

KNOWLEDGE MANAGEMENT

We are in the process of implementing a knowledge management strategy, which aims, through a multi-disciplinary approach, to achieve organisational objectives by making the best use of knowledge.

This intersects with vital work in managing our human capital and implementing world-class ITC solutions.

Critically, we have to develop a culture that embraces learning, sharing, changing and improving, through the collective intelligence and knowledge of people.

ITC advances are key to making available reliable data, information and support systems and technical and technological capabilities.

An enterprise content management solution is already in the process of installation and presents further opportunities for its application in building knowledge management.

HUMAN CAPITAL

HUMAN CAPITAL STRATEGY

Mr Themba Mathe

Ithala's human capital strategy is to be a primary resource in partnering with business to drive strategic imperatives for the organisation through consistent and professional human resource (HR) management services, in particular:

- Establishing a performance-orientated organisational culture;
- Implementing an integrated HR system to support a transformational HR service philosophy;
- Supporting the turn-around of business units and their repositioning initiatives;
- Providing HR processes aimed at transformational activity and service delivery;
- Providing effective implementation of the talent management process; and
- Providing an integrated employee wellness process and programme.

The purpose of the HR Strategy is to ensure optimal human capital enhancement and value creation by:

- Facilitating the development of healthy, positive relationships between management, employees, labour and relevant stakeholders through constructive engagements;
- Optimising technology and knowledge management information through addressing the growing need for decision-facilitating data at all levels of management through real-time, quick-access systems and providing further value-adding eShared services to all employees;
- Building an enabling high-performance culture, encouraging engagement and interaction to build trust and openness that will foster a culture that allows for sustainable high performance;
- Embedding the talent management framework by ensuring that our policies, practices and long-term plans position the organisation for sustainability, while meeting the needs of individuals in providing exciting career opportunities and growth;
- Accelerating transformation through entrenching a philosophy that embraces diversity in all forms and contributes to the richness of our organisational heritage; and
- Instituting initiatives that contribute materially to the creation of a culture of continuous learning and learning and development, where the building of skills contributes towards the overall high-performance of the organisation.

GROUP EMPLOYEE PROFILE AS AT 31 MARCH 2014

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Executive management	6	0	0	2	1	0	0	0	9
Senior management	10	0	3	0	8	0	3	1	25
Professionally qualified and experienced specialists and middle-management professionals	65	2	15	10	21	0	4	6	123
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	136	2	6	6	176	4	16	13	359
Semi-skilled and discretionary decision-making	143	0	1	0	162	0	2	1	309
Unskilled and defined decision-making	49	0	0	0	29	0	0	0	78
Total	409	4	25	18	397	4	25	21	903
%	45,3	0,5	2,7	1,9	44,1	0,5	2,8	2,3	100

We note the gender imbalance in senior roles and interventions are underway to address this.
Ithala Group staff levels as at 31 March 2014 (incl Corporation: 453, Ithala SOC Limited: 444, Ubuciko Twines and Fabrics: 6)

TRAINING AND DEVELOPMENT

We develop and implement a workplace skills plan on an annual basis.

This plan identifies all training requirements based on individual performance, departmental and organisational needs, as well as individual career development plans. Our HR interventions aim to unlock value by releasing the potential of our employees and enable the organisation to sustain itself into the future, through its human capital.

During the year under review, at a total cost of R2,6 million, Ithala employees were trained in various fields, such as compliance, product knowledge and technical skills and a further 15 employees were granted study loans this year. BankSETA training was also accessed to provide employees with training ranging from compliance training to product knowledge.

Study loans to staff	R143 631
Other training (Ithala-funded)	R2 495 851
Other training (BankSETA-funded)	R660 800
Total	R3 300 282

LEARNERSHIPS

We hosted 19 internal leanerships this year, with five graduates in our audit programme and 14 middle managers undergoing a certificate in Management Development.

External learnerships included seven students placed by Letsema BankSETA studying towards their National Certificate in Banking.

A student was placed in Supply Chain Management through the Kuyasa BankSETA Graduate Programme and 20 learners studying towards the National Certificate in Bank Credit, placed within Credit Risk both in Ithala SOC Limited and in Business Finance.

Nine graduates, sponsored by Ithala, embarked on an internship programme focusing on critical and scarce IT skills, in partnership with Mangosuthu University of Technology, Durban University of Technology and Gijima.

In addition a student was placed in Human Resources through the Work Week experience.

APPRENTICESHIPS

Apprenticeships were available within the Properties Business Unit and located in the industrial estates.

Two staff members will be writing trade tests.

We also hosted four students from Durban University of Technology, undergoing internships.

LEADERSHIP DEVELOPMENT

- 10 EXCO members and attendees underwent a 12-month Emotional Intelligence Programme;
- Ithala SOC Limited's EXCO members underwent Team Cohesiveness Training;
- Mentorship and Coaching training was conducted in partnership with the Office of the Premier; and
- Industrial Relations Training was conducted on chairing and conducting disciplinary hearings, targeting D, E and F-band managers over two days.

TALENT MANAGEMENT STRATEGY

TALENT IDENTIFICATION AND SUCCESSION PLANNING

Ithala has embarked on the identification of mission-critical positions and scarce skills, such as professionals and the categorisation of high-flyers, key players and under-performers.

To plan effectively for succession requires us to match the identified individuals with future potential positions, creating talent pools for certain key levels and disciplines. Succession plans drive the differentiated development and retention of talent to ensure readiness when a position becomes vacant.

TALENT DEVELOPMENT

Identified talent gaps are addressed through performance development in employees' current positions and career development involving career planning and developing skills for future potential jobs.

A career management system with defined performance and competency standards at each level will facilitate individual and organisational competence audits for accurate development planning.

As part of talent management, employees are afforded an opportunity to discuss career aspirations and development needs during career discussions.

TALENT RETENTION

The change management office drove talent management strategic activities during the year under review.

This included the roll-out of talent and succession management, the establishment of a talent forum committee - consisting of Executives in each division, together with HR - the development of a talent identification framework and the identification of current talent in the organisation.

The talent forum committee focuses on guiding specific value-add human capital interventions.

These include devising ways to ensure on-going efforts to improve the quality of performance management practices across Ithala Group.

This includes rolling-out an electronic performance management system in the new financial year.

To ensure qualitative information is disseminated and shared with individuals, 360° feedback will be implemented in the new financial year as part of performance discussions to encourage a healthy and progressive relationship between employees and their line managers.

It is proposed that the 360° feedback be rolled-out to all Executives, Divisional Managers and lower management levels.

HUMAN CAPITAL

CHANGE MANAGEMENT

Given that Ithala is undergoing rapid change, it is critical that we support and advise employees on current changes and future initiatives which will have an impact on them and provide coaching to management on change leadership.

Our change management interventions are also aimed at supporting employees through business improvement processes, especially as regards organisational restructure and technology installations.

REMUNERATION STRATEGY

Ithala believes in rewarding people appropriately for the work that they have done and have in place reward systems to cater for:

- Work done, as per agreement (salary);
- Exceptional performance (reward and recognition);
- Going the extra mile (reward and recognition);
- Initiative (reward and recognition);
- Innovation (reward and recognition); and
- Target selling (commission-based pay).

The Human Resources and Remuneration Committee has approved a salary benchmarking exercise during the 2014/15 financial year, which will benchmark approximately 400 job roles within the organisation.

The project scope includes benchmarking the salaries of all grades and comparing salaries with other financial services organisations and parastatals.

EMPLOYEE WELLNESS

Our wellness policy and strategy recognises the importance of linking organisational and individual wellness, health and safety to productivity and improved service delivery outcomes.

Details of our aims and the usage of our wellness offerings in this regard are depicted in the table opposite.

Aims
• Provide confidential assistance to employees and their immediate familes who are affected or who have the potential to be adversely affected in both their work and performance
• Foster employee well-being, enhance productivity and social functioning
• Improve quality of life of employees and their immediate families
• Reduce staff turn-over, inter-personal conflict, discipline problems, grievances and work-related incidents and accidents within Ithala
• Provide employees with life-skills, awareness and educational programmes and promote healthy life-styles and coping skills
• Reduce absenteeism and abuse of sick leave
• Encourage and foster a caring organisational culture
• Improve recruitment and retention
• Promote co-operation, motivation and improved morale in order to improve productivity and workplace efficiency
Usage of Wellness Offerings
• 54 employees attended financial wellness and pre-retirement seminars;
• 417 underwent face-to-face consultations with a wellness practitioner for HIV screening;
• 208 attended our annual wellness day;
• On World AIDS Day, 93 employees were tested;
• 95 employees took part in our HIV management programme;
• 89 permanent Ntingwe Tea Estate employees underwent an annual health assessment;
• 191 employees were referred to specialists, including wellness practitioners, general practitioners or psychologists; and
• We offered biometric testing of blood pressure, blood sugar, cholesterol and weight

HEALTH, SAFETY AND ENVIRONMENT

The Group's management of health, safety and environment (HSE) was greatly enhanced by the establishment of a corporate HSE section, whose aim is to assist management in achieving the organisation's HSE objectives.

A corporate health, safety and environmental manager was appointed to assume responsibility for the management and facilitation of health, safety and environment-related activities, inclusive of policy, practices and procedures.

During 2013, the HSE needs of the organisation were assessed by the HSE section with a view to formulating a multi-year corporate HSE strategy.

This analysis entailed a road-show to various operations to determine existing management systems at such workplaces.

The exercise determined the priorities required by management to ensure that its systems effectively manage identified risks in order to comply with current legislation.

The analysis identified the following gaps: training, updating legal appointments, safe work procedures, incident reporting and investigation and occupational health issues.

Health and safety representatives, first aiders and fire marshals were appointed and trained at Head Office and other locations.

Joint management-employee committees were established throughout Ithala's operations to strengthen its health, safety and environmental programmes.

The committees meet at least every three months to discuss pertinent HSE issues, report any incidents and hazards and to identify actions for improvement.

We have rolled-out a programme of occupational hygiene surveys to help us identify and evaluate potential sources of employee exposures to hazardous elements in the workplace, as required by legislation.

This will culminate in the establishment of a medical surveillance programme to screen employees exposed to these hazards.

OUR HSE STRATEGY

A key part of Ithala's overall business strategy is to promote a culture of responsibility throughout the business.

Our HSE strategy supports this business strategy and our Business Code of Conduct and Ethics.

We update the HSE strategy annually.

The current HSE strategy sets-out a three-year plan for improving our HSE performance.

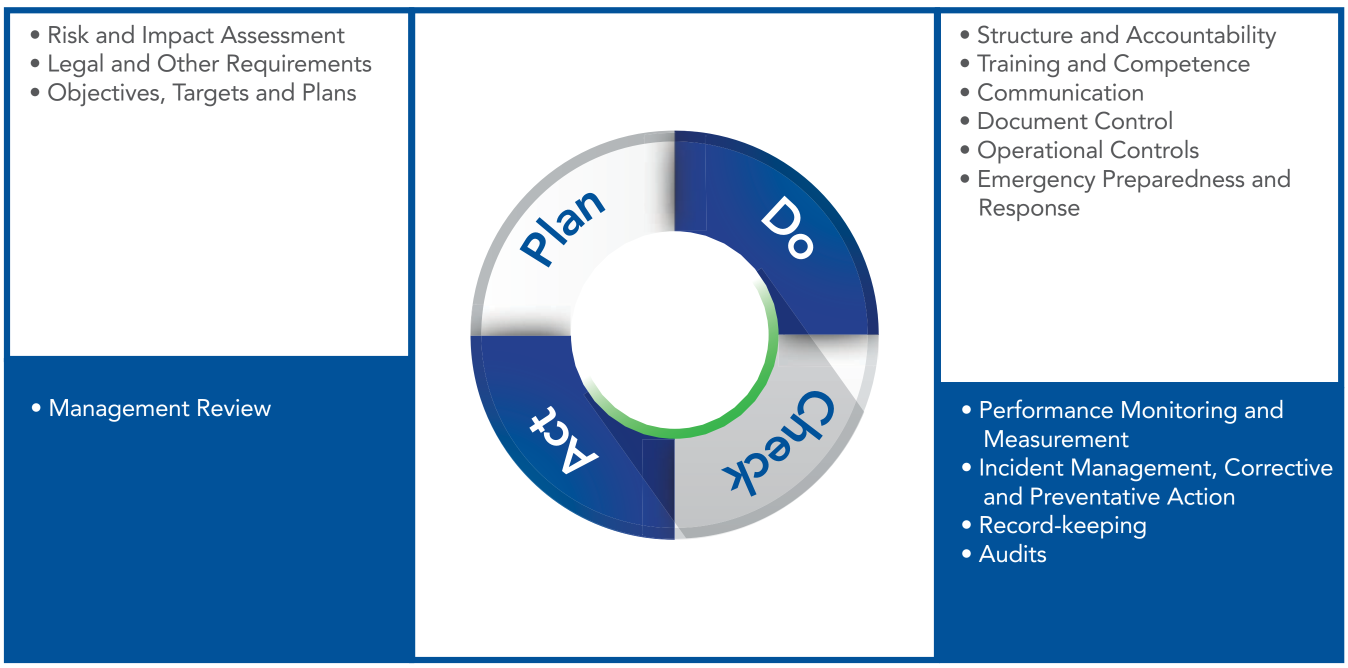
It is based around our safety culture, roles and responsibilities, management systems, risk and incident management, third party engagement and monitoring and review activities.

OUR HSE MANAGEMENT SYSTEMS

We subscribe to the principle of continuous improvement and use of management systems to realise its benefits.

These systems help to improve our management of HSE issues by providing a framework for risk reduction, continual improvement, compliance assurance and management review.

Ithala's health, safety and environmental management system, which is reproduced here, was initiated in 2013 and we are on-target to complete the development and implementation of the integrated health, safety and environmental management system elements by 2016.



BUSINESS PERFORMANCE

The Executive team is responsible for the day-to-day business of the organisation and is led by the Group Chief Executive.

EXECUTIVE COMMITTEE

Profile of Executives			
Position	**Name**	**Qualification**	**Appointment Date**
Group Chief Executive Officer	Ms Yvonne Zwane Age: 54	• MBL • University Education Diploma • B Com (Accounting) • Associate Diploma (CAID) • Management of Technology and Innovation Diploma	01/12/2011
Executive: Corporate Services	Mr Siphiwe Madondo Age: 54	• MBA • B Tech • BA • Diploma in Personnel Management • IR Development Programme • Advanced Business Programme • Post-Graduate Diploma in Business Administration	01/09/2008
Group Chief Financial Officer	Mr Fain Ferguson Age: 44	• MBA • Chartered Accountant (SA) • H Dip Acc • B Com	01/04/2013
Executive: Properties	Mr Beston Silungwe Age: 52	• MSc (Development and Planning) • BA (Planning) • Business Accounting Programme • Property Development Programme	04/06/2012
Executive: Business Finance	Mr Nkosinathi Nhlangulela Age: 41	• Post-Graduate Diploma in Business Management • B Com (Corporate Finance and Economics)	10/07/2012
Group Chief Information Officer	Mr Michael Matibe Age: 55	• Master of Information Management (MIM) • B Sc (Honours) • B Sc	01/12/2011
Executive: Group Communications and Marketing	Mr Themba Mathe Age: 51	• Post-Graduate Diploma in Business Management • BA • Credit Diploma and Advanced Marketing Diploma (CAIB) • International Executive Programme (IEP)	01/01/2011
Chief Executive: Ithala SOC Limited	Mr Simphiwe Khoza Age: 41	• MBA • B Com • Associate Diploma in Banking	01/11/ 2012
Chief Executive: KZN Growth Fund SOC Limited	Mr MSA Badurally-Adam Age: 43	• M Sc (Applied Economics) • B Com Hons (Economics) • B Com	01/03/2012

BUSINESS UNIT PERFORMANCE

BUSINESS FINANCE


Mr Nkosinathi Nhlangulela

Business Finance is responsible for financial and support services to SMMEs and co-operatives within KwaZulu-Natal, contributing to the establishment and strengthening of small business and the creation of jobs, in line with our mandate. Lending focuses on various sectors, in line with the Provincial Spatial Economic Development Strategy (PSEDS) namely:

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

The size of the Business Finance investment portfolio was R818 million as at the end of March 2014. The reduction in the portfolio size is mainly due to the write-off of R295 million. The size of the performing portfolio is 77,7% of the total investment portfolio. The size of the non-performing portfolio is R182 million or 22,3 % of the total investment portfolio.

Access to Business Finance for SMMEs is achieved through six business centres located throughout the Province, further broadening participation and bringing much-needed access to information for local communities, and are located as follows:

- eThekwini Metro – eThekwini City Centre (Gardiner Street);
- Umlazi Head Office (CSC);
- uThungulu District – Richards Bay Business Centre;
- Amajuba District – Newcastle Business Centre;
- uMgungundlovu District – Pietermaritzburg Business Centre; and
- Ugu District – Port Shepstone Business Centre.

KEY LENDING CRITERIA INCLUDE:

- The economic activity must be located in KwaZulu-Natal or the benefits of such activity must substantially accrue to KwaZulu-Natal in terms of job creation and empowerment;
- The economic activity must be viable, having the capacity to repay;
- The entity must be tax-compliant, being in good standing with SARS; and
- The entity must be owned substantially (30%) by historically disadvantaged individuals.

BUSINESS FINANCE PRODUCTS

2013/14	2014/15 onward
Working Capital	Working Capital
Bridging Finance	Structured Finance
Vehicle Finance	Agri-finance
Equipment Finance	Procurement Finance
Land and Buildings Finance	Asset-based Finance
Acquisition Loans	Commercial Property Finance
	Franchise Finance
	Micro Finance

HIGHLIGHTS

- Net profit: The net profit including and excluding grants is up 135% and 100% year-on-year, respectively;
- Gross collections: Ahead of budget by 33%. An amount of R209,5 million was collected against a budget of R156,5 million;
- Investment activity: The number of applications received up 102% year-on-year and value of applications received up to 338% year-on-year;
- Non-performing loans: improved by 35% year-to-date to 22,3%;
- Development Impact: Financed 226 businesses and co-operatives, estimated to facilitate the creation of 4 415 jobs; and
- Credit impairments down 64% year-on-year to R37 million from R89 million.

LOWLIGHTS

- Investment performance: R295 million in respect of old legacy accounts were written-off during the financial year; and
- Revenue down 12%.

Loans up to R10 million are approved by Executive management and loans exceeding this amount are approved by the Credit and Investment Committee of the Board.

A key component within Business Finance is Business Support Services.

The main aim is to offer non-financial support services to Ithala clients.

These services include pre-funding support such as:

- Advisory services;
- Due diligence studies;
- Feasibility studies; and
- Business plan development.

Once funding is approved, each client is allocated a portfolio manager who will be responsible for the post-funding monitoring of the client.

Post-investment monitoring includes monitoring, coaching and mentorship, training, facilitation of business linkages and access to markets, as well as administrative support.

Defaulting clients are referred to debt collection within Business Finance. Assistance, such as rescheduling and suspension of instalments may be negotiated.

Once these options fail and accounts are three months in arrears, they are referred to our Legal Division for collection. Business Support plans to introduce a debt rehabilitation component which will be responsible for the turn-around of potentially viable businesses in distress.

BUSINESS PERFORMANCE

Business Finance's strategic priorities include:

- Growing the loan book by increasing credit advances annually;
- Improving the quality of the loan book by reducing the level of non-performing loans below 25%;
- Improving liquidity by increasing the levels of credit collections;
- Improving the level of profitability by increasing loan yields through risk-adjusted pricing;
- Sustaining and increasing the number of jobs in KwaZulu-Natal, by facilitating increased financing of SMMEs and co-operatives; and
- Improving customer service by reducing application turn-around times.

While a lack of funding and, therefore, financial momentum in advances remains a material risk, opportunities include procurement finance opportunities resulting from increased Government expenditure, as well as agri-finance for under-utilised land accruing to land reform beneficiary communities, asset finance for replacement and expansion and micro-financing of township businesses.

Cross-business unit synergies gained momentum during 2013/14, albeit at a slower than anticipated pace.

This follows the re-packaging of business solutions in respective segments during the year.

Cross-sell opportunities realised include Ithala Business Finance products being offered in conjunction with Ithala SOC Limited insurance products.

At the career and small business fairs, Group Marketing and Communications successfully created leads in terms of Business Finance product offerings and Ithala SOC Limited banking products.

There is still much room for improvement in this respect and the implementation, approved in the new financial year, of the Customer Relationship Management (CRM) system will enable this cross-functional interface.

ENABLING DREAMS
Case study: Phathokwakhe Farm

Mr Thulani Ngidi's relationship with Ithala began in 1995 when he wanted to purchase a 95 hectare farm from Illovo.

He had approached several banks who had rejected him because they did not believe that he would be able to service his debt. He then approached Ithala, with the support of Illovo, where his dream of becoming a sugar farmer was turned into a reality. He has since purchased three additional farms through Ithala and now owns a total of 450 hectares of land and employs 30 permanent staff and an additional 70 seasonal workers.

In his words: "Ithala played a big role in my success, because when I bought my first farm they required a deposit, but when I wanted to acquire the other three farms Ithala didn't require a deposit from me because I was managing my account very well.

This allowed me to purchase these farms with little difficulty as at the time I did not have enough collateral to purchase these farms."

BUSINESS UNIT PERFORMANCE

PROPERTIES

Mr Beston Silungwe

Ithala is a significant player in KwaZulu-Natal's retail and industrial property market.

With more than a million square meters of lettable space, Ithala's Property portfolio is second only to Provincial Government in terms of size.

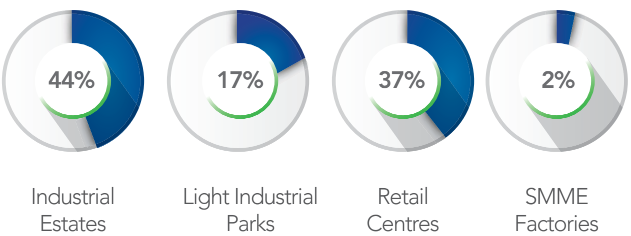
The Property portfolio is central to Ithala's development mandate of job creation and the economic upliftment of local communities.

Ithala's tenants employ more than 40 000 people throughout the Province of KwaZulu-Natal.

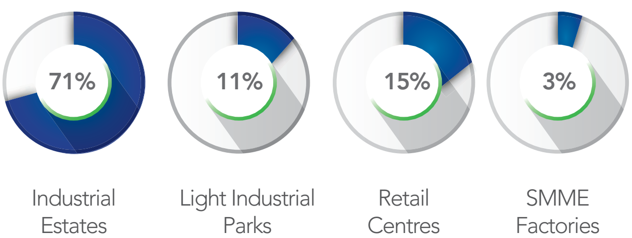
Large industrial tenants include Defy, Whirlpool, Nampak, RHI Refactories, Gomma Gomma, Sen Lida and Metso Minerals, located within the industrial estates in Mandeni, Ladysmith and Newcastle.

Furthermore, Ithala's shopping centres have attracted national tenants, such as Shoprite, Boxer and the Edcon Group, together with small, local retailers, providing the local community with jobs and access to goods and services which they, previously, would have had to travel a distance to obtain.

PERCENTAGE INCOME



GROSS LETTABLE AREA



HIGHLIGHTS

- Net profit of R124,4 million;
- New developments: R30,8 million invested in Mt Edgecombe Light Industrial Park and Ithala Trade Centre Office complex at Durban Point;
- Maintenance of portfolio: R55,4 million spent on refurbishment and maintenance;
- Development impact: approximately 40 000 jobs maintained by tenants; and
- 384 jobs created through maintenance and capital expenditure.

LOWLIGHTS

- Investment performance: under-expenditure on capital and maintenance budget.

Ithala also owns and manages a portfolio of properties tenanted by small and micro businesses in rural areas.

Rentals for units in Ithala's SMME properties portfolio are highly affordable and are offered to Black entrepreneurs without additional variable costs, such as electricity and water.

This promotes job creation and is intended to foster and support entrepreneurship.

This portfolio is not operated on a purely commercial basis.

It is run professionally by a team of property management staff who are close to the local community and who understand the dynamics of partnership and the need to assist their tenants access opportunities, whether from Local Government, Ithala or other agencies involved in development.

The current Properties business model is structured to hold and manage its property assets through:
- Asset management (viability studies, packaging, strategy, benchmarking and investments);
- Facilities management (maintenance and soft services);
- Property development and project management (new projects and re-developments);
- Property management (leasing and rental collections); and
- Engineered services supply and maintenance (Electricity, water, sewage and solid waste).

Revenue is collected from rentals, utilities and disposals. Property managers manage relationships with tenants.

Once a rental is in arrears for three months, these arrears are referred to our Legal Division to initiate a collections process.

Key initiatives have been implemented during the past year that are in support of the strategic goals, as outlined, including:
- The commencement of construction of three shopping centre re-developments, the building of a new light industrial park and the development of an office complex;
- Ongoing implementation of portfolio rationalisation through divestment, re-investment and the disposal of unproductive and poorly-performing property assets to reduce operating costs and improve the overall yield of the

BUSINESS PERFORMANCE

Property portfolio;

- Correctly allocating and comparing operating costs for each property and creating a clear understanding of cost differentials and drivers;
- Property valuations for each category of property were completed and will be used to determine market rentals, replacement values for insurance purposes and asset values under management for performance measurement; and
- Building a team of dedicated people.

Our strategic objectives are to:

- Stop revenue leakages and strengthen internal systems to improve financial accounting and performance tracking;
- Optimise the business model to enable best asset management and returns;
- Renew deteriorating assets to increase value and attract additional business; and
- Initiate new large-scale projects and enable other revenue-generating property development opportunities.

We have made progress on the refurbishment of performing shopping centres to improve yield and attractiveness within the market.

An amount of R55,3 million has been spent on maintenance.

We are also growing our property portfolio by developing new properties, namely the construction of the Mount Edgecombe Light Industrial Park and an office complex at Durban's Point.

The turn-around of non-performing properties is continuing through changes to their uses, re-development or disposal.

SUBSIDIARY AND ASSOCIATE PERFORMANCE

SUBSIDIARIES
ITHALA SOC LIMITED


Mr Simphiwe Khoza

Ithala SOC Limited publishes its own Integrated Annual Report, which can be accessed on the website: (www.ithala.co.za).

Our deposit-taking subsidiary provides a range of transactional banking services throughout the Province through a network of 48 branches.

The services offered include home loans, savings and investment products, personal loans, insurance services and other retail banking services. Its turn-around strategy is focused on:

- Implementing enabling technologies to support diversified customer transacting needs;
- Increasing transactional product offerings in order to stimulate transaction volumes, thus increasing non-interest income;
- Venturing into other transactional offerings and markets, such as vehicle finance and public sector banking; and
- Maintaining healthy liquidity levels, as required by the South African Reserve Bank.

HIGHLIGHTS

- Turn-around strategy implemented
- Investment in upgrading IT banking systems
- Customer acquisition strategy
- Low infrastructure multi-channel distribution network
- Human capital enhancement drive

UBUCIKO TWINES AND FABRICS (PTY) LTD

HIGHLIGHTS

- Employs 50 people
- Traction to break-even financial position
- Acquisition of multiple customers
- Planned disposal of business

A wholly-owned subsidiary of Ithala, Ubiciko Twines and Fabrics, was formed in 2006 and produces polypropylene twine, woven material and polypropylene bags and sacks.

These products are destined for use in the mining, agricultural, geo-textiles, polychemical, sugar and furniture industry segments. Ubuciko Twines and Fabrics is located in Mkondeni, Pietermaritzburg.

Ubuciko Twines and Fabrics currently employs some 50 people. It is on a path to achieving a permanent break-even financial position, due largely to improvements in the production facility and a reduction of bottlenecks, substantially improving output levels.

It adopted a multiple customer approach and successfully tendered for the supply of products to Sasol.

Whilst Ubuciko Twines and Fabrics continues to contribute to job creation in the Province, the Board has taken a decision to consider the most effective approach to exiting the shareholding, as this operation is considered to be non-core to the operations of Ithala.

KZN GROWTH FUND MANAGERS SOC LTD

HIGHLIGHTS

- Sale of business concluded

The conclusion of the disposal of the undertaking of a significant portion of KZN Growth Fund Managers SOC Ltd.

The Board and Management are finalising alternative uses for the business structures, including the portfolio of projects that will remain with Ithala.

SUBSIDIARY AND ASSOCIATE PERFORMANCE

ASSOCIATE
NTINGWE TEA ESTATE

HIGHLIGHTS

- Employs 600-800 people in rural KwaZulu-Natal
- Turn-around strategy developed
- New funding sought
- Recapitalisation needs clarified

Ithala's associate company is located in Nkandla and Ithala owns 38% of this tea estate entity.

The remaining 62% is owned by the Province, through the Department of Agriculture.

Whilst the estate is not making a profit due to cost pressures and access to certain markets restricting selling prices, it remains a strategic economic empowerment and job creation vehicle for this deep rural area, with the employment of between 600 and 800 members of staff.

In December 2013 and due to improved field management, Ntingwe Tea Estate experienced a bumper season, resulting in the need for urgent upgrades to its factory in order to deliver greater output.

In order to assist Ntingwe Tea Estate achieve sustainability, a turn-around strategy was finalised during 2013/14, which identified the need for the recapitalisation of Ntingwe Tea Estate, investment in new assets and the achievement of greater productivity per hectare before the entity will be able to operate independently.

The turn-around strategy has been presented to various stakeholders to obtain funding for the entity.

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 Mr FA Ferguson CA (SA) MBA, the Group Chief Financial Officer of Ithala Development Finance Corporation Limited.

REPORT OF THE AUDIT COMMITTEE

REPORT OF THE AUDIT COMMITTEE OF THE BOARD IN TERMS OF REGULATION 27.1.10(b) AND (c) OF THE TREASURY REGULATIONS [IN TERMS OF SECTIONS 51(1)(a)(ii) AND 76(4)(d) OF THE PUBLIC FINANCE MANAGEMENT ACT OF 1999 AS AMENDED]

We are pleased to present our report for the financial year ended 31 March 2014.

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

TERMS OF REFERENCE

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

COMPOSITION

The committee consists of four Independent Non-Executive Directors. At 31 March 2014 the Audit Committee comprised:

- Rev NNA Matyumza (Chairperson), Chartered Accountant (SA);
- Ms NN Afolayan, MBA: Finance;
- Mr DM McLean, Chartered Accountant (SA); and
- Mr GNJ White, BAdmin (Hons): Development Studies.

For the detailed qualifications of the afore-mentioned Audit Committee members, please refer to pages 24 to 25 of the Integrated Annual Report.

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

MEETINGS

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

Members	28 May 2013	30 July 2013	5 Nov 2013	28 Jan 2014	27 Mar 2014
Rev NNA Matyumza	√	√	√	√	√
Ms NN Afolayan	☐	☐	√	☐	☐
Mr DM McLean	√	√	√	√	√
Mr GNJ White	N	√	√	√	√

√ = Present ☐ = Apology N = Not a member at this stage – Appointed on 28/06/2013

STATUTORY DUTIES

In 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.

OVERSIGHT OF RISK MANAGEMENT

The Audit Committee has:

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

INTERNAL (FINANCIAL) 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 significant internal financial controls are effective.

REGULATORY COMPLIANCE

The Audit Committee has:

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

EXTERNAL AUDIT

The Audit Committee has:

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

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

INTERNAL AUDIT

The Audit Committee has:

- Reviewed and 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.

FINANCE FUNCTION

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

We are satisfied with the expertise and adequacy of resources within the finance function. We are satisfied with the quality of the monthly management reporting to the Executive Committee, as well as the quarterly management reporting to both the Board and the shareholder, the Department of Economic Development, Tourism and Environmental Affairs.

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

COMBINED ASSURANCE MODEL

In order to comply with Chapter 3, Principle 3.5 of King III on Corporate Governance, the Audit Committee has adopted a combined assurance model to provide a co-ordinated approach to all assurance activites and address all the 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.

Assurance is provided through three lines of defence, the first being management oversight, the second being the formal and effective risk management framework and the third, the independent and objective assurance that is the role of the Audit Committee, supported by internal audit, external audit and other credible assurance providers. Assurance is provided, primarily, by the second and third lines of defence.

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

A project to roll-out and implement combined assurance is in progress. Under the leadership of the Group Chief Executive Officer, this will be fully implemented by 31 March 2015.

INTEGRATED REPORT

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

Ithala has prepared an Integrated Report for the first time this year.

The Audit Committee:

- Acknowledges its responsibility for the integrity of the Integrated Report;
- Members have applied their collective mind to the preparation and presentation of the integrated report;
- Is of the opinion that the Integrated Report is presented in accordance with the International Integrated Reporting Framework; and
- On 12 August 2014, based on processes and assurance obtained, recommended the Integrated Report to the Board for approval.

SUSTAINABILITY REPORTING

Sustainability issues have not been included in the current Integrated Report. Ithala is committed to including sustainability issues in the Integrated Report for the 2014/15 financial year end.

On behalf of the Audit Committee

Rev NNA Matyumza
Chairperson

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the Corporation and the Group maintain a system of internal control designed to provide reasonable, but not absolute assurance that the assets are 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 have no reason to believe that the Corporation and the Group will not continue as a going concern in the year ahead.

The Auditor-General was appointed, as independent auditor, in terms of the Public Audit Act 2004 (Act No. 25 of 2004) and the Public Finance Management Act (Act No. 1 of 1999), and has audited the Corporation Annual Financial Statements and the Group Annual Financial Statements. Their report is presented on pages 57 to 58.

The Annual Financial Statements which appear on pages 53 to 124 were approved by the Board of Directors on 19 August 2014 and are signed on its behalf by:

Dr MSV Gantsho
Chairperson

Ms YEN Zwane
Group Chief Executive

GROUP COMPANY SECRETARY'S CERTIFICATION

The Group Secretary certifies that the Ithala Development Finance Corporation Limited has lodged with the appropriate regulatory authority all returns as are required in terms of the KwaZulu-Natal Ithala Development Finance Corporation Act No. 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 THE ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited (IDFC) and its subsidiaries set out on pages 62 to 124, which comprise the consolidated and separate statement of financial position as at 31 March 2014, the consolidated and separate statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the consolidated and separate financial statements

2. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the IDFC and its subsidiaries as at 31 March 2014, and their financial performance and cash flows for the year then ended in accordance with SA Statements of GAAP, the requirements of the PFMA and the Companies Act.

Emphasis of matters

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

Financial sustainability of Ithala SOC Limited (Company)

8. As disclosed in the directors' report, IDFC intends to provide additional share capital amounting to R50 million during the 2014/15 financial year to recapitalise the Company. The capital is anticipated to be sufficient to ensure that the South African Reserve Bank (SARB) regulatory prescribed minimum ratios are met, as well as to ensure future growth of the Company based on the Board-approved strategy.

Banking licence exemption of Ithala SOC Limited

9. As disclosed in the directors' report, the Minister of Finance initially extended the Company's exemption for a period of one year ending 31 December 2014. Subsequent to further consultation, the Minister of Finance agreed that the Company will be granted an exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by the Company.

Significant uncertainties

10. As disclosed in note 25.2 to the consolidated financial statements, IDFC was the defendant in various claims as at 31 March 2014. The ultimate outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the financial statements.

Material losses

11. As disclosed in note 1.3 to the consolidated and separate financial statements, losses of R301,73 million (2013: R75,86 million) were reported by IDFC as a result of a write-off of previously impaired loans and advances. This included a R231,20 million (2013: R53,02 million) write-off of capital and a further R70,53 million (2013: R22,83 million) relating to non-realisable revenue.

12. As disclosed in note 6.3 to the consolidated and separate financial statements, the Department of Economic Development, Tourism and Environmental Affairs (DEDTEA), decided to create a new unitary operational structure for KwaZulu-Natal Growth Fund Trust (Trust) on 3 December 2012. This resulted in a sale agreement whereby a major portion of the undertakings of KwaZulu-Natal Growth Fund Managers State-Owned Company Limited (Growth Fund) was sold to the Trust without compensation with effect from commencement of business on 1 November 2013 and for the retention of R5 million in the Growth Fund for a period of time. Consequently, the subsidiary ceased to be the fund manager for the Trust. The capital contribution, operational grant and portion of the DEDTEA equity fund were ultimately transferred to the Trust via a re-vote process. The net accounting implication for the period under review was a loss of R56,32 million.

Restatement of corresponding figures

13. As disclosed in note 28 to the consolidated and separate financial statements, the corresponding figures for 31 March 2013 have been restated as a result of an error discovered during 31 March 2014 in the consolidated and separate financial statements of IDFC at, and for the year ended 31 March 2013.

ADDITIONAL MATTER PARAGRAPHS

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

Other reports required by the Companies Act

15. As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2014, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the

audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on my review of these reports, I have not identified material inconsistencies between the reports and the audited consolidated and separate financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Financial reporting framework

16. As a result of the Companies Act requirements, SA Statements of GAAP have been withdrawn for financial years commencing on or after 1 December 2012. The Accounting Standards Board (ASB) is currently researching and re-evaluating an appropriate reporting framework for schedule 2, 3B and 3D public entities. In the interim, the ASB has approved that entities that previously applied SA Statements of GAAP should continue to apply them as at 1 April 2012.

Report on other legal and regulatory requirements

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each sub-heading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2014:
    - Financial sustainability and viability: on page 36;
    - Developmental effectiveness: on pages 37 to 38; and
    - Forge strategic partnerships on pages 39 to 40.

19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time-bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).

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

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

Additional matters

23. Although I raised no material findings on the usefulness and reliability of the reported performance for the selected objectives, I draw attention to the following matters.

Achievement of planned targets

24. Refer to the annual performance report on page(s) 36 to 40 and 125 to 132; for information on the achievement of planned targets for the year.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of financial sustainability and viability, developmental effectiveness and forge strategic partnerships. As management subsequently corrected the misstatements we did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set-out in the general notice issued in terms of the PAA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

Investigations

28. Ithala Group Audit Risk Assurance Services conducted investigations at the request of the entity, which covered the period 1 April 2013 to 31 March 2014. The investigations were initiated based on allegations of possible breach of the supply chain management processes. The investigation, concluded on 31 March 2014, resulted in disciplinary actions and dismissal of one employee. Disciplinary processes for the other investigations are still pending.

Auditor-General

Auditor-General
Pietermaritzburg
31 August 2014

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

The Directors have pleasure in presenting this report as part of the Annual Financial Statements (AFS) of Ithala Development Finance Corporation Limited (The Corporation) and the consolidated financial statements of the Corporation and its subsidiaries (together referred to as The Group) for the financial year ended 31 March 2014.

A. LEGAL FORM AND DOMICILE

The Corporation is a provincial development finance institution, wholly-owned by the KwaZulu-Natal Government Department of Economic Development, Tourism and Environmental Affairs 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 Unit 17 Isilo Drive, V-Section, Umlazi Township, Durban.

B. NATURE OF OPERATIONS

A general overview of The Corporation's business operations is given in the Group Chief Executive's Review on page 12.

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

C. FINANCIAL RESULTS

The results of the Corporation and the Group for the year ended 31 March 2014 are disclosed in the Annual Financial Statements set out on pages 53 to 124.

- For more details on the summary financial results of the subsidiaries, refer to the separate Annual Financial Statements of these companies and see Note 6, Note 27 and Annexure 2 of the Group Financial Statements for summary financial information between the Corporation and these companies;
- For more details on the summary financial results of the Associated Companies refer to the separate Annual Financial Statements of these companies and see Note 7, and Annexure 3 of the Group Financial Statements for summary financial information between the Corporation and these companies.

D. FINANCIAL PERFORMANCE OVERVIEW

The past financial year saw global growth gathering pace in developed markets and confidence returning. However, in contrast, emerging market growth has been under pressure.

South Africa has experienced a prolonged period of slow economic growth.

Over the 2013 year the economy grew by only 1,9%, down from 2,5% in 2012 and 3,5% in 2011.

The rand has weakened against the US dollar over the last year from a rate of R9.19:US$1 on 2 April 2013 to R10.60 as at 31 March 2014 (per South African Reserve Bank).

The budget deficit and current account deficit have also supported the weakening of the rand.

The rand weakness further contributed to a rising inflation scenario which led to a change in the interest rate cycle in January 2014, with the prime interest rate increasing by 50 basis points from 8,5% to 9%.

This interest rate increase has given rise to a marginal increase in interest income in the final quarter of the financial year.

Both the financial performance and financial position of the Group for the financial year ending 31 March 2014 are influenced by slower economic recovery. The Group's total assets in the statement of financial position reflect a year-on-year decrease of 5,9% (R284,6 million). The salient points relating to this decrease are:

- Cash and cash equivalents decreased by 43% (R728 million) mainly due to the disposal of the major portion of the undertaking of KZN Growth Fund Managers SOC (Pty) Ltd (as indicated last year), resulting in a transfer of cash held on behalf of the KZN Growth Fund Trust being remitted to the KZN Growth Fund Trust. This has led to a simultaneous reduction in deferred grants held, which is disclosed under total liabilities;
- Statutory liquid assets decreased by 33% (R71,8 million). The effect of the above reduction in total assets was diluted by the following increase in total assets:
- Trade and other receivables increased by 11,2% (R15,5 million);
- Net loans and advances increased by 26% (R552,7 million) primarily in the Business Finance Department, due to advances made during the year of R932,9 million against repayments received of R439,4 million. Bad debt write-offs of R231,2 million offset some of the effect of the large advances made;
- PIPs increased by 62% (R5,1 million);
- Investment properties increased by 2,7% (R21,1 million) as a net result of R45,8 million additions and R0,5 million impairment charges, offset by R4,2 million disposals and R20,9 million depreciation charges;
- Property, plant and equipment increased by 6,5% (R11,6 million) as a net result of additions of R34,5 million and transfers of R1,8 million offset by disposals of R2,8 million and R21,9 million depreciation charges; and
- Intangibles increased by R16,6 million (111,0%) as a net result of additions of R23,0 million, offset by amortisation of R4,5 million and transfers of R1,8 million.

The Group's statement of comprehensive income reflects a year-on-year expansion in net income of 70,1% (R55,2 million), the contributory factors being:

- Operating income increased by 17,3% (R164,7 million) mainly due to:
  - R155,6 million increase in grant income emanating from the allocation and application of a grant by the KwaZulu-Natal Legislature relating to the recapitalisation of Ithala SOC Limited for R105 million by way of an issue of shares, and utilisation of prior year grant income pertaining to lending to SMMEs of R47,6 million;
  - R11,2 million increase in sale of electricity, water and sewage services; and
  - R40,2 million reduction in credit impairment charges as a result of better credit collections and restructuring of loans.

The following items reduced the growth in operating income:
  - R8,9 million decline in rental income;
  - R35,1 million decline in fee income, commission and services recovered largely incurred at Ithala SOC Limited.

- Operating expenditure increased by 16,0% (R120,5 million) mainly as a result of the following:
  - Increase in purchases of electricity, sewage and water of R5,0 million;
  - Increase in staff costs of R10,4 million;
  - Increase in depreciation of R4,1 million;
  - Increase in maintenance of R18,3 million;
  - Increase in operational costs of R54,0 million, mainly due to loss of R56 million incurred on disposal of assets and liabilities of the KZN Growth Fund SOC (Pty) Ltd; and
  - Increase in rent, rates and utilities of R2,7 million.

E. POLICY DIRECTIVES

No policy directives were received from the MEC for Economic Development, Tourism and Environmental Affairs during the financial year ended 31 March 2014.

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

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

FAIR VALUE OF INVESTMENTS

The fair value of the listed investment, as disclosed in Note 10, is R16,1 million at year end (2012: R12,1 million) and was quoted on the JSE Securities Exchange at R15,2 million on 22 July 2014.

G. ORDINARY SHARE CAPITAL

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

H. DIVIDENDS

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

I. 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 Annual Financial Statements.

J. SOURCES OF FUNDING

The Corporation did not raise any new long-term borrowings from lenders during the year under review (2013: Rnil) - refer to Annexure 1 of the Annual Financial Statements for more details on existing Borrowings.

During the year under review, the Corporation received Government grants of R185 million (2013: R189,5 million) from the Department of Economic Development, Tourism and Environmental Affairs, of which R148 million was for SMME on-lending, whilst R37 million was ring-fenced for utilisation by the Small Business Development Agency.

The Corporation received a further voted grant of R105 million in the year relating to the recapitalisation of Ithala SOC Limited.

FINANCIAL ASSISTANCE (GRANTS) ANALYSIS OVER THE PAST TWO YEARS:

	R' million	
	FY2014	FY2013
Grants unapplied at the beginning of year	**760**	702
Received during the year	**290**	250
SMME	**148**	190
DEDT	-	60
SBDA	**37**	-
Ithala SOC Limited share capital injection	**105**	-
Interest on Equity Fund and DEDT Fund	**25**	10
Grants applied during the year	**(307)**	(153)
- SMME	**(177)**	(111)
- Management fee	**(19)**	(19)
- Business support	-	(12)
- Co-operatives	**(4)**	(9)
- BEE Risk Fund	**(1)**	(2)
- Share participation	**(1)**	-
- Ithala SOC Limited share capital injection	**(105)**	-
Grants transferred during the year	**(611)**	(49)
- Co-operatives	**(7)**	(6)
- KZN Growth Fund	**(363)**	(43)
- DEDT	**(241)**	-
Grants unapplied at the end of year	**157**	760
Held on behalf of KZN Growth Fund Managers	-	306
Held on behalf of DEDT	**63**	233
Corporation grant funds unapplied at end of year	**94**	264

K. GOING CONCERN BASIS OF ACCOUNTING

CORPORATION

The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31 March 2014, 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 R100 million from major financial banking institutions.

The Group posted a profit of R133,5 million for the year ended 31 March 2014 (2013: R78,2 million). The Group is solvent since its total assets exceeded its total liabilities by R2,0 billion (2013: R2,0 billion).

The Group is able to pay its debts as they become due and its liquidity is evident by its current assets exceeding its current liabilities by R1,3 billion (2013: R2,3 billion).

The Directors have a reasonable expectation that the Corporation and the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Annual Financial Statements have been prepared on a going concern basis.

SUBSIDIARIES

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

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

All subsidiaries have adopted the going concern basis in preparing their financial statements for the year under review, with the exception of Sibaya Conservation Projects (Pty) Ltd which is under voluntary liquidation and its Annual Financial Statements have been prepared on this basis.

BANKING LICENCE EXEMPTION OF ITHALA SOC LIMITED

The Minister of Finance initially extended the Ithala SOC Limited's exemption for a period of one year ending 31 December 2014. Subsequent to further consultation, the Minister of Finance agreed that Ithala SOC Limited will be granted an exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by the Company.

The Board and the Board of Ithala SOC Limited believe that these performance obligations will be met and is confident that the exemption will apply for the three years to 30 June 2017.

In line with the continued Banking Licence exemption requirements, and in keeping with the financial support provided in previous years, during 2014/15 Ithala Development Finance Corporation intends providing additional share capital (amounting to R50 million) to Ithala SOC Limited, on mutually agreed terms and conditions.

The share capital is anticipated to be sufficient to ensure the South African Reserve Bank regulatory prescribed minimum ratios are met, as well as to ensure future growth of Ithala SOC Limited based on the Board-approved strategy.

L. BOARD OF DIRECTORS

Information pertaining to Board Members and Committees is covered in the Governance Report, on pages 23 to 31.

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

CORPORATION

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

One member resigned from the Group Board of Directors during the year to take up the position of Chairperson of a subsidiary - Ithala SOC Limited.

- New position:
  MF Kekana - May 2013

A vacancy has arisen post the financial year end due to the recent passing of a Board member. This position will be filled in the new financial year.

ITHALA SOC LIMITED

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

- Appointment:
  MF Kekana - 1 June 2013
- Resignation:
  L van Lelyveld - 31 March 2014

KZN GROWTH FUND MANAGERS SOC (PTY) LTD

The following member resigned from the Board of Directors during the period under review:

- Resignation:
  S Adam - 17 December 2013

M. GROUP COMPANY SECRATARIAT

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

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

- Particulars of irregular expenditure and fruitless and wasteful expenditure incurred by the Corporation in the 2013 financial year are disclosed in Notes 30 and 32 of the Annual Financial Statements.
- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R301,7 million (2013: R75,8 million), comprising a capital portion of R231,2 million and a Non-Realised Revenue (NRR) portion of R70,5 million. Due to provisions made against non-performing loans in prior years, the impact of the write-offs to the income statement is negligible.
- Despite the write-off of these bad debts, the company continues to pursue these defaulters vigorously and no effort is spared in trying to recover monies owed to the Corporation. During the year under review a total of R2,5 million (2013: R6,1 million) was recovered from bad debts previously written-off.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2014

	Notes	Group			Corporation		
		2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2014 R'000	2013 R'000 Restated	2012 R'000 Restated
ASSETS							
Non-current assets		**2 987 506**	2 380 635	2 421 536	**1 816 801**	1 297 849	1 398 544
Loans and advances	1.1	**1 898 320**	1 345 571	1 404 656	**497 452**	137 774	283 587
Properties in possession	1.4	**13 410**	8 266	8 089	**5 456**	1 117	983
Investment properties	2	**802 179**	781 054	770 267	**743 436**	721 233	708 018
Property, plant and equipment	3	**190 831**	179 193	169 662	**129 036**	109 468	90 697
Intangible assets	4	**31 604**	14 978	15 470	**25 564**	11 691	11 217
Straightlining of operating lease income	5	**50 325**	51 123	52 889	**41 388**	42 761	45 482
Subsidiaries	6.2	**-**	-	-	**373 632**	273 355	258 057
Goodwill	6.4	**246**	237	232	**246**	237	232
Associated companies	7.1	**591**	213	271	**591**	213	271
Current assets		**1 547 029**	2 438 456	2 269 139	**693 720**	1 565 574	1 364 440
Current portion of loans and advances	1.1	**251 906**	358 466	323 261	**146 900**	268 501	240 266
Straightlining of operating lease expenditure	24.2	**16**	-	-	**16**	27	-
Cash and cash equivalents	8.1	**956 103**	1 684 126	1 671 188	**368 470**	1 148 505	962 066
Statutory liquid assets	8.2	**146 205**	218 037	116 275	**-**	-	-
Trade and other receivables	9	**153 641**	138 181	123 246	**141 196**	110 710	128 249
Investments	10	**14 946**	16 141	12 069	**14 946**	16 141	12 069
Inventory and contracts in progress	11	**24 212**	23 505	23 099	**22 192**	21 690	21 789
Total assets		**4 534 535**	4 819 091	4 690 675	**2 510 521**	2 863 423	2 762 984
EQUITY AND LIABILITIES							
Capital and reserves		**2 022 401**	1 887 983	1 809 849	**2 067 869**	1 824 053	1 735 622
Ordinary share capital	12	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**1 013 819**	879 401	801 267	**1 059 287**	815 471	727 040
Non-controlling interest	13	**(826)**	142	66	**-**	-	-
Total equity		**2 021 575**	1 888 126	1 809 915	**2 067 869**	1 824 053	1 735 622
Non-current liabilities		**2 331 314**	2 771 649	2 703 307	**313 164**	923 816	888 949
Borrowings	14	**70 143**	79 221	85 377	**68 015**	77 085	83 238
Deposits due to customers	15	**1 973 429**	1 803 458	1 775 383	**-**	-	-
Post-retirement obligation	16.1 & 16.2	**77 001**	73 989	67 619	**51 490**	49 594	46 245
Long service obligation	16.3	**21 614**	21 632	19 045	**11 673**	11 742	10 043
Government grants	17	**156 432**	759 856	702 369	**156 432**	759 856	702 369
Straightlining of operating lease expenditure	24.2	**6 316**	7 051	5 901	**5 554**	5 539	5 440
Deferred tax	26	**1 097**	678	1 927	**-**	-	-
Provision for landfill restoration	35	**20 000**	20 000	41 614	**20 000**	20 000	41 614
Cell captive insurance fund	36	**5 282**	5 764	4 072	**-**	-	-
Current liabilities		**181 646**	159 317	177 453	**129 488**	115 554	138 413
Straightlining of operating lease income	5	**1 541**	3 174	6 496	**428**	2 014	6 481
Current portion of borrowings	14	**23 488**	22 134	44 584	**23 488**	22 134	44 584
Trade and other payables	18	**156 617**	133 965	125 322	**105 572**	91 406	87 312
Straightlining of operating lease expenditure	24.2	**-**	44	1 051	**-**	-	36
Total liabilities		**2 512 960**	2 930 966	2 880 760	**442 652**	1 039 370	1 027 362
Total equity and liabilities		**4 534 535**	4 819 092	4 690 675	**2 510 521**	2 863 423	2 762 984

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	Group		Corporation	
		2014	2013	2014	2013
		R'000	R'000 Restated	R'000	R'000 Restated
Interest income	19.1	**256 066**	247 286	**76 018**	81 585
Interest expenditure	19.2	**66 104**	57 450	**5 889**	(1 205)
Net interest income before credit impairment charges		**189 962**	189 836	**70 129**	82 790
Credit impairment charges		**99 344**	139 528	**65 952**	119 712
Loans and advances	1.3	**75 961**	117 824	**46 288**	102 888
Properties in possession	1.4	**2 073**	1 551	**540**	1 097
Straightlining of operating lease income	5	**112**	190	**(52)**	125
Trade and other receivables	9	**21 198**	19 953	**19 176**	15 599
Net interest income after credit impairment charges		**90 618**	50 308	**4 177**	(36 922)
Other operating income	20	**1 025 936**	901 534	**915 056**	692 686
Operating income before operating expenditure		**1 116 554**	951 842	**919 233**	655 764
Operating expenditure	21	**977 247**	871 371	**674 509**	567 275
Operating expenses		**975 300**	882 393	**663 060**	576 364
Non-credit related impairments	21.4	**(452)**	(13 267)	**9 953**	(10 479)
Indirect taxation	22.1	**2 399**	2 245	**1 496**	1 390
Equity accounting loss		**(908)**	(58)	**(908)**	(58)
Operating profit before taxation		**138 399**	80 413	**243 816**	88 431
Taxation expense	22.2	**4 949**	2 202	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**133 450**	78 211	**243 816**	88 431
Attributable to:					
Equity holders of the parent		**134 418**	78 134	**243 816**	88 431
Non-controlling interest		**(968)**	76	-	-
		133 450	78 211	**243 816**	88 431

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014

	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
2014					
Group					
Restated balance at 31 March 2013	**1 008 582**	**879 401**	**1 887 983**	**142**	**1 888 126**
Income attributable to the shareholder	**-**	**134 418**	**134 418**	**(968)**	**133 450**
Balance at 31 March 2014	**1 008 582**	**1 013 819**	**2 022 401**	**(826)**	**2 021 576**
Corporation					
Restated balance at 31 March 2013	**1 008 582**	**815 471**	**1 824 053**	**-**	**1 824 053**
Income attributable to the shareholder	**-**	**243 816**	**243 816**	**-**	**243 816**
Balance at 31 March 2014	**1 008 582**	**1 059 287**	**2 067 869**	**-**	**2 067 869**
2013 (Restated)					
Group					
Restated balance at 31 March 2012	1 008 582	801 267	1 809 849	66	1 809 915
Income attributable to the shareholder	-	78 134	78 134	76	78 211
Balance at 31 March 2013	1 008 582	879 401	1 887 983	142	1 888 126
Corporation					
Restated balance at 31 March 2012	1 008 582	727 040	1 735 622	-	1 735 622
Income attributable to the shareholder	-	88 431	88 431	-	88 431
Balance at 31 March 2013	1 008 582	815 471	1 824 053	-	1 824 053

Refer to Note 28.3 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 2014

	Note	Group		Corporation	
		2014	2013	2014	2013
		R'000	R'000 Restated	R'000	R'000 Restated
Cash flow from operating activities					
Cash generated from operating activities	23.1	**269 618**	234 714	**325 630**	202 761
Decrease/(increase) in working capital	23.2	**6 571**	(4 558)	**(16 822)**	21 732
Taxation paid	23.3	**(4 615)**	(5 591)	**-**	-
Net cash generated from operating activities		**271 574**	224 565	**308 808**	224 493
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		**(932 862)**	(464 912)	**(434 586)**	(121 932)
- repaid		**439 438**	532 879	**152 545**	141 884
- other loan movements		**(28 727)**	(161 910)	**(2 324)**	(5 262)
Additions to investment properties		**(45 774)**	(40 255)	**(45 353)**	(41 134)
Additions to property, plant and equipment and intangible assets		**(57 493)**	(35 138)	**(44 666)**	(28 208)
Additions to properties in possession		**(12 222)**	(7 299)	**(8 041)**	(5 018)
Proceeds on disposal of investment properties and property, plant and equipment		**9 337**	19 277	**7 084**	19 206
Proceeds on disposal of properties in possession		**3 880**	5 571	**2 205**	3 787
Increase in goodwill		**(9)**	(5)	**(9)**	(5)
(Decrease)/increase in cell captive insurance fund		**(482)**	1 691	**-**	-
Decrease/(increase) in liquid assets		**71 832**	(101 762)	**-**	-
(Increase)/decrease in subsidiaries and associated companies		**(378)**	58	**(100 655)**	(15 241)
Net cash utilised by investing activities		**(553 460)**	(251 805)	**(473 800)**	(51 923)
Cash flow from financing activities					
Borrowings capital repaid		**(7 724)**	(28 606)	**(7 716)**	(28 603)
Increase in fixed, short-term deposits and savings accounts		**169 971**	28 075	**-**	-
Post-retirement medical paid		**(3 579)**	(3 112)	**(3 037)**	(2 624)
Long service obligations paid		**(1 380)**	(2 760)	**(865)**	(1 484)
Landfill restoration paid		**-**	(10 908)	**-**	(10 908)
Net Government grants (utilised)/received		**(603 424)**	57 488	**(603 424)**	57 488
Net cash (utilised)/generated by financing activities		**(446 136)**	40 177	**(615 042)**	13 869
Net (decrease)/increase in cash and cash equivalents		**(728 023)**	12 938	**(780 035)**	186 439
Cash and cash equivalents at beginning of year		**1 684 126**	1 671 188	**1 148 505**	962 066
Cash and cash equivalents at end of year		**956 103**	1 684 126	**368 470**	1 148 505

SUMMARY OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2014

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 Unit 17, Isilo Drive, V Section, Umlazi Township, Durban.

The consolidated financial statements of Ithala as at and for the year ended 31 March 2014 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 four new IFRSs (IFRS 10, 11, 12 &13), amendments to IFRSs, including amendments made under the annual improvements process (namely amendments to IFRS 1, 3, 7, 9, 10, 11, 12 and 13 and amendments to IAS 1, 16, 19, 27, 28, 32, 34, 38 and 40 and two 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 Practices Board adopted and defined Statements of GAAP 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 19 August 2014.

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; and
- Listed Equity investments are measured at closing bid prices.

3.2 FUNCTIONAL AND PRESENTATION CURRENCY
The consolidated financial statements are presented in South African Rands, which is the Group's functional currency.

All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

3.3 USE OF ESTIMATES AND JUDGEMENTS
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

These also concern the future and will thus affect the reported amounts of assets and liabilities within the next financial year.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods' 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
Investment properties that may be impaired are identified and the recoverable values of such assets are established by applying an appropriately adjusted discount rate to the estimated future cash flows, to be generated from continued use of these assets, over the next three years.

The average discount rates (rates of return) obtained from independent property specialists, are adjusted down to an average rate suitable to the Group's development-driven objective. In accepting such a lower rate of return, management takes into account the location of the asset, past performance, competition in the area and vacancy rates.

The impairment of other assets is based on the estimated remaining useful lives and original costs or market value of the assets.

Furniture and fittings in the subsidiary branches are estimated to be replaced in line with the branch refurbishment programme.

Management expects this programme to be executed as scheduled. However, any changes in the programme will affect the impairment of the related assets.

During the period under review, there were no other areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLAN

The cost of the defined benefit and defined contribution pension plans are determined using actuarial valuations.

The actuarial valuations involve assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 16 for the assumptions used.

3.5 COMPARATIVE FIGURES

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

3.6 SIGNIFICANT ACCOUNTING POLICIES

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

3.6.1 BASIS OF CONSOLIDATION

The consolidated financial statements include those of the company, its subsidiaries, associates and joint ventures.

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

(a) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, ie, 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

(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
- 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 the specific facts and circumstances.

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

(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.

Joint ventures are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates are accounted for using the equity method.

The Group recognises its interest in a jointly-controlled entity using the proportionate consolidation method.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted investments, after adjustments to align the accounting policies with those of the Group where applicable, from the date that significant influence commences until that significant influence ceases.

The consolidated financial statements include the Group's share of assets, liabilities, income and expenses that it jointly controls.

The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

3.6.2 INTANGIBLE ASSETS
Intangible assets, other than goodwill (refer to basis of consolidation policy above), are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured.

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software 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 for use as follows:
• Computer software - 2 years

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

All other expenditure is expensed as incurred.

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

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

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

These costs are initially capitalised as work-in-progress up to the date of completion of project 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
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 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.

3.6.6 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

Loans and advances are stated after the deduction of provisions for credit impairment.

Loans and advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

Loans and advances are impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition that indicates it is probable the Group will be unable to realise all amounts due.

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

The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount.

The estimated recoverable amount of the advance is calculated as the present value of expected future cash flows discounted at the original effective interest rate at inception of the advance.

In estimating the expected future cash flows from the realisation of "permission to occupy" securities, past experience in realising this type of security has been taken into account.

Subsequent to impairment, the effects of discounting unwind over time, based on the original effective interest rate.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities at both a specific asset and collective level.

The impairment of non-performing loans and advances is based on periodic evaluations of loans and advances and 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.

SUBSEQUENT COSTS

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

DEPRECIATION

Buildings, infrastructure, plant, equipment and vehicles are depreciated on a straight-line basis at rates that will reduce the historical costs to estimated residual values over the anticipated useful lives of the assets.

Where buildings are erected on leasehold land or land held under a permission to occupy certificate with a finite life, the buildings are depreciated over the duration of the lease or permission to occupy certificate.

Property, plant and equipment acquired under finance lease arrangements are capitalised.

Such assets are depreciated on a straight-line basis at rates considered appropriate to reduce capitalised cost to estimated residual value over the anticipated useful lives of the assets.

Lease finance charges are amortised over the duration of the finance leases using the effective interest rate method.

Properties subject to sale and lease-back transactions, where the lease is classified as a finance lease and the value of the property implicit in the lease is higher than the carrying value, the carrying value is not adjusted and no gain is recognised.

The residual value of assets is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already at the age and in the condition expected at the end of its useful life.

A review of residual value is performed at balance sheet date each year, as well as an adjustment, if appropriate.
The assets useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. The anticipated useful lives of the assets are as follows:

• Infrastructure and Buildings	50 years
• Plant and Equipment	5-25 years
• Vehicles	4 years

Land is not depreciated as it is deemed to have an infinite life. Buildings and plant under construction include all direct building costs, allocated overhead costs and capitalised borrowing costs.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

3.6.13 INVESTMENT PROPERTY

Investment property is property (land or buildings) held to earn rentals or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property (other than land) is measured at cost less accumulated depreciation. Owner-occupied properties are held for administrative purposes. This distinguishes owner-occupied properties from investment properties. Investment properties are shown at cost less accumulated depreciation and impairment losses.

Property that is being constructed and developed for future use as investment property is accounted for as investment property.

All property, other than land, is depreciated over its economic useful life of 50 years on a straight-line basis to its estimated residual value.

The depreciation rate and the residual values are reviewed on anannual basis and adjusted for, if appropriate.

This basis is consistent with the procedure described above under "Property, plant and equipment" as required by AC135 (IAS 40).

3.6.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss.

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

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 the 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 arising at 31 March 2002, which will be recognised over a period not exceeding five years, all legal and constructive liabilities are provided for on the accrual basis over the service lives of eligible employees.

Actuarial gains are recognised over the average remaining service lives of employees, to the extent that the unrecognised actuarial gains exceed the unrecognised transitional liability.

Actuarial losses are recognised over the average remaining service lives of employees.

(d) LONG SERVICE AWARD BENEFITS

Employees are entitled to a long-term benefit based on various periods of long service to the Group.

The long service award liability is calculated by independent actuaries using the projected unit credit method.

The long service award liability is an unfunded liability in that there are no separate plan assets out of which obligations are to be settled.

The amount recognised as a long service award liability is therefore the present value of the defined benefit obligation at the end of the reported period.

Current service costs and interest costs are recognised as expenses. All actuarial gains and losses and past service costs are recognised immediately as expenses.

3.6.17 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, constructing or production of qualifying asset 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.

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 comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6.20 PROVISIONS AND CONTINGENT LIABILITIES

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

A provision for an onerous contract is recognised by the Group when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract.

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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

Contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements, unless they are remote.

3.6.21 REVENUE

(a) RENTAL INCOME

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

Lease incentives granted are recognised as an integral part of total rental income, over the term of the lease.

(b) INTEREST INCOME AND INTEREST EXPENSE

Interest income and expenses are recognised in profit or loss on an accrual basis, with reference to the principal outstanding using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument.

In terms of IAS 39, interest is accrued in respect of impaired advances based on the original effective interest rate used to determine the recoverable amount.

3.6.22 OTHER OPERATING INCOME

(a) DIVIDENDS RECEIVED

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

(b) FEE INCOME

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised.

Other fee income is recognised as the related services are performed.

(c) COMMISSION INCOME

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

(d) SALE OF GOODS

Sale of goods is recognised when significant risks and rewards of ownership have passed and the collectability of the related receivable is reasonably assured.

Revenue from the sale of electricity, water, sewage and refuse removal services are recognised when consumed by the customer.

3.6.23 LEASED ASSETS

OPERATING LEASE

Assets leased by the Group under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Rentals payable under the operating leases are charged to profit or loss on a straight-line basis over the term of the lease.

FINANCE LEASE

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as a finance lease.

On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Overleaf are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2014, 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 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.

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2014

Standard	Description	Annual periods beginning on or after
IFRS 1 (AC 138) amendment	First-time adoption of International Financial Reporting Standards • Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to Government loans existing at the date of transition to IFRSs. • Annual Improvements 2009–2011 Cycle: Amendments clarify the options available to users when repeated application of IFRS 1 is required and to add relevant disclosure requirements. • Annual Improvements 2009–2011 Cycle: Amendments to borrowing costs. • Annual Improvements 2011–2013 Cycle: Amendments to the Basis of Conclusion clarify the meaning of "effective IFRSs". • The Group may have to apply IFRS 1 in the 2015 AFS should the APB determine that public entities should comply with IFRS going forward.	1 January 2013 1 January 2013 1 January 2013 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 7 (AC 144) (amendment not adopted into SA GAAP)	Financial Instruments: Disclosures • Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set-off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set-off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.	1 January 2013
IFRS 7 (AC 144) (amendment not adopted into SA GAAP)	• Based on the new disclosure requirements, the adoption of the amendment to IFRS 7 requires more extensive disclosures about rights to set-off. The Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting or similar arrangement.	
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	Financial Instruments: Classification and Measurement • New standard split into a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement: - Phase 1: Classification and measurement (completed) - Phase 2: Impairment methodology (outstanding) - Phase 3: Hedge accounting (completed) • The IFRS 9 (2009) requirements represent a significant change from the existing requirements of IAS 39 in respect of financial assets. There are two primary measurement categories in the standard, namely, amortised cost and fair value. A financial asset will be measured at amortised cost if it is held to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. All other financial assets will be measured at fair value. The existing IAS 39 categories of held to maturity, available for sale and loans and receivables will be eliminated. • IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to present fair value changes attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Except for this change, IFRS 9 (2010) largely carries forward the guidance on classification and measurement of financial liabilities from IAS 39. • Annual Improvements 2010–2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities included under IFRS 9. • Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's Annual Financial Statements	The mandatory effective date for IFRS 9 will be announced when the IASB has completed all outstanding parts of IFRS 9. However, entities may still choose to apply IFRS 9 immediately. 1 July 2014
IFRS 10 (not adopted into SA GAAP)	Consolidated financial statements • New 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. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • IFRS 10 exception to the principle that all subsidiaries must be consolidated. Entities meeting the definition of 'Investment Entities' must be accounted for at fair value under IFRS 9, Financial Instruments, or IAS 39, Financial Instruments: Recognition and Measurement. • The Group is currently assessing the impact of the new standard on the Group's consolidation requirements.	1 January 2013 1 January 2013 1 January 2014

Standard	Description	Annual periods beginning on or after
IFRS 11 (not adopted into SA GAAP)	Joint arrangements • New standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. Standard requires a single method for accounting for interests in jointly controlled entities. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • The Group is currently assessing the impact of the new standard as there is currently a joint arrangement in the Properties Department.	1 January 2013 1 January 2013
IFRS 12 (not adopted into SA GAAP)	Disclosure of interest in other entities • New and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. • Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, thus limiting the requirements to provide adjusted comparative information. • New disclosures required for Investment Entities (as defined in IFRS 10). • The Group is currently assessing the disclosure requirements for interest in subsidiaries, joint arrangements, associates and unconsolidated structures entities in comparison with the existing disclosures.	1 January 2013 1 January 2013 1 January 2014
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 already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in level 3.	1 January 2013 1 July 2014 1 July 2014
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	Presentation of Financial Statements • Annual Improvements 2009–2011 Cycle: Amendments clarifying the requirements for comparative information, including minimum and additional comparative information required.	1 January 2013
IAS 16 (AC 123)	Property, Plant and Equipment • Annual Improvements 2009–2011 Cycle: Amendments to the recognition and classification of servicing equipment. • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation.	1 January 2013 1 July 2014
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 R11,6m for the Corporation and R1,8m for a subsidiary would have to be released to the income statement. The net impact to the Group would be a reduction of R13,4m 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

Standard	Description	Annual periods beginning on or after
IAS 27 (AC 132) (amendment not adopted into SA GAAP)	Consolidated and Separate Financial Statements • Consequential amendments resulting from the issue of IFRS 10, 11 and 12. • Requirement to account for interests in 'Investment Entities' at fair value under IFRS 9, Financial Instruments, or IAS 39, Financial Instruments: Recognition and Measurement, in the separate financial statements of a parent.	1 January 2013 1 January 2014
IAS 28 (AC 110) (amendment not adopted into SA GAAP)	Investment in Associates • Consequential amendments resulting from the issue of IFRS 10, 11 and 12.	1 January 2013
IAS 32 (AC 125) (amendment not adopted into SA GAAP)	Financial Instruments: Presentation • Amendment clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set – of and when gross settlement is equivalent to net settlement. • Annual Improvements 2009–2011 Cycle: Amendments to clarify the tax effect of distribution to holders of equity instruments. • Based on an initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32.	1 January 2013 1 January 2013
IAS 34 (AC 127)	Interim Financial Reporting Annual Improvements 2009–2011 Cycle: Amendments to improve the disclosures for interim financial reporting and segment information for total assets and liabilities • The amendment is not applicable to the Group as there is no interim financial reporting.	1 January 2013
IAS 38 (AC 129), Intangible Assets	Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation.	1 July 2014
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 20 (not adopted into SA GAAP)	Stripping costs in the production phase of a service mine • The amendment is not applicable to the Group and will therefore have no impact on future annual financial statements.	1 January 2013
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

Should the The Accounting Standards Board (ASB) decide that Government business enteprises, like Ithala, must comply with IFRS, all standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

3.8 AMENDMENT TO THE BASIS OF ACCOUNTING
Section 55 1(b) of the PFMA requires Public Entities to prepare financial statements for each financial year in accordance with Generally Accepted Accounting Practice
(SA GAAP).

The Group has accordingly prepared its Annual Financial Statements on this basis to date. However, during the FY2012, 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 ASB is currently busy with research to determine whether IFRS of GRAP is most appropriate to Government Business Entities, like Ithala.

It is envisaged that the research will be completed in the 2015 financial year, and the ASB, together with National Treasury will provide guidance on the applicable accounting framework to be applied prospectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
1. LOANS AND ADVANCES				
1.1. Sectoral analysis				
Housing and commercial property	**1 505 872**	1 345 782	-	-
Micro-finance - secured	**50 802**	23 164	-	-
Micro-finance - unsecured	**73 059**	29 824	-	-
Personnel	**5 202**	4 553	**5 202**	4 553
Co-operatives	**8 300**	9 259	**8 300**	9 259
Agri and Agro-business*	**318 455**	329 001	**318 455**	329 001
Manufacturing	**75 398**	143 940	**75 398**	143 940
Trade and services	**145 009**	164 180	**145 009**	164 180
Construction and tourism	**268 045**	180 017	**268 045**	180 017
Loans and advances before credit impairment charges	**2 450 142**	2 229 720	**820 409**	830 950
Credit impairment for loans and advances	**(299 916)**	(525 683)	**(176 057)**	(424 675)
Net loans and advances including current portion	**2 150 226**	1 704 037	**644 352**	406 275
Less: current portion included under current assets	**(251 906)**	(358 466)	**(146 900)**	(268 501)
Net loans and advances	**1 898 320**	1 345 571	**497 452**	137 774
Non-performing loans	**314 710**	602 856	**190 210**	478 356
Impairment of non-performing loans and advances	**(207 365)**	(475 238)	**(128 804)**	(406 426)
Unimpaired portion of non-performing loans	**107 345**	127 618	**61 406**	71 930

* Included in Agri and Agro-business loans and advances are amounts totalling R204,0 million (2013: R215,4 million) which have been ceded and assigned to the Land and Agricultural Bank of South Africa.

1.2. Maturity analysis

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Maturing:				
Up to 1 month	**28 356**	106 143	**18 969**	97 597
From 1 month to 6 months	**114 758**	122 033	**70 351**	83 586
From 6 months to 1 year	**108 792**	130 290	**57 580**	87 318
From 1 year to 5 years	**692 418**	668 505	**314 048**	358 597
After 5 years	**1 505 818**	1 202 749	**359 461**	203 852
	2 450 142	2 229 720	**820 409**	830 950

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

1.3. Credit impairment for loans and advances

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Balance at beginning of the year	**525 683**	483 715	**424 675**	379 166
Amounts written-off	**(301 728)**	(75 856)	**(294 905)**	(57 379)
Bad debt write-off	**(231 197)**	(53 022)	**(226 452)**	(37 469)
Non-realised revenue write-off	**(70 531)**	(22 834)	**(68 453)**	(19 910)
Charge to income statement	**75 961**	117 824	**46 288**	102 888
Balance at end of the year	**299 916**	525 683	**176 057**	424 675
Comprising:				
Impairment for performing loans (IBNR)*	**92 551**	50 445	**47 253**	18 249
Impairment for non-performing loans	**207 365**	475 238	**128 804**	406 426
Impairment for loans and advances	**299 916**	525 683	**176 057**	424 675

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

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
1.4. Properties in possession				
Balance at beginning of the year	**18 019**	16 291	**6 885**	5 654
Acquisitions	**12 222**	7 299	**8 041**	5 018
Disposals	**(5 005)**	(5 571)	**(3 162)**	(3 787)
Carrying amount before impairment	**25 236**	18 019	**11 764**	6 885
Accumulated impairment loss	**(11 826)**	(9 753)	**(6 308)**	(5 768)
Net carrying amount	**13 410**	8 266	**5 456**	1 117
Accumulated impairment loss				
Balance at beginning of the year	**9 753**	8 202	**5 768**	4 671
Charge to income statement	**2 073**	1 551	**540**	1 097
Balance at end of the year	**11 826**	9 753	**6 308**	5 768

Properties in possession relate to movable and 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 2014	Group 2013	Corporation 2014	Corporation 2013
2. INVESTMENT PROPERTIES				
Cost				
Land and buildings	**1 094 324**	1 075 780	**1 008 362**	990 241
Work-in-progress	**108 708**	88 266	**108 708**	88 266
Accumulated depreciation				
Buildings	**(340 746)**	(322 434)	**(316 737)**	(299 924)
Accumulated impairment				
Land and Buildings	**(36 330)**	(35 682)	**(33 121)**	(32 474)
Work-in-progress	**(23 776)**	(24 876)	**(23 776)**	(24 876)
Net book value	**802 179**	781 054	**743 436**	721 233
Fair value of investment property	**1 641 749**	1 642 161	**1 480 948**	1 481 361
2.1 Amounts recognised in profit or loss for:				
- Rental income from investment properties	**274 080**	263 888	**259 262**	237 737
- Direct operating expenses arising from investment property that generated rental income	**180 956**	91 215	**169 242**	80 478
- Direct operating expenses arising from investment property that did not generate rental income	**127**	334	**127**	334

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

	Land & buildings	Work-in-progress	Total
	R'000	R'000	R'000
2.3. Movement in investment properties			
2014			
Group			
Net book value at beginning of year	**717 664**	**63 390**	**781 054**
Additions	**3 198**	**42 576**	**45 774**
Depreciation charge	**(20 867)**	**-**	**(20 867)**
Impairment (charge)/reversal	**(647)**	**1 099**	**452**
Transfers	**21 713**	**(21 713)**	**-**
Disposals	**(4 234)**	**-**	**(4 234)**
Net book value at end of year	**716 827**	**85 352**	**802 179**
Corporation			
Net book value at beginning of year	**657 843**	**63 390**	**721 233**
Additions	**3 198**	**42 155**	**45 353**
Depreciation charge	**(19 368)**	**-**	**(19 368)**
Impairment (charge)/reversal	**(647)**	**1 099**	**452**
Transfers	**21 713**	**(21 713)**	**-**
Disposals	**(4 234)**	**-**	**(4 234)**
Net book value at end of year	**658 505**	**84 931**	**743 436**
2013			
Group (Restated)			
Net book value at beginning of year	715 095	55 172	770 267
Additions	10 133	30 122	40 255
Depreciation charge	(19 197)	-	(19 197)
Impairment reversal	10 771	-	10 771
Transfers	21 904	(21 904)	-
Disposals	(21 042)	-	(21 042)
Net book value at end of year	717 664	63 390	781 054
Corporation (Restated)			
Net book value at beginning of year	653 740	54 278	708 018
Additions	10 118	31 016	41 134
Depreciation charge	(17 648)	-	(17 648)
Impairment reversal	10 771	-	10 771
Transfers	21 904	(21 904)	-
Disposals	(21 042)	-	(21 042)
Net book value at end of year	657 843	63 390	721 233

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**406 173**	379 830	**237 401**	211 473
Land, infrastructure and buildings	**137 664**	134 964	**137 664**	133 782
Buildings on leasehold land	**12 665**	12 665	**12 665**	12 665
Leased assets	-	296	**-**	-
Plant, equipment and vehicles	**232 624**	220 386	**65 761**	53 968
Work-in-progress	**23 220**	11 519	**21 311**	11 058
Accumulated depreciation	**(201 024)**	(186 319)	**(98 958)**	(92 598)
Infrastructure and buildings	**(54 757)**	(52 411)	**(54 757)**	(52 312)
Buildings on leasehold land	**(3 258)**	(3 258)	**(3 258)**	(3 258)
Leased assets	-	(113)	**-**	-
Plant, equipment and vehicles	**(143 009)**	(130 537)	**(40 943)**	(37 028)
Accumulated impairment				
Land, infrastructure and buildings	**(9 407)**	(9 407)	**(9 407)**	(9 407)
Plant, equipment and vehicles	**(4 911)**	(4 911)	**-**	-
Net book value	**190 831**	179 193	**129 036**	109 468

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	**13 267**	14 451	**3 067**	3 251

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

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

	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				
2014				
Group				
Net book value at beginning of year	**81 719**	**83 306**	**14 168**	**179 193**
Additions	**3 526**	**11 310**	**19 639**	**34 475**
Depreciation charge	**(2 617)**	**(19 288)**	**-**	**(21 905)**
Disposals	**(1 093)**	**(1 606)**	**(77)**	**(2 776)**
Transfers	**358**	**9 347**	**(7 861)**	**1 844**
Net book value at end of year	**81 893**	**83 069**	**25 869**	**190 831**
Corporation				
Net book value at beginning of year	**81 465**	**16 997**	**11 006**	**109 468**
Additions	**3 526**	**9 747**	**12 978**	**26 251**
Depreciation charge	**(2 442)**	**(5 036)**	**-**	**(7 478)**
Disposals	**-**	**(147)**	**-**	**(147)**
Transfers	**358**	**3 257**	**(2 673)**	**942**
Net book value at end of year	**82 907**	**24 818**	**21 311**	**129 036**
2013				
Group (Restated)				
Net book value at beginning of year	72 506	83 098	14 058	169 662
Additions	4 117	11 556	13 366	29 039
Depreciation charge	(337)	(17 063)	-	(17 400)
Disposals	(1 573)	(536)	-	(2 109)
Transfers	7 006	6 251	(13 257)	-
Net book value at end of year	81 719	83 306	14 167	179 193
Corporation (Restated)				
Net book value at beginning of year	72 506	12 715	5 476	90 697
Additions	2 935	5 837	13 366	22 138
Depreciation charge	(239)	(1 544)	-	(1 783)
Disposals	(1 573)	(11)	-	(1 584)
Transfers	7 836	-	(7 836)	-
Net book value at end of year	81 465	16 997	11 006	109 468

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
4. INTANGIBLE ASSETS				
Cost	**87 881**	69 580	**42 808**	27 896
Software	**40 558**	21 523	**28 251**	16 044
System development costs (WIP)	**42 232**	43 857	**9 466**	7 652
Other	**982**	982	**982**	982
Licences and warranties	**4 109**	3 218	**4 109**	3 218
Accumulated amortisation	**(23 511)**	(22 198)	**(17 244)**	(16 205)
Software	**(21 394)**	(19 510)	**(15 127)**	(13 516)
Other	**(260)**	(113)	**(260)**	(113)
Licences and warranties	**(1 857)**	(2 575)	**(1 857)**	(2 576)
Accumulated impairments				
System development costs	**(32 766)**	(32 408)	**-**	-
Net book value	**31 604**	14 978	**25 564**	11 691

	Software	System development costs (WIP)	Licences & other	Total
4.1. Movement in intangible assets				
2014				
Group				
Net book value at beginning of year	**4 911**	**8 555**	**1 512**	**14 978**
Additions	**4 619**	**16 584**	**1 815**	**23 018**
Amortisation	**(2 955)**	**-**	**(1 594)**	**(4 549)**
Transfers	**12 589**	**(15 672)**	**1 239**	**(1 844)**
Net book value at end of year	**19 164**	**9 467**	**2 972**	**31 603**
Corporation				
Net book value at beginning of year	**2 526**	**7 653**	**1 512**	**11 691**
Additions	**16**	**16 584**	**1 815**	**18 415**
Amortisation	**(2 007)**	**-**	**(1 594)**	**(3 601)**
Transfers	**12 589**	**(14 770)**	**1 239**	**(942)**
Net book value at end of year	**13 124**	**9 467**	**2 972**	**25 564**
2013				
Group (Restated)				
Net book value at beginning of year	5 826	6 799	2 845	15 470
Additions	1 008	4 545	793	6 346
Amortisation	(4 465)	-	(2 126)	(6 591)
Transfers	2 542	(2 789)	-	(247)
Net book value at end of year	4 911	8 555	1 512	14 978
Corporation (Restated)				
Net book value at beginning of year	1 957	6 415	2 845	11 217
Additions	1 747	3 777	793	6 317
Amortisation	(3 470)	-	(2 126)	(5 596)
Transfers	2 292	(2 539)	-	(247)
Net book value at end of year	2 526	7 653	1 512	11 691

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
	R'000	R'000 Restated	R'000	R'000 Restated

5. STRAIGHT-LINING OF OPERATING LEASE INCOME

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Opening balance	**47 949**	46 393	**40 747**	39 001
Straight-line accrual during the year	**947**	1 746	**161**	1 871
(Increase)/decrease in provision for bad debts	**(112)**	(190)	**52**	(125)
	48 784	47 949	**40 960**	40 747
Current portion of long-term debtor	**1 541**	3 174	**428**	2 014
Closing balance	**50 325**	51 123	**41 388**	42 761

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

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Next 12 months	**(1 541)**	(3 174)	**(428)**	(2 014)
From 2 to 5 years	**19 372**	17 472	**18 140**	16 265
Later than 5 years	**33 383**	35 969	**25 276**	28 576
	51 214	50 267	**42 988**	42 827
Less: Provision for bad debts	**(2 430)**	(2 318)	**(2 028)**	(2 080)
	48 784	47 949	**40 960**	40 747

Analysis of provisions

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Balance at the beginning of the year	**2 318**	2 128	**2 080**	1 955
Charge to income statement	**112**	190	**(52)**	125
Balance at end of the year	**2 430**	2 318	**2 028**	2 080

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.

6. SUBSIDIARIES (ANNEXURE 2)

6.1. Cowslip Investments (Pty) Ltd

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Shares at cost	**3**	3	**3**	3
Share premium	**2 778 928**	2 514 650	**2 778 928**	2 514 650
Grants applied	**(2 778 931)**	(2 514 653)	**(2 778 931)**	(2 514 653)
	-	-	**-**	-
6.2. Other subsidiaries	**-**	-	**284 061**	179 060
Shares at cost	**-**	-	**295 061**	190 060
Less provisions	**-**	-	**(11 000)**	(11 000)
Net loans	**-**	-	**89 571**	94 295
Loans to subsidiaries	**-**	-	**163 607**	157 926
Less provisions	**-**	-	**(74 036)**	(63 631)
Total investment in subsidiaries	**-**	-	**373 632**	273 355

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

6.3. The Department of Economic Development, Tourism and Environmental Affairs decided to create a new unitary operational structure for KZN Growth Fund Trust on 3 December 2012. This resulted in a sale agreement, whereby a major portion of the undertakings of KZN Growth Fund Managers SOC Ltd was sold to the Trust for zero consideration.

The Sale and Purchase Agreement was concluded in January 2014 between the Department of Economic Development, Tourism and Environmental Affairs, KZN Growth Fund Trust, Ithala Development Finance Corporation Limited, KZN Growth Fund Managers SOC Ltd, the Standard Bank of South Africa Ltd, Infrastructure Finance Corporation Limited (INCA) and the Development Bank of Southern Africa (DBSA). This agreement stipulated the changes to be made to the existing agreements that govern the KZN Growth Fund Managers SOC Ltd and the Trust and required the sale of the assets and liabilities to theTrust at zero consideration and for the retention of R5 million in KZN Growth Fund Managers SOC Ltd for a period of time.

The operational effective date of sale was the commencement of business 1 November 2013. This change in structure had the following impact on Ithala:
- The subsidiary ceased to be the Fund Manager for the KZN Growth Fund Trust;
- The Capital Contribution, Operational Grant and portion of the DEDT Equity Fund were ultimately transferred to KZN Growth Fund Trust, via a revote process;
- The net accounting implication for the period under review was a loss of R56,3 million as disclosed in Note 21.9.

Details of movements in inter-company loans are disclosed in Annexure 2.

6.4. Goodwill	**246**	237	**246**	237

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

7. ASSOCIATED COMPANIES (ANNEXURE 3)

7.1. Unlisted Investments

Shares at cost	**3**	3	**3**	3
Less:	**(2)**	(2)	**(2)**	(2)
Group carrying value	**1**	1	**1**	1
Net loans	**590**	212	**590**	212
Loans to associates	**57 302**	8 333	**57 302**	8 333
Less: provisions	**(56 712)**	(8 121)	**(56 712)**	(8 121)
Total interest in associated companies	**591**	213	**591**	213

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
	R'000	R'000 Restated	R'000	R'000 Restated
7.2. Significant financial information of associated companies				
Total assets	**58 275**	30 610	**58 275**	30 610
Total non-current assets	**40 114**	20 366	**40 114**	20 366
Total current assets	**18 161**	10 244	**18 161**	10 244
Total liabilities	**189 863**	149 050	**189 863**	149 050
Total non-current liabilities	**162 689**	132 671	**162 689**	132 671
Total current liabilities	**27 174**	16 379	**27 174**	16 379
Net liabilities	**(131 588)**	(118 440)	**(131 588)**	(118 440)
Group's share of net liabilities of associates	**(48 784)**	(44 627)	**(48 784)**	(44 627)
Total revenue	**9 194**	4 634	**9 194**	4 634
Total losses	**(5 835)**	(3 475)	**(5 835)**	(3 475)
Unrecognised share of losses:				
- Current period	**(3 251)**	(3 418)	**(3 251)**	(3 418)
- Cumulative	**(40 997)**	(12 786)	**(40 997)**	(12 786)

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

8. CASH AND LIQUID ASSETS

8.1. Cash and cash equivalents

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Coin and bank notes	**54 736**	42 124	**13**	11
Balance with banks	**901 367**	1 642 002	**368 457**	1 148 494
	956 103	1 684 126	**368 470**	1 148 505

In the prior year Corporation balance included R306 million held on behalf of KZN Growth Fund Trust. Included in cash is an amount of R9,4 million (2013: R11,2 million) relating to cash in transit at year-end. The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+ 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.

8.2. Statutory liquid assets

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
South African Reserve Bank (SARB) debentures	-	117 175	-	-
Treasury bill	**146 205**	100 862	-	-
	146 205	218 037	-	-
Undrawn facilities available are as follows:				
Absa Bank				
Overdraft facility	**50 000**	50 000	**50 000**	50 000
Day light facility	**50 000**	50 000	**50 000**	50 000
	100 000	100 000	**100 000**	100 000

In the prior year debentures comprised three instruments that yielded interest at 5%. Their maturity values were as follows:

R40,3 million on 15 May 2013;
R55,4 million on 15 May 2013; and
R22,2 million on 22 May 2013.

The treasury bill yields interest at 5,8%. This instrument matures on 18 June 2014 and its maturity value is R148 million. Statutory investments are utilised to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2014 exceed the minimum reserve requirements by R118 million and are invested in terms of the Company's Capital Management Strategy, as disclosed in Note 34.

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	**80 203**	112 339	**72 502**	77 680
Other receivables	**142 743**	79 441	**133 172**	78 764
	222 946	191 780	**205 674**	156 444
Provisions	**(69 305)**	(53 599)	**(64 478)**	(45 734)
Net trade and other receivables	**153 641**	138 181	**141 196**	110 710
Ageing of past due but not impaired trade and other receivables				
<30 days	**55 458**	79 984	**48 212**	55 518
30 to 60 days	**5 698**	8 126	**3 595**	8 041
60 to 90 days	**1 503**	7 719	**1 063**	7 707
> 90 days	**87 011**	42 352	**88 310**	39 444
	149 670	138 181	**141 180**	110 710
Ageing of past due and impaired trade and other receivables				
<30 days	**4 700**	4 886	**3 987**	4 333
30 to 60 days	**26 064**	6 040	**25 435**	5 692
60 to 90 days	**4 563**	3 638	**3 903**	3 195
> 90 days	**37 949**	39 035	**31 169**	32 514
	73 276	53 599	**64 494**	45 734
Analysis of provisions				
Balance at beginning of year	**53 599**	34 744	**45 734**	30 584
Amounts written-off	**(5 492)**	(1 098)	**(431)**	(449)
Charge to income statement	**21 198**	19 953	**19 176**	15 599
Balance at end of year	**69 305**	53 599	**64 478**	45 734

Included in trade and other receivables are amounts due by the Departments of Education and Health in respect of the schools and clinics projects that are managed by Ithala. These funds are recovered on a monthly basis, in arrears.

The amount due by the Department of Education at year end was R30,5 million (2013: R14,3 million) and Department of Health R29,7 million (2013: R22,3 million).

10. INVESTMENTS

Designated at fair value through profit and loss

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Balance at beginning of year	**16 141**	12 069	**16 141**	12 069
Fair value movement	**(1 195)**	4 072	**(1 195)**	4 072
Balance at end of year	**14 946**	16 141	**14 946**	16 141

Investments comprise 3 736 400 units in SA Corporate Real Estate Fund (2013: 3 736 400). Fair value is determined by reference to stock exchange quoted bid prices.

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
11. INVENTORY AND CONTRACTS IN PROGRESS				
Raw materials	**2 020**	1 815	-	-
Consumables	**2 508**	3 231	**2 508**	3 231
Contracts in progress	**37 971**	36 435	**37 971**	36 435
Residential stands and houses	**1 155**	1 466	**1 155**	1 466
	43 654	42 947	**41 634**	41 132
Write-down to net realisable value	**(19 442)**	(19 442)	**(19 442)**	(19 442)
	24 212	23 505	**22 192**	21 690
12. ORDINARY SHARE CAPITAL				
Authorised				
1 008 582 361 (2012: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
Issued				
1 008 582 361 (2012: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
13. NON-CONTROLLING INTEREST				
Balance at beginning of year	**142**	66	-	-
Movement	**(968)**	76	-	-
Balance at end of year	**(826)**	142	-	-

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

14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**93 631**	101 355	**91 503**	99 219
Portion repayable within 12 months	**(23 488)**	(22 134)	**(23 488)**	(22 134)
Long-term portion	**70 143**	79 221	**68 015**	77 085

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

15. DEPOSITS DUE TO CUSTOMERS

Call deposit accounts	**151 433**	44 595	-	-
Savings accounts	**795 492**	745 511	-	-
Term deposits	**1 026 504**	1 013 352	-	-
	1 973 429	1 803 458	-	-
Maturity analysis repayable:				
On demand	**993 974**	796 471	-	-
Up to 1 month	**107 349**	159 042	-	-
From 1 month to 6 months	**516 726**	501 265	-	-
From 6 months to 1 year	**313 372**	320 936	-	-
From 1 year to 5 years	**42 008**	25 744	-	-
	1 973 429	1 803 458	-	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2014, the balance of funds deposited by various trusts for land restoration compensation exceeded 5% of total deposits. The Department of Land Affairs disburses these funds to community trusts for land restitution. The current condition of this disbursement is that the funds are placed with the Company.

Savings accounts are further analysed as follows:				
Pass book accounts	**573 179**	465 987	-	-
Trust accounts	**90 621**	95 291	-	-
Debit card	**94 459**	84 742	-	-
Corporate	**37 233**	99 491	-	-
Total savings	**795 492**	745 511	-	-
Term deposits are further analysed as follows:				
Pass book*	**840 105**	782 648	-	-
Trust	**186 399**	230 704	-	-
Total term deposits	**1 026 504**	1 013 352	-	-

*A Pass Book is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who do not prefer electronic banking.

Savings accounts, as disclosed in the table above, have no fixed terms and are available to customers on demand.

Term deposits are available to customers upon maturity.

		Group			
	2014	2013	2012	2011	2010
	R'000	R'000	R'000	R'000	R'000
		Restated	Restated	Restated	Restated

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 2014 quantified the present value of unfunded obligations at R90,3 million (2013: R80,9 million) for Group and R63,0 million (2013: R57,9 million) for Corporation. These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 9,10% (2013: 8,60%) and a health-care cost inflation rate of 8,60% (2013: 8,30%). The movement in the liability recognised in the balance sheet is as follows:

	2014	2013	2012	2011	2010
Balance at beginning of year	**71 591**	67 619	64 218	61 926	59 700
Expensed during the year	**8 989**	7 084	6 255	4 782	4 533
Contributions paid	**(3 579)**	(3 112)	(2 854)	(2 490)	(2 307)
Balance at end of year	**77 001**	71 591	67 619	64 218	61 926

Amounts recognised in the balance sheet are as follows:

	2014	2013	2012	2011	2010
Present value of unfunded obligations	**90 355**	80 894	70 247	58 474	46 380
Unrecognised actuarial (loss)/gain	**(13 354)**	(9 303)	(2 628)	5 744	15 546
Liability at end of year	**77 001**	71 591	67 619	64 218	61 926

Amounts recognised in the income statements are as follows:

	2014	2013	2012	2011	2010
Current service cost	**1 623**	1 548	1 222	908	1 154
Interest cost	**6 794**	5 536	5 033	4 066	4 221
Net actuarial gain recognised/(loss) in the year	**572**	-	-	(192)	(842)
	8 989	7 084	6 255	4 782	4 533

Membership statistics:	2014	2013	2012
In-service members	**172**	178	194
Continuation members	**146**	151	153
	318	329	347

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**	2014	2013	2012	2011
Central assumptions:		**90 354**	80 894	70 247	58 474
CPI Inflation	+1%	**90 495**	92 376	80 064	66 278
	+1,50%	**90 585**	98 117	85 727	70 758
	+1,75%	**90 557**	100 987	88 775	73 164
	-1%	**90 190**	71 898	62 093	58 543
Post-retirement mortality	-1 year	**93 851**	83 704	72 463	67 188
Average retirement age	-1 year	**90 354**	87 567	72 644	59 979

		Corporation				
		2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated
16.1. Post-retirement medical obligations (closed fund) (continued)						
Balance at beginning of year		**48 302**	46 245	44 256	42 878	41 634
Expensed during the year		**6 225**	4 681	4 360	3 488	3 251
Contributions paid		**(3 037)**	(2 624)	(2 371)	(2 110)	(2 007)
Balance at end of year		**51 490**	48 302	46 245	44 256	42 878
Amounts recognised in the balance sheet are as follows:						
Present value of unfunded obligations		**63 040**	57 927	49 602	42 596	34 291
Unrecognised actuarial (loss)/gain		**(11 550)**	(9 625)	(3 357)	1 660	8 587
Liability at end of year		**51 490**	48 302	46 245	44 256	42 878
Amounts recognised in the income statements are as follows:						
Current service cost		**811**	789	706	493	628
Interest cost		**4 844**	3 892	3 654	2 995	3 112
Net actuarial gain/(loss) recognised in the year		**570**	-	-	-	(489)
		6 225	4 681	4 360	3 488	3 251
Membership statistics:						
In-service members		**74**	75	80		
Continuation members		**124**	141	129		
		198	216	209		
Assumptions Sensitivity Analysis - unfunded accrued liability						
Assumptions	**Change**					
Central assumptions:		**63 040**	57 927	49 602	49 715	
CPI Inflation	+1%	**74 474**	65 409	55 898	55 726	
	+1,50%	**63 210**	68 700	59 497	59 142	
	+1,75%	**63 234**	72 002	61 425	60 966	
	-1%	**56 140**	51 808	44 309	51 216	
Post retirement mortality	-1 year	**64 802**	62 515	51 203	58 190	
Average retirement age	-1 year	**63 040**	59 372	50 850	50 447	

16.2. Pension and provident fund schemes

The Group provides retirement benefits substantially to all employees by contributing to pension and provident funds. Membership of either 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 2014 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 Actuarial Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

	Group				
	2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated
16.2.1 Defined benefit pension fund (closed fund)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**27 945**	44 128	66 871	68 112	58 357
Fair value of plan assets	**(32 960)**	(44 644)	(71 825)	(70 841)	(68 934)
	(5 015)	(516)	(4 954)	(2 729)	(10 577)
Unrecognised actuarial gain	**5 015**	516	4 954	2 729	10 577
Liability at end of year	**-**	-	-	-	-
The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**44 128**	66 871	68 112	58 357	57 609
Interest cost	**2 364**	4 151	5 304	4 578	4 567
Current service cost	**-**	-	552	573	579
Benefits paid	**(15 775)**	(30 541)	(4 495)	(4 812)	(6 173)
Contributions by plan participants (employees)	**-**	-	230	336	327
Actuarial (gain)/loss on obligation	**(2 772)**	3 647	(2 832)	9 080	1 448
Balance at end of year	**27 945**	44 128	66 871	68 112	58 357
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**44 644**	71 825	70 841	68 934	70 315
Expected return on assets	**2 030**	5 119	6 193	6 018	6 082
Contributions received	**-**	-	344	591	594
Benefits paid	**(15 775)**	(30 541)	(4 495)	(4 812)	(6 174)
Investment gain/(loss) on assets	**2 061**	(1 759)	(1 058)	110	(1 883)
Balance at end of year	**32 960**	44 644	71 825	70 841	68 934
Amounts recognised in the income statement are as follows:					
Current service cost	**-**	-	552	573	579
Interest cost	**2 364**	4 151	5 304	4 578	4 567
Expected return on plan assets	**(2 030)**	(5 119)	(6 192)	(6 018)	(6 082)
Recognised actuarial losses	**-**	532	448	1 122	1 203
	334	(436)	112	255	267
Plan Assets Portfolio:					
Investment assets	**32 878**	42 514	47 115	45 557	44 656
Annuity contracts	**-**	-	27 134	27 962	27 883
Current assets/(liabilities)	**82**	2 130	(2 424)	(2 678)	(3 605)
	32 960	44 644	71 825	70 841	68 934
Effective rate of return on plan assets (actual)	**20,67%**	7,48%	10,16%	10,16%	

		Group				
		2014 R'000	**2013 R'000 Restated**	**2012 R'000 Restated**	**2011 R'000 Restated**	**2010 R'000 Restated**
16.2.1 Defined benefit pension fund (closed fund) (continued)						
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R208, 2013: R208)		**8,50%**	6,50%	8,00%	8,00%	
Expected rate of return on plan assets		**8,50%**	9,00%	9,00%	9,00%	
Future salary increases (inflation plus 1%)		**7,60%**	7,40%	7,30%	7,30%	
Inflation		**6,60%**	6,40%	6,30%	6,30%	
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**27 945**	44 128	66 871	68 112	
Discount rate	+1%	**27 945**	44 128	66 871	67 229	
	-1%	**27 945**	44 128	66 871	69 111	
Expected rate of salary increases	+1%	**27 945**	44 128	66 871	68 983	
	-1%	**27 945**	44 128	66 871	67 333	
No salary increases		**27 945**	44 128	66 871	64 026	

			Corporation		
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**12 574**	19 856	44 746	45 972	41 475
Fair value of plan assets	**(14 831)**	(20 090)	(48 061)	(47 814)	(48 992)
	(2 257)	(234)	(3 315)	(1 842)	(7 517)
Unrecognised actuarial gain	**2 257**	234	3 315	1 842	7 517
Liability at end of year	-	-	-	-	-

The Trustees have not yet apportioned the surplus in the fund to the employer, thus no surplus has been recognised in the balance sheet. The movement in the defined benefit obligation over the year is as follows:

Balance at beginning of year	**19 856**	44 746	45 972	41 475	40 944
Interest cost	**1 063**	1 868	3 549	3 090	3 246
Current service cost	-	-	(26)	387	411
Benefits paid	**(7 098)**	(13 742)	(3 008)	(3 248)	(4 387)
Contributions by plan participants (employees)	-	-	154	227	232
Actuarial (gain)/loss on obligation	**(1 247)**	(13 016)	(1 895)	4 041	1 029
Balance at end of year	**12 574**	19 856	44 746	45 972	41 475

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

Balance at beginning of year	**20 090**	48 061	47 815	48 992	49 974
Expected return on assets	**914**	2 304	3 733	4 062	4 323
Contributions received	-	-	229	400	422
Benefits paid	**(7 098)**	(13 742)	(3 007)	(3 248)	(4 388)
Investment gain/(loss) on assets	**925**	(16 533)	(709)	(2 392)	(1 339)
Balance at end of year	**14 831**	20 090	48 061	47 814	48 992

		Corporation (continued)				
		2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated
Amounts recognised in the income statement are as follows:						
Current service cost		**-**	-	369	387	411
Interest cost		**1 063**	1 868	3 548	3 090	3 246
Expected return on plan assets		**(1 068)**	(2 304)	(4 144)	(4 062)	(4 322)
Recognised actuarial losses		**5**	436	301	757	855
		-	-	74	172	190
Plan assets portfolio:						
Investment assets		**14 794**	19 132	31 526	30 749	31 738
Annuity contracts		**-**	-	18 157	18 873	19 817
Current assets/(liabilities)		**37**	958	(1 622)	(1 807)	(2 563)
		14 831	20 090	48 061	47 815	48 992
Effective rate of return on plan assets (actual)		**21,53%**	7,34%	9,98%	10,09%	
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R208, 2013: R208)		**8,50%**	6,50%	8,00%	8,00%	
Expected rate of return on plan assets		**8,50%**	9,00%	9,00%	9,00%	
Future salary increases (inflation plus 1%)		**7,60%**	7,40%	7,30%	7,30%	
Inflation		**6,60%**	6,40%	6,30%	6,30%	
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**12 574**	19 856	44 746	45 972	
Discount rate	+1%	**12 574**	19 856	44 746	45 376	
	-1%	**12 574**	19 856	44 746	46 646	
Expected rate of salary increases	+1%	**12 574**	19 856	44 746	46 560	
	-1%	**12 574**	19 856	44 746	45 446	
No salary increases		**12 574**	19 856	44 746	43 214	

	Group				
	2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated

16.2.2 Defined benefit provident fund (closed fund)

Amounts recognised in the balance sheet are as follows:

	2014	2013	2012	2011	2010
Present value of funded obligations	**50 683**	55 557	44 011	47 255	42 807
Fair value of plan assets	**(63 444)**	(53 159)	(51 172)	(50 155)	(48 593)
	(12 761)	2 398	(7 161)	(2 900)	(5 786)
Unrecognised actuarial gain	**12 761**	-	7 161	2 900	5 786
Liability at end of year	**-**	2 398	-	-	-

The Trustees have not yet apportioned the surplus in the fund to the employer, thus no surplus has been recognised in the balance sheet. The movement in the defined benefit obligation over the year is as follows:

	2014	2013	2012	2011	2010
Balance at beginning of year	**55 557**	44 011	47 255	42 807	39 253
Interest cost	**3 506**	3 432	3 603	3 351	3 232
Current service cost	**1 675**	1 739	2 091	1 979	1 982
Benefits paid	**(5 654)**	(4 663)	(7 343)	(5 824)	(4 103)
Contributions by plan participants (employees)	**677**	676	720	790	758
Benefit increase	**-**	(2 436)	-	-	686
Actuarial (gain)/loss on obligation	**(5 078)**	12 798	(2 315)	4 152	999
Balance at end of year	**50 683**	55 557	44 011	47 255	42 807

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

	2014	2013	2012	2011	2010
Balance at beginning of year	**53 159**	51 172	50 155	48 593	44 631
Expected return on assets	**3 331**	4 498	4 264	4 204	4 184
Contributions received	**1 809**	2 170	1 683	1 970	1 870
Benefits paid	**(5 654)**	(4 663)	(7 343)	(5 824)	(4 105)
Investment gain/(loss) on assets	**10 799**	(18)	2 413	1 212	2 013
Balance at end of year	**63 444**	53 159	51 172	50 155	48 593

Amounts recognised in the income statement are as follows:

	2014	2013	2012	2011	2010
Current service cost	**1 675**	1 739	2 091	1 979	1 982
Interest cost	**3 506**	3 433	3 603	3 350	3 230
Expected return on plan assets	**(3 332)**	(4 496)	(4 264)	(4 204)	(4 184)
Benefit increase	**(3 292)**	5 440	-	-	689
Recognised actuarial (gains)/losses	**-**	-	(702)	24	(2 412)
	(1 443)	6 116	728	1 149	(695)

Plan assets portfolio:

	2014	2013	2012	2011	2010
Investment assets	**61 685**	53 514	53 707	51 817	51 602
Net current liabilities	**1 759**	(355)	(2 535)	(1 662)	(3 009)
	63 444	53 159	51 172	50 155	48 593
Effective rate of return on plan assets (actual)	**20,67%**	7,34%	9,00%	10,16%	

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

	2014	2013	2012	2011	2010
Discount rate (annualised yield on R208, 2013: R208)	**8,50%**	6,50%	8,00%	8,00%	
Expected rate of return on plan assets	**8,50%**	9,50%	9,00%	9,00%	
Future salary increases (inflation plus 1%)	**7,60%**	7,40%	7,30%	7,30%	
Inflation	**6,60%**	6,40%	6,30%	6,30%	

		Group				
		2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**49 996**	54 975	40 706	47 255	
Discount rate	+1%	**48 333**	52 630	39 050	45 267	
	-1%	**51 815**	57 561	42 532	49 451	
Expected rate of salary increases	+1%	**51 276**	56 912	42 086	48 931	
	-1%	**48 819**	53 180	39 447	45 021	
No salary increases		**43 431**	44 941	33 832	38 810	

	Corporation				
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**28 380**	29 929	26 145	28 278	24 809
Fair value of plan assets	**(35 525)**	(28 637)	(30 399)	(30 013)	(28 163)
	(7 145)	1 292	(4 254)	(1 735)	(3 354)
Unrecognised actuarial gain	**7 145**	-	4 254	1 735	3 354
Liability at end of year	**-**	1 292	-	-	-

The Trustees have not yet apportioned the surplus in the fund to the employer, thus no surplus has been recognised in the balance sheet.
The movement in the defined benefit obligation over the year is as follows:

Balance at beginning of year	**29 929**	26 145	28 278	24 809	22 749
Interest cost	**1 962**	1 849	2 140	2 005	1 872
Current service cost	**938**	937	1 036	1 184	1 149
Benefits paid	**(3 165)**	(2 512)	(4 362)	(3 485)	(2 378)
Contributions by plan participants (employees)	**380**	365	427	473	439
Benefit increase/(decrease)	**1 179**	(2 436)	-	-	399
Actuarial (gain)/loss on obligation	**(2 843)**	5 581	(1 374)	3 292	579
Balance at end of year	**28 380**	29 929	26 145	28 278	24 809

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

Balance at beginning of year	**28 637**	30 399	30 013	28 162	25 866
Expected return on assets	**2 995**	2 422	2 315	2 516	2 425
Contributions received	**1 012**	1 169	1 000	1 179	1 085
Benefits paid	**(3 165)**	(2 512)	(4 362)	(3 485)	(2 379)
Investment gain/(loss) on assets	**6 046**	(2 841)	1 433	1 641	1 166
Balance at end of year	**35 525**	28 637	30 399	30 013	28 163

		Corporation (continued)				
		2014 R'000	2013 R'000 Restated	2012 R'000 Restated	2011 R'000 Restated	2010 R'000 Restated
16.2.2 Defined benefit provident fund (closed fund) (continued)						
Amounts recognised in the income statement are as follows:						
Current service cost		**937**	937	1 242	1 184	1 149
Interest cost		**1 962**	1 849	2 140	2 005	1 872
Expected return on plan assets		**(1 865)**	(2 422)	(2 533)	(2 516)	(2 425)
Benefit (decrease)/increase		**(3 292)**	2 931	-	-	399
Recognised actuarial gains		**-**	-	(417)	(75)	(1 398)
		(2 258)	3 295	432	598	(403)
Plan assets portfolio:						
Investment assets		**34 540**	28 828	31 905	31 008	29 907
Net current liabilities		**985**	(191)	(1 506)	(995)	(1 744)
		35 525	28 637	30 399	30 013	28 163
Effective rate of return on plan assets (actual)		**21,53%**	7,48%	9,98%	4,60%	
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R208, 2013: R208)		**8,50%**	6,50%	8,00%	8,30%	
Expected rate of return on plan assets		**8,50%**	9,50%	9,00%	9,00%	
Future salary increases (inflation plus 1%)		**7,60%**	7,40%	7,30%	6,90%	
Inflation		**6,60%**	6,40%	6,30%	5,90%	
Sensitivity analysis (fund liability)	**Change**					
At valuation assumptions:		**28 932**	29 616	26 145	23 246	
Discount rate	**+1%**	**27 955**	28 352	25 081	22 126	
	-1%	**30 001**	31 009	27 318	24 491	
Expected rate of salary increases	**+1%**	**29 692**	30 659	27 031	24 351	
	-1%	**28 236**	28 654	25 336	22 252	
No salary increases		**25 040**	24 210	21 730	18 072	

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

	Group		Corporation	
	2014 R'000	2013 R'000 Restated	2014 R'000	2013 R'000 Restated

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 8,5% (2013: 6,5%) and an average salary inflation of 7,3% (2013: 5,8%). 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.

Balance at beginning of year	**21 632**	19 045	**11 742**	10 043
Expensed during the year	**3 444**	4 210	**2 203**	2 180
Contributions paid	**(1 380)**	(2 760)	**(865)**	(1 484)
Unrecognised actuarial gain	**(2 082)**	1 137	**(1 407)**	1 003
Balance at end of year	**21 614**	21 632	**11 673**	11 742

Amounts recognised in the balance sheet are as follows:

Present value of unfunded obligations	**19 532**	20 480	**10 266**	10 739
Unrecognised actuarial gain	**2 082**	1 152	**1 407**	1 003
Liability at end of year	**21 614**	21 632	**11 673**	11 742

Amounts recognised in the income statements are as follows:

Current service cost	**1 956**	2 970	**1 379**	1 525
Interest cost	**1 488**	1 240	**824**	655
Net actuarial (gain)/loss recognised in the year	**(2 082)**	1 137	**(1 407)**	1 003
	1 362	5 347	**796**	3 183
Membership statistics:				
In-service members	**887**	870	**451**	433

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**21 614**	21 200	**11 673**	11 742
CPI Inflation	+1%	**23 030**	22 850	**12 372**	12 598
	-1%	**20 331**	19 712	**11 036**	10 966
Average retirement age	-2 years	**18 431**	18 111	**9 540**	9 636
	+2 years	**24 328**	23 923	**13 329**	13 453
Withdrawal rates	-50%	**25 724**	26 208	**13 422**	13 937

17. GOVERNMENT GRANTS

17.1. Government Grants - Deferred Income

BEE risk fund	**10 574**	11 393	**10 574**	11 393
Share participation	**12 686**	13 972	**12 686**	13 972
Co-operatives - business	**33 215**	37 433	**33 215**	37 433
Co-operatives - agriculture	**170**	7 546	**170**	7 546
SMME on-lending	**-**	47 643	**-**	47 643
Business support (SBDA Fund)	**37 000**	-	**37 000**	-
	93 645	117 987	**93 645**	117 987

17.2. Government Grants - Other

KZN Growth Fund - Capital Contribution	**-**	293 040	**-**	293 040
KZN Growth Fund - Operational Fund	**-**	12 833	**-**	12 833
DEDT Equity Fund	**61 970**	103 127	**61 970**	103 127
Department of Economic Development, Tourism and Environmental Affairs	**817**	232 869	**817**	232 869
	62 787	641 869	**62 787**	641 869
Total Government grants	**156 432**	759 856	**156 432**	759 856

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
18. ACCOUNTS PAYABLE				
Trade creditors	**14 225**	27 730	**10 495**	21 349
Accruals	**45 504**	27 535	**34 721**	19 735
South African Revenue Service	**2 883**	3 997	**1 259**	2 490
Accrual for audit fee	**6 669**	6 970	**2 773**	2 978
Sundry creditors	**54 081**	37 955	**37 172**	27 604
Accrual for leave pay	**30 041**	26 900	**17 702**	15 925
Accrual for bonus pay	**3 214**	2 878	**1 450**	1 325
	156 617	133 965	**105 572**	91 406

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

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
19. INTEREST				
19.1. Interest income				
Balances with banks and short-term funds	**58 441**	61 737	**23 094**	20 200
Advances	**197 607**	184 412	**52 906**	60 251
Other	**18**	1 137	**18**	1 134
	256 066	247 286	**76 018**	81 585
Analysis per financial instrument category				
Interest on financial assets at amortised cost	**256 066**	247 286	**76 018**	81 585
19.2. Interest expenditure				
Interest on:				
Savings and deposit accounts	**55 653**	53 979	**-**	-
Borrowings	**10 560**	7 154	**5 998**	7 118
Other	**(109)**	(3 683)	**(109)**	(8 323)
	66 104	57 450	**5 889**	(1 205)
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	**66 104**	57 450	**5 889**	(1 205)
20. OTHER OPERATING INCOME	**1 025 936**	901 534	**915 056**	692 686
Other operating income is stated after crediting the following items:				
20.1. Surplus on sale of investment properties, property, plant and equipment and properties in possession	**1 203**	3 873	**1 750**	3 420
20.2. (Loss)/profit on valuation of listed investments	**(1 195)**	4 073	**(1 195)**	4 073
20.3. Dividends received	**1 143**	1 127	**57 462**	1 127
Listed investments	**1 143**	1 127	**1 143**	1 127
Unlisted investments	**-**	-	**56 319**	-

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
20.4. Grants applied	**306 146**	150 541	**306 146**	150 541
Co-operatives on-lending	**4 219**	8 682	**4 219**	8 682
SMME on-lending	**196 927**	141 859	**196 927**	141 859
Share capital Ithala SOC Limited	**105 000**	-	**105 000**	-
20.5. Rental received	**280 466**	271 572	**251 186**	245 385
20.6. Sale of electricity, water and sewage	**211 258**	200 056	**211 258**	200 056
20.7. Fees, commission and services recovered	**154 682**	189 796	**34 134**	38 543

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

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
21. OPERATING EXPENDITURE	**977 247**	871 371	**674 509**	567 275

Operating expenditure is stated after charging/(crediting) the following items:

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
21.1. Auditor's remuneration				
Audit fees - current year	**7 720**	7 657	**2 974**	2 978
- prior year under-provision	**-**	1 242	**-**	1 280
	7 720	8 899	**2 974**	4 257
21.2. Depreciation of investment properties, property, plant and equipment	**42 772**	36 597	**26 847**	19 430
21.3. Amortisation of intangible assets	**4 569**	6 591	**3 601**	5 596
21.4. Non-credit-related impairments				
Amounts due from subsidiaries	**-**	-	**10 405**	2 788
Amounts due from associated companies	**-**	(2 495)	**-**	(2 495)
Investment properties	**(452)**	(10 771)	**(452)**	(10 771)
	(452)	(13 267)	**9 953**	(10 479)
21.5. Professional fees	**20 711**	12 991	**11 634**	8 506
21.6. Operating leases	**21 852**	16 803	**2 665**	1 583
21.7. Purchases of electricity, water and sewage	**165 664**	160 646	**165 664**	160 646
21.8. Rent, rates and utilities	**115 977**	113 293	**83 613**	79 371
21.9. Loss on waiver of loan/disposal of major activities of subsidiary (See Note 6.3)	**56 319**	-	**56 319**	-

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
21. OPERATING EXPENDITURE (continued)				
21.10. Directors' emoluments				
Emoluments paid to Executive Directors:				
YEN Zwane - Group Chief Executive Officer	**2 292**	2 081	**2 292**	2 081
	2 292	2 081	**2 292**	2 081
Emoluments paid to Non-Executive Directors:				
MSV Gantsho - Chairperson	**919**	877	**919**	877
AN Zondi	**278**	208	**278**	208
AN Matyumza	**606**	682	**383**	359
B Bam	**381**	353	**381**	353
B Ngonyama (Appointed 01/06/2012)	**176**	213	**-**	-
D McLean	**993**	1 027	**373**	356
GNJ White	**835**	772	**555**	389
G Simelane	**129**	190	**-**	-
L van Lelyveld (Appointed 01/10/2012 and Resigned 31/03/2014)	**175**	146	**-**	-
M Kekana (Resigned 30/04/2013 Corporation and appointed 07/05/2013 Ithala SOC Limited)	**404**	424	**47**	424
M Mia	**185**	312	**-**	-
MC Clark	**221**	284	**-**	-
M Mosidi	**48**	14	**48**	14
N Khambule	**285**	297	**285**	297
NN Afolayan	**332**	304	**332**	304
PD Christianson (Resigned 31/12/2012)	**-**	189	**-**	-
RS Garach	**241**	327	**-**	-
S Ngidi	**169**	262	**-**	-
S Nzuza (Resigned 31/12/2012)	**-**	263	**-**	-
W Jacobs	**670**	310	**350**	310
	7 047	7 454	**3 951**	3 891

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
21.11. Executive management remuneration				
BTT Mathe	**1 640**	1 729	**1 640**	1 729
B Silungwe (Appointed 04/06/2012)	**1 473**	1 319	**1 473**	1 319
BS Nhleko (Acting 15/02/2013 - 30/09/2013)	**342**	52	**342**	52
F Ferguson (Appointed 01/04/2013)	**1 936**	-	**1 936**	-
J Mubonderi	**958**	911	**958**	911
N Mtshali (Appointed 01/10/2013)	**465**	-	**465**	-
LS Mahamba	**1 083**	1 059	**1 083**	1 059
MG Mashao (Resigned 30/04/2012)	**-**	272	**-**	272
MM Matibe	**1 572**	1 487	**1 572**	1 487
NW Nhlangulela (Appointed 10/07/2012)	**1 568**	965	**1 568**	965
P Ireland (Appointed 01/05/2012 Ithala SOC Limited)	**1 620**	1 497	**-**	728
PM Ntsimane (Resigned 15/02/2013)	**-**	928	**-**	928
P Zulu (Appointed 01/01/2014)	**250**	-	**250**	-
S Adam (Resigned 31/10/2013)	**1 153**	1 775	**-**	-
S Madondo	**2 112**	1 999	**2 112**	1 999
SS Mthethwa	**1 196**	1 145	**1 196**	1 145
SV Khoza - Chief Executive Officer Ithala SOC Limited (Appointed 01/11/2012)	**1 872**	1 550	**-**	-
TD Makhanya (Appointed 01/11/2012)	**572**	229	**572**	229
VP Misra (Terminated 16/05/2012)	**-**	667	**-**	-
	19 812	17 584	**15 167**	12 823
21.12. Personnel costs	**320 406**	310 317	**182 554**	173 460

Included in personnel costs is R4,3 million (2013: R3,9 million) paid in respect of staff costs for Ntingwe Tea (Pty) Ltd in terms of an agreement between Ithala and the Department of Agriculture.

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
21.13. Contribution to retirement benefit schemes**				
Defined benefit schemes	**1 438**	1 427	**852**	828
Defined contribution schemes	**15 259**	13 813	**9 169**	8 228
	16 697	15 240	**10 021**	9 056
**Includes contributions paid on behalf of key management personnel	**2 085**	1 595	**1 651**	1 317
21.14. Value Added Taxation (not claimed)	**11 975**	10 195	**2 663**	2 539

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
22. TAXATION				
22.1. Indirect taxation				
Skills development levies	**2 399**	2 245	**1 496**	1 390
	2 399	2 245	**1 496**	1 390
22.2. Direct Taxation				
South African normal taxation	**4 529**	3 452	**-**	-
Deferred taxation	**420**	(1 250)	**-**	-
	4 949	2 202	**-**	-

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

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
23. NOTES TO CASH FLOW STATEMENTS				
23.1. Cash generated from operating activities				
Net income before taxation	**138 399**	80 413	**243 816**	88 431
Adjustment for non-cash items:				
Landfill sites provision	**-**	(10 706)	**-**	(10 706)
Straight-lining of operating lease income and expenditure	**(1 742)**	(1 613)	**(134)**	(1 834)
Depreciation and amortisation	**47 321**	43 188	**30 448**	25 027
Impairment of assets and inventory	**(452)**	(10 771)	**(452)**	(10 771)
Credit impairment for loans and advances	**75 961**	117 824	**46 288**	102 888
(Profit)/loss on disposal of assets	**(1 203)**	3 873	**(1 750)**	3 420
Post-retirement provision	**6 591**	9 492	**4 933**	5 973
Long service obligation provided and actuarial gains	**1 362**	5 347	**796**	3 183
Movement in other provisions	**2 185**	1 740	**488**	1 222
Revaluation of shares	**1 195**	(4 072)	**1 195**	(4 072)
	269 618	234 714	**325 630**	202 761
23.2. Decrease/(increase) in working capital				
Trade and other payables	**22 738**	10 782	**14 166**	4 094
Trade and other receivables	**(15 460)**	(14 935)	**(30 486)**	17 539
Inventory and contracts in progress	**(707)**	(406)	**(502)**	99
	6 571	(4 558)	**(16 822)**	21 732
23.3. Taxation paid				
Opening balance	**173**	(1 967)	**-**	-
Charge for the year	**(4 529)**	(3 452)	**-**	-
Closing balance	**(259)**	(173)	**-**	-
Taxation paid	**(4 615)**	(5 591)	**-**	-

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
24. COMMITMENTS				
24.1. Capital commitment				
Authorised but not yet contracted	**218 448**	274 415	**172 335**	232 010
Authorised and contracted	**153 553**	3 642	**134 508**	-
	372 001	278 057	**306 843**	232 010

24.2. Operating lease commitments

The future minimum lease payments under non-cancellable leases are as follows:

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Next 12 months	**17 735**	1 138	**720**	709
From 1 - 5 years	**19 037**	4 423	**3 806**	2 957
Later than 5 years	**22 871**	24 440	**22 871**	24 440
Total future cash flows	**59 643**	30 001	**27 397**	28 106
Straight-lining of operating lease expenditure accrued on balance sheet:	**(6 300)**	(7 095)	**(5 538)**	(5 512)
Long-term portion	**(6 316)**	(7 051)	**(5 554)**	(5 539)
Short-term portion	**16**	(44)	**16**	27
Future expenses	**53 343**	22 906	**21 859**	22 594
Total commitments	**425 344**	300 963	**328 702**	254 604

Ithala SOC Limited

The Company as a lessee has entered into 16 (2013: 16) related party lease agreements with the holding company. These contracts, in aggregate, amount to R12,9 million (2013: R2,1 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 R39,2 million (2013: R25,02 million).

24.3. Finance lease commitments (prior year)

This commitment related to two five-year leases for printers at KZN Growth Fund SOC (Pty) Ltd entered into with Xerox with effect from 1 June 2011. The lease agreements provide for 60 equal instalments amounting to R7 970.88 including VAT for both machines over the period of the lease. Ownership of the printers would not pass to the Company at the end of the lease period. The finance lease liability was included in liabilities and has been transferred to the KZN Growth Fund Trust as part of the Sale and Purchase Agreeement.

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
25. CONTINGENT LIABILITIES				
25.1. Guarantees issued				
Loans by petrol companies to service station operators	**131**	131	**131**	131
South African Insurance Association	**3 000**	3 000	**3 000**	3 000
Eskom guarantees	**6 066**	6 065	**5 985**	5 985
eThekwini Municipality	**111**	111	**111**	111
Enza Construction (Pty) Ltd*	**5 210**	-	**5 210**	-
WBHO Construction*	**27 000**	-	**27 000**	-
Total	**41 518**	9 307	**41 437**	9 227

*Builders guarantees issued in the ordinary course of business. No material losses are anticipated as a result of these transactions.

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

25.2. Legal matters
The Company is currently the defendant in certain claims that have been instituted against it by various parties. As at year end, the outcome of the following legal disputes is considered uncertain.

Ithala Corporation
- Loss of income relating to penalties charged to a contractor quantified at R0,2 million.
- Loss of income due to a contract being re-awarded to another sevice provider quantified at R4,4 million.
- Dispute over sale of property at an auction quantified at R4,6 million.
- Loss of income due to the cancellation of a supplier's contract quantified at R1,2 million.

Ithala SOC Limited
- Loss of income arising from early termination of a written Service Level Agreement which was due to expire on 31 March 2010. The applicant further alleged that the agreement was to have been extended, based on a verbal agreement for a further three years until 31 March 2012. The claim has been quantified by the applicant at R2,8 million.
- Damages resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at R0,3 million.
- Disputed dismissal case being arbitrated at CCMA. Due to the sensitive nature of the case, further disclosure may be prejudicial to the outcome of the case.
- Claim in respect of monies attached from clients' bank account and returned to the KZN Department of Health which, according to the latter, were fraudulently obtained. The Department of Health has also instituted criminal charges against the members of the client entity. The claim has been quantified by the applicant at R0,9 million. The matter is still at pleading stage.
- Damages in respect of a failed development project on the grounds that the Company did not advance the loan applied for. The Company is defending the matter on the basis that the claimant failed to meet the conditions of the loan, including pre-sales levels. The claim has been quantified by the applicant at R4,2 million.

26. DEFERRED TAXATION

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Deferred taxation liability comprises:				
- Provision for doubtful debts	**(734)**	144	-	-
- Straight-line rental debtors	**1 756**	495	-	-
- Provision for straight-line rental debtors	**125**	17	-	-
- Assessed losses	**(50)**	22	-	-
	1 097	678	-	-
The movement is reconciled as follows:				
Balance at beginning of year	**(678)**	(1 927)	-	-
Movement during the year:				
- Provision for doubtful debts	**(881)**	(102)	-	-
- Straight-line rental debtors	**(1 263)**	1 237	-	-
- Provision for straight-line rental debtors	**(108)**	70	-	-
- Assessed losses	**71**	44	-	-
	(1 097)	(678)	-	-

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.

	Loans Granted	Outstanding Balance	Arrears	Specific impairment charge	Security Amount	Interest Received
	R'000	R'000	R'000	R'000	R'000	R'000

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

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

	Loans Granted	Outstanding Balance	Arrears	Specific impairment charge	Security Amount	Interest Received
2014 Corporation	**14 175**	**13 303**	**-**	**-**	**12 336**	**1 025**
2013 (Restated) Corporation	15 285	17 987	5 691	12 778	12 336	1 162

27.2. Loans to key management personnel

These are individuals responsible for planning, directing and controlling the activities of the Company, namely Non-Executive Directors and Executive Management of Ithala Development Finance Corporation, its subsidiaries and associated companies.

	Loans Granted	Outstanding Balance	Arrears	Specific impairment charge	Security Amount	Interest Received
2014						
Corporation	**4 000**	**3 907**	**3 907**	**1 546**	**4 202**	**-**
Ithala SOC Limited	**5 869**	**4 791**	**-**	**-**	**5 499**	**271**
2013						
(Restated) Corporation	8 621	9 664	9 664	7 672	3 837	173
Ithala SOC Limited	-	2 577	-	-	2 670	170

Specific credit impairments of R1,5 million (2013: R7,6 million) have been recognised in respect of loans to Executive and Non-Executive Directors. These loans are secured by mortgage bonds over properties. These transactions occur under terms that are no more 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%.

	2014	2013
	R'000	R'000
		Restated
27.3. Transactions between the Corporation and its subsidiaries		

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

	2014	2013
Bank charges received	**(80)**	(51)
Interest paid on retention account	**135**	49
Service fees	**18 785**	-
Rental	**3 976**	3 871
Recovery of operating expenses	**(2 289)**	(2 390)
Insurance commission	**(2 496)**	(2 500)
The outstanding balances of the Current and Shareholders Loan accounts:		
Outstanding balance on savings and fixed deposits	**63 337**	2 929
Ithala Development Finance Corporation inter-company balance	**(10 152)**	(15 954)

During the prior year, the Corporation waived cost recoveries amounting to R17,2 million for services rendered to Ithala SOC Limited. Details of movements in inter-company loans are disclosed in Annexure 2.

	Deposits Due	Interest expense	Outstanding balance	Fees received
	R'000	R'000	R'000	R'000
27.4. KwaZulu-Natal Provincial Government				
2014				
Group				
Department of Corporate Governance and Traditional Affairs	**26 030**	**1 273**	**-**	**-**
Department of Agriculture	**1 116**	**17**	**-**	**-**
Department of Human Settlement	**12 431**	**192**	**-**	**-**
Department of Education	**-**	**-**	**30 461**	**1 040**
Department of Health	**1 402**	**5**	**29 673**	**6**
Total	**40 979**	**1 487**	**60 134**	**1 046**
Corporation				
Department of Education	**-**	**-**	**30 461**	**1 040**
Department of Health	**-**	**-**	**29 673**	**6**
Total	**-**	**-**	**60 134**	**1 046**
2013				
Group				
Department of Corporate Governance and Traditional Affairs	24 154	1 407	-	-
Department of Agriculture	1 100	18	-	-
Department of Human Settlement	1 287	201	-	-
Department of Education	-	-	14 190	14 301
Department of Health	2 254	3	22 476	2 749
Total	28 795	1 629	36 666	17 050
Corporation				
Department of Education	-	-	14 190	14 301
Department of Health	-	-	22 476	2 749
Total	-	-	36 666	17 050

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

28. PRIOR YEAR ERRORS

28.1. VAT Review

During the year the Value Added Taxation (VAT) apportionment percentage for the 2013 financial year was reviewed. The prior year results were restated for the effect of the change in the apportionment percentage.

Effect on statement of financial position:				
Decrease in accounts payable	**2 811**	65	**2 811**	65
Effect on statement of comprehensive income:				
Decrease in operating expenditure	**(2 811)**	(65)	**(2 811)**	(65)

28.2. Deferred Grant

Grant funds relating to the recapitalisation of Ithala SOC Limited were received and applied in the 2010 financial year, but were incorrectly recognised as deferred grants received and not applied as revenue. The prior year results were restated for the effect of revenue incorrectly accounted for in prior years.

Effect on statement of financial position:				
Decrease in deferred grants	**40 000**	40 000	**40 000**	40 000
Effect on statement of comprehensive income:				
Increase in grants applied	**-**	(40 000)	**-**	(40 000)

28.3. Investment Property

The disposal of certain investment property was erroneously duplicated in October 2012. The prior results have been restated for the effect of the error on investment property.

Effect on statement of financial position:				
Increase in investment property - cost	**2 520**	-	**2 520**	-
Increase in investment property - accumulated depreciation	**(1 074)**	-	**(1 074)**	-
Effect on statement of comprehensive income:				
Increase in profit on sale of investment properties	**1 446**	-	**1 446**	-

28.4. Reconciliation of the impact on retained income

Restated retained income as previously reported	**835 079**	761 202	**771 149**	686 975
Deferred grant income	**40 000**	40 000	**40 000**	40 000
Value Added Taxation (VAT)	**2 876**	65	**2 876**	65
Profit on sale of investment property	**1 446**	-	**1 446**	-
Restated retained income	**879 401**	801 267	**815 471**	727 040

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

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 2014	Group 2013	Corporation 2014	Corporation 2013
Effect on statement of financial position:				
Increase in net book value - equipment	**4 877**	4 054	**4 185**	3 306
Effect on statement of comprehensive income:				
Decrease in depreciation	**(4 877)**	(4 054)	**(4 185)**	(3 306)

29.2. Infrastructure - landfill site

The estimated useful lives of the sites have increased from 20 to 25 years, resulting in a reduction in depreciation. The effect of the change in estimate during the current year is as follows:

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Effect on statement of financial position:				
Increase in net book value - infrastructure	**514**	1 063	**514**	1 063
Effect on statement of comprehensive income:				
Decrease in depreciation	**(514)**	(1 063)	**(514)**	(1 063)

30. FRUITLESS AND WASTEFUL EXPENDITURE

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
There was no fruitless and wasteful expenditure incurred in the current year for the Group.	**-**	765	**-**	-

During the prior year, fruitless and wasteful expenditure of R0,8 million was incurred by Ithala SOC Limited, comprising the following:
- R0,2 million related to claims made against the Company in respect of Europa, MasterCard and Visa (EMV) fraudulent transactions on Ithala ATMs.
- R0,6 million relates to the settlement of a claim in respect of ownership/title deed to a previous property in possession (PIP) sale.

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

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

32. IRREGULAR EXPENDITURE

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Opening balance	**-**	1 033	**-**	1 033
Add: irregular expenditure – current year	**5 397**	1 116	**4 880**	853
Less: Amounts condoned	**(2 538)**	(2 149)	**(2 440)**	(1 886)
Add: Prior year amounts identified in current year	**2 140**	-	**2 140**	-
Irregular expenditure awaiting condonation	**4 999**	-	**4 580**	-

Analysis of expenditure awaiting condonation per age classification

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Current year	**2 859**	-	**2 440**	-
Prior years	**2 140**	-	**2 140**	-
Total	**4 999**	-	**4 580**	-

		Group		Corporation	
		2014	2013	2014	2013
		R'000	R'000 Restated	R'000	R'000 Restated
Incident	**Disciplinary steps taken/criminal proceedings**				
Non-compliance with supply chain management policies	Disciplinary action in progress	**1 821**	-	**1 821**	-
Non-compliance with supply chain management policies	None - employee left the organisation	-	770	-	770
Non-compliance with supply chain management policies	To be forwarded to Board for condonation	**4 999**	-	**4 580**	-
Non-compliance with supply chain management policies	Employees resigned	**633**	-	**535**	-
Non-compliance with supply chain management policies	Warnings given	**84**	346	**84**	83
Total		**7 537**	1 116	**7 020**	853
Incident	**Condoned by**				
Non-compliance with supply chain management policies	Accounting Authority	**2 538**	2 149	**2 440**	1 886
Total		**2 538**	2 149	**2 440**	1 886

33. FINANCIAL RISK MANAGEMENT

Introduction

The Board has adopted an integrated risk management strategy in which internal audit, compliance and other specialist functions operate within the Enterprise-Wide Risk Management (ERM) framework.

Whilst the Board retains overall responsibility for risk management, policies and frameworks are developed by management on an enterprise-wide basis striving to identify all relevant risks, to measure and understand such risks and to manage and monitor them in order to minimise and control the impact of adverse occurrences. The Board has delegated the responsibility for risk management to three Board Sub-Committees, namely the Enterprise Risk Committee, the Audit Committee and the Human Resources Committee. Each committee has specific terms of reference and delegated powers of authority that are reviewed annually by the Board. Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into daily operations. The Group has exposure to the following risks from financial instruments, namely, credit risk, liquidity risk, market risks and operational risks.

33.1. Credit Risk

Credit risk is the risk of potential loss from the failure of customers, clients or 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 merits depending on the value and type of transaction under consideration, may be considered progressively by Delegated Line Function, Management Credit Committee and the Board Credit and Investment Committee. The transaction-based approach is in keeping with Ithala's risk management strategy throughout the 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 counter parties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed R50 million per counter party at any time during the year. The credit risk on liquid funds and non-derivative financial instruments is limited because the counter parties are banks with high credit-ratings assigned by international credit-rating agencies, excluding those invested with Ithala SOC Limited.

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
33.1. Credit Risk (continued)				
Concentration risk by sector				
Housing and commercial property	**1 505 872**	1 345 782	**-**	-
Micro-finance - secured	**50 802**	23 164	**-**	-
Micro-finance - unsecured	**73 059**	29 824	**-**	-
Personnel	**5 202**	4 553	**5 202**	4 553
Co-operatives	**8 300**	9 259	**8 300**	9 259
Agri and agro-business	**318 455**	329 001	**318 455**	329 001
Manufacturing	**75 398**	143 940	**75 398**	143 940
Trade and services	**145 009**	164 180	**145 009**	164 180
Construction and tourism	**268 045**	180 017	**268 045**	180 017
	2 450 142	2 229 720	**820 409**	830 950
Concentration risk by location				
Staff loans	**5 205**	4 553	**5 205**	4 553
Amajuba District	**33 631**	29 125	**33 631**	29 125
Ilembe District	**124 914**	68 029	**124 914**	68 029
Sisonke District	**31 497**	45 060	**31 497**	45 060
eThekwini Metropolitan	**360 474**	364 330	**360 474**	364 330
Ugu District	**65 791**	55 542	**65 791**	55 542
Umgungundlovu District	**67 777**	107 415	**67 777**	107 415
Umkhanyakude District	**44 323**	57 942	**44 323**	57 942
Umzinyathi District	**7 782**	6 295	**7 782**	6 295
Uthukela District	**7 281**	8 532	**7 281**	8 532
Uthungulu District	**52 056**	58 320	**52 056**	58 320
Zululand District	**19 678**	25 807	**19 678**	25 807
Ithala SOC Limited Loans - KZN Province	**1 629 733**	1 398 770	**-**	-
	2 450 142	2 229 720	**820 409**	830 950

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.

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

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Assets	**3 790 342**	4 339 804	**1 409 500**	2 152 040
Loans and advances	**2 450 142**	2 229 720	**820 410**	830 950
Investments	**14 946**	16 141	**14 946**	16 141
Trade and other receivables	**222 946**	191 780	**205 674**	156 444
Statutory liquid funds	**146 205**	218 037	**-**	-
Cash and cash equivalents*	**956 103**	1 684 126	**368 470**	1 148 505
On-balance sheet exposure	**3 790 342**	4 339 804	**1 409 500**	2 152 040

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
	R'000	R'000 Restated	R'000	R'000 Restated
Credit risk exposures relating to off-balance sheet items are as follows:				
Loan commitments:	**345 232**	134 735	**305 968**	109 708
Housing and commercial property	**39 264**	25 027	-	-
Agri and agro-processing	**24 347**	18 111	**24 347**	18 111
Construction and tourism	**164 367**	50 706	**164 367**	50 706
Manufacturing	**749**	4 840	**749**	4 840
Trade and services	**116 505**	36 051	**116 505**	36 051
Off-balance sheet exposure	**345 232**	134 735	**305 968**	109 708

	2014 Original carrying amount	2014 Impairment	2014 Revised carrying amount	2013 Restated Original carrying amount	2013 Restated Impairment	2013 Restated Revised carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000
Analysis of impairment provisions per sector						
Group						
Housing and commercial property	**1 505 872**	**93 218**	**1 412 654**	1 345 782	89 488	1 256 294
Micro-finance - secured	**50 802**	**2 068**	**48 734**	23 164	8	23 156
Micro-finance - unsecured	**73 059**	**28 573**	**44 486**	29 824	11 512	18 312
Agri and agro-processing	**318 455**	**59 768**	**258 687**	329 001	147 485	181 516
Construction and tourism	**268 045**	**29 695**	**238 350**	180 017	81 191	98 826
Manufacturing	**75 398**	**42 308**	**33 090**	143 940	96 888	47 052
Trade and services	**145 009**	**42 274**	**102 735**	164 180	98 166	66 014
Personnel	**5 202**	**41**	**5 161**	4 553	28	4 525
Co-operatives	**8 300**	**1 971**	**6 329**	9 259	917	8 342
	2 450 142	**299 916**	**2 150 226**	2 229 720	525 683	1 704 037
Corporation						
Agri and agro-processing	**318 455**	**59 768**	**258 687**	329 001	147 485	181 516
Construction and tourism	**268 045**	**29 695**	**238 350**	180 017	81 191	98 826
Manufacturing	**75 398**	**42 308**	**33 090**	143 940	96 888	47 052
Trade and services	**145 009**	**42 274**	**102 735**	164 180	98 166	66 014
Personnel	**5 202**	**41**	**5 161**	4 553	28	4 525
Co-operatives	**8 300**	**1 971**	**6 329**	9 259	917	8 342
	820 409	**176 057**	**644 352**	830 950	424 675	406 275

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.

	Loan balance	Impairment	Carrying amount	Collateral
	R'000	R'000	R'000	R'000
33.1. Credit Risk (continued)				
2014		Group		
Housing and commercial property	**492 421**	**43 923**	**448 498**	**399 173**
Agri and agro-processing	**3 245**	**3 240**	**7**	**2 031**
Construction and tourism	**4 148**	**1 592**	**2 556**	**6 188**
Manufacturing	**38 248**	**30 086**	**8 161**	**20 550**
Trade and services	**9 170**	**5 674**	**3 496**	**8 832**
Co-operatives	-	-	-	-
	547 232	**84 515**	**462 718**	**436 774**
2013 Restated		Group		
Housing and commercial property	376 389	38 151	338 238	330 964
Agri and agro-processing	85 410	82 670	2 740	38 906
Construction and tourism	68 946	66 539	2 407	18 350
Manufacturing	74 660	71 111	3 549	18 591
Trade and services	73 141	62 831	10 310	25 583
Co-operatives	314	314	-	130
	678 860	321 616	357 244	432 524
2014		Corporation		
Agri and agro-processing	**3 245**	**3 240**	**7**	**2 031**
Construction and tourism	**4 148**	**1 592**	**2 556**	**6 188**
Manufacturing	**38 248**	**30 086**	**8 161**	**20 550**
Trade and services	**9 170**	**5 674**	**3 496**	**8 832**
Co-operatives	-	-	-	-
	54 811	**40 592**	**14 220**	**37 601**
2013 Restated		Corporation		
Agri and agro-processing	85 410	82 670	2 740	38 906
Construction and tourism	68 946	66 539	2 407	18 350
Manufacturing	74 660	71 111	3 549	18 591
Trade and services	73 141	62 831	10 310	25 583
Co-operatives	314	314	-	130
	302 471	283 465	19 006	101 560

Credit risk mitigation, collateral and other credit enhancements

The Group uses various techniques to reduce credit risk on its lending activities to an acceptable low level. The most fundamental technique is performing assessment on borrowers liquidity and solvency standing to assess borrowers ability to service the advanced amount without distress. In addition to measures used to reduce credit risk, the Group obtains collateral from borrowers which is held as security against the funds advanced. The Group holds the following collateral against the funds it has advanced.

Assets subject to credit risk on balance sheet	Type of collateral
Loans and advances to customers:	Bonds over properties
	Equipment
	Fixed deposit certificates
	Cession over life assurance
	Cession over income
	Cession over shares
	Deeds of suretyship

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
Valuation of collateral				
The fair value of collateral held at balance sheet date was as follows:				
Housing and commercial property	**1 632 170**	1 557 671	**-**	-
Agri and agro-processing	**358 936**	372 058	**358 936**	372 058
Construction and tourism	**243 681**	107 518	**243 681**	107 518
Manufacturing	**71 301**	99 680	**71 301**	99 680
Trade and services	**81 508**	95 262	**81 508**	95 262
Co-operatives	**5 126**	5 523	**5 126**	5 523
	2 392 722	2 237 712	**760 552**	680 041
Enforcement of collateral				
Carrying amounts of assets held as a result of enforcement of collateral were as follows:				
Properties in possession:				
Opening balance	**18 019**	16 291	**6 885**	5 654
Acquisitions	**12 222**	7 299	**8 041**	5 018
Disposals	**(5 005)**	(5 571)	**(3 162)**	(3 787)
Closing balance	**25 236**	18 019	**11 764**	6 885

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.

	< 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)					
2014			**Group**		
Housing and commercial property	**27 908**	**9 324**	**7 708**	**34 399**	**79 339**
Micro-finance - secured	**-**	**168**	**-**	**1 411**	**1 579**
Micro-finance - unsecured	**397**	**262**	**475**	**5 363**	**6 497**
Personal loans	-	-	-	-	-
Agri and agro-processing	**201**	**68**	**-**	**3 377**	**3 646**
Construction and tourism	**2 453**	**3 627**	**-**	**132**	**6 212**
Manufacturing	**14**	**-**	**-**	**273**	**287**
Trade and services	**11**	**144**	**412**	**268**	**835**
Personnel	**-**	**2**	**-**	**-**	**2**
Co-operatives	**-**	**16**	**-**	**-**	**16**
	30 984	**13 611**	**8 595**	**45 223**	**98 413**
2013 Restated			**Group**		
Housing and commercial property	5 635	9 506	7 306	29 731	52 178
Agri and agro-processing	595	1 120	-	1 330	3 045
Construction and tourism	1 687	146	-	207	2 040
Manufacturing	384	158	20	74	636
Trade and services	243	1 244	48	719	2 254
Personnel	-	1	-	-	1
Co-operatives	-	-	-	64	64
	8 544	12 175	7 374	32 125	60 218
2014			**Corporation**		
Agri and agro-processing	**201**	**68**	**-**	**3 377**	**3 646**
Construction and tourism	**2 453**	**3 627**	**-**	**132**	**6 212**
Manufacturing	**14**	**-**	**-**	**273**	**287**
Trade and services	**11**	**144**	**412**	**268**	**835**
Personnel	**-**	**2**	**-**	**-**	**2**
Co-operatives	**-**	**16**	**-**	**-**	**16**
	2 679	**3 857**	**412**	**4 050**	**10 998**
2013 Restated			**Corporation**		
Agri and agro-processing	595	1 120	-	1 330	3 045
Construction and tourism	1 687	146	-	207	2 040
Manufacturing	384	158	20	74	636
Trade and services	243	1 244	48	719	2 254
Personnel	-	1	-	-	1
Co-operatives	-	-	-	64	64
	2 909	2 669	68	2 394	8 040

	< 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 impaired					
2014			**Group**		
Housing and commercial property	-	-	-	**125 881**	**125 881**
Agri and agro-processing	-	-	-	**25 237**	**25 237**
Construction and tourism	-	-	-	**15 909**	**15 909**
Manufacturing	-	-	-	**16 313**	**16 313**
Trade and services	-	-	-	**25 791**	**25 791**
Co-operatives	-	-	-	**118**	**118**
	-	-	-	**209 249**	**209 249**
2013 Restated			**Group**		
Housing and commercial property	-	-	-	114 952	114 952
Agri and agro-processing	-	-	-	89 076	89 076
Construction and tourism	-	-	-	49 943	49 943
Manufacturing	-	-	-	53 657	53 657
Trade and services	-	-	-	75 713	75 713
Co-operatives	-	-	-	447	447
	-	-	-	383 788	383 788
Loans and advances past due and impaired					
2014			**Corporation**		
Agri and agro-processing	-	-	-	**25 237**	**25 237**
Construction and tourism	-	-	-	**15 909**	**15 909**
Manufacturing	-	-	-	**16 313**	**16 313**
Trade and services	-	-	-	**25 791**	**25 791**
Co-operatives	-	-	-	**118**	**118**
	-	-	-	**83 368**	**83 368**
2013 Restated			**Corporation**		
Agri and agro-processing	-	-	-	89 076	89 076
Construction and tourism	-	-	-	49 943	49 943
Manufacturing	-	-	-	53 657	53 657
Trade and services	-	-	-	75 713	75 713
Co-operatives	-	-	-	447	447
	-	-	-	268 836	268 836

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated
33.1. Credit Risk (continued)				
Fair value of collateral for loans past due and impaired				
Housing and commercial property	**87 775**	170 435	**-**	-
Agri and agro-processing	**78 406**	133 853	**78 406**	133 853
Construction and tourism	**38 268**	31 968	**22 205**	31 968
Manufacturing	**24 453**	63 025	**24 453**	63 025
Trade and services	**26 999**	43 153	**26 999**	43 153
Co-operatives	**294**	213	**294**	213
	256 195	442 647	**152 357**	**272 212**

Loans and advances re-negotiated
Loans with re-negotiated 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/re-negotiated loans include extended payment arrangements, modification and deferral of payments:

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Continuing to be impaired after rescheduling:				
Agri and agro-processing	**-**	3 879	**-**	3 879
Trade and services	**719**	-	**719**	-
Non–impaired after rescheduling – would otherwise have been impaired:				
Agri and agro-processing	**23 827**	1 461	**23 827**	1 461
Trade and services	**168**	-	**168**	-
Non–impaired after rescheduling – would otherwise not have been impaired:				
Agri and agro-processing	**24 060**	-	**24 060**	-
Construction and tourism	**4 702**	-	**4 702**	-
Trade and services	**6 927**	5 580	**6 927**	5 580
	60 403	10 920	**60 403**	10 920

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 or when legal action is protracted. Recovery efforts through litigation will continue post-write-off in cases of protracted litigation.

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 re-assess, where necessary, business plans and assumptions.

A summary of the Group liquidity profile is reflected in the table opposite.

	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
2014			Group		
Financial assets					
Loans and advances	**28 356**	**114 758**	**108 792**	**692 418**	**1 505 818**
Investments at fair value through profit and loss	**14 946**	-	-	-	-
Trade receivables	**60 158**	**162 788**	-	-	-
Statutory liquid assets	**146 205**	-	-	-	-
Cash and cash equivalents*	**729 103**	**150 000**	**75 000**	**2 000**	-
Total assets	**978 768**	**427 546**	**183 792**	**694 418**	**1 505 818**
Financial liabilities					
Borrowings	**7 973**	**6 233**	**9 281**	**66 035**	**4 109**
Liability to depositors	**1 101 323**	**516 726**	**313 372**	**42 008**	-
Trade payables	**156 617**	-	-	-	-
Total liabilities	**1 265 913**	**522 959**	**322 653**	**108 043**	**4 109**
Net liquidity excess/(shortfall)	**(287 145)**	**(95 413)**	**(138 861)**	**586 375**	**1 501 709**
Cumulative liquidity	**(287 145)**	**(382 558)**	**(521 419)**	**1 107 794**	**2 609 503**
2013 Restated			Group		
Financial assets					
Loans and advances	106 143	122 033	130 290	668 505	1 202 749
Investments at fair value through profit and loss	16 141	-	-	-	-
Trade receivables	84 870	106 910	-	-	-
Statutory liquid assets	218 037	-	-	-	-
Cash and cash equivalents	936 433	747 693	-	-	-
Total assets	1 361 624	976 636	130 290	668 505	1 202 749
Financial liabilities					
Borrowings	22 134	20 465	12 888	22 934	22 934
Liability to depositors	955 512	501 265	320 936	25 745	-
KZN Growth Fund	305 873	-	-	-	-
KZN Growth Fund - Capital Contribution	293 040	-	-	-	-
KZN Growth Fund - Operational Fund	12 833	-	-	-	-
Trade payables	103 062	33 779	-	-	-
Total liabilities	1 386 581	555 509	333 824	48 679	22 934
Net liquidity excess/(shortfall)	(24 957)	421 127	(203 534)	619 826	1 179 815
Cumulative liquidity	(24 957)	396 170	192 636	812 462	1 992 277

*In the prior year, Corporation balance included R306 million held on behalf of KZN Growth Fund Trust.

	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
33.2. Liquidity Risk (continued)					
2014			Corporation		
Financial assets					
Loans and advances	**18 969**	**70 351**	**57 580**	**314 048**	**359 461**
Investments at fair value through profit and loss	**14 946**	**-**	**-**	**-**	**-**
Trade receivables	**52 199**	**153 475**	**-**	**-**	**-**
Cash and cash equivalents	**338 470**	**30 000**	**-**	**-**	**-**
Total assets	**424 585**	**253 826**	**57 580**	**314 048**	**359 461**
Financial liabilities					
Borrowings	**7 973**	**6 233**	**9 281**	**66 035**	**1 981**
Trade payables	**105 572**	**-**	**-**	**-**	**-**
Total liabilities	**113 545**	**6 233**	**9 281**	**66 035**	**1 981**
Net liquidity excess/(shortfall)	**311 040**	**247 593**	**48 299**	**248 013**	**357 480**
Cumulative liquidity	**311 040**	**558 633**	**606 932**	**854 945**	**1 212 425**
2013 Restated			Corporation		
Financial assets					
Loans and advances	97 597	83 586	87 318	358 597	203 852
Investments at fair value through profit and loss	16 141	-	-	-	-
Trade receivables	59 851	96 593	-	-	-
Cash and cash equivalents*	420 758	727 747	-	-	-
Total assets	594 347	907 926	87 318	358 597	203 852
Financial liabilities					
Borrowings	22 134	18 329	12 888	22 934	22 934
KZN Growth Fund	305 873	-	-	-	-
KZN Growth Fund - Capital Contribution	293 040	-	-	-	-
KZN Growth Fund - Operational Fund	12 833	-	-	-	-
Trade payables	73 131	21 150	-	-	-
Total liabilities	401 138	39 479	12 888	22 934	22 934
Net liquidity excess/(shortfall)	193 209	868 447	74 430	335 663	180 918
Cumulative liquidity	193 209	1 061 656	1 136 086	1 471 749	1 652 667

*In the prior year, Corporation balance included R306 million held on behalf of KZN Growth Fund Trust.

Contractual maturity analysis of financial liabilities

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

	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
2014			Group		
Financial liabilities					
Borrowings	**7 973**	**6 233**	**9 281**	**66 035**	**4 109**
Deposits due to customers	**1 101 323**	**516 726**	**313 372**	**42 008**	**-**
Trade payables	**156 617**	**-**	**-**	**-**	**-**
Total liabilities	**1 265 913**	**522 959**	**322 653**	**108 043**	**4 109**
2013 Restated			Group		
Financial liabilities					
Borrowings	22 134	20 465	12 888	22 934	22 934
Deposits due to customers	955 512	501 265	320 936	25 745	-
KZN Growth Fund	305 873	-	-	-	-
KZN Growth Fund - Capital Contribution	293 040	-	-	-	-
KZN Growth Fund - Operational Fund	12 833	-	-	-	-
Trade payables	103 062	33 779	-	-	-
Total liabilities	1 386 581	555 509	333 824	48 679	22 934

Contractual maturity analysis of financial liabilities

	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
2014			Corporation		
Financial liabilities					
Borrowings	**7 973**	**6 233**	**9 281**	**66 035**	**1 981**
Trade payables	**105 572**	**-**	**-**	**-**	**-**
Total liabilities	**113 545**	**6 233**	**9 281**	**66 035**	**1 981**
2013 Restated			Corporation		
Financial liabilities					
Borrowings	22 134	18 329	12 888	22 934	22 934
Financial assets	305 873	-	-	-	-
KZN Growth Fund - Capital Contribution	293 040	-	-	-	-
KZN Growth Fund - Operational Fund	12 833	-	-	-	-
Trade payables	73 131	21 150	-	-	-
Total liabilities	401 138	39 479	12 888	22 934	22 934

33.3. Market risk
Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange risks that 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 2014 would increase by R1,6 million (2013: R15,4 million) or decrease by R1,6 million (2013: R15,4 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 2014.

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 R0,74 million (2013: R0,81 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 preventative 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 function acts as secondary-level control through systematic and independent continuous review of the operations and controls within the lending unit.

Results of Internal Audit and Compliance Review Reports are discussed with Business Unit Heads and the Executive Committee and submitted to the Audit Committee and the Enterprise Risk Committee.

Capital Adequacy	Regulatory limit	2014	2013
			Restated
		R'000	R'000

34. CAPITAL MANAGEMENT - ITHALA SOC LIMITED

Capital requirements

Tier l 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 12,23% (2013: 11,06%). The current year level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank.

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 ratio	≥10,00%	**12,23%**	11,06%
Primary share capital and reserve funds adequacy ratio	≥7,00%	**11,40%**	10,26%
		R' 000	R' 000
Risk weighted assets			
Credit risk weighted assets		**1 046 331**	918 163
Other risk weighted assets		**79 422**	88 954
Operational risk		**445 159**	440 095
Total risk weighted assets		**1 570 912**	1 447 212
Capital structure			
Share capital		**295 000**	190
Share premium		**-**	189 810
Reserves		**(108 611)**	(38 633)
Prescribed deductions against capital and reserve funds		**(7 306)**	(2 769)
Total tier 1 capital		**179 083**	148 598
General provisions		**13 079**	11 477
Total Tier II capital		**13 079**	11 477
Total qualifying capital		**192 158**	160 075

	Group		Corporation	
	2014	2013	2014	2013
	R'000	R'000 Restated	R'000	R'000 Restated

35. PROVISION FOR LANDFILL RESTORATION

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Balance at beginning of year	**20 000**	41 614	**20 000**	41 614
Finance costs*	**(109)**	(8 323)	**(109)**	(8 323)
Change in estimates	**109**	(2 383)	**109**	(2 383)
Utilised during the year	**-**	(10 908)	**-**	(10 908)
Balance at end of year	**20 000**	20 000	**20 000**	20 000

The provision is in respect of the restoration of two landfill sites at Ezakheni Industrial Estate.

The estimated useful lives of the sites have increased from 20 to 25 years resulting in a reduction in the cost of the asset.

*In the prior year the reversal of finance costs was as a result of a substantial reduction in the estimated cost of restoring the landfill sites.

36. CELL CAPTIVE INSURANCE FUND

	Group 2014	Group 2013	Corporation 2014	Corporation 2013
Unearned premium provision	**5 340**	5 267	**-**	-
Re-insurance unearned provision	**(677)**	(749)	**-**	-
Gross outstanding claims	**937**	1 494	**-**	-
Deferred acquisition cost	**(950)**	(987)	**-**	-
Gross incurred but not reported	**738**	824	**-**	-
Re-insurance incurred but not reported	**(106)**	(86)	**-**	-
Balance at end of year	**5 282**	5 764	**-**	-

BORROWINGS - ANNEXURE 1
FOR THE YEAR ENDED 31 MARCH 2014

	Instalment	Date of final repayment	Interest rate %	Group 2014	Group 2013	Corporation 2014	Corporation 2013
	R'000			R'000	R'000 Restated	R'000	R'000 Restated
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	**2 457**	**2018**	**8,66**	**17 049**	18 239	**17 049**	18 239
	5 179	**2020**	**8,00**	**44 637**	46 704	**44 637**	46 704
				61 686	64 943	**61 686**	64 943
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	**3 331**	**2017**	**6,00**	**10 916**	13 636	**10 916**	13 636
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	**235**	**2025**	**4,45**	**18 901**	20 640	**18 901**	20 640
Sundumbili Plaza Ltd							
No fixed terms of repayment			**10,58**	**277**	283	**-**	-
Nongoma Plaza Ltd							
No fixed terms of repayment			**10,58**	**67**	69	**-**	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment			**-**	**1 784**	1 784	**-**	-
Total borrowings				**93 631**	101 355	**91 503**	99 219

SUBSIDIARIES - ANNEXURE 2
FOR THE YEAR ENDED 31 MARCH 2014

	Issued share capital		Percentage interest		Shares		Loans	
	2014	2013	2014	2013	2014	2013	2014	2013
			%	%	R'000	R'000	R'000	R'000
Unlisted								
Property Development								
Sundumbili Plaza Ltd	**7 570**	7 570	**98**	98	**7**	7	**20 855**	20 845
Nongoma Plaza Ltd	**48 016**	48 016	**99**	99	**47**	47	**23 905**	23 925
Sibaya Conservation Projects (Pty) Ltd	**1 900**	1 900	**-**	-	**-**	-	**-**	-
Durban Wharfside Trust	**-**	-	**100**	100	**6**	6	**34 623**	33 748
Other								
Ithala SOC Ltd	**190 010 500**	190 000 000	**100**	100	**284 000**	179 000	**10 187**	15 777
Cowslip Investments (Pty) Ltd	**3 776**	3 512	**100**	100	**-**	-	**-**	-
Ubuciko Twines and Fabrics (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-
KZN Growth Fund Managers SOC (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-
					284 060	179 060	**89 571**	94 295

ASSOCIATED COMPANIES - ANNEXURE 3
FOR THE YEAR ENDED 31 MARCH 2014

	Number of shares held		Percentage Holding		Shares		Loans	
	2014	2013	2014	2013	2014	2013	2014	2013
			%	%	R'000	R'000	R'000	R'000
Unlisted								
Golden Ribbon Trading 303 (Pty) Ltd t/a Port Shepstone Quarries	**30**	-	**30**	-	**-**	-	**531**	-
Banzi Pan Development Company (Pty) Ltd	**826**	826	**42**	42	**-**	-	**-**	-
Rocktail Bay Devco (Pty) Ltd	**763**	763	**42**	42	**-**	-	**-**	-
Mabibi Devco (Pty) Ltd	**460**	460	**8**	8	**1**	1	**59**	213
Ntingwe Tea (Pty) Ltd	**384**	384	**38**	38	**-**	-	**-**	-
					1	1	**590**	213

2013/14 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

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

1. Ithala SOC Limited
2. KZN Growth Fund Managers SOC Limited
3. Ubuciko Twines and Fabrics (Pty) Ltd

Ithala SOC Limited

Strategic Goal 1: Access to Finance				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Market Share	To increase the number of net transactional accounts held by individuals to 259 491 by 31 March 2014	259 491	85 389	Target not achieved Value added services to support the transactional product offerings were not introduced on 1 April 2013 as earmarked. Time was needed to carefully negotiate the terms of the agreement which resulted in the late awarding of the Hosted Banking System. Most grant recipient transaction accounts were closed due to South African Social Security Agency issuing their own branded transaction account with proof of life functionality
	To increase the value of new advances by R546 959 107 by 31 March 2014	R546 959 107	R498 276 197	Target not achieved. The launch of the Overdraft and Taxi Finance products were delayed due to the late awarding of the Hosted Banking System. The Taxi Finance product was launched in September 2013 and the Overdraft product is expected to be launched in June 2014
	To increase the number of insurance policies to 9 860 by 31 March 2014	9 860	8 446	Target not achieved. Staff shortages in the insurance department and the poor cross-sell opportunities associated with the low growth in customer numbers resulted in the target not being achieved.
	Improve the Savings/ Investment Control Book to R2 268 187 167 by 31 March 2014	R2 268 187 167	R1 973 429 039	Target not achieved. The competitive market conditions, reduced savings appetite due to lower disposable income and the low growth in customer numbers contributed to target not being achieved

Strategic Goal 2: Economic Profit				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Revenue Enhancement	Achieve a net profit of R1 168 000 by 31 March 2014	R1 168 000	(R69 980 374)	Target not achieved. The poor growth in revenue drivers resulted in the net profit not being achieved. Total costs were well contained within targeted levels

Strategic Goal 3: Customer Experience				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Accessible Financial Services	Spend an additional R7 016 000 on branch upgrades by 31 March 2014	R7 016 000	R6 362 368	Target not achieved. A strategic decision was made to revise the budget to R5m in order to manage costs in view of the poor revenue growth

2013/14 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

Strategic Goal 3: Customer Experience				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Accessible Financial Services	To increase ATMs to 78 by 31 March 2014	78	74	Target not achieved. Branch closures and the downturn in volumes for ATMs at certain retail sites have resulted in the strategic decision to remove the ATMs and halt any further investment
	To install 50 new self-service devices by 31 March 2014	50	0	Target not achieved. Compliance with internal procurement policy and processes delayed the tender process until the first quarter of 2014
	To increase the number of call centre seats to 15 by 31 March 2014	15	Distribution: 8, Insurance: 4, Credit Risk: 4, Call Centre Manager: 1. Total: 17	Target achieved

Strategic Goal 4: Customer Service				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Customer Centricity	To receive at least 70% positive feedback from customer service surveys quarterly	7/(10)	9,7/(10)	Target achieved
	To receive a minimum 70% of stipulated timeframes of service levels by 31 March 2014	70%	20%	Target not achieved. Inter-departmental Service Level Agreements deliverables were not achieved

Strategic Goal 5: People Management and Leadership				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Human Resources Excellence	To achieve a minimum score of 80% for leadership surveys by 31 March 2014	80%	80%	Target achieved
	To implement 90% of the Workplace Skills Plan by 31 March 2014	90%	81%	Target not achieved. The drive to achieve the strategic objective of revenue enhancement meant that staff were not always available during the scheduled training times
	To conduct a minimum of four performance assessments per employee by 31 March 2014	100%	50%	Target not achieved. The inconsistent application of performance management processes by management across business units caused delays in completion
	To conduct a minimum of two performance appraisals per employee by 31 March 2014	100%	50%	Target not achieved. The inconsistent application of performance management processes by management across business units caused delays in completion

Strategic Goal 6: Technology and Innovation				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Information Technology Excellence	Approval of the Banking System implementation plan by 31 May 2013	Approved Plan	Target achieved	Target achieved
	Adherence to the implementation plan milestones by 31 March 2014	Milestones per project initiation document	Not achieved	Target not achieved. Delays occurred due to user acceptance testing issues experienced, as well as problems in the printing function set-up. 'Go Live' only achieved on 20 January 2014

Strategic Goal 7: Efficiencies and Effectiveness				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Operational Excellence	Cost to Income Ratio	91,8%	117,6%	Target not achieved
	Return on Assets %	0,3%	(3,3%)	Target not achieved
	ROE %	2,9%	(34,3%)	The failure to achieve targets is attributable to the poor growth in the revenue drivers of the business
	Capital Adequacy Ratio	14,5%	12,23%	Target not achieved
	NPLs %	9,5%	9,5%	Target achieved
	Impaired Advances % Loan Book	7,5%	7,6%	Target achieved. The difference is regarded as immaterial
	Credit Loss Ratio	2,2%	2,0%	Target achieved.

Strategic Goal 8: Regulatory Compliance				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Corporate Governance Excellence	Adherence to anti-money laundering internal rules by 100% on new business and 70% on existing by 31 March 2014	100% on new business and 70% on existing	Achieved	Target achieved
	Adherence to FAIS Fit and Proper requirements by 31 March 2014	100% adherence	100% adherence	Target achieved
	Submission of regulatory reports as per the annual statutory reporting register by 31 March 2014	100% adherence	100% adherence	Target achieved
	To achieve a minimum of 75% resolution of the Compliance Issues Log by 31 March 2014	75% resolution	24% resolution	Target not achieved Target not achieved as most findings were not resolved in a timely manner

Strategic Goal 9: Business Risk				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Corporate Governance Excellence	Implementing Risk Management Action Plans for the risks per the Register by 31 March 2014	100% of all items	78% of all items	Target not achieved. Target not achieved as most findings were not resolved in a timely manner

2013/14 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

Strategic Goal 10: Risk Assurance				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Corporate Governance Excellence	To achieve 100% resolution of the audit issues log by 31 March 2014	100% achieved	72% achieved	Target not achieved. Target not achieved as most findings were not resolved in a timely manner

Strategic Goal 11: Governance Framework				
Objectives	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Corporate Governance Excellence	To conduct quarterly training of the Board and the Executive on King III	Training conducted each quarter	Not achieved	Target not achieved
	To conduct quarterly training of the Board and the Executive on the Companies Act	Training conducted each quarter	Not achieved	The Board's consistent focus on financial sustainability and Ithala's turn-around strategy throughout the year resulted in little time available for training during this reporting period
	To submit the monthly Banks Act returns to South African Reserve Bank within the deadlines as stipulated by the Regulations to the Banks Act	100% adherence	100%	Target achieved

KZN Growth Fund Managers SOC Limited

Programme 1: Finance and administration		Strategic Goals: Financial sustainability and active perusal of growth opportunities			
Strategic Objective	**Measurable Objective**	**Performance Measure Indicator**	**Annual Targets**	**Annual Actual**	**Comments**
To provide strategic direction and ensure the company has sufficient capacity to ensure that it fulfils its mandate	To facilitate effective performance management of employees by conducting staff appraisals	Percentage of total employees' performance appraisals conducted.	100%	100%	Target achieved
	To ensure the company develops a high performance culture	Average performance score for the whole organisation	Average score of 3	Average score greater than 3	Target achieved
To ensure statutory compliance in respect of financial management and corporate governance	Financial reporting	Submission of unaudited AFS to A-G by 31 May	31 May 2013	31 May 2013	Target achieved
		Submission of audited AFS to Ithala and Provincial Treasury by 31 August	31 August 2013	30 August 2013	Target achieved
		QPR to be submitted to Ithala and DEDT as indicated by DEDT	Dates as circulated by DEDT	Quarterly reports submitted on time	Target achieved
	Design and implementation of sound system of internal controls	Auditor-General's report of the AFS	Clean audit	Clean audit	Target achieved
		Number of repeat findings on internal audit report	No repeat findings	No repeat findings	Target achieved
		% of audit findings unresolved in quarter per the internal audit log	Less than 15% un-resolved findings at the end of the quarter	11%	There was only 1 unresolved audit finding as per the internal audit log of the 10 internal audit report points
To implement sound financial management practices	Ensure financial stability	% actual overhead expenses variance against budget per the income statement	Actual vs budget variance less than 5% over or under budget	49,9% under budget	Target not achieved. The variance is due to the restructuring exercise recently completed in addition to cost-cutting measures implemented. Furthermore, expenses incurred were lower and this was directly attributable to no project costs being incurred
		% actual deal-specific costs variance against budget	Actual vs budget variance less than 5% over or under budget	68,7% under budget	Target not achieved. Expenses incurred were lower and this was directly attributable to no project costs being incurred
		Solvency ratios (total assets/total liabilities)	01:01	4,1:1	Target achieved
		Liquidity ratio (current assets/current liabilities)	01:01	4,1:1	Target achieved

2013/14 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

Programme 2: Project origination and post-investment activities		**Strategic Goals: Excellence in origination and management of projects**			
Strategic Objective	Measurable Objective	Performance Measure Indicator	Annual Targets	Annual Actual	Comments
To ensure appropriate portfolio management and after-care is being done	Asset quality	% of non-performing Trust loans (capital and interest outstanding)/total loans	10%	0% of non-performing loans	Target achieved
		% of restructured Trust loans (capital and interest outstanding)/total loans	10%	Nil	Target achieved
		% of performing Trust loans (capital and interest outstanding)/total loans	70%	100%	Target achieved
		% of write-off/total Trust loans	10%	Nil	Target achieved
To ensure that the Trust reaches its disbursement and after-care is being done	Pre-investment activities	Rand value of FAR approved	R505m	Nil	Target not achieved. The target could not be achieved as no projects reached financial close, in addition to delays in the finalisation of legal agreements for committed projects.
		Rand value of projects reaching financial close	R463m	Nil	Target not achieved. The target could not be achieved as no projects reached financial close, in addition to delays in the finalisation of legal agreements for committed projects.
		Average time taken from initial screening stage to FAR	6 months	N/A	The target could not be assessed as no projects reached financial close
		Average time taken from FAR to financial close	3 months	N/A	Target not achieved. The target could not be assessed as no projects reached financial close, in addition to delays in the finalisation of legal agreements for committed projects
		Conversion rate of ISR (Number of ISR approved/ Number of FAR approved)	80%	Nil	Target not achieved. The target could not be assessed as no projects reached financial close
		Conversion rate (Number of FAR approved/Number of projects reaching financial close)	50%	Nil	Target not achieved. The target could not be assessed as no projects reached financial close

Ubuciko Twines and Fabrics (Pty) Ltd

Goal 1: Financial Sustainability and Viability				
Strategic Objective	Key Performance Indicator	2013/14 Annual Target	Actual Total Performance 2013/14	Explanation for Variance
To achieve revenue growth	Sales	R25,5 million	R18,22 million	Target not achieved due to fewer clients and less than projected actual sales
	Gross Profit	R8 million	R6,72 million	Target not achieved due to lower than projected sales and concentration on sales of materials as opposed to finished bags
	Operational Profit	R1,2 million	(R5,78 million)	Target not achieved due to lower than projected sales and concentration on sales of materials as opposed to finished bags
Increase customer base	Sign long-term contracts	Obtain 3 new customers	24	Target achieved

Goal 2: Operational Excellence and Good Corporate Governance				
Strategic Objective	Key Performance Indicator	2013/14 Annual Target	Actual Total Performance 2013/14	Explanation for Variance
Functional Board	Number of meetings attended	4 meetings per year	4 meetings	Target achieved
Implementation of Board Resolutions	Number of resolutions implemented	100% of resolutions implemented within agreed timeframes	Implementation of resolutions is ongoing	Target achieved
Clean Audit	Engage with IGARAS to discuss/resolve audit log	60% of findings resolved	90% of audit log	Target achieved

Goal 3: Skills Development and Job Creation				
Strategic Objective	Key Performance Indicator	2013/14 Annual Target	Actual Total Performance 2013/14	Explanation for Variance
Payroll Management	Implement auto payment system	Implement auto payment system	Payroll – wages on VIP salaries on group system	Target achieved
Union Relationship	Zero industrial action	Sign union recognition agreement	Union recognition agreement signed	Target achieved
Skills Development and Training	Claiming of skills levy	Implement skills plan	Skills plan implemented	Target achieved
Development of policies	Clean audit	Implement Ithala policies	Supply chain and Human Resources policies implemented	Target achieved
Employee Wellness	Functioning EAP	Adopt and implement Ithala EAP	Employee wellness implemented	Target achieved

2013/14 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

Goal 4: Production of high quality products for business sustainability				
Strategic Objective	Key Performance Indicator	2013/14 Annual Target	Actual Total Performance 2013/14	Explanation for Variance
Quality	<2,5% defects	<2,5% defects	<2,5% defects	Target achieved
Efficiency	95% efficiency	95% efficiency	95% efficiency	Target achieved
Scrap	<2,5% scrap	<2,5% scrap	3%	Target not achieved due to inefficiencies in the business. However there was significant improvement.
Down-time	<5% down-time	<5% down-time	<5% down-time	Target achieved
Training	Development of skills matrix	Implementation of SOPs in line with ISO:2001	SOPS implemented	Target achieved
Customer Service	Zero customer complaints	Zero customer complaints	Zero customer complaints	Target achieved
Marketing	Introduce Ubuciko to 50 prospective customers	50 prospective customers per year	24 prospective customers	Target not achieved as company changed strategy from more customers to fewer but solid customers.

MAKING IT HAPPEN TOGETHER

We would welcome your feedback and comments on this report.
Please contact us at: nshezi@ithala.co.za

DEVELOPMENT FINANCE CORPORATION LIMITED

PO Box 2801
Durban, 4000, KwaZulu-Natal, South Africa
Tel: (031) 907 8911, Fax: (031) 907 5685

WWW.ITHALA.CO.ZA