ANNUAL REPORT

2011/2012

Making It Happen Together

www.ithala.co.za

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

- Respect;
- Innovation;
- Integrity;
- Customer Satisfaction;
- Empowerment (Internal and External); and
- Equitable Employment Practices.

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Contents

Group Company Secretary | L.S. Mahamba
Bankers | ABSA Bank Ltd
Auditors | The Auditor-General
Corporate Attorneys | Ngubane & Partners | Strauss Daly | Garlicke & Bousfield

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GROUP FINANCIAL AND DEVELOPMENT INDICATORS

TOTAL ASSETS — **R' MILLION**

LOANS AND ADVANCES — **R' MILLION**

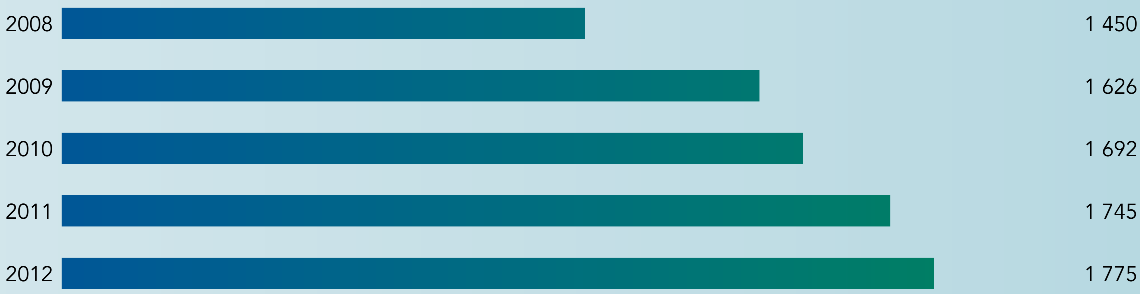
Financial Achievements

	2008	2009	2010	2011	2012
Interest Received – R'M	419	497	343	293	279
Interest Paid – R'M	74	102	97	78	69
Net Income – R'M	185	65	75	38	98
Deposits – R'M	1 450	1 626	1 692	1 745	1 775
Total Assets – R'M	4 282	4 431	4 663	4 707	4 691
Change in Total Assets – %	28	4	4	1	1
Loans & Advances – R'M	1 531	1 495	1 527	1 629	1 728
Change in Loans & Advances – %	(7)	(2)	3	6	6
Capital Invested – R'M	441	437	677	647	634

Developmental Dividend

Total New Jobs Created	**3 418**	**2 045**	**2 733**	**1 508**	**1 966**
Agri & Agro Processing	205	279	431	471	440
Construction & Tourism	-	972	992	535	870
Manufacturing	-	27	188	197	312
Trade & Services	2 236	706	575	300	242
Co-operatives	977	61	547	5	102

DEPOSITS **R' MILLION**



Developmental Dividend

	2008	2009	2010	2011	2012
Total Enterprises Assisted	**424**	**240**	**294**	**144**	**125**
Agri & Agro Processing	43	36	37	29	25
Construction & Tourism	-	74	69	36	33
Manufacturing	-	8	20	10	14
Trade & Services	269	110	85	66	46
Co-operatives	112	12	83	3	7
Hectares of Agri-land financed	2 306	1 962	2 578	2 675	2 979
Savings accounts opened	185 057	12 934	264 515	101 073	75 143
Staffing					
Number of staff	928	977	1 033	955	918

MEC's FOREWORD

Michael Mabuyakhulu, MEC for Economic Development and Tourism, KwaZulu-Natal

There is a growing body of evidence to suggest that the world has gradually embraced the notion of financial globalisation and integration.

Our participation in the quadruple alliance of developing nations, which includes Brazil, Russia, India and South Africa, is in itself an attestation to the potential gains of global financial integration that is essential for real economic growth.

In this vein, it is only logical for the African continent to also start looking favourably upon fostering partnerships at national, regional and global levels.

The long-term benefit of this approach lies in that regional institutions – the development finance institutions in particular – will begin to enjoy unprecedented levels of interconnectedness, thus delivering results that serve as a basis for economic prosperity.

It is a widely held view that provided they are effectively used, state owned enterprises and development finance institutions, such as Ithala Development Finance Corporation, count among the key drivers of economic advancement.

At provincial and national levels, we have already begun to create closer working synergies between different institutions charged with disbursing development finance.

These entities have, for a long time, been powerful agents in driving economic transformation and influencing the development agenda.

Our government has explicitly called for the creation of more job and economic development opportunities.

This throws down the proverbial gauntlet squarely in front of those entities with high job-creation potential such as Ithala. This is a challenge which we have not only embraced but which we are working hard to deliver on.

KwaZulu-Natal, with its advanced air, road and rail infrastructure systems provides the perfect setting for achieving this goal.

Ithala remains acutely aware of its developmental mandate and has already taken some discernible steps in response to this clarion call.

Notwithstanding the challenges of the past, we are pleased to report that the year under review has seen the institution regaining its footing.

A newly constituted Board of Directors has already brought stability and vision to this essential developmental organisation.

Chaired by Dr Mandla S.V. Gantsho, the Board has provided the required impetus to thrust the organisation forward.

Equally, the appointment of Ms Yvonne Zwane as the Group Chief Executive has left a distinctive, positive imprint on Ithala's operations.

Zwane, a career banker with over 27 years' experience in corporate and public sector banking, has already made her plans known as she wants to revitalise the institution for it to fulfill its strategic mandate.

Indeed, it is encouraging that Ithala has put the creation of smart partnerships at the forefront of its revitalisation agenda.

This is therefore indicative of the new leadership's determination to continue to effectively address issues that have in the past hindered the organisation from optimally discharging its mandate.

> *"Against the backdrop of an unfavourable business climate, occasioned by the 2008 recession, Ithala has renewed its focus on ensuring that its procurement spend is on BBBEE compliant service providers and emerging contractors."*

The past few years have proven particularly unkind to emerging entrepreneurs with the number of business start-ups falling to an all-time low.

Against the backdrop of an unfavourable business climate, occasioned by the 2008 recession, Ithala has renewed its focus on ensuring that its procurement spend is on BBBEE compliant service providers and emerging contractors.

Apart from this intervention, the organisation has continued to provide non-financial support to its Business Finance clients, the majority of whom do not have the necessary business management skills. In line with its strategic objectives of enhancing the Province's development dividend, Ithala has in the past year alone disbursed more than R261 million to co-operatives and SMMEs.

The direct spin-off from this initiative was the creation of a further 1 966 jobs in communities that had previously been disconnected from entrepreneurial activity.

On the empowerment front, Ithala has also taken the lead in ensuring that entrepreneurs who would otherwise not get access to funding through the normal channels were assisted.

It is equally commendable that Ithala has decreased the ratio of non-performing loans in its books by bringing the bad debt ratio down to 47%.

Whilst this figure might still seem high to most, one begins to understand where our commendation comes from considering that not so long ago the bad debt ratio hovered at 80%.

This means that the R181 million in debts collected can once again be channelled back to its intended recipients – the fledgling co-operatives and SMMEs in our communities.

A strategic decision was taken to focus on increasing BBBEE businesses in Ithala's procurement spend.

Ithala Limited, the retail arm of the corporation, also continues to provide financial and non-financial products to our people in urban and rural areas. The year under review has seen Ithala Limited working towards launching new product innovations and upgrading its systems in line with the latest trends in the banking space.

We wish to thank the Chairman of the Board, Dr Mandla S.V. Gantsho for his leadership, the entire Board of Directors for their guidance, and Ithala Management and staff for their continued support of the Group's strategic goals.

We also wish to extend a special thanks to the erstwhile Acting Group Chief Executive, Mr Siphiwe Madondo, for not only stepping into the breach and providing leadership at Ithala but for ensuring a seamless handover of the reigns when the new Group Chief Executive, Ms Yvonne Zwane, was appointed.

Yours faithfully,

Michael Mabuyakhulu, MPP
KwaZulu-Natal MEC for Economic Development & Tourism

GROUP CORPORATE PROFILE

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

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

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

VISION

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

MISSION

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

VALUES

- Respect;
- Innovation;
- Integrity;
- Customer Satisfaction;
- Empowerment (Internal and External); and
- Equitable Employment Practices.

OBJECTIVES

In terms of Section 3 of the KwaZulu-Natal Ithala Development Finance Corporation Act, No. 2 of 1999, Ithala's objectives provide for the organisation:

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

Ithala Group engages in a wide range of activities including:

- Funding business enterprises, SMMEs and co-operatives;
- Entrepreneurial support and skills development aimed at creating meaningful Broad-Based Black Economic Empowerment;
- Commercial and industrial property development and management;
- Savings, lending, insurance and banking services; and
- Funding for infrastructural projects.

BUSINESS FINANCE

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

Focus Sectors

- Trade and Services;
- Manufacturing;
- Construction and Tourism;
- Commercial Property; and
- Agriculture and Agri-Processing.

Business Finance Products and Services

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

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

Business Support

Drawing from its mandate, Ithala has a responsibility to drive economic empowerment within the province, and the provision of non-financial support, particularly in terms of business support, is key to the fulfillment of this responsibility. Whilst entities in the first economy have the skills and expertise to adapt to a changing economic environment, SMMEs and co-operatives are hugely limited in this regard and many of the clients served by Ithala are emerging entrepreneurs who require business support to successfully implement their business plans.

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

PROPERTIES

As one of the largest property portfolio holders in KwaZulu-Natal, Ithala is ideally placed to service the various business sectors spread throughout the Province. Ithala Properties undertakes the development and management of industrial and commercial related projects. These projects relate to the development of new industrial and commercial properties as well as the redevelopment and expansion of existing properties. These activities are geared towards stimulating economic growth.

The portfolio of properties is made up of 1 million square metres of industrial property and 177 000 square metres of commercial shopping facilities, across 22 shopping centres spread throughout the province.

Ithala is the pioneer into many rural areas, bringing services, shopping and banking facilities closer to local communities. The establishment of Ithala commercial centres in remote regions of the Province has served as a stimulus for development. Small business has mushroomed around the centres and, in some areas, additional shopping malls and facilities have been built.

Industrial Property

The Industrial Property portfolio comprises Industrial Estates in Isithebe (Mandeni), eZakheni (Ladysmith) and Madadeni (Newcastle). In addition, some eight industrial parks are situated in and around the Durban metropolitan area. Small industrial units are also located in areas such as Umlazi, KwaMashu, Mnini and Plessislaer (Pietermaritzburg). Properties are available for lease or purchase.

COMMERCIAL PROPERTY

The Commercial Property portfolio consists of strategically placed shopping centres and office blocks which operate under Ithala's control, with various options and opportunities for businesses looking to access emerging markets.

Property Asset Management Division

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

Property Development Division

Ithala has experience in establishing and maintaining one of the largest property portfolios in KwaZulu-Natal.

The Property Development division services include:

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

BUSINESS ENTITIES
ITHALA LIMITED

Ithala Limited, a wholly-owned subsidiary of Ithala Group, provides a range of retail banking services, home loan products and insurance services throughout the province via a network of 49 branches. Ithala Limited is the pioneer of rolling out banking services to the unbanked citizens of the Province. Despite commercial banks having moved into this market, Ithala Limited remains committed to fostering a culture of saving among communities and will continue to expand its product offering, propelling it toward becoming a world class banking services institution that is deeply entrenched in the community it serves.

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

Ithala Insurance Services seeks to be the preferred provider of insurance products and services within the communities it serves, providing life assurance, commercial and personal insurance for individuals and businesses. In addition, Insurance Services manages cover for all Ithala properties and other liabilities.

Loans

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

Savings and Investment

- Target Save;
- Club Account;
- Fixed Deposit;
- Safe Saver Fixed Deposit;
- Funeral Scheme; and
- Ordinary Savings.

Insurance Services

- Short-term Insurance;
- Domestic Insurance;
- Commercial and Industrial Business Insurance;
- Corporate Insurance;
- Specialised Insurance Cover;
- Long-term Insurance;
- Funeral Plans;
- Income Booster; and
- Credit Life.

Mega City branch.

UBUCIKO TWINES AND FABRICS (PTY) LTD

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

A manufacturing concern dealing in various sectors and industries ranging from the mining sector, agricultural sector, geo textiles and the furniture industry, Ubuciko provides a wide range of woven materials, twines and container bags set to international standards.

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

BOARD OF DIRECTORS

During the year under review, the Ithala Board Members comprised ten Non-Executive Directors and one Executive Director, who is also the Group Chief Executive. The Chairman and Group Chief Executive are Dr Mandla S.V. Gantsho and Ms Yvonne Zwane.

The Board composition optimises the business, professional and management abilities of its individual Directors as well as their collective experience in a way that adds value to Ithala and its diverse business activities. In terms of the Ithala Act, the MEC for Economic Development and Tourism is responsible for Ithala and, when necessary, appoints directors after consulting with the Economic Development Portfolio Committee and the KwaZulu-Natal Premier in Cabinet.

DR MANDLA S.V. GANTSHO (50) CA (SA), MSc, MPhil, Phd
Board Chairman

Date appointed: *1 June 2011*

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

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

YEN ZWANE (52) BCom, UED, CAIB, MBL
Group Chief Executive

Date appointed: *1 December 2011*

Other Boards on which she serves:
Ithala Limited

Areas of Expertise:
Banking
Strategy

WJ JACOBS (47) BPharm
Director

Date appointed: *15 September 2009*

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

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

BC BAM (54) BA, BA (Hons)
Director

Date appointed: *15 September 2009*

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

NN AFOLAYAN (35) MBA
Director

Date appointed: *21 April 2008*

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

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

NNA MATYUMZA (49) CA (SA), LLB
Director

Date appointed: *1 June 2011*

Other Boards on which she serves:
Council for Medical Schemes (Audit Committee), PN Energy Services (Audit Committee), Transnet, KZN Growth Fund Managers (Pty) Ltd, Cadiz Holdings, Hulamin Limited, Coasad Southern Africa (Pty) Ltd, Wilson Bayly Holmes-Ovcon Limited

Areas of Expertise:
Financial Management and Reporting
Audit
Law
Strategy

GNJ WHITE (52) BA (Economics), BA Admin (Hons)
Director

Date appointed: *1 June 2011*

Other Boards on which he serves:
Trans-Caledon Tunnel Authority

Areas of Expertise:
Infrastructure Finance
Business Strategy Formulation and Management
Human Resources Management

N KHAMBULE (36) NDip (Agriculture), BTech (Business Management)
Director

Date appointed: *21 April 2008*

Other Boards on which he serves:
Ntingwe Tea (Pty) Ltd

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

AN ZONDI (55) BProc
Director

Date appointed: *21 April 2008*

Areas of Expertise:
Legal
Mediation and Dispute Resolution

MF KEKANA (42) BCom (Hons)
Director

Date appointed: *15 September 2009*

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

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

DM MCLEAN (56) CA (SA)
Director

Date appointed: *15 September 2009*

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

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

EXECUTIVE MANAGEMENT

ITHALA GROUP EXECUTIVE COMMITTEE (EXCO)

During the year under review, the Ithala Group EXCO included: the Group Chief Executive; Chief Executive Officer: Ithala Limited; Chief Executive Officer: KZN Growth Fund Managers; Properties Executive; Information Technology Executive; Group Strategy Executive; Business Finance Executive; Group Chief Financial Officer; and Group Corporate Services Executive.

YEN ZWANE
Group Chief Executive

SE MADONDO
Corporate Services Executive

BTT MATHE
Group Strategy Executive and Acting CEO, Ithala Limited

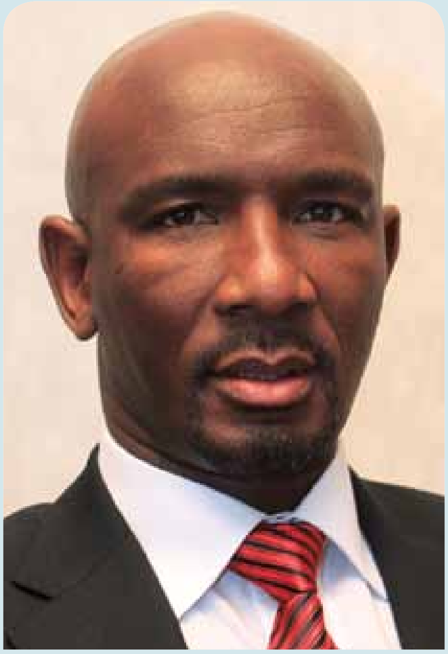
S ADAM
CEO, KZN Growth Fund Managers (Pty) Ltd

NW NHLANGULELA
Business Finance Executive

B SILUNGWE
Group Properties Executive

PA IRELAND
Group Chief Financial Officer

MM MATIBE
Group Chief Information Officer



Dr Mandla S.V. Gantsho, Chairman

CHAIRMAN'S REPORT

Ithala Development Finance Corporation Limited (Ithala) celebrates its 53rd birthday this year. Founded in the KwaZulu-Natal Province of South Africa in 1959, Ithala was the pioneer and precursor to a series of historical events that have not only sparked the 'banking the unbanked' revolution, but also shaped the quintessence of the development finance landscape in the entire nation, as it is known today. Over time however, this exemplary image and legacy has been tarnished by widely reported lapses in corporate governance and leadership discontinuity.

The 2011/2012 financial year marked the beginning of a new era – dubbed the 'Rise Again' phase of Ithala's repositioning. The change efforts were taken against the backdrop of the vagaries of ongoing volatility in the economies of the developed countries, particularly the persistent financial crisis in the Eurozone. Our country and its institutions like Ithala could not escape the contagion effects. This impacted domestic economic growth and labour creation capacity, amongst others. It is during challenging times such as these that the roles of development finance institutions, as sources of counter-cyclical finance, come into sharper focus.

However, internal shortcomings pertaining to governance, leadership and internal controls rendered Ithala ill-prepared to rise to these global and national challenges. Decisive action by the Shareholder representative, Mr Michael Mabuyakhulu, in June 2011 included filling a number of Board vacancies, and the appointment of the Chairman, thus restoring stability at Board level. The reconstituted Board also lost no time in addressing a number of corporate governance breaches and restoring organisational stability through a series of interventions, including the appointment of a permanent Group Chief Executive in December 2011, and putting in place a special internal task team to address prior year audit findings by the Auditor-General. I am pleased to report that excellent progress has been made in resolving these issues and in putting in place measures to prevent their recurrence. The Corporation is now in a stronger position to direct its energies and resources towards its core business of development financing.

No single player can win the war against poverty, unemployment and underdevelopment. Ithala is no exception. The key to unlocking Ithala's own potential lies in its ability to leverage other role-players in international and national development finance architecture. As such, the Board directed that fostering partnerships must be added as a strategic objective for Ithala. Consequently, a key partnership with the Jobs Fund was established culminating in the Jobs Fund establishing a provincial office at the headquarters of Ithala in Umlazi. This will harness synergies between the two institutions and leverage the locational comparative advantages of Ithala.

Partnerships were also established with the National Empowerment Fund, Industrial Development Corporation and the National Youth Development Agency.

I am confident that these strategic partnerships will bear fruits in the not so distant future.

I also hypothesise that money is not a sufficient condition for achieving the development goals of the KZN Provincial government. Knowledge, expertise and delivery capacity add value to the limited financial resources. The Ithala Development

"We remain resolute in our drive to achieve financial excellence. We have adopted an aggressive loans collection strategy to improve the state of our loan book. We have continued to facilitate job creation in the Province, particularly through rural and township infrastructure projects."

Finance Corporation Act exhorts the Group to the role of implementing agency for the government of the Province. Ithala has succesfully managed projects for the Departments of Education and Health in KwaZulu-Natal, completing ten clinics and building well over 2 000 classrooms in the Province.

To raise its game in this and other roles, the Corporation introduced a second new strategic objective – a source of best practice knowledge on what works or doesn't in development. Ithala aims to gather this knowledge from its own activities and from development partners, account for it in a user-friendly fashion, share it with others and apply same in its own future operations. I am confident that this new focus on adding knowledge to money will enhance the quality of the development outcomes we pursue.

Notwithstanding the efforts to clarify the current strategy for the Group and to address internal shortcomings that constrained the ability of the Ithala Group to live up to stakeholder expectations and to deliver at optimal capacity, the Corporation made solid progress across all business areas in pursuit of its development mandate. 122 new loans were granted to small and medium enterprises, totalling some of R261 million. This has resulted in approximately 1 966 jobs being created. Net revenue from the important property portfolio remained stable; however, there is a growing need for investment in refurbishing existing property assets if this key source of revenue is to be preserved in the future.

Looking to the future, the Board and Management of the Corporation are engaged in the process of undertaking an in-depth review of Ithala Group's business model and structure. The preliminary outcome of this review indicates that the status quo has fundamental weaknesses. This is informed by the significant evolution over the past few decades of the role of development finance institutions worldwide in response to rapid developments in the global socio-economic environment. Ithala must also respond to these changes if it is to reclaim its market leadership position. A key weakness of Ithala's business model is the current practice of 'building and holding' property assets. The emerging role of DFIs worldwide is that of catalysing development by building properties in areas that hold economic development potential and yet where there is little private sector appetite to invest. The aim should be to exit from such investments as soon as the private market failure has been addressed. All of this is in pursuit of extending the boundaries of what is possible. As the largest property owner in the KwaZulu-Natal Province, Ithala's ongoing role in this sector requires review to ensure that it harnesses its significant asset base in support of development priorities in the Province.

Therefore, Ithala is to be repositioned and 're-tooled' to enable it to make a quantum leap in fulfilling its development mandate. In view of the magnitude and complexity of the challenges currently facing Ithala, this process will need to be phased over a number of years, and will entail some short-term reduction in the volume of our lending business to allow for the implementation of key remedial interventions within the organisation, including strengthening 'quality at entry' controls for the Business Finance Department. This initial phase, which is focused on achieving a rapid turnaround in the Corporation's key business finance portfolio, as well as in Ithala Limited, the banking subsidiary, will be completed by 2014. A rapid growth in new business across all focus areas – business lending and support; property development;

and retail banking – is envisaged thereafter, with the Corporation achieving full financial sustainability by 2016. These are challenging targets indeed, and will require steadfast commitment from management and staff, and unwavering support from the Board and the Shareholder. I have no doubt that we will harness our resources and energies to make our vision for Ithala a reality, through our mission of serving the people of the KwaZulu-Natal Province and beyond.

Under the leadership of the recently appointed Group Chief Executive Officer, Ms Yvonne Zwane, efforts to reposition Ithala gathered significant momentum. I wish her well in her career with Ithala and in leading the Corporation to greater heights. I would also like to express my appreciation, on behalf of the Board, to Mr Siphiwe Madondo, who provided sound leadership to Ithala as Acting Group Chief Executive Officer during a difficult period. My sincere thanks to my colleagues on the Board for their support and commitment, especially to Mr Desmond Golding who served as Deputy Chairman. I wish him well in his new responsibilities as Head of Department for Economic Development and Tourism. A special word of appreciation to Ms Nomcebo Zondi for her leadership as Acting Chairman of the Board in the months prior to my appointment in June 2011.

Ithala's Shareholder representative, the Honourable MEC for Economic Development and Tourism, Mr Michael Mabuyakhulu, has been a beacon of strength and guidance to Ithala in both good and difficult times, for which I am deeply appreciative. I count upon Mr Mabuyakhulu's ongoing support, and through him the Government and Premier of the KZN Province, during the challenging, but exciting times ahead.

Last but not least, my thanks to Ithala's 'foot soldiers', who are at the coal face on a daily basis. Without the determination and ingenuity of these colleagues our common vision cannot be accomplished. I look forward to a fulfilling 2012/2013 financial year in striving towards building sustainable foundations for a better life for all the people we serve.

Dr Mandla S.V. Gantsho
Chairman of the Board

YEN Zwane, Group Chief Executive

"Our core mandate is that of fostering and facilitating economic growth and development within the Province of KwaZulu-Natal. In this regard, we have ensured that our operations and service offerings address the economic and financial needs of the people of our Province."

GROUP CHIEF EXECUTIVE'S OVERVIEW

The financial services sector has witnessed various changes and innovative product offerings over the last year. As a participant in this sector, Ithala Development Finance Corporation Limited (Ithala) has felt the impact of these changes. The competitive environment in the financial services sector and customer service offering requires Ithala to be vigilant in continuously assessing the needs of its customers.

The global financial crisis of 2008 and the economic crisis in the Eurozone had an impact on the South African economy and our operations. Ithala however remains resilient and committed to delivering financial services to the unbanked and remote rural areas where there is a glaring market failure in the Province of KwaZulu-Natal.

Ithala's core mandate is that of fostering and facilitating economic growth and development within the Province of KwaZulu-Natal. In this regard, we have ensured that our operations and service offerings address the economic and financial needs of the people of our Province. Our priority is that Ithala remains relevant to its role of facilitating economic development of the Province of KwaZulu-Natal whilst remaining financially viable and sustainable.

Ithala seeks to achieve its mandate through the following three main service delivery units:

Business Finance – This unit is charged with ensuring that SMMEs and co-operatives are provided with financial and non-financial services. In our commitment to facilitate job creation and economic growth and development, Ithala has continued to provide finance opportunities to SMMEs and co-operatives and has gone a step further by offering key business support services to our clients. Ithala approved a total loan value of R261 million for SMMEs and co-operatives in 2011/2012, and these activities have resulted in the creation of 1 966 jobs in our Province.

Protection and maintenance of our assets is an integral part of operational effectiveness. One of our assets is the loan book, which has experienced a number of challenges during the past financial years, among others, the increase in non-performing loans. To arrest this trend, Ithala has embarked on a number of initiatives, including reviewing and improving loan processes and an aggressive collection strategy. The collections drive will continue into the 2012/2013 financial year.

During the 2012/2013 financial year, Business Finance will put more emphasis on improving business support services to our clients.

Properties – Ithala's property portfolio is a catalyst for economic development throughout the Province. We own large industrial estates, light, small and medium industrial units, as well as commercial and retail properties. The tenants in our industrial estates have created a total of 29 000 jobs during the period under review.

During 2012/2013, the Properties Division will re-focus on property maintenance and refurbishment, and the development of new properties. We have resolved to play a meaningful role in the establishment of special economic zones that were announced by our Honourable Premier in the 2012 State of the Province Address.

Ithala Limited – This is our retail banking unit, providing accessible financial services to previously disadvantaged communities, who would otherwise have been excluded from participating in the financial services industry. Ithala Limited's advances to homeowners, including those that reside in rural areas under the Permission to Occupy (PTO) tenure, amounted to R235 million.

We continued during the past year to open more banking accounts for our people, encouraging a culture of saving amongst the communities that we serve. Ithala Limited reached a significant milestone in 2011/2012 when depositors entrusted some R2 billion to our care. We will continue to grow our depositors' book and seek to provide a competitive return to those that bank with us. Ithala Limited is gearing itself to increase its market share through client retention and acquisition of new clients. This will be done through the launch of new products and cross-selling between the various Ithala business units.

One of the key focus areas for 2011/2012 was ensuring that our staff operates effectively and efficiently. In this regard we focused on improving our performance management system and initiatives that promote the well-being of our staff. An employee survey was undertaken, which enabled us to be in touch with the positive and negative aspects impacting on our staff. A number of initiatives were embarked on, following on from the outcomes of this survey, to improve the working conditions of our people. This exercise is reflective of our commitment and view that our staff is the most important asset to our business.

The Ithala Group remained focused during 2011/2012 to achieving its strategic goals by maintaining good control over monitoring and reporting on its performance against predetermined objectives. A culture of performance excellence is promoted through the employee performance management system. The focus on performance related activities will continue during the 2012/2013 financial year.

The Ithala brand audit exercise which was conducted during the year under review was aimed at educating and enlightening us on the needs of our clients, service providers and various other stakeholders. We are now better positioned to understand what is required of us, and will focus on being the premier development financial institution in KwaZulu-Natal during the 2012/2013 financial year.

While 'business as usual' activities have continued in 2011/2012, the Ithala Group has also spent considerable time focusing on offering better and more efficient services whilst remaining financially sustainable and striving to be a financier of choice for the people of KwaZulu-Natal. In the years 2012/2013 and going forward Ithala will be repositioning itself.

The Board of Directors revised the Corporation's strategic goals and directed that the objectives and key performance indicators needed to be aligned accordingly. Going forward, we are guided by the five following goals:

- Achievement of Financial Sustainability and Viability;
- Developmental Effectiveness;
- Operational Excellence and Good Corporate Governance;
- Forging Strategic Partnerships; and
- Knowledge Management.

We are in the process of repositioning Ithala to be a better facilitator of economic development and empowerment in the Province.

The achievements to date would not have been possible were it not for the leadership of the Chairman of the Board, Dr Mandla S.V. Gantsho, and the support

and guidance of our Board of Directors, who continued to provide strategic direction for the organisation.

During the past financial year, the shareholder the Honourable MEC for Economic Development and Tourism, Mr Michael Mabuyakhulu, provided much needed guidance and support. Finally, our staff members have continued to service the people of KwaZulu-Natal and ensured that the organisation achieves its objectives. We intend to improve our service offerings in the 2012/2013 financial year to be more efficient and effective in order to achieve our ultimate goal of being identified as the financier and economic development institution of choice for the Province of KwaZulu-Natal.

Ms YEN Zwane
Group Chief Executive

CORPORATION BUSINESS

BUSINESS FINANCE

The KZN economy continues to be under pressure as a result of the global economic slowdown precipitated by the global financial crisis.

A number of key economic sectors are experiencing adverse trading conditions and continue to be in survival mode. The uncertainty that still engulfs the Eurozone, South Africa's major trading partner, continues to impact negatively on the local economy. The investment activity in many key sectors of the economy continues to be weak and as a result job creation is below the expected levels. Although the economy has recovered from the economic recession, the economic outlook remains subdued. This has resulted in a tight credit environment with most commercial lenders unwilling to provide financing to many businesses, especially those operating within the economic sectors that still exhibit weak economic recovery.

Many SMMEs experienced very challenging trading conditions with decreasing sales and profitability margins. The focus of many SMMEs continues to be survival rather than growth and expansion. Despite the adverse economic conditions, credit demand continued to grow, with most businesses requiring short-term working capital to ride out the economic storm.

During the 2011/2012 financial year, Business Finance continued to provide financing to SMMEs. A total of 122 financing deals to the value of R261 million were concluded during the year under review. Although this performance is 20% less than the previous year, it is still significant given the general economic and credit environment. We anticipate that the deal value will increase in the coming year due to generally improving economic conditions.

The loan book currently stands at R902 million and has contracted by 13% compared to the previous year largely due to higher than expected credit impairments. High levels of bad debts still remain one of the key challenges facing the Unit and as a result the Unit has restructured many transactions in a bid to avert increasing defaults and ensure that they remain affordable to the businesses funded.

The priority for the 2012/2013 financial year will be to build our core risk financing competencies and capacity, streamline our processes and double our efforts on non-financial support. Furthermore, we will intensify our efforts on the co-operative sector as this presents more development opportunities and is key to the Provincial Government's efforts to reduce poverty and unemployment.

PROPERTY ASSET MANAGEMENT DIVISION

Ithala's property portfolio has four key asset classes, namely large industrial, retail, light industrial and SMME properties.

All four asset classes have their own unique qualities and developmental impact.

Large Industrial Property

Ithala's portfolio of large industrial assets, which are geographically situated in three distinct locations, namely Isithebe, eZakheni and Madadeni, has achieved slightly subdued financial results for the period under review.

The global economic downturn continues to be felt by the manufacturing sector, which has a direct impact on occupancy levels and bad debt provisions within Ithala's industrial property portfolio.

There was some respite in 2011 compared to 2009 and 2010, however the sector remains depressed and rental income growth has been static to a large extent.

The job creation impact of Ithala's industrial property portfolio is however, significant. It is estimated that between 15 000 and 20 000 people work in the factories at Isithebe each day.

This job creation impact is negatively felt at eZakheni where there are numerous vacant factories. The local manufacturing economy of Ladysmith has shrunk over the past five years and unfortunately many jobs have been lost. However, a very positive development within eZakheni Industrial Estate is that Defy South Africa will be expanding their operation in 2012.

Isithebe Industrial Estate

Despite these challenges, Isithebe has continued to retain and attract industry, and vacancies are below 10%.

One of the key challenges at Isithebe has been addressing risk management of the large number of industries. Aggressive inspection and follow up has resulted in a significant improvement in the estate's risk profile. Ithala is currently undertaking the installation of sprinklers to all large factories. This project is progressing well and is scheduled for completion in the next financial year.

The estate also attracted the developer of a Sasol Garage and convenience shop to the location.

Ithala is leasing the land to the developer who is undertaking the construction themselves. This facility is long awaited and will greatly enhance the estate's appeal.

The concerns expressed regarding the economy have led the estate to aggressively address marketing, aesthetics and issues relating to the retention of industry.

A Business Retention and Expansion programme is due to be run in conjunction with the ILembe Chamber of Commerce, Industry and Tourism (ICCIT).

Also in conjunction with the Chamber, an Isithebe website listing all activities and business at the estate is being set up. This has been done in consultation with a particular small business at Isithebe who feel they do not receive the necessary recognition and support of large business.

Ithala is also planning the development of a small conference centre at the estate offices as an additional facility for tenants.

eZakheni Industrial Estate

Vacancy rates remained constant during the 2011/2012 financial year.

This was despite efforts to attract and retain tenants by way of reintroduction of a rent-free period and the inclusion of exit clauses in some lease agreements to allow for more lease flexibility.

Demand for premises was mainly due to existing industries requiring additional space for warehousing or manufacturing facilities.

The estate has seen the establishment of a new industry involved in the manufacture of roof tiles made from recycled plastic and sand.

This industry has shown significant growth already and consequently a second lease has been signed for additional premises during the 2012/2013 financial year.

Unfortunately, pressure from the National Bargaining Council resulted in one of the estate's large clothing manufacturers handing back premises to Ithala, which consequently has led to the loss of almost 1 000 jobs within the area.

As an additional incentive to attract tenants, this financial year saw the completion of eZakheni's security project, with all four entrances to the estate now being manned 24-hours-a-day by our security provider. This has increased confidence in this estate and should prove successful in attracting new business to the estate in the future.

Madadeni Industrial Estate

Developments during the year have included an electrical upgrade for the largest tenant, which has increased its production capacity, as well as the refurbishment of the electrical fence surrounding this small estate.

As with eZakheni, the National Bargaining Council has put tremendous pressure on the textile industry, which has made it increasingly difficult for existing tenants to commit to fixed term leases with Ithala Properties. In an attempt to assist industry, Ithala has introduced more flexibility within their lease agreements.

This initiative has proven to be successful and has resulted in Madadeni Estate remaining fully let.

Retail Property

There are many operational challenges to managing Ithala's retail property in rural areas, including a reliable supply of services by local municipalities, extremely high increases in rates, taxes and electricity, and the reliability of maintenance contractors to conduct work in remote locations.

Even with these operational challenges, Ithala's retail property portfolio continues to perform well.

Despite the economic downturn and tight consumer credit conditions there is strong demand for space in rural towns which are the new frontier for established retailers. However, there are some weak points, including national clothing and furniture shops not achieving turnover rental levels.

However there is a demand for additional or larger premises by anchor food tenants in particular.

This portfolio has enormous potential to grow and most shopping centres are in need of refurbishment and expansion. Plans are in place to begin refurbishing and expanding this portfolio to ensure that growth in rental income is achievable over the next five years.

SMME Complexes

Ithala owns a substantial portfolio of small multi-tenanted complexes situated in deeply rural areas.

The primary purpose of this property portfolio is to provide affordable business premises to local entrepreneurs.

The typical tenant mix within an SMME complex is a funeral operator, a caterer, tent hiring, canopy manufacturer, ice maker, dress maker, burglar bar manufacturer, car mechanic, recycler, etc.

Ithala has taken cognisance of providing an enabling environment for small businesses to succeed. To that extent, the following SMME complexes underwent a major revamp to the total value of R4.4 million during this past financial year:

- Mbazwana Factory Units;
- Hlabisa Factory Units;
- Plessislaer Phase 1-2;
- Osizweni Site 2808;
- Osizweni Handicraft Centre;
- Mpumelelo Handicraft Centre;
- Nkandla Handicraft Centre; and
- Ulundi Factory Units.

Facilities Management

The Facilities Management team is dedicated to serving our tenants and prospective tenants to the highest standards.

During the financial year under review, the following highlights were achieved:

- Successful installation of electrical metering system in Manguzi shopping centre. This will assist Ithala Properties in billing and recoveries management;
- The major refurbishment project for the Terrace light industrial factory unit in Pinetown commenced during the last quarter and is on track for completion in June 2012;
- The commencement of the Sprinkler Project in eZhakheni and Isithebe industrial estates; and
- Major refurbishments were completed for a number of SMME properties.

ITHALA PROJECTS DEPARTMENT

Ithala entered into service level agreements (SLAs) with the KwaZulu-Natal Departments of Education and Health to assist with the implementation of their infrastructure projects (schools and clinics). The agreement with the Department of Education (DOE) was a two-way partnership, whilst the one with the Department of Health (DOH) was a tripartite agreement involving the Department of Public Works (DOPW) as well. Of those that were ongoing during the year, the following highlights were noted:

- We have contributed to the vision of delivery set out by our own Government and strive to do more in that regard; women empowerment is significant in our endeavours. We have most importantly created space for previously disadvantaged individuals, including women, to showcase their talent in the field;
- Ithala supported and contributed towards SMME/BBBEE initiatives such as women in construction, Vukuzenzele and Vukuzakhe. These contractors have grown from stage 1 on the CIDB grading scale to stage 7 (up to R40 million contract, completed successfully). We are proud to showcase some of our current and just completed contracts by these contractors, for example:
  - » Lindelani Primary School, done by Luseza Trading, completed in time. This was Mrs S Khuzwayo's first contract with us and was executed brilliantly;
  - » CECE Trading, owned by Miss Buthelezi, completed our facebrick double storey building. This contractor had two other contracts with Ithala Development Finance Corporation Limited at the time and completed all of them successfully;

Mtubatuba High School – a building project managed by Ithala on behalf of the Department of Education.

- Velile Business Enterprise delivered McCarthy Primary School at a value of R21 million, completed within the project time;
- Wandile Trading Enterprise delivered KwaMbiza Clinic at the value of R5.3 million, completed timeously. This lady has displayed resilience and interest in construction; and
- Ithala Development Finance Corporation Limited has since completed ten clinics around KwaZulu-Natal Province that are fully operational, touching the lives of many South Africans. We have also built well over 2 000 classrooms, which translates to 112 500 square metres of space for an estimated 80 000 learners.

RISK MANAGEMENT

During the year, the newly-created position of Properties Risk Manager was filled. Substantial benefits have already resulted from this decision.

A risk management culture has been embedded within the business, compliance to regulatory acts such as the Compliance Protection Act has been given focus, and risk and compliance training initiatives have also been undertaken.

A further benefit was the substantial reduction in insurance premiums.

An overall saving of R12 million was achieved for the next financial year.

Of greater significance is that the annual aggregate excess has been reduced from R30 million to R20 million. Management is committed to ensuring that the current robust risk management process is continued to ensure that Ithala assets are protected and insurance risk is mitigated.

Newly constructed Sasol garage at Isithebe.

SUBSIDIARIES

KZN GROWTH FUND MANAGERS (PTY) LTD (KGFM)

KGFM is a 100% subsidiary of the Ithala Development Finance Corporation and was created to render fund management services to the KZN Growth Fund Trust (the Trust) via a fund management agreement. During the year under review, the economy showed signs of recovery, following the downturn experienced during the 2009/2010 financial year. Interest rates remained unchanged for a greater part of the financial year to enable the economy to regain stability and thereby stimulate growth. To this end, the KZN Provincial Government has developed a number of strategies to grow the KZN economy and contribute to the national vision of creating five million jobs by 2020. The initiatives are aligned with the national economic policies such as the New Growth Path (NGP) and the National Development Plan, and the KZN Growth Fund is poised to take advantage of the opportunities that will arise when these policies are implemented.

Despite the stable economic environment, the financial sector and in particular the lending arena remained subdued due to fears of a renewed recession on the back of the economic crisis being faced by European economies. Companies have as a result prudently delayed any major capital projects until the economic outlook becomes more favourable. This, coupled with vacancies in key senior positions, naturally had an adverse impact on the Company's ability to generate a substantive deal pipeline and project approvals.

Against the backdrop of the difficult economic environment, the Company presented project loan applications with a value of R123 million, which were approved by the Trust during the 2011/2012 financial year. The total amount committed to date now amounts to R345.8 million, representing 32% of the total Fund available. Whilst the efforts of the team need to be applauded, the rate of commitment of the available facility is still below the pace that was initially proposed and, therefore, a greater effort is required to ensure that the remaining 68% of the Fund is fully committed before August 2014.

With the vacant position of the Chief Executive Officer now being in place, various interventions are being implemented to ensure timely resolution of the challenges currently being faced to ensure a quick turnaround of the current situation. The team's focus during the current year will be to increase the deal flow and improve the turnaround time from application to disbursement. The human resources plan will also be reviewed to ensure that the Company has the necessary capacity to deliver on its set goals.

ITHALA LIMITED

Ithala Limited is a wholly-owned subsidiary of Ithala Development Finance Corporation Limited. It was incorporated in 2001 to 'ring-fence' the deposit taking activities of the Group into a separately incorporated entity. Ithala Limited operates under various exemptions from the Banks Act 94 of 1990 ("Banks Act") as issued in Notice No. 1080 Government Gazette No. 30474. The Company provides a range of retail banking services throughout KwaZulu-Natal through a network of 49 branches and 78 Automated Teller Machines (ATMs).

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

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

Natal and return Ithala Limited to profitable operations". Ithala Limited is still the only financial institution that is able to provide residential and commercial mortgages to rural communities under the permit to occupy (PTO) scheme in South Africa.

Despite the fragile economic recovery and the challenging trading environment, Ithala Limited has continued to enjoy the confidence of its customers who have entrusted it with approximately R1.8 billion of their savings as at the end of March 2012. New advances for the year were R372 million resulting in total advances at 31 March 2012 of R1.3 billion. Ithala Limited advanced R6 million on the PTO scheme during the financial year and total PTO financing as at 31 March 2012 was R93 million.

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

- Incorporation of the Insurance Services business unit into Ithala Limited from 1 April 2012;
- Introduction of the microfinance – unsecured loan product ("Lifestyle Personal Loan");
- Optimisation of the branch network to distribute advances, insurance and investment products;
- Maintenance of the capital adequacy ratio in excess of the Regulatory minimum; and
- In the year ahead, Ithala Limited will continue as a key role player in providing financial services to the rural, urban and marginalised communities. There are plans to introduce innovative and relevant products which will ensure that Ithala Limited exceeds customer needs.

UBUCIKO TWINES AND FABRIC (PTY) LTD

Ubuciko has adopted an ambitious turnaround strategy aimed at achieving maximum profits to help sustain the company.

The company posted improved revenue figures of R9.8 million between August 2011 and March 2012.

Ubuciko has attracted a steady flow of customers which include, among others: IRROC Bag Manufacturers, Bravo Lounge Durban, Famlee Trading, Tunnel Quip, Industrial Plastic Recyclers, Victoria Packaging and Waltex.

In the year under review, Ubuciko operated with 74 employees, broken down into seven administration staff and 67 factory workers.

Despite the challenges inherent to any company operating in the manufacturing concern, such as periodic breakdowns in machinery involved in the production process, Ubuciko will continue to produce high quality woven material in a sustainable manner.

COWSLIP INVESTMENTS (PTY) LTD

This wholly-owned subsidiary was established solely to facilitate the funding of the Inkosi Albert Luthuli Central Hospital. Grant funds are provided by the KwaZulu-Natal Department of Health (DOH) to fund the operations of Cowslip Investments (Proprietary) Limited (Cowslip). This is achieved by utilising grants received from the Department of Health to acquire shares in Cowslip, whose sole function is to act as a conduit for the grant funding provided by the DOH to fund the acquisition of assets by Impilo Consortium (Proprietary) Limited.

As a result of various agreements entered into by the Corporation, Cowslip and the DOH, the Corporation does not have the power to govern the financial and operating policies of Cowslip.

Accordingly, the Directors have concluded that it would be misleading to incorporate the assets, liabilities and results of this subsidiary in the Ithala Group financial statements for the year ended 31 March 2012 and that the Cowslip financial statements be tabled separately to the Provincial Legislature.

Ubuciko twines factory.

HUMAN RESOURCES REPORT

The Group Human Resources (HR) Department provides human resources support through the organisation including the Subsidiaries, i.e. KZN Growth Fund Managers, Ithala Limited, Ubuciko Twines and Ntingwe Tea. It is also manages the payroll function for Dube TradePort.

HR plays a critical role in the organisation, which is to "unlock value by releasing the potential of our employees", so that the organisational performance is enhanced. This is achieved through the following HR Services:

1. Attraction of Talent:

1.1. By employing the right people with the right skills at the right time for the right position.

1.2. By developing a Talent Management Strategy which will assist management in identifying core and mission critical positions to assist in planning ahead for Succession Planning.

2. Enhancement of Organisational Performance through:

2.1. Implementation of an effective and integrated Performance Management System.

2.2. Reward and recognition of good performance and also proper management of poor work performance.

2.3. Improving employee satisfaction through:

2.3.1. Supporting employees in their personal career plan;

2.3.2. Providing learning opportunities;

2.3.3. Investing in leadership development;

2.3.4. Recognition of long service; and

2.3.5. Competitive remuneration system.

3. Providing a healthy and conducive working environment through:

3.1. Compliance with all Labour Legislation.

3.2. Lead Change.

3.3. Promote organisational values that enable performance-based culture/climate.

3.4. Provide proactive workforce solutions through Employee Wellness Programme.

4. Contributing to Corporate Shareholder Value through:

4.1. Integrated technology infrastructure.

4.2. Analysis of trend data (HR best practices and breakthroughs).

4.3. Optimising service delivery through streamlined processes.

HR Strategic Focus Areas for the 2011/2012 financial year were:

- Implementation of the Talent Management Strategy;
- Ensuring the proper implementation of a new Performance Management System;
- Organisational change and culture;
- Implementation of strategic interventions to ensure compliance with FAIS and FICA Regulations; and
- Automation of HR processes.

IMPLEMENTATION OF TALENT MANAGEMENT STRATEGY

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

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

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

Formulation of the Group Talent Forum Committee has been finalised and it should be operational in the new financial year.

PERFORMANCE MANAGEMENT SYSTEM

The Performance Management System is in place, with the exception of the industrial estates.

81% of the total workforce has signed their Performance Agreement.

A consultation process has taken place with Labour at the industrial estates and there has been a mutual agreement that all employees at both etates will be signing their Performance Agreement at the beginning of the new financial year.

ORGANISATIONAL CULTURE

In executing the Culture Change Document, HR chose to focus on only one pillar this financial year, which is Effective Communication. The Marketing and Communications Division launched a communication publication called *Ziyenzeka,* which is being used as a platform to update staff on all strategic interventions that are taking place within the organisation. HR has used this platform to communicate HR interventions that are currently being rolled out, as well as a platform for emphasising the importance of the Performance Management System in meeting the organisational goals and objectives.

ITHALA ORGANISATIONAL STRUCTURE AND JOB PROFILE UPDATES

The Human Resources Development Section has completed the process of ensuring that each Division throughout the organisation has a structure. The realignment and review of job profiles with the new structures and business processes should be effected in the new financial year.

EMPLOYEE WELLNESS

During the period 1 April 2011 to 31 March 2012 the focus of interventions was towards the promotion of healthy living and the prevention of diseases. It is in this spirit that Ithala's Employee Wellness Programme encourages employees to live healthy lifestyles, hence our engagement with local NGOs, health clinics and health professional bodies to assist us in driving the programmes, especially in rural areas where it is difficult to provide support.

The following wellness programmes/activities were conducted throughout the organisation:

- Annual wellness days which focused on the promotion of healthy living and prevention of diseases;
- Financial wellness/debt rehabilitation;
- Pre-retirement seminar;
- Medical screening, which included eye screening, HIV and TB screening;
- SANBS donor clinic;
- Pre-employment medical screening for Ubuciko Twines;
- Management of chronic diseases and other ailments; and
- Disability management and health/lifestyle education.

These programmes and activities went a long way towards improving the quality of work life of our employees and contributed positively to morale and productivity.

TRAINING AND DEVELOPMENT

The drive to cut costs was still a major concern for the entire organisation and this has had a huge impact on the type of training delivered.

As a result, the focus was more on the critical on-the-job training courses as well as compliance and technical training. The Organisation also took a decision to fund employees who were enrolled for their first formal qualifications.

The Human Resources Development Section was, however, able to get additional funding of R1 110 000 from BANKSETA to assist in funding critical interventions, e.g. Leadership Development, excluding rebates on levies paid.

A total of 72 training interventions took place during the period 1 April 2011 to 31 March 2012 for Ithala Corporation (41), Ithala Limited (22) and KZN Growth Fund (nine). The total cost of this training was R2 489 844.70 which is significantly higher than the previous financial year's expenditure of R657 537.

ADULT BASIC EDUCATION AND TRAINING

Adult Basic Education and Training (ABET) is an education and training intervention for employees who have not had access to higher education or who have not gone past Grade 9 (Standard 7) at school.

Ithala was funded by BANKSETA through a grant to ensure that 34 of our affected employees were given the opportunity to further their education. Success stories are clearly visible on how much difference ABET has made to the lives of our employees through the empowerment of being given the ability to read and write.

APPRENTICESHIP PROGRAMME

In collaboration with the Properties Department, the Human Resources Development Section, in ensuring compliance and closing the skills gap of electricians within our industrial estates, enrolled six employees on an Electrical Apprenticeship Programme aimed at improving their skills and employability through accreditation with local further education institutions.

BURSARY SCHEME

In our approach of focusing on mission critical and scarce skills aligned to accountancy and mathematics in our Banking sector, Ithala has continued to fund two students through the University of Cape Town and the Durban University of Technology.

LEARNERSHIPS

Internal Audit Technician Learnership

Ithala, through our Internal Audit Division, has conducted an internal learnership fully funded by BANKSETA to afford the full qualification of Internal Audit Technicians to six of our employees.

The learnership has given an opportunity to combine both theory and practice and culminate in a National Qualification Framework registered qualification to the learners and the ability for the enhancement of short and critical skills within the Division.

Letsema Learnership

BANKSETA has continued to place learners from previously disadvantaged communities and post matriculants in our capable hands as a host employer.

Ithala received a total number of six learners.

This programme has yielded great returns for Ithala, especially for Ithala Limited in terms of preparing possible employees for our organisation required by the Financial Sector with growing demands of compliance and technical ability, and has proved to be beneficial in placing the right calibre person at the right time upon completion of the programme.

LEADERSHIP AND MANAGEMENT DEVELOPMENT

In developing potential managers and shaping their career prospects, the Human Resources Development Section has been working closely with business units and BANKSETA through their initiatives; horizons are broadened for the participants whilst at the same time contribute to the transformation in the Banking sector. In the process, the initiatives create new networks and alliances for our participating employees.

Certificate in Management Development Programme:

This programme is aimed at building competency and skills in employees that have taken up junior and middle management positions within the organisation. Ithala was given the opportunity to send five employees on an intensive and challenging programme through Milpark Business School.

International Executive Development Programme:

One employee has been selected to participate in the programme. The programme is an investment programme, giving the employee an opportunity to share knowledge and gain experience on how other organisations in the global space operate. The employee will travel to countries such as New York (USA), London (England) and Kampala (Uganda).

CORPORATE GOVERNANCE

FAIS Support and Implementation: Financial Advisory and Intermediary Services (FAIS) Accreditation.

The first group of employees continued with further modules in 2011 and a total number of 34 employees have completed their National Certificate in Banking Service Advice through Milpark Business School and have now met the 120 mandatory credit requirements of being fit and proper.

In terms of FAIS, Key Individuals and Representatives need to meet certain fit and proper criteria, i.e. Honesty and Integrity, Experience and Qualifications. So far 144 employees are competent and 149 are not competent.

With regard to Board Notice 104, the supervision of employees not fulfilling the requirements of being fit and proper, a Supervision Plan has been rolled out and is closely monitored by Compliance and HR.

The regulatory exams for representatives and key individuals have been conducted for the Corporation. Ithala Limited will be rolled out in the new financial year. Intensive workshops and e-learning interventions have been secured to assist our employees to become competent in this requirement.

AUTOMATION OF HR PROCESSES

The HR Division has embarked on a project to map and document all its processes and then automate some of the processes in order to achieve the following:

- Removal of administration layers in Human Resources by allowing employees access to the system, e.g. instead of completing a document to change or access information like leave application, home address and pay slips, employees will be able to enter their own information through secure online access. This process will reduce administration time and the chance of errors occurring;
- Cost savings for HR and business units;
- Improvement of data quality and time management; and
- Streamlining and standardising of the HR process to ensure data consistency and improved HR efficiency.

The project is currently being rolled out to the business units.

EMPLOYEE PROFILE

Occupational Levels	Male				Female				Total	Previously Disadvantaged		
	African	Coloured	Indian	White	African	Coloured	Indian	White		2011/2012 %	2010/2011 %	2009/2010 %
Executive Management	4	0	3	1	1	0	0	0	**9**	88.89	100.00	100.00
Senior Management	14	0	1	0	10	0	1	2	**28**	100.00	100.00	100.00
Professionally qualified and experienced specialists and middle-management professionals	69	1	16	13	28	1	5	6	**139**	90.65	88.32	88.89
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	126	1	6	6	167	7	13	13	**339**	98.23	97.99	97.28
Semi-skilled and discretionary decision-making	139	0	1	0	176	0	1	1	**318**	100.00	100.00	100.00
Unskilled and defined decision-making	51	0	0	0	34	0	0	0	**85**	100.00	100.00	100.00
Total	**403**	**2**	**27**	**20**	**416**	**8**	**20**	**22**	**918**	**577.77**	**586.31**	**586.17**
%	**43.90**	**0.22**	**2.94**	**2.18**	**45.31**	**0.87**	**2.18**	**2.40**	**100**	**96.30**	**97.72**	**97.70**

CORPORATE GOVERNANCE

INTRODUCTION

As a Provincial Development Finance Corporation, Ithala utilises limited public funds, a responsibility that makes the corporate governance principles of openness, integrity, accountability, transparency and social responsibility the cornerstone of all Ithala's activities.

In previous financial periods Ithala was found lacking in certain respects relating to corporate governance. This necessitated the need to refocus and reclaim its position as one of the top Development Finance Institutions in South Africa. In line with Ithala's renewed commitment to sound corporate governance and during the period under review, the Board adopted Good Corporate Governance as one of its strategic goals.

The Board of Directors believes that in all material aspects that are relevant to its business, Ithala complied with the recommendations contained in the King Report on Corporate Governance for South Africa 2009 (the King III Report) throughout the year under review.

THE BOARD OF DIRECTORS

The Board is ultimately accountable and responsible to the Shareholder, the Provincial Government of KwaZulu-Natal, for the performance and the affairs of Ithala. To this end the Board enters into a Shareholders Compact annually, which, when read in conjunction with the corporate plan, forms a performance agreement with the Department of Economic Development and Tourism. The Board retains full responsibility for the effective control and strategic direction of the Corporation.

The Non-Executive Directors are appointed through a formal process by the Executive Authority in accordance with the provisions of the KwaZulu-Natal Ithala Development Finance Act ("the Act"). Upon appointment the Directors are provided with an induction pack which comprises, among others, the corporate governance manual, copies of the Ithala Act and other related legislation as well as the Corporate plan and key policies. The Company Secretary facilitates a formal induction seminar within three (3) months of the appointment of the new Director/s or at their earliest convenience but no later than six (6) months after appointment.

During the year under review the Board comprised 12 members, 11 of whom are independent Non-Executive Directors who have a wide range of skills and competences. This enables them to bring independent judgment to the Board deliberations and decisions. No individual or group has unfettered decision making powers.

Refer to the table below for an overview of the Non-Executive Directors' skills.

Name of Board member	Educational Qualifications	Areas of Expertise
Ms NN Afolayan	• Masters in Business Administration: Finance • Executive Leadership Programme • Member of the Institute of Chartered Shipbrokers • Advanced Business Management • Post Grad: Accounting Sciences	• Enterprise Risk Management • Strategy Development and Projects • Organisational and Change Management • Qualified Cost Accountant
Ms BC Bam	• BA Personnel Management • BA Honours (Sociology) • Project Management Diploma • Management Advancement Programme	• Strategic Management • Organisational Development • Change Management • Training and Development • Policy Development, Implementation, Monitoring and Evaluation
Dr MSV Gantsho (Chairman)	• PhD • M.Phil • M.Sc • CA (SA) • B Com Honours	• Corporate Strategy Formulation and Execution • Infrastructure Development Finance • Financial Management and Reporting • Investment and Corporate Banking
Mr DK Golding (Deputy Chairman) Resigned 29 March 2012	• LLM, Banking and Finance • MA Global Relations	• Audit, Risk Management and Finance • Risk Management • US Monetary Policy
Mr WJ Jacobs	• Bachelors of Pharmacia • Certificate in Polyurethane Technology • Course in Advanced Polymers • Emotional Intelligence Certificate • Certificate in Theory of Constraints • Six Sigma Champions Course	• Management Structures and Systems • Business Plans • Business Risk • Business Turnaround Strategies
Mr MF Kekana	• B Com Honours (Finance) • Executive Development Programme • Executive Management Programme • Executive Leadership Programme	• SMME Financing and Business Support • Public Sector Finance • Corporate Finance • Private Equity Finance
Mr N Khambule	• National Diploma (Agriculture) • B Tech in Business Management • Post Grad in Business Management	• Strategy • Performance Audits • Human Resources • Economic Modelling • Corporate Finance • Property Development
Ms NNA Matyumza	• LLB • B Com • B Compt (Honours) • CA (SA)	• Financial Management and Reporting • Audit • Law • Strategy
Mr DM McLean	• B Accounting • CA (SA)	• Financial Management and Reporting • Banking and Financing (Corporate, Private Equity, Treasury and Trading, Capital and Debt Markets) • Taxation
Mr GNJ White	• BA (Economics) • B Admin (Honours): Development Studies • Executive Leadership Programme (USA)	• Infrastructure Finance • Business Strategy Formulation and Management • Human Resources Management
Ms AN Zondi	• B Proc	• Legal • Mediation and Dispute Resolution

Four (4) of the Non-Executive Directors, namely Dr MSV Gantsho, Mr DK Golding, Ms AN Matyumza and Mr GNJ White were appointed during the year under review. The first terms of office of Ms NN Afolayan and Ms AN Zondi as well as Mr N Khambule expired and they were all re-appointed for a second term during the year under review. Non-Executive Directors can serve on the Board of Directors up to three (3) terms of no more than three years each.

The Board has adopted a Corporate Governance manual which includes, among others, the Board Charter that records its objective to provide responsible business leadership and details the duties of individual Directors towards the Corporation. The Corporate Governance manual also provides a framework for Board evaluation and declaration of conflict of interests and sets the code of conduct for Directors.

There are four (4) scheduled Board meetings per annum. However, special meetings are convened as the circumstances may dictate. The Board has approved a Board plan which details the areas of emphasis at each meeting and facilitates efficient planning from both an Executive and Non-Executive Director's perspective. Board packs are prepared and distributed in advance of the Board meetings. This affords the Directors an opportunity to interrogate the information submitted by Executives and propose additional matters for discussion at the meeting.

During the year under review, the Board recommended a Remuneration Policy which is in line with the Guidelines for Remuneration of Non-Executive Directors of Public Entities published by the Department of Public Enterprises and which was approved by the Shareholder at the 2011 Annual General Meeting. The approved Non-Executive Directors' remuneration policy is also in line with the King III Report on Corporate Governance which recommends that a portion of the Directors' fees be paid as a retainer and the other portion be paid for meeting attendance.

ROLE OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE

The role of the Chairman of the Board and the Group Chief Executive are separated. The Chairman is a Non-Executive Independent Director. The role of the Chairman includes, among other things, the overall leadership of the Board and acting as the main link between the Board and the Shareholder.

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

GOVERNANCE STRUCTURES

Board Committees have been established to assist the Board in discharging its responsibilities. The newly constituted Board reviewed the Board Committees during the year under review in order to align them with the recommendations of the King III Report on Corporate Governance as well as to assign the newly acquired skills of Directors to the relevant Committees. The exercise of reconstituting the Board Committees resulted in the conversion of the Directors Affairs Committee to a Nominations and Governance Committee, as well as the extension of the Investment Committee mandate to include credit management issues which were previously delegated to executive management, to form the Credit and Investment Committee.

Each Board Committee Chairperson makes a report on the activities of their respective Committees to each Board meeting, highlighting emergent risks and recommending strategies as they deem appropriate. This enables the Board to monitor, among others, key risk areas that are relevant to the organisation.

The Board monitors levels of materiality and has formally documented matters which it has delegated to Board Committees and Management. Whilst the Board has delegated some of the powers of authority to different Board Committees and Management, there is a record of matters that are reserved for the Board's decision. The Delegated

Powers of Authority Framework is reviewed bi-annually as and when the organisation's risk universe and business processes change.

CREDIT AND INVESTMENT COMMITTEE

The Credit Committee, which meets quarterly, is chaired by a Non-Executive Director and comprises five (5) members, four (4) of whom are Non-Executive Directors. The Group Chief Executive is the *ex officio* member of the Committee.

The Committee's responsibilities include assisting the Board in determining the Corporation's credit risk philosophy and formulating and monitoring policies, standards and procedures relevant to the granting of credit. This Committee is also responsible for the evaluation of the quality and recoverability of the credit granted as well as the adequacy of provisions against potential losses.

In addition the Committee is responsible for determining Ithala's investment policy and approval of capital projects and equity investments as well as investment exit strategies.

ENTERPRISE RISK COMMITTEE (ERC)

The ERC, which meets quarterly, is chaired by a Non-Executive Director and comprises five (5) members, four (4) of whom are Non-Executive Directors. The Group Chief Executive is the *ex officio* member of the Committee.

The Committee's responsibilities include developing the Corporation's liquidity and interest rate risk philosophies and monitoring the effectiveness of policies, standards and procedures used to manage Ithala's assets and liabilities regarding mix, maturity and interest rate profile.

The Committee is also responsible for measuring the Corporation's exposure to both liquidity and interest rate risk, as well as the evaluation of the appropriateness of such exposure in relation to the organisational strategy.

AUDIT COMMITTEE

The Audit Committee, which meets at least four times per annum, is chaired by a Non-Executive Director and comprises four (4) members, all of whom are Non-Executive Directors. The Group Chief Executive, Group Chief Financial Officer, Divisional Manager: Group Internal Audit and Divisional Manager: Group Risk and Compliance, as well the KwaZulu-Natal Auditor-General, are attendees of the Committee. All the members of the Audit Committee are financially literate and the Chairman is a Chartered Accountant.

The Committee's responsibilities include, among others, ensuring that effective risk management processes are in place across the organisation. The Committee also reviews matters arising from internal risk analysis, the external audit plan and budget, the matters arising from the completed audit and the fair representation of the financial statements presented to the Board, as well as accompanying reports to shareholders.

In addition, the Committee is responsible for monitoring the effectiveness of the internal controls including loss prevention, litigation and reputational issues.

At least once a year the Committee evaluates itself and the independence and effectiveness of the internal auditors. The Committee also reviews the skills of the Finance Department management at least once per annum.

Both internal auditors and external auditors have unrestricted access at any time to the Chairman of the Audit Committee and to the Group Chief Executive.

They are also responsible for bringing any and all matters of significance, which may arise from their activities, to the attention of the Audit Committee.

The Chairman of the Audit Committee communicates relevant matters to the Chairman of the Board.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee is chaired by a Non-Executive Director and comprises four (4) members, three (3) of whom are Non-Executive Directors. The Group Chief Executive is the *ex officio* member of the Committee.

The Committee's responsibilities include ensuring that Ithala has a competitive human resource and remuneration strategy that enables the attraction, retention and development of the best possible talent to support business performance. The Committee is also responsible for creating an organisational culture, structures and processes which seek to support the development of all staff and the optimisation of their potential, particularly those that have been previously disadvantaged so as to address any existing inequalities in staff profiles and organisational practices.

NOMINATIONS AND GOVERNANCE COMMITTEE

The Nominations and Governance Committee, which meets three times a year, is chaired by the Chairman of the Board and comprises three (3) members, all of whom are Non-Executive Directors.

The Committee's responsibility includes, *inter alia*, recommending competent and effective Non-Executive Directors to the Shareholder for appointment to the Board of Directors, taking into consideration the skills mix and demographic representation of the Corporation.

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

BANKING LICENCE COMMITTEE

Ithala's Banking Licence Committee, which meets as and when necessary, is chaired by a Non-Executive Director and comprises five (5) members, an independent Non-Executive Director, the Group Chief Executive Officer, the Chief Executive Officer of Ithala Limited and a Non-Executive Director who is the representative of the Corporation in the Ithala Limited Board of Directors and the Chairman of the Ithala Limited Board of Directors.

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

BOARD AND COMMITTEES MEETING ATTENDANCE 2011/2012

Name	Date of Appointment	Board	Audit Committee	Enterprise Risk Committee	Human Resources Committee	Credit and Investment Committee	Banking Licence Committee
Total Meetings Held		8	6	4	5	4	1
Dr MSV Gantsho	01/06/2011	6	N/A	N/A	N/A	N/A	1
Mr DK Golding Resigned 29/03/2012	01/06/2011	5	N/A	N/A	N/A	3	0
Ms NN Afolayan Re-appointed on 13/06/2012	21/04/2008	7	5	N/A	4	N/A	N/A
Ms BC Bam	15/09/2009	5	N/A	N/A	5	N/A	N/A
Mr WJ Jacobs	15/09/2009	6	N/A	4	N/A	4	N/A
Mr MF Kekana	14/09/2009	3	N/A	N/A	N/A	3	N/A
Mr N Khambule Re-appointed on 13/06/2012	21/04/2008	7	5	N/A	N/A	4	N/A
Ms NNA Matyumza	01/06/2011	5	3	1	N/A	N/A	N/A
Mr DM McLean	15/09/2009	8	4	4	N/A	N/A	1
Mr GNJ White	01/06/2011	4	N/A	N/A	4	N/A	N/A
Ms AN Zondi Re-appointed on 13/06/2012	21/04/2008	5	N/A	3	N/A	N/A	0
Mr SE Madondo Acting Group CE Stopped Acting on 01/12/2011	01/09/2010	6	5	3	3	2	1
Ms YEN Zwane	01/12/2011	2	1	1	2	0	N/A

GROUP COMPANY SECRETARY

Directors and executives have access to the services of the Group Company Secretary, who is responsible for duties as stipulated in the Companies Act and provides guidance on good corporate governance practices as well as advice on the Directors' responsibilities towards Ithala. All Directors are entitled to seek independent professional advice on the affairs of Ithala at the organisation's expense.

ITHALA GROUP INTERNAL AUDIT AND RISK ASSURANCE SERVICES

The Board is ultimately responsible for the total risk management enterprise-wide, as well as forming its opinion on the effectiveness of the process. Management is accountable to the Board for designing, implementing and monitoring the effectiveness of internal financial controls, general control environment and compliance. To this end, the Board established an independent and objective Internal Audit Unit with functional reporting to the Audit Committee and administratively to the Group Chief Executive Officer.

Ithala Group Audit and Risk Assurance Services' (IGARAS) mandate is contained in the Internal Audit Charter submitted to and approved annually by the Audit Committee, in line with the requirements of the International Standards for the Professional Practice of Internal Auditing as well as the Treasury Regulations.

The end of the 2012 financial year saw the completion of the first year of the three-year rolling audit coverage plan which was presented and approved by Audit Committee in February 2011. This plan is revised annually in order to align the annual audit plan to the annual risk assessment conducted. We confirm that no restrictions were imposed on the scope of our audits.

The Audit Universe included: all Subsidiaries of Ithala, its strategic business units, and support functions (IT Department, Group Finance, Credit Risk, etc). IGARAS also performs a consulting role in the areas of Enterprise-Wide Risk Management, Occupational Health and Safety, Anti-Fraud and Corruption, Business Continuity Management, IT Development projects and any special assignments as they arise in the course of Ithala's business.

ANTI-FRAUD AND CORRUPTION

Ithala is committed to eradicating all forms of fraud and corruption, and hence applies a 'zero tolerance' approach, fully investigating all known incidents of fraud and corruption. The Board of Ithala has recently revised and approved the Anti-Fraud and Ethics Framework (AFEC). The key component of the framework is to fight fraud and corruption, while encouraging ethical individuals within the company to raise their concerns in a responsible manner. To this end, the GCEO had signed, together with Ithala Executive Management, an Anti-Fraud Declaration as a clarion call for zero tolerance against fraud and corruption. This declaration had been extended to all employees of Ithala through the Anti-Fraud and Ethics Committee, an Executive oversight structure chaired by the Group Finance Officer. This Committee is representative of all Divisions and Subsidiaries enterprise wide.

Among other key aspects of the AFEC, it ensures the protection of employees from occupational detriment should they 'blow the whistle' on fraud and corruption, as well as assisting management to identify and manage risk in order to protect the reputation of Ithala.

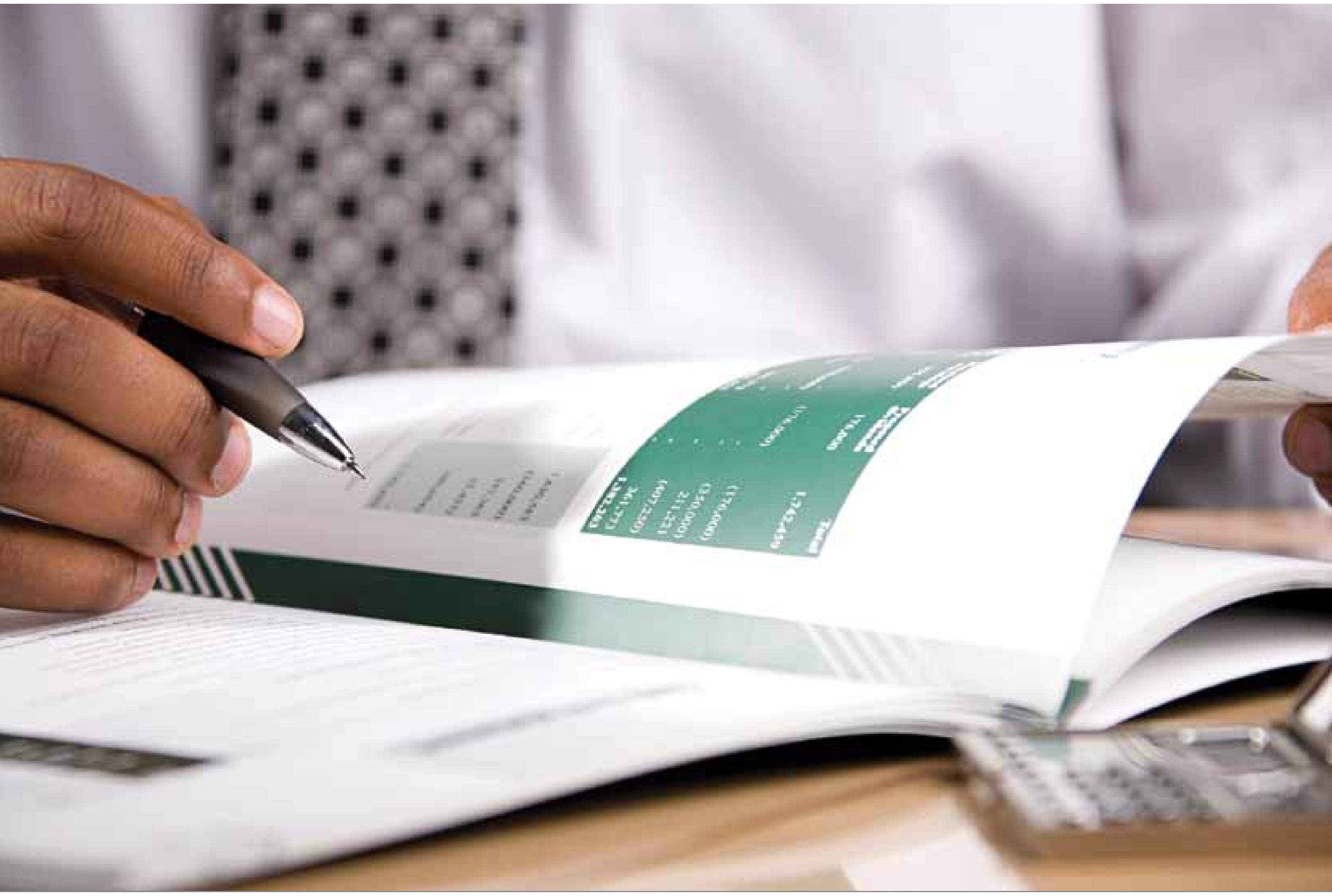
Generally, one of the obstacles faced in the fight against fraud and corruption is the fact that individuals are often too intimidated to speak out on corrupt and unlawful activities they observe in the workplace. It is for this reason that Ithala promotes an ethical organisational culture premised on openness, transparency and accountability. Essentially the framework harnesses a common interest between the employees who raise concerns they may have in the workplace with accountable managers who are prepared to respond to the *bona fide* concerns of their employees.

This is ensured through the four-pronged approach to anti-fraud and corruption, namely fraud prevention, detection, deterrence and investigation. To assist in addressing any fraud and corrupt activities, the Forensic Investigation Unit of Ithala works in collaboration with various law enforcement agencies as well as service providers such as Tip-Offs Anonymous.

FINANCIAL CRIME AWARENESS

Ithala, as a financial institution, is often the target of fraudsters and crime syndicates. Therefore, Ithala ensures that the employees are made aware of the typical and common strategies employed by fraudsters and crime syndicates targeting the financial institution industry. In this regard, various awareness programmes are implemented regularly to ensure that employees participate in fraud awareness training to promote vigilance and to detect attempted episodes of fraud and corruption.

IGARAS regularly reviews Ithala's technological and operational systems, ensuring they meet the Group's requirements and are in keeping with best practices and Ithala's Risk Management Framework. In this regard, strict adherence to, amongst others, the Public Finance Management Act (PFMA), the Prevention and Combating of Corrupt Activities Act (PROCA), and the Financial Intelligence Centre Act (FICA) Anti-Money Laundering requirements are ensured at all times.



ENTERPRISE RISK MANAGEMENT

OVERVIEW OF RISK MANAGEMENT

Ithala recognises that effective risk management is critical to its success as a developmental finance institution. It is crucial that Ithala delivers on its mandate while remaining financially viable and sustainable. In this regard, Ithala is implementing a robust enterprise risk management process in order to manage risks facing the organisation.

Enterprise Risk Management

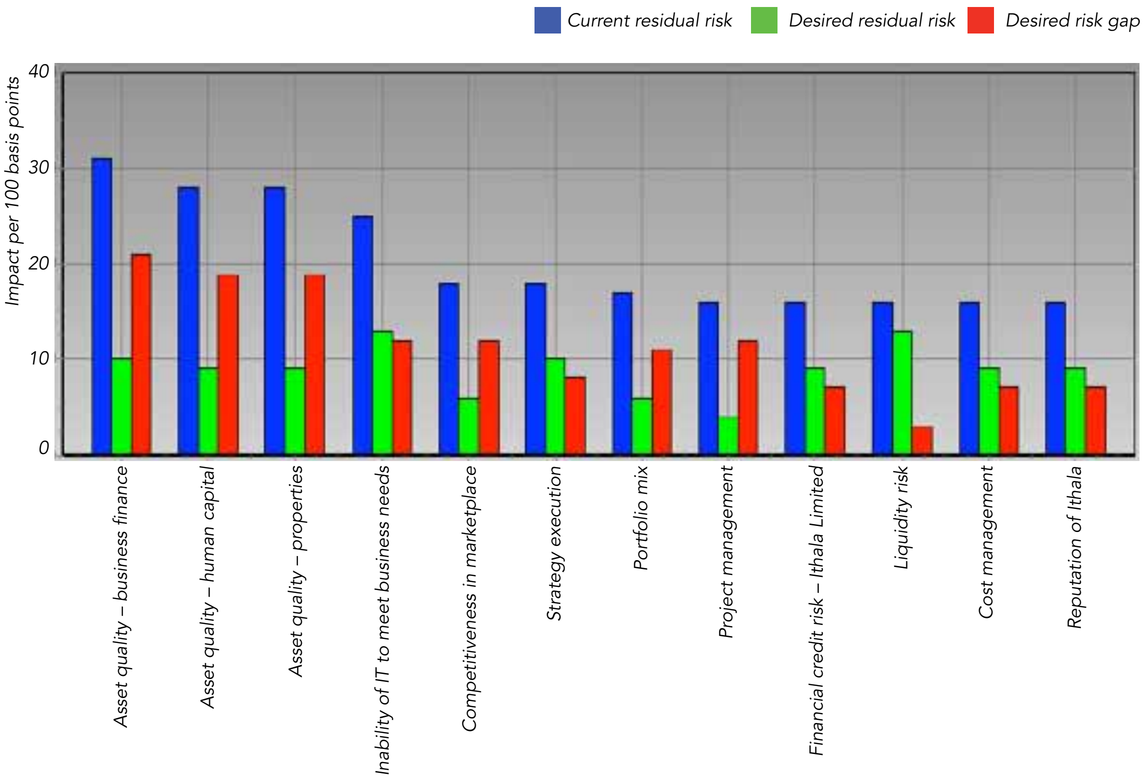
Ithala's approach is to give considerable focus to the organisational objectives at strategic and operational levels. The Ithala strategic risk profile, which comprises risks that could have a significant impact on the achievement of its strategic objectives, are continually reviewed and reported on through various management and Board sub-committees.

Graphical Illustration

The top 10 risks identified and managed are depicted graphically below in terms of the residual nature of the risk. The smaller the difference between the current residual risk and desired residual risk the more effective the controls in place are perceived to be.

Strategic risk assessment: October 2011

10 highest values: Based on 'current residual risk' value



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

The following are the identified Ithala Development Finance Corporation Limited top 10 strategic risks compiled at the risk workshop.

Notes: Risk Rating
Residual Risk:

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

Strategic Risk Universe

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

Risk no.	Risk name	Risk no.	Risk name
1	Asset Quality – Business Finance	13	Fulfilling Mandate
2	Asset Quality – Human Capital	14	Catastrophic Event (Business Continuity)
3	Asset Quality – Properties	15	Capital Management
4	Inability of IT to meet business needs	16	Integrated Sustainability
5	Competitiveness in market place	17	Economic Environment
6	Strategy Execution	18	Governance and Compliance
7	Portfolio Mix	19	Fraud and Corruption
8	Project Management		
9	Finance / Credit Risk – Ithala Limited		
10	Liquidity Risk		
11	Cost Management		
12	Reputation of Ithala		

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

OVERVIEW OF COMPLIANCE

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

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

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

Ithala is the holding group company for a subsidiary that operates under an exemption notice as a deposit taking institution. This means the subsidiary is regulated by the provisions of the Banks Act.

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

ACHIEVEMENTS

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

THE YEAR AHEAD

In 2012/2013 Ithala will pursue the following risk management objectives:

- Increased integration of risk management through embedding the risk culture in the organisation;
- Improvement of the implementation of the combined assurance model to ensure efficient continuous monitoring and reporting by direct and independent assurance functions;
- Definition and determination of the risk appetite and tolerance levels;
- Roll-out the fraud prevention strategy;
- Improvement of the business continuity management maturity level; and
- Implementation of the risk management software to facilitate overall risk management improvement.

CORPORATE SOCIAL INVESTMENT (CSI)

Ithala Development Finance Corporation Limited identifies closely with the needs of the communities it serves. The organisation's very being rests on the underpinnings of ensuring that the lives of the people of KwaZulu-Natal are improved. Cognisant of this fact, Ithala continues to identify with initiatives that will positively impact the lives of the communities we serve.

Ithala's corporate social investment (CSI) initiatives are geared towards enhancing business skills, promoting entrepreneurship and job creation.

The organisation has placed strong emphasis on aligning itself with those initiatives that have a connection to its mandate. The following are some of the CSI initiatives undertaken by the corporation in the year under review.

SMME FINANCIAL LITERACY LAUNCH

Ithala partnered with the KwaZulu-Natal Department of Finance and private sector partners to launch the SMME financial literacy campaign at Empangeni.

The campaign was aimed at educating the public and emergent entrepreneurs about financial illiteracy at a macro, micro and personal level. It was attended by over 200 SMMEs from Empangeni and surrounding areas, as well as private companies.

67 MINUTES FOR MADIBA DAY

In commemoration of the 67 years that Tata Madiba spent fighting for human rights, Ithala visited Vukani Old Age Home in Umlazi. The home looks after 75 elderly people. Ithala staff and the Executive team participated in the 67 Minutes for Madiba initiative by volunteering at the centre, offering a soup kitchen service and spring cleaning. Ithala has since repainted the centre, built balustrades and erected proper branded signage.

TEACH A CHILD TO SAVE

The month of July has been declared as National Savings Month in South Africa. In commemoration of National Savings Month,

Learners participating in the Take a Girl Child to Work Initiative.

Ithala launched the Teach a Child to Save campaign at Igwadu Zenex Primary School at Embo. The launch was attended by Banking Association of South Africa, National Credit Regulator and Representatives from the Department of Education. The launch targeted about 500 learners from the outer west region of Durban. Life Orientation Educators were given an opportunity to attend a train-the-trainer session, to the benefit of more than 3 000 learners from other schools in the area.

JUMPSTART PROGRAMME

In line with its goal of fostering a spirit of entrepreneurship, Ithala partnered with a humanitarian organisation, The Gift of the Givers, to launch Jumpstart, a competition aimed at grade 11 learners from previously disadvantaged schools. Learners from four schools in Umlazi, namely Zwelibanzi, Umbelebele, KwaMathanda and Menzi High Schools were identified to participate in the programme. Forty learners who submitted the best business ideas underwent a training session and were awarded jumpstart packages consisting of marketing and branding material for their businesses.

COMMUNITY AWARENESS AROUND COP17

The 17th Conference of the Parties (COP17) to the United Nations Framework Convention on Climate Change was held in Durban from 28 November to 9 December 2011. Ithala hosted a green economy workshop and a clean-up of a stream that runs from Umlazi V Section. The initiative created awareness among the local community on climate change issues.

EMBO HUB CAREER FAIR

Ithala partnered with Embo Business and Employment Hub to host a career fair. The event was attended by over 500 high school learners and school leavers from communities in the Valley of a Thousand Hills. The fair was intended to inform youths on a range of available post-school learning opportunities, thus preparing them for the current year and next year.

NTINGWE TEA ESTATE

In partnership with the Department of Agriculture in Kwazulu-Natal, Ithala delivered gardening implements to Ntingwe Primary School, located near the Ntingwe Tea Estate in Nkandla.

Career fair for matric learners.

FINANCIAL REPORT

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

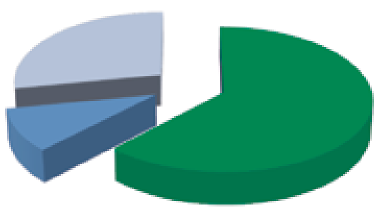
The Annual Financial Statement preparation has been supervised by Mr P Ireland CA (SA), the Group Chief Financial Officer of Ithala Development Finance Corporation.

VALUE ADDED STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

	2012		2011 Restated	
	R'000	%	R'000	%
VALUE ADDED				
Net interest income	**209 342**	**20**	214 761	20
Non-interest income	**860 006**	**80**	857 025	80
Other expenditure	**(567 830)**	**(53)**	(640 231)	(60)
	501 518	**47**	431 555	40
VALUE ALLOCATED				
To employees:				
Staff costs	**312 081**	**62**	309 105	72
To government:	**48 691**	**11**	43 934	10
Skills development levies	**2 174**	**1**	2 302	1
Value added taxation	**16 358**	**4**	12 897	3
Duties	**-**	**-**	6	-
Rates and taxes paid to local authorities	**26 575**	**6**	25 609	6
South African normal taxation	**3 584**	**1**	3 120	1
To be retained for expansion and growth:	**140 746**	**28**	78 516	18
Depreciation	**43 171**	**9**	40 742	9
Retained income for the year	**97 575**	**19**	37 774	9
	501 518	**100**	431 555	100

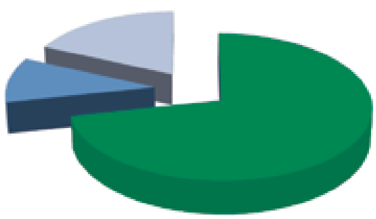
Value allocated

2012



■ Employees ■ Government ■ Retained for expansion and growth

2011



■ Employees ■ Government ■ Retained for expansion and growth

REPORT OF THE AUDIT COMMITTEE

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

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

Terms of Reference:

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

Composition:

The committee consists of three independent Non-Executive Directors. At 31 March 2012 the Audit Committee comprised:

Members	Qualifications
Ms NNA Matyumza	CA (SA), LLB
Mr N Khambule	B. Tech in Business Management
Ms NN Afolayan	Masters in Business Administration: Finance
Mr DM McLean	CA (SA)
Mr MF Kekana	B Com Honours: Finance

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

Meetings:

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

Members	May	July √√	Sept	Nov	Feb
Ms NNA Matyumza	**	√	√	√	♦
Mr N Khambule	√	♦	√	√	√
Ms NN Afolayan	√	√	√	♦	√
Mr DM McLean	**	√	√	√	√
Mr MF Kekana	♦	R	-	-	-

√ = Present ♦ Apology √√ = Special Meeting
** = Not yet appointment R – Resigned

Statutory Duties

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

- Believes that the appointment of the Auditor-General (South Africa) 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 AG (SA) as disclosed in Notes 18 and 21 of AFS
- Determine the terms of engagement of the AG (SA);
- Reviewed the quality of financial information;
- Reviewed the Annual Report and financial statements;
- Received no complaints relating to the accounting practices and internal audit of the Corporation and Group, the content or auditing of its financial statements, the internal financial controls of the Corporation and Group, and any other related matters;
- Made submissions to the Board on matters concerning the Corporation and Group's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

Oversight of Risk Management

The Audit Committee has:

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

Internal Financial Controls

The Audit Committee has:

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

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

Regulatory Compliance

The Audit Committee has:

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

External Audit

The Audit Committee has:

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

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

Details of the external auditor's fees are set out in Notes 18 and 21.

Internal Audit

The Audit Committee has:

- Reviewed and recommended the internal audit charter for approval;
- Evaluated the independence, effectiveness and performance or 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, standing authority within the Group to enable it to discharge its functions;
- Approved the internal audit plan; and
- Encourage co-operation between external and internal audit.

Finance Function

We believe that the Group Chief Financial Officer, Mr P Ireland, 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.

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

Integrated Report

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

On behalf of the Audit Committee

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. 2 of 1999 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 safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded. The control system includes written accounting and control policies and procedures and clearly drawn lines of accountability and delegation of authority.

All employees are required to maintain the highest ethical standards in ensuring that the Corporation's and the Group's business practices are concluded in a manner, which in all reasonable circumstances is above reproach. The concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits. The Corporation and the Group maintain their internal control system through management reviews and a programmeme 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 50-52.

The annual financial statements which appear on pages 55 to 105 were approved by the Board of Directors on 23 August 2012 and are signed on its behalf by:

DR MANDLA S.V. GANTSHO
CHAIRMAN

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 such returns as are required in terms of the KwaZulu-Natal Ithala Development Finance Corporation Act No. 2 of 1999. All such returns are correct and up to date.

LS MAHAMBA
GROUP COMPANY SECRETARY

REPORT OF THE AUDITOR-GENERAL

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited (IDFC) set out on pages 55 to 105, which comprise the statement of financial position as at 31 March 2012, the consolidated and separate statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the consolidated financial statements

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

Auditor-General's responsibility

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

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

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

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Ithala Development Finance Corporation Limited and its subsidiaries as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with SA Statements of GAAP and the requirements of the PFMA and the Companies Act.

Emphasis of matters

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

Financial sustainability of Ithala Limited

8. Ithala Limited, a wholly-owned subsidiary of the IDFC, incurred a net loss of R7,7 million (2011: R40,5 million) for the year ended 31 March 2012. The IDFC, the sole shareholder, has provided a letter of financial support to the entity, to ensure that it meets its regulatory minimum capital adequacy ratio and its financial obligations in the ordinary course of business.

Banking licence exemption

9. Ithala Limited's banking licence exemption expires in December 2012 and the board of directors has implemented a process for the banking licence exemption.

Significant uncertainties

10. As disclosed in note 25.1.1 to the consolidated financial statements, the entity is the defendant in a claim relating to the early termination of a service level agreement. The ultimate outcome of the matter cannot currently be determined and therefore no provision for any liability has been made in the financial statements.

11. As disclosed in note 25.1.2 to the consolidated financial statements, the entity is the defendant in a claim relating to professional services rendered. The ultimate outcome of the matter cannot currently be determined and therefore no provision for any liability has been made in the financial statements.

Restatement of corresponding figures

12. As disclosed in note 28.4 to the consolidated financial statements, the corresponding figures for 31 March 2011 have been restated as a result of an error discovered in the provision for the landfill site during the 2011-2012 financial year in the consolidated and separate financial statements of the IDFC at, and for the year ended, 31 March 2011.

Material losses

13. As disclosed in note 1.3 to the consolidated financial statements, material losses amounting to R270,3 million (2011: R90,8 million) were reported by the entity as a result of writing off previously impaired loans and advances. This included a R103,9 million (2011: R54,5 million) write-off of capital and a further R166,4 million (2011: R36,3 million) relating to non-realisable revenue.

Additional matter

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

Other reports required by the Companies Act

15. As part of my audit of the consolidated and separate financial statements for the year ended 31 March 2012, I have read the directors' report and the audit committee's report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the board of directors. Based on my review of these reports, I have not identified material inconsistencies between these reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the report on performance against predetermined objectives as set out on pages 107 to 120 of the annual report.

18. The reported performance against predetermined objectives was

REPORT OF THE AUDITOR-GENERAL (CONTINUED)

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's Framework for managing programmeme performance information (FMPPI).

19. 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).

20. The material findings are as follows:

Usefulness of the annual performance report

Consistency

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

21. Section 55(2)(a) of the PFMA requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 42% of the planned indicators and 49% of the planned targets specified in the annual performance plan for the year under review. This was due to changes to the annual performance plan as a result of changes to key management.

Changes to objectives, indicators and targets not approved

22. Treasury Regulation 30.1.1 requires that the annual performance plan must be approved by the executive authority. Therefore, if the annual performance plan is changed in-year due to significant policy or mandate changes, the updated plan has to be approved by the executive authority. A total of 25% of the objectives and 49% of the indicators in the annual performance report were inconsistent with the objectives and indicators as per the approved annual performance plan. This was due to significant policy changes that were made but not included in the approved budget as well as changes to the annual performance plan as a result of changes to key management.

Measurability

Performance targets not specific

23. The FMPPI requires performance targets to be specific in clearly identifying the nature and required level of performance. A total of 27% of the targets relevant to the planned objectives were not specific in clearly identifying the nature and the required level of performance. This was due to management not receiving the necessary training to apply the principles.

Performance targets not measurable

24. The FMPPI requires performance targets to be measurable. The required performance could not be measured for a total of 24% of the targets relevant to financial sustainability and viability, developmental effectiveness, operational excellence as well as good corporate governance and forge strategic partnerships. This was due to management not receiving the necessary training to apply the principles.

Performance targets not time bound

25. The FMPPI requires the time period or deadline for delivery to be specified. A total of 24% of the targets relevant to financial sustainability and viability, developmental effectiveness, operational excellence as well as good corporate governance and forge strategic partnerships were not time bound in specifying a time period or deadline for delivery. This was due to management not receiving the necessary training to apply the principles.

Performance indicators not well defined

26. The FMPPI requires indicators or measures to have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 36% of the indicators relevant to financial sustainability and viability, developmental effectiveness, operational excellence as well as good corporate governance and forge strategic partnerships were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to management not receiving the necessary training to apply the principles.

Indicators not verifiable

27. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 36% of the indicators relevant to financial sustainability and viability, developmental effectiveness, operational excellence as well as good corporate governance and forge strategic partnerships were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to management not receiving the necessary training to apply the principles.

Additional matters

28. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

29. Of the total number of planned targets, only 32 or 55% were achieved during the year under review. This was due to indicators and targets not being suitably developed during the strategic planning process and the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

Material adjustments to the annual performance report

30. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

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

Annual consolidated financial statements

32. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 55(2) of the PFMA. Material misstatements of long-term borrowings, reversal of impairment on investment property and finance costs were subsequently detected and corrected by management, resulting in the consolidated financial statements receiving an unqualified audit opinion.

Expenditure management

33. The accounting authority did not take effective and appropriate steps to prevent non-compliance with the requirements of section 51(1)(b) of the PFMA, as loans amounting to R77 million were approved and paid without following the operational policy.

Strategic planning and performance management

34. Contrary to section 52(b) of the PFMA, the corporate plan and budget were not submitted to the Department of Economic Development and Tourism and the treasury at least one month before the start of the financial year.

35. Contrary to section 52(b) of the PFMA, the corporate plan submitted by the accounting authority did not include the affairs of the subsidiaries in the prescribed format for the following three financial years.

REPORT OF THE AUDITOR-GENERAL (CONTINUED)

36. Contrary to section 51(1)(a)(i) of the PFMA, the accounting authority did not ensure that a system of internal control regarding performance management, which described and represented how the entity's processes of performance planning, monitoring, measurement, review and reporting were conducted, organised and managed, was implemented effectively.

Internal control

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

Leadership

38. The executives did not exercise adequate oversight responsibility in ensuring that the system of internal control had been implemented effectively as required by the PFMA, regarding performance management of predetermined objectives, the process for underwriting loans as well as advances.

Financial and performance management

39. The accounting authority did not have an effective system for the proper reporting and monitoring of predetermined objectives. Management did not implement effective controls to ensure that certain consolidated financial statement disclosures were prepared in accordance with SA Statements of GAAP.

OTHER REPORTS

Investigations

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

Agreed-upon procedures engagements

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

Auditor - General

Pietermaritzburg
31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

DIRECTORS' REPORT

For the year ended 31 March 2012

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 2012 (FY2012).

A. Legal Form and Domicile

The Corporation is a provincial development finance institution, wholly-owned by the KwaZulu-Natal Government Department of Economic Development and Tourism (DEDT). It was established in terms of the Ithala Development Finance Corporation Act No.2 of 1999, which became operative with effect from 2 March 1999. 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 18.

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 and 7, and Annexures 2 and 3 of the AFS.

C. Financial Results

The results of Ithala Development Finance Corporation and the Group for the year ended 31 March 2012 are disclosed in the annual financial statements, as set out on pages 55 to 105.

1. For more details on the financial results of the Subsidiaries refer to the separate annual financial statements of these companies and see Note 6 and Annexure 2 of the Group Financial Statements for summary financial information between the Corporation and these companies.

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

D. Financial Performance Overview

The sovereign debt crisis continued to plague Europe in the current financial year dampening economic activity on that continent and beyond. With this euro zone instability and its effect on emerging economies, global trade volumes remained relatively flat. Encouragingly, early 2012 saw global uncertainties ease with progress apparently being made with the resolution of the crisis in the euro area. However, serious concerns continue to cloud the economic landscape. The slow economic recovery over the past financial year is evidenced in the Group's overall financial position for FY2012 with the statement of financial position recording little movement in total assets when compared to the prior year (decline of 0.34% or R16.2m).

The salient points relating to total assets are as follows:

- Net loans and advances increased by 8.7% (R122.5 million)
- Investment properties increased by 2.4% as a net result of a R15.2 million reversal of impairments and additions of R22.4 million.
- Cash and cash equivalents reduced marginally by 0.3% as a result of the subsidiary, Ithala Limited, failing to grow its customer deposit accounts.
- Trade and receivables decreased by 50% (R126 million) as a result of the disposal of a subsidiary Richards Bay IDZ (Pty) Ltd during the financial year, which held the material receivable.

The Group statement of comprehensive income reflects a growth in net income of 159% (R60 million) compared to decrease of 44% (R33 million) in the prior year. This growth in net income is attributable to the reduction in operating expenditure exceeding the decline in operating income.

Operating income declined by 2.8% (R25.7 million) as a result of:

- An increase in the credit impairment charge of R23.3 million.
- A R63.5 million reduction in grant income.
- A R5.4 million reduction in Net interest income.

Operating expenditure reduced by R85.1 million primarily as a result of a R104.2 million improvement in non-credit related impairments. The FY2011 non-credit related impairment included a R32.4 million impairment of an intangible asset while the FY2012 charge included a R15.2 million reversal in investment property impairments.

E. Policy Directives

No policy directives were received from the MEC: Economic Development and Tourism during the financial year ended 31 March 2012.

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

Fair value of investments
The fair value of the listed investment as disclosed in Note 10 is R12.1 million at year end (2011: R13.5 million) and was quoted at R13.6 million on 6 August 2012.

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 (2011: R1 Billion).

H. New Banking System

- During the last Group board meeting held in January 2012, approval was given to continue with the implementation of a core banking system aimed at providing Ithala Limited with a fully integrated real-time banking system with retail, corporate and electronic banking components. It is expected that the project will commence in the first half of the 2013 financial year.
- The overall IT Strategy for the 2013 financial year is to ensure stability of the current banking system and centralisation of the branch servers during the first half of the financial year.

I. Dividends

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

J. Interests in Contracts

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

K. Sources of Funding

The Corporation did not raise any new long-term borrowings from lenders during the year under review (2011: Rnil) - refer to Annexure 1 of the Annual Financial Statements for more details on existing

DIRECTOR'S REPORT (CONTINUED)

Borrowings. During the year under review, the Corporation received government grants of R180 million for SMME on-lending (2011: R181 million) from DEDT.

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

	R' milion	
	FY2012	FY2011
Grants Unapplied at the beginning of year	**517**	**703**
Received during the year	**340**	**181**
Interest on Equity Fund grant and DEDT fund	**9**	**3**
Grants Applied during the year	**(190)**	**(233)**
- Accelerated Development	-	(27)
- SMME	(180)	(180)
- Cooperatives	(1)	(3)
- BEE Risk Fund	(7)	(8)
- Umsobomvu	-	(1)
- Business Support	(2)	(2)
- Rehabilitation Fund	-	(12)
Grants transferred during the year	**(11)**	**(137)**
- Richards Bay IDZ	-	(106)
- Co-operatives	(5)	(5)
- KZN Growth Fund	-	(26)
- Accounts Payable (Interest - KZNGF)	(6)	-
Grants Unapplied at the end of year	**665**	**517**

L. Going Concern Basis of Accounting

1. Corporation

The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31 March 2012, have been assessed by the Directors. The financial position of the Corporation, its cash flows, liquidity position and borrowing facilities are described in the relevant sections of the financial statements. In addition, note 33 to the financial statements includes the company's policies, processes for managing its capital, details of its financial instruments and its exposures to credit and liquidity risk.

As highlighted in notes 8 and 33 to the financial statements, the Corporation meets its day to day working capital requirements from its own cash resources and has open lines of credit of some R101 million from major financial banking institutions.

The Group posted a profit of R97.6 million for the year ended 31 March 2012 (2011: R37.9 million). The Group is solvent since its total assets exceeded its total liabilities by R1.8 billion (2011: R1.7 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 R1.9 billion (2011: R1.7 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.

2. 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 and consolidated financial statements have been prepared on this basis.

The Corporation has issued Ithala Limited with a letter committing to provide financial support in the event that Ithala Limited is unable to meet its financial obligations or minimum capital adequacy requirements. This commitment will remain in place until 31 July 2013.

Banking Licence exemption of Ithala Limited

The Minister of Finance has extended the Company's exemption for a period of one year. The current exemption expires on 31 December 2012. Subsequent to consultation with the South African Reserve Bank (SARB), the Board, together with the Banking Licence Committee (a Board committee of Ithala) resolved to apply for a further extension of the exemption for a period of three years. The Board of Directors have no reason to believe that this further extension will not be granted.

M. Directors and Company Secretariat

Information pertaining to Board Members and Committees is covered in the Corporate Governance Report, on pages 33 to 38.

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

Mr SE Madondo who was appointed Acting Group Chief Executive from 1 September 2010, performed the role of Group Chief Executive in the current financial year up to 30 November 2011 until the new Group Chief Executive, Ms Yvonne Zwane, was appointed on 1 December 2011.

Appointments:

- Mr DK Golding – 1 June 2011
- Dr MSV Gantsho – 1 June 2011
- Mr GNJ White – 1 June 2011
- Ms NNA Matyumza – 1 June 2011

Resignations:

- Mr DK Golding – 29 March 2012

The 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

1. Particulars of irregular expenditure and fruitless and wasteful expenditure incurred by the Corporation in FY2011 are disclosed in Note 30 and 32 of the AFS.

2. In line with the ordinary course of business and in accordance with its prevailing business rules, the Group wrote-off bad debts amounting to R103.9 million in this financial year (2011: R54 million). Provisions of R145 million (2011: R52 million) were reversed and netted off against this charge.

   Despite the write-off of these bad debts, the company continues to pursue these defaulters and no effort is spared in trying to recover monies owed to the Corporation. During the year under review a total of R3.3 million (2011: R2 million) was recovered from bad debts previously written off.

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2012

	Notes	Group			Corporation		
		2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2012 R'000	2011 R'000 Restated	2010 R'000 Restated
ASSETS							
Non-current assets		**2 549 607**	2 423 482	2 221 585	**1 445 856**	1 431 327	1 271 695
Loans and advances	1.1	**1 532 727**	1 410 197	1 190 081	**370 899**	372 268	210 506
Properties in possession	1.4	**8 089**	11 914	11 638	**983**	1 508	1 903
Investment properties	2	**770 267**	752 341	754 011	**708 018**	689 974	692 644
Property, plant and equipment	3	**169 662**	180 716	189 952	**90 697**	89 830	91 925
Intangible assets	4	**15 470**	10 599	34 076	**11 217**	7 745	2 742
Operating leases - straightlining effect	5	**52 889**	57 076	41 503	**45 482**	48 953	38 912
Subsidiaries	6.2	**-**	-	-	**218 057**	220 410	232 739
Goodwill	6.3	**232**	-	-	**232**	-	-
Associated companies	7	**271**	639	324	**271**	639	324
Current assets		**2 141 068**	2 283 391	2 440 685	**1 277 128**	1 079 148	1 417 112
Current portion of loans and advances	1.1	**195 190**	219 101	337 115	**152 954**	177 194	287 018
Operating leases - straightlining income	5	**-**	-	5 531	**-**	-	3 866
Cash and cash equivalents	8.1	**1 671 188**	1 675 594	1 729 718	**962 066**	691 119	938 356
Statutory liquid assets	8.2	**116 275**	104 473	109 546	**-**	-	-
Trade and other receivables	9	**123 246**	248 787	205 955	**128 249**	175 920	135 850
Investments	10	**12 069**	13 456	11 264	**12 069**	13 456	11 264
Inventory and contracts in progress	11	**23 099**	21 980	41 556	**21 789**	21 459	40 758
Total assets		**4 690 675**	4 706 873	4 662 270	**2 722 984**	2 510 475	2 688 807
EQUITY AND LIABILITIES							
Capital and reserves		**1 758 622**	1 661 047	1 623 273	**1 691 541**	1 611 824	1 561 901
Ordinary share capital	12	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**750 040**	652 465	614 691	**682 959**	603 242	553 319
Minority Interest	13	**66**	(1 168)	(1 100)	**-**	-	-
Total equity		**1 758 688**	1 659 879	1 622 173	**1 691 541**	1 611 824	1 561 901
Non-current liabilities		**2 706 489**	2 689 201	2 800 127	**852 131**	736 243	948 249
Borrowings	14	**85 377**	117 527	162 450	**83 238**	115 212	151 616
Deposits due to customers	15	**1 775 383**	1 745 778	1 692 018	**-**	-	-
Post-retirement obligation	16.1	**67 619**	64 218	61 926	**46 245**	44 256	42 878
Long service obligation	16.3	**19 045**	16 129	12 633	**10 043**	8 576	6 702
Deferred income - Government grants	17	**705 551**	687 474	820 043	**665 551**	517 387	703 381
Operating leases - straightlining expense	24.2	**5 901**	6 862	4 845	**5 440**	5 386	2 751
Deferred tax	26	**1 927**	1 163	622	**-**	-	-
Provision for landfill restoration	35	**41 614**	45 426	40 921	**41 614**	45 426	40 921
Cell captive insurance fund	36	**4 072**	4 624	4 669	**-**	-	-
Current liabilities		**225 498**	357 793	239 970	**179 313**	162 408	178 657
Operating leases - straightlining income	5	**6 496**	10 369	-	**6 481**	8 549	-
Current portion of borrowings	14	**44 584**	35 504	47 059	**44 584**	35 504	47 059
Trade and other payables	18	**173 367**	311 132	190 927	**128 212**	118 310	131 546
Operating leases - straightlining expense	24.2	**1 051**	788	1 984	**36**	45	52
Total liabilities		**2 931 987**	3 046 994	3 040 097	**1 031 444**	898 651	1 126 906
Total equity and liabilities		**4 690 675**	4 706 873	4 662 270	**2 722 984**	2 510 475	2 688 807

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Group		Corporation	
		2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
Interest income	19.1	**278 836**	292 818	**101 198**	103 009
Interest expenditure	19.2	**69 494**	78 057	**13 782**	18 796
Net interest income before credit impairment charges		**209 342**	214 761	**87 416**	84 213
Credit impairment charges	1.3, 1.4, 5 & 9	**165 085**	141 786	**142 050**	111 342
Net interest income/(loss) after credit impairment charges		**44 256**	72 975	**(54 634)**	(27 129)
Other operating income	20	**860 006**	857 025	**659 634**	674 078
Operating income before operating expenditure		**904 262**	930 000	**605 000**	646 949
Operating expenditure	21	**803 258**	888 401	**525 283**	597 053
Operating expenses		**816 404**	797 241	**533 506**	522 658
Non-credit related impairment charges/(reversals)	21.4	**(15 320)**	88 852	**(9 575)**	73 021
Indirect taxation	22.1	**2 174**	2 308	**1 352**	1 374
Gain on disposal of subsidiary		**1 059**	-	**-**	-
Equity accounting income		**-**	27	**-**	27
Operating profit before taxation		**102 063**	41 626	**79 717**	49 923
Taxation expense	22.2	**4 425**	3 920	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**97 639**	37 706	**79 717**	49 923
Attributable to:					
Equity holders of the parent		**97 575**	37 774	**79 717**	49 923
Non controlling interest		**64**	(68)	**-**	-
		97 639	37 706	**79 717**	49 923

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

	Ordinary Share Capital R'000	Retained Income R'000	Attributable to Equity Holders of Parent R'000	Minority Interest R'000	Total R'000
2012					
Group					
Restated balance at 31 March 2011	**1 008 582**	**652 465**	**1 661 047**	**(1 168)**	**1 659 879**
Disposal of Subsidiary	**-**	**-**	**-**	**1 170**	**1 170**
Income attributable to the shareholder	**-**	**97 575**	**97 575**	**64**	**97 639**
Balance at 31 March 2012	**1 008 582**	**750 040**	**1 758 622**	**66**	**1 758 688**
Corporation					
Restated balance at 31 March 2011	**1 008 582**	**603 242**	**1 611 824**	**-**	**1 611 824**
Income attributable to the shareholder	**-**	**79 717**	**79 717**	**-**	**79 717**
Balance at 31 March 2012	**1 008 582**	**682 959**	**1 691 541**	**-**	**1 691 541**
2011					
Group					
Restated balance at 31 March 2010	1 008 582	614 691	1 623 273	(1 100)	1 622 173
Income attributable to the shareholder	-	37 774	37 774	(68)	37 706
Balance at 31 March 2011	1 008 582	652 465	1 661 047	(1 168)	1 659 879
Corporation					
Restated balance at 31 March 2010	1 008 582	553 319	1 561 901	-	1 561 901
Income attributable to the shareholder	-	49 923	49 923	-	49 923
Balance at 31 March 2011	1 008 582	603 242	1 611 824	-	1 611 824

Refer to note 28.9 for a reconciliation between the opening balance of retained income in the prior years and the restated opening balance of retained income.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 MARCH 2012

	Notes	Group		Corporation	
		2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
Cash flow from operating activities					
Cash generated from operating activities	23.1	**298 253**	330 843	**248 421**	275 126
(Increase)/Decrease in working capital	23.2	**(11 229)**	73 828	**58 868**	(56 717)
Taxation paid	23.3	**(2 690)**	(3 130)	**-**	-
Net cash generated from operating activities		**284 334**	401 541	**307 289**	218 409
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		**(584 194)**	(561 572)	**(212 447)**	(261 789)
- repaid		**372 473**	347 923	**95 438**	98 806
- other loan movements		**(35 222)**	(25 366)	**3 459**	4 027
Additions to investment properties		**(22 404)**	(55 715)	**(20 957)**	(53 121)
Additions to property, plant and equipment and intangible assets		**(27 797)**	(29 825)	**(17 752)**	(15 274)
Additions to Properties in Possession		**(5 756)**	(3 795)	**(3 917)**	(978)
Proceeds from disposal of investment properties and property, plant and equipment		**1 853**	466	**1 398**	466
Proceeds on disposal of Properties in Possession		**9 915**	6 976	**5 894**	3 805
Proceeds on sale of shares		**1 500**	-	**1 500**	-
Acquired Goodwill		**(232)**	-	**(232)**	-
Increase in cell captive insurance fund		**(552)**	(45)	**-**	-
Decrease/(Increase) in liquid assets		**(11 802)**	5 073	**-**	-
Transfer to KZN Growth Fund Trust		**-**	(26 543)	**-**	(26 543)
(Investment in)/disposal of subsidiaries and associated companies		**1 234**	(315)	**(2 903)**	(44 558)
Net cash utilised by investing activities		**(300 983)**	(342 738)	**(150 519)**	(295 159)
Cash flow from financing activities					
Borrowings capital repaid		**(23 070)**	(56 478)	**(22 894)**	(47 959)
Increase in fixed, short-term deposits and savings accounts		**29 605**	53 760	**-**	-
Post Retirement Medical paid		**(2 854)**	(2 490)	**(2 371)**	(2 110)
Long Service obligations paid		**(1 614)**	(1 560)	**(821)**	(967)
Landfill restoration paid		**(7 901)**	-	**(7 901)**	-
Net government grants received/(applied)		**18 077**	(106 026)	**148 164**	(119 451)
Net cash utilised/(generated) by financing activities		**12 243**	(112 794)	**114 177**	(170 487)
Net increase/(decrease) in cash and cash equivalents		**(4 407)**	(53 991)	**270 947**	(247 237)
Cash and cash equivalents at beginning of year		**1 675 594**	1 729 585	**691 119**	938 356
Cash and cash equivalents at end of year		**1 671 188**	1 675 594	**962 066**	691 119

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2012

1. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), which are based on the International Financial Reporting Standards (IFRS), as adopted by the Group.

The financial statements were approved and authorised for issue by the Board of Directors on 23 August 2012.

2. BASIS OF PREPARATION

2.1 BASIS OF MEASUREMENT

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

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

2.2 OPERATIONAL AND PRESENTATION CURRENCY

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

2.3 USE OF ESTIMATES AND JUDGMENTS

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.

2.4 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
- 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 objectives.

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 programmeme. Management expects this programmeme to be executed as scheduled however any changes in the programmeme 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 involves 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.

2.5 COMPARATIVE FIGURES

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

2.6 SIGNIFICANT ACCOUNTING POLICIES

Except as described otherwise, the accounting policies set out

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

2.6.1 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) 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. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of original business combination and the minority'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 minority, in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and the financial ability to cover such losses.

(b) Special Purpose entities

Special purpose entities (SPE's) are entities that are created to accomplish a narrow and well-defined objective such as a cell captive facility whereby cell shareholders are able to underwrite the risks of their customers and provide a more comprehensive product offering without the regulatory and administrative burden of owning its own insurance company. 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.
- 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 AFS.

(c) Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control over financial and operating policies. This generally comprises 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 it is able to exert significant influence and it can be clearly demonstrated that significant influence exists, the Group classifies such entities as associates. Investments in companies acquired to protect advances or as a conduit for advances are included in advances. Joint ventures are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates are accounted for using the equity method.

The Group recognises its interest in a jointly controlled entity using proportionate consolidation method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investments, after adjustments to align the accounting policies with those of the Group where applicable, from the date that significant influence commences until that significant influence ceases. The consolidated financial statements include the Group's share of assets, liabilities, income and expenses that it jointly controls. The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

2.6.2 Intangible assets

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

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licenses and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets with an indefinite useful life are tested annually for impairment and whenever there is an indication that the asset may be impaired.

(a) Computer software and licenses
Acquired computer software and licenses are capitalised as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Computer software is tested annually for impairment or changes in estimated future benefits. Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives 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.

(b) System development costs
Costs associated with maintaining computer software programmemes 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 licenses policy.

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

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.

2.6.3 Financial instruments

(a) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and advances, borrowings and deposits.
Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial asset 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.

2.6.4 Financial assets

(a) 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.

(b) Loans and receivables
Loans and advances are non derivative financial assets with fixed or determinable payments, 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.

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

(e) 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.

2.6.5 Derecognition of financial assets

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

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.6.6 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. 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 impairment of non-performing loans and advances is based on periodic evaluations of loans and advances and takes account of past loss experience and the economic climate in which the borrowers operate. Impairment of 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 based on historic loss patterns and estimated emergence periods. This impairment is referred to as unidentified impairment.

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.

2.6.7 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.

2.6.8 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.

2.6.9 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.

2.6.10 Property, Plant And Equipment

All property, plant and equipment and capital work in progress is included at cost. Cost includes all costs 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. 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. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. 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 company 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.

2.6.11 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

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

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

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

2.6.12 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

Impairment losses are recognised in profit or loss.2 Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGU's) and then to reduce the carrying amount of the other assets in the CGU (group of CGU's) on a pro rata basis.

2.6.12 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 cause of business, less the estimated completion costs and selling expenses.

2.6.13 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.

(a) Defined benefits plans

The schemes are funded by the payments from the employees and the Group, taking into account recommendations of independent qualified actuaries. A defined benefit plan is a 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 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.

2.6.14 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 capitalization of borrowing costs is suspended during periods

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

2.6.15 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 programmemes 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.

2.6.16 Taxation

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

The tax expense for subsidiaries that are not wholly owned comprises current and deferred tax. Current tax and deferred tax is 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.

2.6.17 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.

2.6.18 Revenue

(a) Rental income

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

(b) Interest income and Interest Expense

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument.

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

2.6.19 Other Operating Income

(a) Dividends received

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

(b) Fee income

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.

(c) Commission income

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

(d) Sale of goods

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

2.6.20 Operating Leases

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

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

2.7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Below are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2012, these have not been applied in preparing these consolidated financial statements:

Standard	Description	Annual periods beginning on or after
IFRS 1 (AC 138) amendment	*First-time adoption of International Financial Reporting Standards*	1 January 2013
	Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS9 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.	
IFRS 7 (AC 144) (amendment not adopted into SA GAAP)	*Financial Instruments: Disclosures*	1 January 2013
	Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.	
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	*Financial Instruments: Classification and Measurement*	1 January 2015
	New standard that forms the first part of a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement. The impact of adoption depends on the assets held at the date of adoption. It is not practical to quantify the effect.	
IFRS 10 (not adopted into SA GAAP)	*Consolidated financial statements*	1 January 2013
	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.	
IFRS 11 (not adopted into SA GAAP)	*Joint arrangements*	1 January 2013
	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.	
IFRS 12 (not adopted into SA GAAP)	*Disclosure of interest in other entities*	1 January 2013
	New and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	
IFRS 13 (not adopted into SA GAAP)	*Fair value measurements*	1 January 2013
	New guidance on fair value measurement and disclosure requirements.	
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	*Presentation of Financial Statements*	1 July 2012
	New requirements to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement in order to facilitate the assessment of their impact on the overall performance of an entity.	
IAS 12 (AC 102)	*Income Taxes*	1 January 2012

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Standard	Description	Annual periods beginning on or after
	Rebuttable presumption introduced that an investment property will be recovered in its entirety through sale.	
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	*Employee Benefits*	1 January 2013
	Amendments to the accounting for current and future obligations resulting from the provision of defined benefit plans.	
IAS 27 (AC 132) (amendment not adopted into SA GAAP)	*Consolidated and Separate Financial Statements*	1 January 2013
	Consequential amendments resulting from the issue of IFRS 10, 11 and 12.	
IAS 28 (AC 110) (amendment not adopted into SA GAAP)	*Investment in Associates*	1 January 2013
	Consequential amendments resulting from the issue of IFRS 10, 11 and 12.	
IAS 32 (AC 125) (amendment not adopted into SA GAAP)	*Financial Instruments: Presentation*	1 January 2013
	Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.	
IFRIC 20 (not adopted into SA GAAP)	*Stripping costs in the production phase of a service mine*	1 January 2013
	The amendment is not applicable to the Group and will therefore have no impact on future annual financial statements.	

All standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity). The effect of implementing all.

2.8 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 will cease to apply from financial years commencing on or after 1 December 2012. Consequently, National Treasury and the Public Sector Accounting Standards Board are considering amendment to the PFMA and Treasury regulations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
1. LOANS AND ADVANCES				
1.1. Sectoral analysis				
Housing and Commercial Property	**1 267 017**	1 140 697	**-**	-
Micro finance - secured	**23 405**	23 234	**-**	-
Micro finance - unsecured	**18 191**	23 256	**-**	-
Personnel	**5 702**	5 500	**5 702**	5 500
Co-operatives	**30 662**	29 001	**30 662**	29 001
Agri and Agro business*	**362 678**	342 298	**362 678**	336 587
Manufacturing	**147 928**	208 765	**147 928**	104 149
Trade and services	**178 288**	242 390	**178 288**	242 390
Construction and Tourism	**177 761**	219 796	**177 761**	219 796
	2 211 632	2 234 937	**903 019**	937 423
Credit impairment for loans and advances	**(483 715)**	(605 639)	**(379 166)**	(387 961)
Net loans and advances including current portion	**1 727 917**	1 629 298	**523 853**	549 462
Less: Current Portion included under current assets	**195 190**	219 101	**152 954**	177 194
Net loans and advances	**1 532 727**	1 410 197	**370 899**	372 268
Non performing loans	**558 419**	639 708	**425 301**	483 824

* Included in Agri and Agro business loans and advances are amounts totaling R 225.3 million (2011: R 204.5 million) which have been ceded and assigned to the Land and Agricultural Bank of South Africa.

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
1.2. Maturity analysis				
Maturing:				
Up to 1 month	**74 061**	79 140	**66 643**	71 605
From 1 month to 6 months	**121 129**	139 961	**86 311**	105 589
From 6 months to 1 year	**128 071**	245 540	**87 312**	94 609
From 1 year to 5 years	**738 684**	728 858	**428 861**	436 004
After 5 years	**1 149 687**	1 041 438	**233 892**	229 616
	2 211 632	2 234 937	**903 019**	937 423

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

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
1.3. Credit impairment for loans and advances				
Balance at beginning of the year	**605 639**	559 556	**387 961**	359 364
Amounts written off	**(270 294)**	(90 833)	**(147 957)**	(78 420)
Bad debt write off	**(103 948)**	(54 501)	**(94 256)**	(44 392)
Non Realised Revenue (NRR) write-off	**(166 346)**	(36 332)	**(53 701)**	(34 028)
Charge to income statement	**148 370**	136 916	**139 162**	107 017
Balance at end of the year	**483 715**	605 639	**379 166**	387 961
Comprising:				
Impairment for performing loans (IBNR)*	**68 031**	66 060	**40 392**	37 629
Impairment for non-performing loans	**415 684**	539 579	**338 774**	350 332
Impairment for loans and advances	**483 715**	605 639	**379 166**	387 961

* 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 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
1.4. Properties in possession				
Balance at beginning of the year	**20 403**	23 584	**7 631**	10 458
Acquisitions	**5 756**	3 795	**3 917**	978
Disposals	**(9 868)**	(6 976)	**(5 894)**	(3 805)
Carrying amount before impairment	**16 291**	20 403	**5 654**	7 631
Accumulated impairment loss	**(8 202)**	(8 489)	**(4 671)**	(6 123)
Net carrying amount	**8 089**	11 914	**983**	1 508
Accumulated impairment loss				
Balance at beginning of the year	**8 489**	11 946	**6 123**	8 555
Reversal of impairment to income statement	**(287)**	(3 457)	**(1 452)**	(2 432)
Balance at end of the year	**8 202**	8 489	**4 671**	6 123

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
2. INVESTMENT PROPERTIES				
Cost				
Land and buildings	**1 072 245**	1 058 042	**986 163**	973 079
Work-in-progress	**80 048**	72 274	**79 154**	72 246
Accumulated depreciation				
Buildings	**310 697**	291 452	**289 179**	272 035
Accumulated impairment				
Buildings	**71 329**	86 523	**68 120**	83 316
Net book value	**770 267**	752 341	**708 018**	689 974
Fair value of investment property	**2 310 060**	1 485 919	**2 163 060**	1 263 290
2.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	240 131	224 389	214 824	199 919
- Direct operating expenses arising from investment property that generated rental income	103 836	102 894	93 531	93 841
- Direct operating expenses arising from investment property that did not generate rental income	540	669	540	669

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

2.3. Movement in investment properties

	Land & Buildings
2012	**R'000**
Group	
Net book value at beginning of year	**752 341**
Additions	**22 404**
Depreciation charge	**(19 147)**
Impairment reversal	**15 196**
Transfers	**(11)**
Disposals	**(516)**
Net book value at end of year	**770 267**
Corporation	
Net book value at beginning of year	**689 974**
Additions	**20 968**
Depreciation charge	**(17 593)**
Impairment reversal	**15 196**
Transfers	**(11)**
Disposals	**(516)**
Net book value at end of year	**708 018**
2011	
Group	
Net book value at beginning of year	754 011
Additions	55 715
Depreciation charge	(18 482)
Impairment charge	(37 007)
Disposals	(1 896)
Net book value at end of year	752 341
Corporation	
Net book value at beginning of year	692 644
Additions	53 121
Depreciation charge	(16 926)
Impairment charge	(37 007)
Disposals	(1 858)
Net book value at end of year	689 974

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**372 554**	369 522	**201 260**	195 099
Land, infrastructure and buildings	**131 085**	129 429	**131 204**	129 428
Buildings on leasehold land	**73 307**	13 223	**12 665**	12 665
Plant, equipment and vehicles	**154 104**	207 270	**51 914**	50 083
Work-In-Progress	**14 058**	19 600	**5 476**	2 923
Accumulated depreciation	**188 574**	169 280	**101 155**	95 862
Infrastructure and buildings	**58 579**	55 759	**58 698**	55 758
Buildings on leasehold land	**40 987**	3 784	**3 258**	3 258
Plant, equipment and vehicles	**89 008**	109 737	**39 199**	36 846
Accumulated impairment				
Land, infrastructure and buildings	**9 407**	9 407	**9 407**	9 407
Plant, equipment and vehicles	**4 911**	10 119	**-**	-
Net book value	**169 662**	180 716	**90 697**	89 830

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

3.2. Property plant and equipment with nil book values

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Gross carrying amount	**34 517**	45 023	**33 843**	40 694

This represents property, plant and equipment that are still in use and have nil book value. This includes assets with a cost of R2000 and below including certain assets acquired with grant funds that have been fully depreciated in terms of the Corporation's policy.

3.3. Movements in property, plant and equipment

	Land, infra-structure & Buildings	Plant, equipment and vehicles	Work-In-Progress (WIP)	Total
2012				
Group				
Net book value at beginning of year	**73 753**	**82 284**	**24 679**	**180 716**
Additions	**1 783**	**10 058**	**6 213**	**18 055**
Depreciation charge	**(3 030)**	**(20 994)**	**-**	**(24 024)**
Disposals	**-**	**(3 011)**	**-**	**(3 011)**
Transfers	**-**	**14 761**	**(16 834)**	**(2 073)**
Net book value at end of year	**72 506**	**83 098**	**14 058**	**169 662**
Corporation				
Net book value at beginning of year	**73 574**	**13 333**	**2 923**	**89 830**
Additions	**1 774**	**3 937**	**3 543**	**9 255**
Depreciation charge	**(2 842)**	**(4 087)**	**-**	**(6 929)**
Disposals	**-**	**(252)**	**-**	**(252)**
Transfers	**-**	**(216)**	**(990)**	**(1 206)**
Net book value at end of year	**72 506**	**12 715**	**5 476**	**90 697**
2011				
Group				
Net book value at beginning of year	65 492	85 303	39 159	189 954
Additions	4 809	17 196	16 832	38 837
Depreciation charge	(2 990)	(19 270)	-	(22 260)
Impairment charge	-	(1 066)	(4 143)	(5 209)
Disposals	(54)	(113)	-	(167)
Transfers	6 496	234	(27 169)	(20 439)
Net book value at end of year	73 753	82 284	24 679	180 716
Corporation				
Net book value at beginning of year	65 446	13 903	12 576	91 925
Additions	6 743	2 797	4 619	14 159
Depreciation charge	(2 804)	(3 961)	-	(6 765)
Disposals	(54)	(18)	-	(72)
Transfers	4 243	612	(14 272)	(9 417)
Net book value at end of year	73 574	13 333	2 923	89 830

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
4. INTANGIBLE ASSETS				
Cost	**78 004**	65 234	**35 040**	25 150
Software	**29 633**	26 969	**19 456**	19 610
System development costs (WIP)	**39 202**	32 403	**6 415**	-
Other	**599**	-	**599**	-
Licences and Warranties	**8 570**	5 862	**8 570**	5 540
Accumulated depreciation	**30 131**	22 232	**23 823**	17 405
Software	**23 807**	17 109	**17 499**	12 282
Other	**28**	-	**28**	-
Licences and Warranties	**6 296**	5 123	**6 296**	5 123
Accumulated impairments				
System development costs	**32 403**	32 403	**-**	-
Net book value	**15 470**	10 599	**11 217**	7 745

4.1. Movement in intangible assets	**Software**	**System Development Costs (WIP)**	**Licences & other**	**Total**
2012				
Group				
Net book value at beginning of year	**9 860**	**-**	**739**	**10 599**
Additions	**17**	**6 799**	**2 928**	**9 744**
Amortisation	**(5 971)**	**-**	**(973)**	**(6 944)**
Transfers	**1 920**	**-**	**151**	**2 071**
Net book value at end of year	**5 826**	**6 799**	**2 845**	**15 470**
Corporation				
Net book value at beginning of year	**7 329**	**-**	**416**	**7 745**
Additions	**7**	**5 425**	**3 083**	**8 515**
Amortisation	**(5 441)**	**-**	**(791)**	**(6 232)**
Transfers	**62**	**990**	**137**	**1 189**
Net book value at end of year	**1 957**	**6 415**	**2 845**	**11 217**
2011				
Group				
Net book value at beginning of year	2 040	30 294	1 742	34 076
Additions	1 685	4 159	866	6 710
Amortisation	(3 791)	-	(1 869)	(5 660)
Transfers	9 926	-	-	9 926
Impairment charge	-	(32 403)	-	(32 403)
Disposals	-	(2 050)	-	(2 050)
Net book value at end of year	9 860	-	739	10 599
Corporation				
Net book value at beginning of year	499	-	2 243	2 742
Additions	46	-	-	46
Amortisation	(3 660)	-	(1 829)	(5 489)
Transfers	10 444	-	2	10 446
Net book value at end of year	7 329	-	416	7 745

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

5. OPERATING LEASES – STRAIGHTLINING EFFECT

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Opening balance	**46 707**	47 034	**40 404**	42 778
Adjustment during the year	**(1 790)**	1 557	**(2 880)**	(528)
Decrease/(Increase) in provision for bad debts	**1 475**	(1 884)	**1 477**	(1 846)
	46 393	46 707	**39 001**	40 404
Current portion of long term debtor	**6 496**	10 369	**6 481**	8 549
Closing balance	**52 889**	57 076	**45 482**	48 953

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

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Next 12 months	**(6 496)**	(10 369)	**(6 481)**	(8 549)
From 2 to 5 years	**14 559**	15 832	**15 207**	16 316
Later than 5 years	**40 458**	44 847	**32 230**	36 069
	48 521	50 310	**40 956**	43 836
Less: Provision for bad debts	**(2 128)**	(3 603)	**(1 955)**	(3 432)
	46 393	46 707	**39 001**	40 404

Analysis of provisions	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Balance at the beginning of the year	**3 603**	1 719	**3 432**	1 585
Charge to income statement	**(1 475)**	1 884	**(1 477)**	1 847
Balance at end of the year	**2 128**	3 603	**1 955**	3 432

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

6. SUBSIDIARIES (ANNEXURE 2)

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
6.1. Cowslip Investments (Pty) Ltd				
Shares at cost	**3**	3	**3**	3
Share premium	**2 278 029**	2 061 057	**2 278 029**	2 061 057
Grants applied	**(2 278 032)**	(2 061 060)	**(2 278 032)**	(2 061 060)
	-	-	-	-
6.2. Other subsidiaries	-	-	**139 060**	139 061
Shares at cost	-	-	**190 060**	190 061
Less: provisions	-	-	**(11 000)**	(11 000)
Less: grants applied	-	-	**(40 000)**	(40 000)
Net loans	-	-	**78 997**	81 349
Loans to subsidiaries	-	-	**139 841**	136 446
Less provisions	-	-	**(60 844)**	(55 097)
Total investment in subsidiaries	-	-	**218 057**	220 410

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

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

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
6.3. Goodwill	**232**	-	**232**	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
7. ASSOCIATED COMPANIES (ANNEXURE 3)				
7.1 Unlisted Investments				
Shares at cost	**3**	3	**3**	3
Less: Provisions	**(2)**	(2)	**(2)**	(2)
	1	1	**1**	1
Share of retained income since acquisition	**-**	-	**-**	-
Group carrying value	**1**	1	**1**	1
Net loans	**270**	638	**270**	638
Loans to associates	**8 144**	8 512	**8 144**	8 512
Less: provisions	**(7 875)**	(7 874)	**(7 875)**	(7 874)
Total interest in associated companies	**271**	639	**271**	639
7.2. Significant financial information of associated companies				
Total Assets	**34 453**	40 198	**34 453**	40 198
Total Non-current assets	**23 947**	31 956	**23 947**	31 956
Total Current Assets	**10 506**	8 243	**10 506**	8 243
Total Liabilities	**156 261**	136 535	**156 261**	136 535
Total Non-current liabilities	**146 468**	129 578	**146 468**	129 578
Total Current liabilities	**9 793**	6 957	**9 793**	6 957
Net Liabilities	**(85 132)**	(96 336)	**(85 132)**	(96 336)
Group's share of net liabilities of associates	**(40 419)**	(36 495)	**(40 419)**	(36 495)
Total Revenue	**11 177**	6 517	**11 177**	6 517
Total Losses	**(10 775)**	(13 709)	**(10 775)**	(13 709)
Unrecognised share of losses:				
- Current period	**(19)**	(1 448)	**(19)**	(1 448)
- Cumulative	**(7 324)**	(39 296)	**(7 324)**	(39 296)

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

The financial year end of The Good Sugar Company SA (Pty) Ltd is 28 February. This was the reporting date established when the company was incorporated, and a change of reporting date is not considered necessary as the one month difference is not considered material. For purposes of equity accounting the audited financial statement of the associated company for 28 February 2011 was used. Ithala's interest in the Good Sugar Company is in the process of being sold to the majority shareholders, which will be finalised in the next financial year.

8. CASH AND LIQUID ASSETS

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
8.1. Cash and cash equivalents				
Coin and bank notes	**52 492**	56 968	**6**	7
Balance with banks *	**1 618 696**	1 618 626	**962 060**	691 112
	1 671 188	1 675 594	**962 066**	691 119

* Corporation balance includes R359.8 million (2011: R380.3 million) held on behalf of KZN Growth Fund Trust.

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
8.2. Statutory liquid assets	**116 275**	104 473	**-**	-
Undrawn facilities available are as follows:				
Absa Bank				
Overdraft Facility	**50 000**	100 000	**50 000**	100 000
Day Light Facility	**50 000**	-	**50 000**	-
	100 000	100 000	**100 000**	100 000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

9. TRADE AND OTHER RECEIVABLES

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Trade receivables	**60 665**	266 958	**50 326**	194 016
Other receivables	**97 325**	19 785	**108 507**	14 114
	157 990	286 743	**158 833**	208 130
Provisions	**(34 744)**	(37 956)	**(30 584)**	(32 210)
Net trade and other receivables	**123 246**	248 787	**128 249**	175 920
Ageing of past due but not impaired trade and other receivables				
<30 days	**66 819**	164 882	**73 256**	157 767
30 to 60 days	**7 019**	1 590	**6 816**	767
60 to 90 days	**9 681**	269	**9 679**	256
> 90 days	**38 993**	84 882	**38 364**	18 292
	122 512	251 623	**128 114**	177 081
Ageing of past due and impaired trade and other receivables				
<30 days	**3 402**	4 507	**3 264**	4 194
30 to 60 days	**2 740**	3 358	**2 696**	3 092
60 to 90 days	**2 473**	3 223	**2 231**	2 986
> 90 days	**26 862**	24 032	**22 527**	20 777
	35 477	35 120	**30 719**	31 049
Analysis of provisions				
Balance at beginning of year	**37 956**	34 396	**32 210**	28 943
Amounts written off	**(21 689)**	(2 883)	**(7 443)**	(1 644)
Charge to income statement	**18 477**	6 443	**5 817**	4 911
Balance at end of year	**34 744**	37 956	**30 584**	32 210

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 R26.5 million (2011:R14.1 million) and Department of Health R15.8 million (2011: R34.3 million).

10. INVESTMENTS

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Designated at fair value through profit and loss				
At beginning of year	**13 456**	11 264	**13 456**	11 264
Fair value movement	**113**	2 192	**113**	2 192
Disposal	**(1 500)**	-	**(1 500)**	-
At end of year	**12 069**	13 456	**12 069**	13 456

Investments comprise **3,736,400** units in SA Corporate Real Estate Fund (2011: 3,736,400 in SA Corporate Real Estate and 750,000 units in Glenrand MIB). The investment in Glenrand MIB was disposed of during the current financial year as a result of a take-over by AON Limited.

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

11. INVENTORY AND CONTRACTS IN PROGRESS

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Raw materials	**1 310**	521	**-**	-
Finished goods	**2**	-	**2**	-
Consumables	**3 307**	2 945	**3 307**	2 945
Contracts in progress	**36 435**	37 939	**36 435**	37 939
Residential stands and houses	**1 487**	17	**1 487**	17
	42 541	41 422	**41 231**	40 901
Write down to Net Realisable Value	**(19 442)**	(19 442)	**(19 442)**	(19 442)
	23 099	21 980	**21 789**	21 459

12. ORDINARY SHARE CAPITAL

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Authorised				
1 008 582 361 (2011: 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 (2011: 1 008582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
13. MINORITY INTEREST				
Balance at beginning of year	**(1 168)**	(1 100)	-	-
Disposal	**1 170**	-	-	-
Movement	**64**	(68)	-	-
Balance at end of year	**66**	(1 168)	-	-

Minority interest represents the share of profit and losses attributable to minority shareholders of the subsidiary companies.

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**129 961**	153 031	**127 822**	150 716
Portion repayable within 12 months	**(44 584)**	(35 504)	**(44 584)**	(35 504)
Long term portion	**85 377**	117 527	**83 238**	115 212
15. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**41 103**	38 683	-	-
Savings accounts	**821 823**	746 789	-	-
Term deposits	**912 457**	960 306	-	-
	1 775 383	1 745 778	-	-
Maturity analysis repayable:				
On demand	**862 926**	785 474	-	-
Up to 1 month	**97 586**	99 463	-	-
From 1 month to 6 months	**477 835**	499 891	-	-
From 6 months to 1 year	**296 223**	326 778	-	-
From 1 year to 5 years	**40 813**	34 172	-	-
	1 775 383	1 745 778	-	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2012, 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:

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Pass Book accounts	**576 467**	517 653	-	-
Trust accounts	**121 661**	99 085	-	-
Debit Card	**83 474**	89 454	-	-
Corporate	**40 221**	40 597	-	-
Total Savings	**821 823**	746 789	-	-

Term deposits are further analysed as follows:

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Retail accounts	**667 015**	577 112	-	-
Corporate accounts	**245 442**	383 194	-	-
Total Term deposits	**912 457**	960 306	-	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group				
	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated

16. EMPLOYEE BENEFITS

16.1 Post-retirement medical obligations

The Group provides post-retirement medical benefits to substantially all employees who commenced employment prior to 1 August 2000. An actuarial valuation of post-retirement medical obligations at 31 March 2012 quantified the present value of unfunded obligations at R70.2 million (Group) and R49.6 million (Corporation). These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 8.06% (2011: 8.82%), and a health care cost inflation rate of 5.64% (2011: 5.75%).

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

	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
Balance at beginning of year	**64 218**	61 926	59 700	55 216	52 353
Expensed during the year	**6 255**	4 782	4 533	6 054	4 220
Contributions paid	**(2 854)**	(2 490)	(2 307)	(1 570)	(1 357)
Balance at end of year	**67 619**	64 218	61 926	59 700	55 216

Amounts recognised in the balance sheet are as follows:

	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
Present value of unfunded obligations	**70 247**	58 474	46 380	48 637	50 604
Unrecognised actuarial gain/(loss)	**(2 628)**	5 744	15 546	11 063	4 612
Liability at end of year	**67 619**	64 218	61 926	59 700	55 216

Amounts recognised in the income statements are as follows:

	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
Current service cost	**1 222**	908	1 154	1 828	1 086
Interest cost	**5 033**	4 066	4 221	4 668	3 307
Net actuarial gain recognised in the year	**-**	(192)	(842)	(442)	(173)
	6 255	4 782	4 533	6 054	4 220

Membership statistics:	2012
In-service members	**194**
Continuation members	**153**
	347

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**	2012	2011
Central assumptions:		**70 247**	58 473
CPI Inflation	**+1%**	**80 064**	66 278
	+1.50%	**85 727**	70 758
	+1.75%	**88 775**	73 164
	-1%	**62 093**	58 543
Post retirement mortality	**-1 year**	**72 463**	67 188
Average retirement age	**-1 year**	**72 644**	59 979

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

			Corporation		
	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
16. EMPLOYEE BENEFITS (CONTINUED)					
16.1 Post-retirement medical obligations (continued)					
Balance at beginning of year	**44 256**	42 878	41 634	39 250	37 917
Expensed during the year	**4 360**	3 488	3 251	3 849	2 585
Contributions paid	**(2 371)**	(2 110)	(2 007)	(1 465)	(1 252)
Balance at end of year	**46 245**	44 256	42 878	41 634	39 250
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**49 602**	42 596	34 291	36 013	34 431
Unrecognised actuarial gain/(loss)	**(3 357)**	1 660	8 587	5 621	4 819
Liability at end of year	**46 245**	44 256	42 878	41 634	39 250
Amounts recognised in the income statements are as follows:					
Current service cost	**706**	493	628	897	485
Interest cost	**3 654**	2 995	3 112	3 157	2 273
Net actuarial gain recognised in the year	**-**	-	(489)	(205)	(173)
	4 360	3 488	3 251	3 849	2 585
Membership statistics:					
In-service members	**80**				
Continuation members	**129**				
	209				

Sensitivity Analysis - unfunded accrued liability			
Assumptions	**Change**		
Central assumptions:		**49 602**	49 715
CPI Inflation	+1%	**55 898**	55 726
	+1.50%	**59 497**	59 142
	+1.75%	**61 425**	60 966
	-1%	**44 309**	51 216
Post retirement mortality	-1 year	**51 203**	58 190
Average retirement age	-1 year	**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 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 are conducted annually at the end of each financial year and the actuary found the funds to be in a sound financial position. The actuarial valuation conducted as at 31 March 2012 showed the present value of the obligation to be adequately covered by the fair value of the scheme assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

16. EMPLOYEE BENEFITS (CONTINUED)

	Group 2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
16.2.1 Defined Benefit Pension Fund					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**66 871**	68 112	58 357	57 609	52 103
Fair value of plan assets	**(71 824)**	(70 841)	(68 934)	(70 315)	(67 007)
	(4 953)	(2 729)	(10 577)	(12 706)	(14 904)
Unrecognised actuarial gain	**4 953**	2 729	10 577	12 706	14 904
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 for the year is as follows:

	2012	2011	2010	2009	2008
Balance at beginning of year	**68 112**	58 357	57 609	52 103	59 515
Interest cost	**5 304**	4 578	4 567	4 724	4 518
Current service cost	**552**	573	579	509	560
Benefits paid	**(4 495)**	(4 812)	(6 173)	(4 586)	(6 931)
Contributions by plan participants (employees)	**230**	336	327	304	178
Actuarial (gain)/loss on obligation	**(2 833)**	9 080	1 448	4 554	(5 737)
Balance at end of year	**66 870**	68 112	58 357	57 609	52 103

The movement in the fair value of plan assets for the year is as follows:	2012	2011	2010	2009	2008
Balance at beginning of year	**70 841**	68 934	70 315	67 007	64 198
Expected return on assets	**6 193**	6 018	6 082	5 854	5 491
Contributions received	**344**	591	594	567	421
Benefits paid	**(4 495)**	(4 812)	(6 174)	(4 586)	(6 931)
Investment gain/(loss) on assets	**(1 058)**	110	(1 883)	1 473	3 827
Balance at end of year	**71 825**	70 841	68 934	70 315	67 007

Amounts recognised in the income statement are as follows:

	2012	2011	2010	2009	2008
Current service cost	**552**	573	579	509	560
Interest cost	**5 304**	4 578	4 567	4 724	4 518
Expected return on plan assets	**(6 192)**	(6 018)	(6 082)	(5 854)	(5 491)
Recognised actuarial losses	**448**	1 122	1 203	883	656
	112	255	267	263	243

Plan Assets Portfolio:

	2012	2011	2010	2009	2008
Investment Assets	**47 114**	45 557	44 656	43 027	39 456
Annuity Contracts	**27 134**	27 962	27 883	28 271	27 082
Current Assets/(Liabilities)	**(2 424)**	(2 678)	(3 605)	(983)	469
	71 824	70 841	68 934	70 315	67 007

	2012	2011
Effective rate of return on plan assets (Actual)	**10.16%**	10.16%

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

	2012	2011
Discount rate (Annualised Yield on R157)	**8.00%**	8.00%
Expected rate of return on plan assets	**9.00%**	9.00%
Future salary increases (Inflation plus 1%)	**7.30%**	7.30%
Inflation (Difference in Annualised Yield between R186 and R197)	**6.30%**	6.30%

Sensitivity Analysis (Fund Liability)	**Change**	2012	2011
At valuation assumptions:		**66 871**	68 112
Discount rate	+1%	**66 871**	67 229
	-1%	**66 871**	69 111
Expected rate of salary increases	+1%	**66 871**	68 983
	-1%	**66 871**	67 333
No salary increases		**66 871**	64 026

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Corporation				
	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated

16. EMPLOYEE BENEFITS (CONTINUED)

16.2.1 Defined Benefit Pension Fund (continued)

Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**44 746**	45 972	41 475	38 904	35 186
Fair value of plan assets	**(48 061)**	(47 814)	(48 992)	(41 342)	(45 251)
	(3 315)	(1 842)	(7 517)	(2 438)	(10 065)
Unrecognised actuarial gain	**3 315**	1 842	7 517	2 438	10 065
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 for the year is as follows:

Balance at beginning of year	**45 972**	41 475	40 944	35 186	40 191
Interest cost	**3 549**	3 090	3 246	3 190	3 051
Current service cost	**(26)**	387	411	344	378
Benefits paid	**(3 008)**	(3 248)	(4 387)	(3 097)	(4 680)
Contributions by plan participants (employees)	**154**	227	232	206	120
Actuarial (gain)/loss on obligation	**(1 895)**	4 041	1 029	3 075	(3 874)
Balance at end of year	**44 746**	45 972	41 475	38 904	35 186

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

Balance at beginning of year	**47 815**	48 992	49 974	45 251	43 354
Expected return on assets	**3 733**	4 062	4 323	3 953	3 708
Contributions received	**229**	400	422	383	285
Benefits paid	**(3 007)**	(3 248)	(4 388)	(3 097)	(4 680)
Investment gain/(loss) on assets	**(708)**	(2 392)	(1 339)	995	2 584
Balance at end of year	**48 062**	47 814	48 992	47 485	45 251

Amounts recognised in the income statement are as follows:					
Current service cost	**369**	387	411	344	378
Interest cost	**3 548**	3 090	3 246	3 190	3 051
Expected return on plan assets	**(4 144)**	(4 062)	(4 322)	(3 953)	(3 708)
Recognised actuarial losses	**301**	757	855	596	443
	74	172	190	177	164

Plan Assets Portfolio:					
Investment Assets	**31 526**	30 749	31 738	29 056	26 645
Annuity Contracts	**18 157**	18 873	19 817	19 092	18 289
Current Assets/(Liabilities)	**(1 622)**	(1 807)	(2 563)	(664)	317
	48 061	47 815	48 992	47 484	45 251

Effective rate of return on plan assets (Actual)	**9.98%**	10.09%

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

Discount rate (Annualised Yield on R157)	**8.00%**	8.00%
Expected rate of return on plan assets	**9.00%**	9.00%
Future salary increases (Inflation plus 1%)	**7.30%**	7.30%
Inflation (Difference in Annualised Yield between R186 and R197)	**6.30%**	6.30%

Sensitivity Analysis (Fund Liability)	**Change**		
At valuation assumptions:		**44 746**	45 972
Discount rate	+1%	**44 746**	45 376
	-1%	**44 746**	46 646
Expected rate of salary increases	+1%	**44 746**	46 560
	-1%	**44 746**	45 446
No salary increases		**44 746**	43 214

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

16. EMPLOYEE BENEFITS (CONTINUED)

16.2.2 Defined Benefit Provident Fund

	Group 2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**44 011**	47 255	42 807	39 253	34 402
Fair value of plan assets	**(51 172)**	(50 155)	(48 593)	(44 631)	(43 775)
	(7 161)	(2 900)	(5 786)	(5 378)	(9 372)
Unrecognised actuarial gain	**7 161**	2 900	5 786	5 378	9 372
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 for the year is as follows:

	2012	2011	2010	2009	2008
Balance at beginning of year	**47 255**	42 807	39 253	34 402	33 199
Interest cost	**3 603**	3 351	3 232	3 213	2 634
Current service cost	**2 091**	1 979	1 982	1 863	1 680
Benefits paid	**(7 343)**	(5 824)	(4 103)	(3 113)	(1 453)
Contributions by plan participants (employees)	**719**	790	758	790	(798)
Benefit increase	**-**	-	688	-	-
Actuarial (gain)/loss on obligation	**(2 315)**	4 152	999	2 098	(860)
Balance at end of year	**44 010**	47 255	42 809	39 253	34 402

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

	2012	2011	2010	2009	2008
Balance at beginning of year	**50 155**	48 593	44 631	43 775	38 710
Expected return on plan assets	**4 264**	4 204	4 184	3 889	3 427
Contributions received	**1 683**	1 970	1 870	1 962	1 616
Benefits paid	**(7 343)**	(5 824)	(4 105)	(3 113)	(2 902)
Investment gain/(loss) on assets	**2 410**	2 128	2 013	(1 881)	2 923
Balance at end of year	**51 169**	51 071	48 593	44 631	43 775

Amounts recognised in the income statement are as follows:

	2012	2011	2010	2009	2008
Current service cost	**2 091**	1 979	1 982	1 863	1 680
Interest cost	**3 603**	3 350	3 230	3 213	2 634
Expected return on plan assets	**(4 264)**	(4 204)	(4 184)	(3 889)	(3 427)
Benefit increase	**-**	-	689	-	399
Recognised actuarial (gains)/losses	**(702)**	24	(2 412)	(15)	78
	728	1 149	(695)	1 172	1 364

Plan Assets Portfolio:

	2012	2011	2010	2009	2008
Investment Assets	**53 707**	51 817	51 602	46 151	45 437
Net Current Liabilities	**(2 535)**	(1 662)	(3 009)	(1 521)	(1 661)
	51 172	50 155	48 593	44 630	43 776
Effective rate of return on plan assets (Actual)	**9.00%**	10.16%			

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

	2012	2011
Discount rate (Annualised Yield on R157)	**8.00%**	8.00%
Expected rate of return on plan assets	**9.00%**	9.00%
Future salary increases (Inflation plus 1%)	**7.30%**	7.30%
Inflation (Difference in Annualised Yield between R186 and R197)	**6.30%**	6.30%

Sensitivity Analysis (Fund Liability)	**Change**	2012	2011
At valuation assumptions:		**40 706**	47 255
Discount rate	+1%	**39 050**	45 267
	-1%	**42 532**	49 451
Expected rate of salary increases	+1%	**42 086**	48 931
	-1%	**39 447**	45 021
No salary increases		**33 832**	38 810

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Corporation				
	2012 R'000	2011 R'000 Restated	2010 R'000 Restated	2009 R'000 Restated	2008 R'000 Restated

16. EMPLOYEE BENEFITS (CONTINUED)

16.2 Pension and Provident Fund Schemes (continued)
16.2.2 Defined Benefit Provident Fund (continued)
Amounts recognised in the balance sheet are as follows:

	2012	2011	2010	2009	2008
Present value of funded obligations	**26 145**	28 278	24 809	23 246	20 373
Fair value of plan assets	**(30 399)**	(30 013)	(28 163)	(26 431)	(25 924)
	(4 254)	(1 735)	(3 354)	(3 185)	(5 550)
Unrecognised actuarial gain	**4 254**	1 735	3 354	3 185	5 550
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 for the year is as follows:

	2012	2011	2010	2009	2008
Balance at beginning of year	**28 278**	24 809	22 749	20 373	19 661
Interest cost	**2 140**	2 005	1 872	1 903	1 560
Current service cost	**1 036**	1 184	1 149	1 103	995
Benefits paid	**(4 362)**	(3 485)	(2 378)	(1 844)	(1 718)
Contributions by plan participants (employees)	**427**	473	439	468	386
Benefit increase	**-**	-	399	-	-
Actuarial (gain)/loss on obligation	**(1 375)**	3 292	579	1 243	(509)
Balance at end of year	**26 144**	28 278	24 809	23 246	20 373

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

	2012	2011	2010	2009	2008
Balance at beginning of year	**30 013**	28 162	25 866	25 924	22 924
Expected return on assets	**2 315**	2 516	2 425	2 303	2 030
Contributions received	**1 000**	1 179	1 085	1 162	957
Benefits paid	**(4 362)**	(3 485)	(2 379)	(1 844)	(1 718)
Investment gain/(loss) on assets	**1 433**	1 641	1 166	(1 114)	1 731
Balance at end of year	**30 399**	30 013	28 163	26 431	25 924

Amounts recognised in the income statement are as follows:

	2012	2011	2010	2009	2008
Current service cost	**1 242**	1 184	1 149	1 103	995
Interest cost	**2 140**	2 005	1 872	1 903	1 560
Expected return on plan assets	**(2 533)**	(2 516)	(2 425)	(2 303)	(2 030)
Benefit increase	**-**	-	399	-	-
Recognised actuarial (gains)/losses	**(417)**	(75)	(1 398)	(9)	46
	432	598	(403)	694	571

Plan Assets Portfolio:

	2012	2011	2010	2009	2008
Investment Assets	**31 905**	31 008	29 907	27 331	26 908
Net Current Liabilities	**(1 506)**	(995)	(1 744)	(901)	(984)
	30 399	30 013	28 163	26 430	25 924

	2012	2011
Effective rate of return on plan assets (Actual)	**9.98%**	4.60%

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

	2012	2011
Discount rate (Annualised Yield on R157)	**8.00%**	8.30%
Expected rate of return on plan assets	**9.00%**	9.00%
Future salary increases (Inflation plus 1%)	**7.30%**	6.90%
Inflation (Difference in Annualised Yield between R186 and R197)	**6.30%**	5.90%

Sensitivity Analysis (Fund Liability)	**Change**	2012	2011
At valuation assumptions:		**26 145**	23 246
Discount rate	+1%	**25 081**	22 126
	-1%	**27 318**	24 491
Expected rate of salary increases	+1%	**27 031**	24 351
	-1%	**25 336**	22 252
No salary increases		**21 730**	18 072

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

		Group		Corporation	
		2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

16. EMPLOYEE BENEFITS (CONTINUED)

		Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
16.3 Long service obligation					
Balance at beginning of year		**16 129**	12 634	**8 576**	6 702
Expensed during the year		**3 512**	2 807	**1 881**	1 508
Contributions paid		**(1 614)**	(1 560)	**(821)**	(967)
Unrecognised actuarial gain		**1 018**	2 248	**407**	1 333
Balance at end of year		**19 045**	16 129	**10 043**	8 576
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations		**17 749**	13 647	**9 636**	7 243
Unrecognised actuarial gain		**1 296**	2 482	**407**	1 333
Liability at end of year		**19 045**	16 129	**10 043**	8 576
Amounts recognised in the income statement are as follows:					
Current service cost		**2 326**	1 823	**1 239**	996
Interest cost		**1 203**	970	**642**	512
Net actuarial gain recognised in the year		**1 018**	2 256	**407**	1 333
		4 547	5 049	**2 288**	2 841
Membership statistics:					
In-service members		**892**	920		
Sensitivity Analysis - unfunded accrued liability					
Assumptions	**Change**				
Central assumptions:		**18 725**	15 890		
CPI Inflation	+1%	**19 877**	16 859		
	-1%	**17 677**	15 008		
Average retirement age	-2 years	**16 332**	13 972		
	+2 years	**20 833**	17 575		
Withdrawal rates	-50%	**22 881**	19 334		

17. DEFERRED INCOME - GOVERNMENT GRANTS

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
BEE Risk fund	**13 873**	21 496	**13 873**	21 496
Share participation	**13 972**	13 972	**13 972**	13 972
Co-operatives - Business	**46 154**	46 721	**46 154**	46 721
Co-operatives - Agriculture	**13 490**	18 489	**13 490**	18 489
Business Support	**-**	1 904	**-**	1 904
Richards Bay IDZ	**-**	130 087	**-**	-
Ithala Equity Fund	**93 105**	93 106	**93 105**	93 106
KZN Growth Fund	**321 699**	321 699	**321 699**	321 699
Department of Economic Development and Tourism	**163 258**	-	**163 258**	-
Ithala Limited Share Capital	**40 000**	40 000	**-**	-
Grants received not yet applied	**705 551**	687 474	**665 551**	517 387

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
18. ACCOUNTS PAYABLE				
Trade creditors	**15 997**	17 388	**10 544**	10 951
Accruals	**24 433**	216 678	**23 120**	63 121
South African Revenue Services	**5 659**	1 992	**2 023**	2 874
Accrual for audit fee	**5 185**	5 685	**2 162**	2 275
Sundry creditors	**95 693**	48 132	**75 467**	27 674
Accrual for leave pay	**23 700**	18 648	**13 644**	10 244
Accrual for bonus pay	**2 700**	2 609	**1 252**	1 171
	173 367	311 132	**128 212**	118 310
19. INTEREST				
19.1 Interest income				
Balances with banks and short-term funds	**63 257**	73 189	**16 485**	17 829
Advances	**214 575**	216 880	**83 709**	83 194
Other	**1 004**	2 749	**1 004**	1 986
	278 836	292 818	**101 198**	103 009
Analysis per financial instrument category				
Interest on financial assets at amortised cost	**214 575**	216 880	**83 709**	83 194
Interest on financial assets at fair value	**64 260**	75 938	**17 489**	19 815
	278 836	292 818	**101 198**	103 009
19.2. Interest expenditure				
Interest on:				
Savings and deposit accounts	**55 538**	59 078	**-**	-
Borrowings	**9 516**	14 544	**9 516**	14 499
Other	**4 440**	4 435	**4 266**	4 297
	69 494	78 057	**13 782**	18 796
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	**69 494**	78 057	**13 782**	18 796

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
20. OTHER OPERATING INCOME	**860 006**	857 025	**659 634**	674 078
Other operating income is stated after crediting the following items:				
20.1. Surplus/(Deficit) on sale of investment properties and property, plant and equipment	**(641)**	(1 528)	**631**	(1 464)
20.2. Profit on valuation of listed investments	**113**	2 191	**113**	2 191
20.3. Dividends received				
Listed investments	**1 077**	1 081	**1 077**	1 081
20.4. Grants applied	**182 471**	245 960	**182 471**	225 962
20.5. Interest received				
Associated companies	**-**	96	**-**	96
Sale of Glenrand MIB shares	**25**	-	**25**	-
20.6 Rental received	**249 480**	217 401	**226 344**	194 764
20.7 Sale of electricity, water and sewerage	**186 886**	156 718	**186 886**	156 718
20.8 Service fees recovered	**138 581**	130 171	**2 297**	7 426
20.9 Fee and commission income*	**65 549**	63 833	**29 087**	36 000

* 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		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
21. OPERATING EXPENDITURE	**803 258**	888 401	**525 283**	597 053
Operating expenditure is stated after charging/(crediting) the following items:				
21.1. Auditor's remuneration				
Audit fees - current year	**7 031**	6 882	**2 640**	2 596
- prior year under provision	**(314)**	578	**-**	-
	6 717	7 460	**2 640**	2 596
21.2. Depreciation of investment properties and property, plant and equipment	**43 171**	40 742	**24 522**	23 691
21.3. Amortisation of intangible assets	**6 944**	5 660	**6 232**	5 529
21.4. Non-credit related impairments				
Inventory	**-**	19 442	**-**	19 442
Amounts due from subsidiaries	**-**	-	**5 747**	16 572
Amounts due from associated companies	**(124)**	-	**(124)**	-
Investment properties	**(15 196)**	37 007	**(15 196)**	37 007
Intangible assets	**-**	32 403	**-**	-
	(15 320)	88 852	**(9 575)**	73 021
21.5. Professional fees	**12 794**	15 541	**10 224**	12 406
21.6. Operating leases	**18 113**	18 267	**991**	3 690

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
21. OPERATING EXPENDITURE (CONTINUED)				
21.7 Directors' emoluments				
Chief Executives				
DSD Shabalala - (Resigned 31/07/2011)	**2 464**	1 953	**2 464**	1 953
SE Madondo - Acting Chief Executive Officer	**2 070**	1 808	**2 070**	1 808
YEN Zwane (Appointed 01/12/2011)	**667**	-	**667**	-
Chief Executives	**5 201**	3 761	**5 201**	3 761
Emoluments paid to Non-Executive Directors for the year:				
MSV Gantsho - Chairperson (Appointed 01/06/2011)	**668**	-	**668**	-
DK Golding - Deputy Chairperson (Resigned 29/03/2012)	**502**	-	**392**	-
AN Zondi	**366**	562	**207**	381
AN Matyumza (Appointed 01/06/2011 - Corporation)	**465**	302	**265**	-
B Bam	**265**	81	**265**	81
D McLean	**975**	399	**314**	148
DB Mnganga (Resigned 31/10/2010)	**-**	156	**-**	-
GNJ White (Appointed 01/06/2011)	**282**	-	**282**	-
G Simelane	**155**	-	**-**	-
M Kekana	**203**	178	**203**	178
M Mia	**220**	147	**-**	-
MM Buthelezi	**668**	502	**-**	-
MC Clark	**185**	209	**-**	-
N Khambule	**395**	171	**291**	171
NN Afolayan	**280**	148	**280**	148
PD Christianson (Appointed 01/01/2012)	**84**	-	**-**	-
PF Lugayeni (Resigned 31/12/2011)	**208**	222	**-**	-
R Morar (Resigned 31/03/2011)	**32**	313	**8**	166
RS Garach	**254**	156	**-**	-
S Ngidi (Appointed 01/06/2011)	**175**	-	**-**	-
S Nzuza	**258**	190	**-**	-
V Padayachee (Resigned 28/05/2010)	**-**	35	**-**	35
W Jacobs	**274**	140	**274**	140
	6 913	3 911	**3 448**	1 448
21.8 Executive management remuneration				
AMA Ramavungha (Resigned 31/01/2012)	**1 052**	706	**-**	-
B Ntshangase	**765**	733	**-**	-
BTT Mathe (Appointed 10/01/2011)	**1 867**	-	**1 734**	-
L Reynolds-Venter	**997**	899	**274**	-
LL Ntuane (Resigned 28/04/2011)	**208**	1 254	**208**	1 254
M Maharaj (Resigned 31/05/2011)	**193**	-	**-**	-
M Ngwenya (Appointed 01/02/2012)	**183**	-	**-**	-
MG Mashao (Resigned 30/04/2012)	**1 485**	1 329	**1 485**	1 329
MM Matibe (Appointed 01/12/2011)	**481**	-	**481**	-
NF Ngobese (Appointed 01/02/2012)	**63**	-	**-**	-
NLB Radebe (Resigned 31/10/2010)	**-**	690	**-**	690
NM Dlamini	**1 017**	942	**-**	-
P Ireland (Appointed 01/05/2011)	**1 295**	-	**1 295**	-
P Mahamba	**561**	709	**561**	709
PN Baloyi (Resigned 10/05/2012)	**1 040**	1 018	**-**	-
PN Salanje	**955**	940	**-**	-
RS Aniff (01/07/2011 to 31/12/2011)	**385**	-	**-**	-
S Adam (Appointed 01/03/2012)	**129**	-	**-**	-
SR Mpofu	**1 158**	1 003	**-**	-
VA Gumede (Appointed 06/07/2011)	**508**	-	**-**	-
VP Misra (Terminated 16/05/2012)	**2 091**	2 133	**-**	-
VSM Nxasana (Resigned 30/11/2011)	**1 188**	1 436	**1 188**	1 436
Y Dockrat	**1 432**	433	**-**	-
ZK Beshe (Appointed 01/01/2012)	**216**	-	**-**	-
	19 269	14 225	**6 951**	5 418
21.9 Personnel costs	**287 612**	291 119	**169 760**	168 807

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
21. OPERATING EXPENDITURE (CONTINUED)				
21.10 Contribution to retirement benefit schemes**				
Defined benefit schemes	**1 981**	4 814	**1 127**	3 063
Defined Contribution schemes	**13 333**	10 309	**7 948**	6 090
	15 314	15 123	**9 075**	9 153
**Includes contributions paid on behalf of key management personnel	**1 602**	1 446	**1 030**	1 057
21.11 Value added taxation (not claimed)	**16 358**	12 897	**2 662**	5 646
22. TAXATION				
22.1 Indirect taxation				
Skills development levies	**2 174**	2 302	**1 352**	1 374
Duties	**-**	6	**-**	-
	2 174	2 308	**1 352**	1 374
22.2 Direct Taxation				
South African normal taxation	**3 584**	3 120	**-**	-
Deferred taxation	**636**	540	**-**	-
Secondary Tax on Companies	**205**	260	**-**	-
	4 425	3 920	**-**	-

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 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
23. NOTES TO CASH FLOW STATEMENT				
23.1 Cash generated from operating activities				
Net income before taxation	**102 063**	41 626	**79 717**	49 923
Adjustment for non-cash items:				
Finance costs landfill sites	**4 089**	4 505	**4 089**	4 505
Straightlining of lease rentals	**1 092**	(737)	**2 925**	3 156
Depreciation and amortisation	**50 115**	46 402	**30 754**	29 220
Impairment of assets and inventory	**(15 196)**	88 852	**(15 196)**	56 449
Credit impairment for loans and advances	**148 370**	136 916	**139 162**	107 017
Loss from subsidiaries and associates	**(124)**	-	**5 621**	16 572
(Profit)/Loss on disposal of assets	**2 146**	3 646	**(631)**	1 464
Post-retirement medical provision	**6 255**	4 782	**4 360**	3 488
Long service obligation provided and actuarial gains	**4 530**	5 055	**2 288**	2 841
Movement in other provisions	**(4 975)**	1 987	**(4 555)**	2 682
Revaluation of shares	**(113)**	(2 191)	**(113)**	(2 191)
	298 253	330 843	**248 421**	275 126
23.2 (Increase)/Decrease in working capital				
Trade and other payables	**(138 863)**	124 086	**9 902**	(13 237)
Trade and other receivables	**128 753**	(50 392)	**49 297**	(43 337)
Inventory and contracts in progress	**(1 119)**	134	**(330)**	(143)
	(11 229)	73 828	**58 868**	(56 717)
23.3 Taxation paid				
Opening balance	**868**	618	**-**	-
Charge for the year	**3 789**	3 380	**-**	-
Closing balance	**(1 967)**	(868)	**-**	-
Taxation paid	**2 690**	3 130	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

24. COMMITMENTS

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
24.1 Capital commitment				
Authorised but not yet contracted	**81 043**	605 900	**62 303**	121 800
Authorised and contracted	**63 233**	39 111	**59 800**	29 116
	144 276	645 011	**122 103**	150 916
24.2 Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	**16 828**	13 714	**699**	690
From 1 - 5 years	**12 146**	21 803	**2 907**	2 951
Later than 5 years	**25 202**	25 857	**25 202**	25 857
Total future cash flows	**54 176**	61 374	**28 808**	29 498
Straight lining already accrued in balance sheet	**(6 952)**	(7 650)	**(5 476)**	(5 431)
Long Term Portion	**(5 901)**	(6 862)	**(5 440)**	(5 386)
Short Term Portion	**(1 051)**	(788)	**(36)**	(45)
Future expenses	**47 224**	53 724	**23 332**	24 067
Total commitments	**191 500**	698 735	**145 435**	174 983

ITHALA LIMITED

The Company as a lessee has entered into 17 (2011: 15) related party lease agreements with the Holding Company. These contracts, in aggregate, amount to R6.5 million (2011: R13.5 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 for the current financial year have been calculated on the original lease term. No renewal periods have been considered due to the uncertainties, amongst others, the amount to be paid on renewal, which is expected to be restructured on renewal.

KZN GROWTH FUND

The Company entered into a month to month lease agreement for the rental of office space with Redefine Properties Limited with effect from 1 January 2012. The monthly rental payable amounts to R50 570.

24.3. Finance lease commitments

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

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

	Up to 1 year R'000	1 year to 5 years R'000	Total R'000
Minimum lease payments	95 651	302 893	398 544
Finance cost	(40 038)	(62 013)	(102 051)
Present value	**55 613**	**240 880**	**296 493**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated

25. CONTINGENT LIABILITIES

25.1 Guarantees for:	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Loans by petrol companies to service station operators	-	148	-	148
Credit balance on ABSA current account*	**2 500**	2 500	**2 500**	2 500
South African Insurance Association	**3 000**	3 000	**3 000**	3 000
Eskom Guarantees	**6 052**	4 812	**5 971**	4 451
eThekwini Municipality	**111**	111	**111**	111
Various	-	209	-	209
Customs and Excise	**180**	180	**180**	180
KZN Provincial Government	**173**	173	**173**	173
Development and Services Board	**103**	103	**103**	103
Total	**12 119**	11 236	**12 038**	10 875

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

* The Corporation has ceded R2.5 million to ABSA Bank Limited as continuing security to cover balances favourable to the Bank.

25.1.1 ITHALA LIMITED

KZN Security Services

A claim was instituted against Ithala Limited by KZN Security Services during the 2008/2009 financial year based on early termination of a written service level agreement between both parties which was due to expire on 31 March 2009. KZN Security Services has further alleged that the agreement was to have been extended based on a verbal agreement between the Holding Company and KZN Security Services for a further three years until 31 March 2012. The claim has been quantified by the applicant at an amount of R2 842 820. The Company is opposing the application and as at the date of this report, the outcome of this legal dispute is still uncertain.

Mr P R Bele

A claim was instituted against the Company by Mr PR Bele. The claim is for damages allegedly resulting from wrong investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R325 000. The Company is opposing the application and as at the date of this report, the outcome of this legal dispute is still uncertain.

25.1.2 CORPORATION

Bhombe Chitey

A claim of R2.9 million for payment in respect of professional services rendered was instituted against Ithala Development Finance Corporation Limited. The Company is opposing the application and as at the date of this report, the outcome of this legal dispute is still uncertain.

26. DEFERRED TAXATION

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Deferred taxation liability comprises:				
- Provision for doubtful debts	**(338)**	(698)	-	-
- Provision for leave pay	-	(105)	-	-
- Straight-line rental debtors	**2 394**	2 075	-	-
- Provision for straight-line rental debtors	**(62)**	(19)	-	-
- Assessed losses	**(66)**	(90)	-	-
	1 927	1 163	-	-
The movement is reconciled as follows:				
Balance at beginning of year	**(1 163)**	(622)	-	-
Movement during the year:			-	
- Provision for doubtful debts	**(359)**	123	-	-
- Provision for leave pay	**(127)**	105	-	-
- Straight-line rental debtors	**(319)**	(608)	-	-
- Provision for straight-line rental debtors	**8**	(27)	-	-
- Wear and tear adjustment	-	(61)	-	-
- Assessed losses	**33**	(73)	-	-
	(1 927)	(1 163)	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

27. RELATED PARTIES

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

27.1 Loans to Members of Provincial Legislature, senior management of the Department of Economic Development and Tourism
Entities controlled or jointly controlled or significantly influenced by any individual referred to above:

	Loans Granted R'000	Outstanding Balance R'000	Arrears R'000	Specific impairment charge R'000	Security Amount R'000	Interest Received R'000
2012						
Corporation	**15 285**	**17 710**	**4 300**	**8 305**	**20 350**	**1 523**
2011						
Corporation	16 684	19 094	4 699	6 815	20 584	1 591

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 R'000	Outstanding Balance R'000	Arrears R'000	Specific impairment charge R'000	Security Amount R'000	Interest Received R'000
2012						
Corporation	**8 321**	**9 488**	**9 459**	**7 374**	**4 400**	**387**
Ithala Limited	**1 602**	**2 796**	**-**	**-**	**5 042**	**257**
2011						
Corporation	8 321	9 100	8 784	6 508	4 400	354
Ithala Limited	2 038	295	-	-	305	2

No specific credit impairments (2011: Nil) have been recognised in respect of housing loans to Eexecutive and Non-executive Directors at Ithala Limited. 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 arms length except for housing loans where all full time employees qualify for the prime overdraft rate less 1.75%.

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.

	2012 R'000	2011 R'000
Bank charges received	**(47)**	(39)
Interest paid on retention account	**32**	30
Interest paid on corporate account	**-**	713
Service fees	**643**	548
Rental	**3 672**	3 651
Recovery of operating expenses	**(2 608)**	(1 950)
Operating costs	**-**	112
Insurance commission	**(1 798)**	(965)
Remuneration	**9 137**	6 481
Short-term brokerage	**60**	194

The outstanding balances of the Current and Shareholders Loan accounts

Outstanding balance on savings and fixed deposits	**1 380**	1 519
Ithala Development Finance Corporation inter-company balance	**(23 989)**	(23 695)

During the financial year the Corporation waived cost recoveries amounting to R29.4 million (2011: R10.6 million) for services rendered to Ithala Limited. Details of movements in intercompany loans are disclosed in Annexure 2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

27. RELATED PARTIES (CONTINUED)

	Deposits due R'000	Interest expense R'000	Outstanding balance R'000	Fees received R'000
27.4 KwaZulu-Natal Provincial Government				
2012				
Group				
Local Municipalities	**23 160**	**1 350**	**-**	**-**
Department of Agriculture	**1 083**	**22**	**-**	**-**
Department of Human Settlement	**12 114**	**251**	**-**	**-**
Department of Education	**-**	**-**	**14 128**	**3 046**
Department of Health			**34 298**	**7 279**
Total	**36 357**	**1 623**	**48 426**	**10 325**
Corporation				
Department of Education	**-**	**-**	**14 128**	**3 046**
Department of Health	**-**	**-**	**34 298**	**7 279**
Total	**-**	**-**	**48 426**	**10 325**
2011				
Group				
Local Municipalities	53 002	3 113	-	-
Department of Agriculture	1 062	22	-	-
Department of Human Settlement	12 437	262	-	-
Department of Education	-	-	14 128	6 543
Department of Health	-	-	34 298	7 045
Total	66 501	3 397	48 426	13 588
Corporation				
Department of Education	-	-	14 128	6 543
Department of Health	-	-	34 298	7 045
Total	-	-	48 426	13 588

28. PRIOR YEAR ERRORS

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
28.1 Insurance				
Irrecoverable funeral expenses previously incorrectly expensed but rectified during the year.				
Effect on Statement of Financial Position:				
Decrease in accounts payable	-	(3 247)	-	(3 247)
Effect on Statement of Comprehensive Income:				
Increase in income	-	3 247	-	3 247

28.2 Ntingwe Tea (Pty) Ltd

In terms of an agreement between Ithala and KwaZulu-Natal Department of Agriculture and Environment Affairs, Ithala is to provide ongoing management support to Ntingwe Tea (Pty) Ltd from 1 April 2003 and for as long as Ithala is an investor in the company. However in prior years management costs were incorrectly charged to Ntingwe Tea (Pty) Ltd and not absorbed by Ithala resulting in operating expenditure being understated.

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Increase in accounts receivable	1 186	4 000	1 186	4 000
Impairment of investment	-	287	-	287
Effect on Statement of Comprehensive Income:				
Increase in salary costs	(1 186)	(4 000)	(1 186)	(4 000)
Increase in impairment charge	-	(287)	-	(287)

28.3 Insurance Cell Captive

Ithala entered into a cell captive agreement with Mutual & Federal Insurance Company that regulates the running of the cell in line with the regulatory requirement imposed by the Financial Services Board. A Cell Captive is a legal method enabling a non-insurance entity to share in the insurance license of an insurance company. The Cell Captive is embodied as a special purpose vehicle and all assets and liabilities belong to the Corporation. The Cell Capitive has been consolidated into the Corporation's accounts for the first time in the current financial year and comparatives have been accordingly restated.

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Decrease/(Increase) in insurance fund	45	(4 669)	-	-
Increase in creditors and accounts payable	(381)	(355)	-	-
Increase in cash and cash equivalents	453	10 608	-	-
Increase in retained income	(1 616)	(4 084)	-	-
Effect on Statement of Comprehensive Income:				
Increase in interest income	472	980	-	-
Increase in operating income	10 763	15 172	-	-
Increase in operating expenses	(8 202)	(9 897)	-	-
Increase in taxation expenses	(1 417)	(2 171)	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000

28. PRIOR YEAR ERRORS (CONTINUED)

28.4 Capitalisation of Landfill Site Restoration Costs

Ithala owns two landfill sites at the industrial estates and in terms of International Accounting Standard (IAS 16) on Property, Plant and Equipment, the cost of restoring the landfill site should have been capitalised to the asset at the time of acquisition and in terms of IAS 37 on Provisions, Contingent Liabilities and Contingent Assets, a liability for the restoration costs should have been raised. This was however not done due to an oversight by management.

The financial effect of this error is as follows:

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Increase in property, plant and equipment - Cost	208	10 807	208	10 807
Increase in property, plant and equipment - Accumulated Depreciation	(485)	(8 588)	(485)	(8 588)
Increase in long term liability	(4 505)	(40 922)	(4 505)	(40 922)
Effect on Statement of Comprehensive Income:				
Increase in depreciation	(485)	(8 588)	(485)	(8 588)
Increase in finance costs	(4 297)	(30 115)	(4 297)	(30 115)

28.5 Capitalisation of Operating Costs

During the year under review management discovered that certain operating costs were erroneously capitalised to Work In Progress.

The financial effect of this error is as follows:

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Decrease in Property Plant and Equipment: Work-In-Progress	(2 382)	-	(2 382)	-
Decrease in Inventory: Contracts-In Progress	(1 969)	-	(1 969)	-
Decrease in Impairment of Property Plant and Equipment	2 382	-	2 382	-
Decrease in Inventory Write down to Net Realisable Value	1 969	-	1 969	-
Effect on Statement of Comprehensive Income:				
Increase in operating expenditure	4 351	-	4 351	-
Decrease in impairment charge	(4 351)	-	(4 351)	-

28.6 Leasehold Properties

Ithala entered into a 50 year lease agreement with Shell South Africa (Pty) Ltd in December 1988. The leasehold buildings on this site were erroneously depreciated over 10 years instead of 50 years being the lease term. The property is however impaired as no income has been received since March 2001.

The financial effect of this error is as follows:

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Decrease in Accumulated Depreciation - Leasehold Buildings	-	9 407	-	9 407
Increase in Impairment - Leasehold Buildings	-	(9 407)	-	(9 407)

Effect on Statement of Comprehensive Income:

None

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000

28. PRIOR YEAR ERRORS (CONTINUED)

28.7 VAT Review

During the current year, an expert was appointed to review the Value added taxation (VAT) apportionment percentage used during the past five years up to the 2011 financial year. The prior year results were restated for the effect of VAT incorrectly accounted for in those years.

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Increase/(Decrease) in Accounts Payable	(844)	1 448	264	2 666
Effect on Statement of Comprehensive Income:				
Decrease/(Increase) in VAT expense	844	(1 448)	(264)	(2 666)

28.8 Post Retirement Medical Aid

During the current year, the actuarial valuations of the retirement benefit obligations were re-performed for prior years as a result of incorrect treatment of in service members. The impact of the revaluation is reflected below:

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Effect on Statement of Financial Position:				
Increase/(Decrease) in provision for post retirement medical aid	516	(2 448)	(65)	(1 677)
Effect on Statement of Comprehensive Income:				
Decrease/(Increase) in post retirement medical aid expenses	(516)	2 448	65	1 677

28.9 Reconciliation of the Impact on Retained Income

	Group 2011 R'000	Group 2010 R'000	Corporation 2011 R'000	Corporation 2010 R'000
Restated retained income/retained income as previously reported	614 691	649 481	553 319	594 050
Income attributable to shareholder as previously stated	41 941	-	56 091	-
Funeral expenses	-	3 247	-	3 247
Insurance cell captive	1 616	4 084	-	-
Value added taxation (VAT)	846	(1 448)	(264)	(2 666)
Finance cost - land fill restoration	(4 297)	(30 115)	(4 297)	(30 115)
Depreciation - land fill site	(486)	(8 587)	(486)	(8 587)
Post retirement medical aid	(516)	2 448	65	1 677
Audit fees KZN Growth Fund Managers	(134)	(132)	-	-
Audit fees Ubuciko	(10)	-	-	-
Ntingwe Tea (Pty) Ltd - impairment of investment	-	(287)	-	(287)
Ntingwe Tea (Pty) Ltd - salary costs	(1 186)	(4 000)	(1 186)	(4 000)
Restated retained income	652 465	614 691	603 242	553 319

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

29. CHANGE IN ESTIMATES

29.1 Property, Plant and Equipment

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

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Effect on Statement of Financial Position:				
Increase in Net Book Value - Equipment	1 100	1 376	-	-
Effect on Statement of Comprehensive Income:				
Decrease in depreciation	(1 100)	(1 376)	-	-

29.2 Value Added Taxation (VAT)

VAT inputs are claimed in terms of an apportionment percentage. During the current year, the percentages used for the five years to 2011 were reviewed. The effect of the change in estimate is as follows:

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Effect on Statement of Financial Position:				
Decrease in Accounts Payable	(2 166)	-	-	-
Effect on Statement of Comprehensive Income:				
Increase in Sundry Income	2 166	-	-	-

30. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure of R90k (2011: R8.8k) was incurred due to suppliers imposing interest on Ithala as a result of late payment of invoices, whilst R4k was incurred due to an incorrect policy supplied to actuaries requiring additional work and R33k incurred in obtaining a new share certificate due to the original being lost.

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

There were no subsequent events which affected the statement of financial position.

32. IRREGULAR EXPENDITURE

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Opening balance	**19 079**	3 461	**-**	-
Add: Irregular Expenditure – current year	**6 784**	19 847	**3 033**	4 229
Less: Amounts condoned	**(24 830)**	(4 229)	**(2 000)**	(4 229)
Less: Amounts recoverable (not condoned)	**-**	-	**-**	-
Less: Amounts not recoverable (not condoned)	**-**	-	**-**	-
Irregular Expenditure awaiting condonation	**1 033**	19 079	**1 033**	-

Analysis of expenditure awaiting condonation per age classification

	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Current year	**1 033**	15 618	**1 033**	-
Prior years	**-**	3 461	**-**	-
Total	**1 033**	19 079	**1 033**	-

Details of Irregular Expenditure – Current year

Incident	**Disciplinary steps taken/ criminal proceedings**	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Non-compliance with supply chain management policies	None taken to date as matter is still under investigation	**3 930**	5 282	**987**	4 229
Non-compliance with supply chain management policies	To be forwarded to Board for condonation	**2 390**	14 565	**1 582**	-
Non-compliance with supply chain management policies	Employee dismissed	**464**	-	**464**	-
Total		**6 784**	19 847	**3 033**	4 229

Incident	**Condoned by (condoning authority)**	Group 2012	Group 2011	Corporation 2012	Corporation 2011
Non-compliance with supply chain management policies	Accounting Authority	**24 830**	4 229	**2 000**	4 229
Total		**24 830**	4 229	**2 000**	4 229

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

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.

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.

Ithala's credit approval is graduated, where increasing magnitudes of credit transactions require higher levels of authorisation. Each credit application is evaluated on its own merits depending on the value and type of transaction under consideration, maybe considered progressively by Delegated Line function, Management Credit Committee and the Board Credit and Investment Committee. The transaction-based approach is in keeping with Ithala's risk management strategy throughout the Group while ensuring compliance with credit policies set by the Board.

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

Credit Risk Concentration

The Group does not have significant exposure to any single counterparty or to any group of counterparties with similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and non-derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk exposure

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

	Group		Corporation	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Assets	**4 169 154**	4 315 203	**2 035 988**	1 850 128
Loans and advances	**2 211 632**	2 234 937	**903 019**	937 423
Investments	**12 069**	13 456	**12 069**	13 456
Trade and other receivables	**157 990**	286 743	**158 833**	208 130
Statutory liquid funds	**116 275**	104 473	**-**	-
Cash and cash equivalents**	**1 671 188**	1 675 594	**962 066**	691 119
On-Balance Sheet Exposure	**4 169 154**	4 315 203	**2 035 988**	1 850 128

** Corporation balance includes R359.8 million (2011: R380.3 million) held on behalf of KZN Growth Fund Trust.

	Group 2012 R'000	Group 2011 R'000	Corporation 2012 R'000	Corporation 2011 R'000
Credit risk exposures relating to off-balance sheet items are as follows:				
Loan Commitments:	**108 317**	147 731	**90 773**	132 935
Housing and Commercial Property	**17 544**	14 796	**-**	-
Agri and Agro Processing	**18 568**	35 957	**18 568**	35 957
Construction and Tourism	**16 435**	43 242	**16 435**	43 242
Manufacturing	**19 815**	27 490	**19 815**	27 490
Trade and Services	**35 955**	26 246	**35 955**	26 246
Off-Balance Sheet Exposure	**108 317**	147 731	**90 773**	132 935

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Group					
	2012			2011		
	Original Carrying Amount R'000	Impairment R'000	Revised Carrying Amount R'000	Original Carrying Amount R'000	Impairment R'000	Revised Carrying Amount R'000
Analysis of impairment provisions per sector						
Housing and Commercial Property	**1 267 017**	**94 388**	**1 172 629**	1 140 697	97 238	1 043 459
Micro finance - secured	**23 405**	**7**	**23 398**	23 234	234	23 000
Micro finance - unsecured	**18 192**	**10 155**	**8 037**	23 256	10 440	12 816
Agri and Agro Processing	**362 678**	**119 448**	**243 230**	342 298	92 350	249 948
Construction and Tourism	**177 761**	**85 428**	**92 333**	219 796	95 222	124 574
Manufacturing	**147 928**	**70 579**	**77 349**	208 765	149 514	59 251
Trade and Services	**178 288**	**74 709**	**103 579**	242 390	135 764	106 626
Personnel	**5 701**	**175**	**5 526**	5 500	128	5 374
Co-operatives	**30 662**	**28 826**	**1 836**	29 001	24 749	4 252
	2 211 632	**483 715**	**1 727 917**	2 234 937	605 639	1 629 298

	Corporation					
	2012			2011		
	Original Carrying Amount R'000	Impairment R'000	Revised Carrying Amount R'000	Original Carrying Amount R'000	Impairment R'000	Revised Carrying Amount R'000
Agri and Agro Processing	**362 678**	**119 448**	**243 230**	336 587	92 350	244 237
Construction and Tourism	**177 761**	**85 428**	**92 333**	219 796	95 222	124 574
Manufacturing	**147 928**	**70 579**	**77 349**	104 149	39 748	64 401
Trade and Services	**178 288**	**74 709**	**103 579**	242 390	135 764	106 626
Personnel	**5 702**	**176**	**5 526**	5 500	128	5 372
Co-operatives	**30 662**	**28 826**	**1 836**	29 001	24 749	4 252
	903 019	**379 166**	**523 853**	937 423	387 961	549 462

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Individually Assessed Exposures

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

	Group 2012			
	Loan Balance R'000	**Impairment R'000**	**Carrying Amount R'000**	**Collateral R'000**
Housing and Commercial Property	**1 308 613**	**104 502**	**1 204 111**	**1 635 375**
Agri and Agro Processing	**59 733**	**53 303**	**6 430**	**28 230**
Construction and Tourism	**41 009**	**33 239**	**7 770**	**19 912**
Manufacturing	**42 773**	**38 571**	**4 202**	**16 498**
Trade and Services	**22 430**	**19 743**	**2 687**	**15 341**
Co-operatives	**6 277**	**6 277**	**-**	**485**
	1 480 835	**255 635**	**1 225 200**	**1 715 841**

	Group 2011			
	Loan Balance R'000	Impairment R'000	Carrying Amount R'000	Collateral R'000
Housing and Commercial Property	1 187 187	107 788	1 079 165	1 520 139
Agri and Agro Processing	15 857	11 262	4 595	11 525
Construction and Tourism	12 860	11 790	1 070	2 529
Trade and Services	4 185	2 849	1 336	3 329
Co-operatives	45 721	41 392	4 329	10 474
	1 265 810	175 081	1 090 495	1 547 996

	Corporation 2012			
	Loan Balance R'000	**Impairment R'000**	**Carrying Amount R'000**	**Collateral R'000**
Agri and Agro Processing	**59 733**	**53 303**	**6 430**	**28 230**
Construction and Tourism	**41 009**	**33 239**	**7 770**	**19 912**
Manufacturing	**42 773**	**38 571**	**4 202**	**16 498**
Trade and Services	**22 430**	**19 743**	**2 687**	**15 341**
Co-operatives	**6 277**	**6 277**	**-**	**485**
	172 222	**151 133**	**21 089**	**80 466**

	Corporation 2011			
	Loan Balance R'000	Impairment R'000	Carrying Amount R'000	Collateral R'000
Agri and Agro Processing	15 857	11 262	4 595	11 525
Construction and Tourism	12 860	11 790	1 070	2 529
Trade and Services	4 185	2 849	1 336	3 329
Co-operatives	45 721	41 392	4 329	10 474
	78 623	67 293	11 330	27 857

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk mitigation, collateral and other credit enhancements

The Group uses various techniques to reduce credit risk on its lending activities to an acceptable low level. The most fundamental technique is performing assessment on borrowers liquidity and solvency standing to assess borrowers ability to service the advanced amount without distress. In addition to measures used to reduce credit risk, the Group obtains collateral from borrowers which is held as security against the funds advanced. The Group holds the following collateral against the funds it has advanced.

Assets subject to credit risk on balance sheet	Type of collateral
Loans and advances to customers:	Bonds over Properties Equipment Fixed Deposit Certificates Cession over Life Assurance Cession over Income Cession over Shares Deeds of Suretyship

Valuation of collateral

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

	Group 2012 R'000	Group 2011 R'000	Corporation 2012 R'000	Corporation 2011 R'000
Housing and Commercial Property	**1 635 375**	1 520 139	**-**	-
Agri and Agro Processing	**426 007**	428 186	**426 007**	428 186
Construction and Tourism	**158 905**	215 659	**158 905**	215 659
Manufacturing	**125 319**	91 746	**125 319**	91 746
Trade and Services	**123 470**	149 350	**123 470**	149 350
Co-operatives	**3 914**	5 658	**3 914**	5 658
	2 472 990	2 410 738	**837 615**	890 599

Enforcement of collateral

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

	Group 2012 R'000	Group 2011 R'000	Corporation 2012 R'000	Corporation 2011 R'000
Properties in possession:				
Opening balance	**20 397**	23 578	**7 631**	10 458
Acquisitions	**5 756**	3 795	**3 917**	978
Disposals	**(9 869)**	(6 976)	**(5 894)**	(3 805)
Closing balance	**16 284**	20 397	**5 654**	7 631

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

Group 2012	< 30 days past due R'000	30-60 days past due R'000	60-90 days past due R'000	> 90 days past R'000	TOTAL R'000
Housing and Commercial Property	**25 637**	**7 045**	**8 319**	**20 096**	**61 097**
Personal Loans	**2 838**	**903**	**99**	**-**	**3 840**
Agri and Agro Processing	**455**	**387**	**894**	**2 051**	**3 787**
Construction and Tourism	**17**	**779**	**1 811**	**860**	**3 467**
Manufacturing	**36**	**45**	**67**	**111**	**259**
Trade and Services	**1**	**15 102**	**20**	**538**	**15 661**
Personnel	**1**	**-**	**1**	**-**	**2**
Co-operatives	**15**	**-**	**26**	**20**	**61**
	29 000	**24 261**	**11 237**	**23 676**	**88 174**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Group 2011				
	< 30 days past due R'000	30-60 days past due R'000	60-90 days past due R'000	> 90 days past R'000	TOTAL R'000
Housing and Commercial Property	-	14 528	9 506	35 095	87 128
Agri and Agro Processing	648	346	737	2 163	3 894
Construction and Tourism	268	463	34	1 498	2 263
Manufacturing	217	201	46	4	468
Trade and Services	15	107	73	1 318	1 513
Personnel	1	1	-	-	2
Co-operatives	-	-	-	14	14
	29 148	15 646	10 396	40 092	95 282

	Corporation 2012				
	< 30 days past due R'000	**30-60 days past due R'000**	**60-90 days past due R'000**	**> 90 days past R'000**	**TOTAL R'000**
Agri and Agro Processing	**455**	**387**	**894**	**2 051**	**3 787**
Construction and Tourism	**17**	**779**	**1 811**	**860**	**3 467**
Manufacturing	**36**	**45**	**67**	**111**	**259**
Trade and Services	**1**	**15 102**	**20**	**538**	**15 661**
Personnel	**1**	**-**	**1**	**-**	**2**
Co-operatives	**15**	**-**	**26**	**20**	**61**
	525	**16 313**	**2 819**	**3 580**	**23 237**

	Corporation 2011				
	< 30 days past due R'000	30-60 days past due R'000	60-90 days past due R'000	> 90 days past R'000	TOTAL R'000
Agri and Agro Processing		346	737	2 163	3 894
Construction and Tourism	268	463	34	1 498	2 263
Manufacturing	217	201	46	4	468
Trade and Services	15	107	73	1 318	1 513
Personnel	1	1	-	-	2
Co-operatives	-	-	-	14	14
	1 149	1 118	890	4 997	8 154

Loans and advances past due and impaired

	Group 2012				
	< 30 days past due R'000	**30-60 days past due R'000**	**60-90 days past due R'000**	**> 90 days past R'000**	**TOTAL R'000**
Housing and Commercial Property	**-**	**-**	**-**	**108 526**	**108 526**
Agri and Agro Processing	**-**	**-**	**-**	**62 289**	**62 289**
Construction and Tourism	**-**	**-**	**-**	**59 856**	**59 856**
Manufacturing	**-**	**-**	**-**	**37 439**	**37 439**
Trade and Services	**-**	**-**	**-**	**56 405**	**56 405**
Personnel	**-**	**-**	**-**	**106**	**106**
Co-operatives	**-**	**-**	**-**	**25 354**	**25 354**
	-	**-**	**-**	**349 975**	**349 975**

	Group 2011				
	< 30 days past due R'000	30-60 days past due R'000	60-90 days past due R'000	> 90 days past R'000	TOTAL R'000
Housing and Commercial Property				115 776	115 776
Agri and Agro Processing	-	-	-	59 585	59 585
Construction and Tourism	-	-	-	90 018	90 018
Manufacturing	-	-	-	31 118	31 118
Trade and Services	-	-	-	111 250	111 250
Personnel	-	-	-	69	69
Co-operatives	-	-	-	19 016	19 016
	-	-	-	426 832	426 832

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Corporation 2012				
	< 30 days past due R'000	**30-60 days past due R'000**	**60-90 days past due R'000**	**> 90 days past R'000**	**TOTAL R'000**
Agri and Agro Processing	-	-	-	**62 289**	**62 289**
Construction and Tourism	-	-	-	**59 856**	**59 856**
Manufacturing	-	-	-	**37 439**	**37 439**
Trade and Services	-	-	-	**56 405**	**56 405**
Personnel Loans	-	-	-	**106**	**106**
Co-operatives	-	-	-	**25 354**	**25 354**
	-	-	-	**241 449**	**241 449**

	Corporation 2011				
	< 30 days past due R'000	30-60 days past due R'000	60-90 days past due R'000	> 90 days past R'000	TOTAL R'000
Agri and Agro Processing	-	-	-	59 585	59 585
Construction and Tourism	-	-	-	90 018	90 018
Manufacturing	-	-	-	31 118	31 118
Trade and Services	-	-	-	111 250	111 250
Personnel	-	-	-	69	69
Co-operatives	-	-	-	19 016	19 016
	-	-	-	311 056	311 056

Fair value of collateral for loans past due and impaired

	Group		Corporation	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Housing and Commercial Property	**53 581**	155 432	**-**	-
Agri and Agro Processing	**120 926**	404 389	**120 926**	404 389
Construction and Tourism	**34 830**	208 629	**34 830**	208 629
Manufacturing	**30 175**	91 721	**30 175**	91 721
Trade and Services	**40 154**	138 569	**40 154**	138 569
Co-operatives	**3 550**	5 609	**3 550**	5 609
	283 216	1 004 349	**229 635**	848 917

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

	Group		Corporation	
	2012 R'000	2011 R'000	**2012 R'000**	2011 R'000
Continuing to be impaired after rescheduling:				
Agri and Agro Processing	**-**	253	**-**	253
Non–impaired after rescheduling – would otherwise have been impaired:				
Agri and Agro Processing	**3 973**	1 452	**3 973**	1 452
Manufacturing	**6 030**	-	**6 030**	-
Non–impaired after rescheduling – would otherwise not have been impaired:				
Agri and Agro Processing	**425**	39 795	**425**	39 795
Construction and Tourism	**-**	11 075	**-**	11 075
Trade and Services	**33 447**	360	**16 825**	-
	43 875	52 935	**27 253**	52 575

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Liquidity Risk

Liquidity risk is the risk that the Group will be unable to service payment obligations timeously or fund asset growth.
The Group Treasury function is responsible for the management of liquidity risk. Liquidity risk is monitored on a projected cash flow basis, incorporating ongoing review and assessment of assumptions applied and strategies in place to ensure that commitments are timeously funded.

The key focus areas in managing liquidity risk include inter alia:
. The continuous monitoring of actual and projected net cash flows;
. The maintenance of a liquidity "buffer" to fund unforeseen cash flows;
. Daily management of liquidity to support operations and fund asset growth;
. Periodic assessment of sources of funding to fund liquidity shortfalls; and
. Advising management on trends emerging from variance analysis to reassess where necessary business plans and assumptions.

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

	Group 2012				
	On demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Assets					
Loans and advances	74 061	121 129	128 071	738 684	1 149 687
Investments at fair value through profit and loss	12 069	-	-	-	-
Trade receivables	70 222	87 768	-	-	-
Statutory Liquid assets	116 275	-	-	-	-
Cash and Cash equivalents**	361 406	793 540	136 242	380 000	-
Total Assets	634 033	1 002 437	264 313	1 118 684	1 149 687
Financial Liabilities					
Borrowings	13 349	12 513	18 722	31 251	54 126
Liability to depositors	862 926	97 586	477 835	296 223	40 813
KZN Growth Fund Trust**	359 842	-	-	-	-
Trade payables	139 684	2 776	2 720	28 187	-
Total liabilities	1 375 801	112 875	499 277	355 661	94 939
Net liquidity excess/(shortfall)	(741 768)	889 562	(234 964)	763 023	1 054 748
Cumulative liquidity	(741 768)	147 794	(87 170)	675 853	1 730 601

** Corporation balance includes R359.8 million (2011: R380.3 million) held on behalf of KZN Growth Fund Trust.

	Group 2011				
	On demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Assets					
Loans and advances	79 140	139 961	245 540	728 858	1 041 438
Investments at fair value through profit and loss	13 456	-	-	-	-
Trade receivables	168 873	4 948	3 492	109 430	-
Statutory Liquid assets	104 473	-	-	-	-
Cash and Cash equivalents **	928 880	681 617	65 097	-	-
Total Assets	1 294 822	826 526	314 129	838 288	1 041 438
Financial Liabilities					
Borrowings	231	23 451	11 822	117 527	-
Liability to depositors	884 939	499 891	326 778	34 172	-
KZN Growth Fund Trust **	380 324	-	-	-	-
Trade payables	307 088	2 606	1 438	-	-
Total liabilities	1 572 582	525 948	340 038	151 699	-
Net liquidity excess/(shortfall)	(277 760)	300 578	(25 909)	686 589	1 041 438
Cumulative liquidity	(277 760)	22 818	(3 091)	683 498	1 724 936

** Corporation balance includes R380.3 million (2010: R408.0 million) held on behalf of KZN Growth Fund Trust.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Corporation 2012				
	On demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Assets					
Loans and advances	**66 643**	**86 311**	**87 312**	**428 861**	**233 892**
Investments at fair value through profit and loss	**12 069**	**-**	**-**	**-**	**-**
Trade receivables	**76 520**	**82 313**	**-**	**-**	**-**
Cash and Cash equivalents**	**66 066**	**386 000**	**130 000**	**380 000**	**-**
Total Assets	**221 298**	**554 624**	**217 312**	**808 861**	**233 892**
Financial Liabilities					
Borrowings	**13 349**	**12 513**	**18 722**	**31 251**	**51 987**
KZN Growth Fund Trust	**359 842**	**-**	**-**	**-**	**-**
Trade payables	**128 212**	**-**	**-**	**-**	**-**
Total liabilities	**501 403**	**12 513**	**18 722**	**31 251**	**51 987**
Net liquidity excess/(shortfall)	**(280 105)**	**542 111**	**198 590**	**777 610**	**181 905**
Cumulative liquidity	**(280 105)**	**262 006**	**460 596**	**1 238 206**	**1 420 111**

** Corporation balance includes R359.8 million (2011: R380.3 million) held on behalf of KZN Growth Fund Trust.

	Corporation 2011				
	On demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Assets					
Loans and advances	71 605	105 589	94 609	436 004	229 617
Investments at fair value through profit and loss	13 456	-	-	-	-
Trade receivables	118 148	40 685	-	-	-
Cash and Cash equivalents**	691 119	-	-	-	-
Total Assets	894 328	146 274	94 609	436 004	229 617
Financial Liabilities					
Borrowings	231	23 451	11 822	115 212	-
KZN Growth Fund Trust	380 324	-	-	-	-
Trade payables	118 310	-	-	-	-
Total liabilities	498 865	23 451	11 822	115 212	-
Net liquidity excess/(shortfall)	395 463	122 823	82 787	320 792	229 617
Cumulative liquidity	395 463	518 286	601 073	921 865	1 151 482

** Corporation balance includes R380.3 million (2010: R408.0 million) held on behalf of KZN Growth Fund Trust.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Contractual maturity analysis of financial liabilities

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

	Group 2012				
	On demand to 1 month R'000	**One to Six Months R'000**	**Six months to One year R'000**	**From 1 to 5 years R'000**	**After 5 years R'000**
Financial Liabilities					
Borrowings	**13 349**	**12 513**	**18 722**	**31 251**	**54 127**
Deposits due to customers	**870 414**	**90 098**	**477 835**	**296 223**	**40 813**
KZN Growth Fund Trust	**359 842**	**-**	**-**	**-**	**-**
Trade payables	**139 246**	**2 978**	**2 720**	**28 423**	**-**
Total Liabilities	**1 382 851**	**105 589**	**499 277**	**355 897**	**94 940**

	Group 2011				
	On Demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Liabilities					
Borrowings	231	23 451	11 822	117 527	-
Deposits due to customers	884 937	499 891	326 778	34 172	-
KZN Growth Fund Trust	380 324	-	-	-	-
Trade payables	307 088	2 606	1 438	-	-
Total Liabilities	1 572 580	525 948	340 038	151 699	-

	Corporation 2012				
	On demand to 1 month R'000	**One to Six Months R'000**	**Six months to One year R'000**	**From 1 to 5 years R'000**	**After 5 years R'000**
Financial Liabilities					
Borrowings	**13 349**	**12 513**	**18 722**	**31 251**	**51 987**
KZN Growth Fund Trust	**359 842**	**-**	**-**	**-**	**-**
Trade payables	**128 212**	**-**	**-**	**-**	**-**
Total Liabilities	**501 403**	**12 513**	**18 722**	**31 251**	**51 987**

	Corporation 2011				
	On Demand to 1 month R'000	One to Six Months R'000	Six months to One year R'000	From 1 to 5 years R'000	After 5 years R'000
Financial Liabilities					
Borrowings	231	23 451	11 822	115 212	-
KZN Growth Fund Trust	380 324	-	-	-	-
Trade payables	118 310	-	-	-	-
Total Liabilities	498 865	23 451	11 822	115 212	-

33.3 Interest rate risk

Interest rate risk refers to the potential adverse impact on earnings as a result of changes in interest rates. Yields on assets and liabilities are monitored monthly. In addition, interest rate shock analysis is performed to assess the sensitivity on net interest due to unanticipated movement in interest rates.

Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets are informed by the trends emerging from the review of interest rates and maturity profiles of assets and liabilities.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and IFRS 7.34(a) non-derivative instruments at balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable and possible change in interest rates. If interest rates had been 2% higher/lower and all other variables were held constant, the Group's Profit for the year ended 31 March 2012 would increase by R28.8 million (2011: R42.0 million) or decrease by R28.8 million (2011: R42.0 million). This is mainly attributable to the Group's exposure to interest on its variable financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 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. Fair value is determined by reference to stock exchange quoted bid prices. The Group applies a critical judgment of 5% on the valuation of these investments. If the valuation of the investment at year end had been 5% higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R67 280 (2011: R56 320).

33.5 Foreign exchange risk

The Group has no exposure to transactions or balances traded or denominated in foreign currencies.

34. CAPITAL MANAGEMENT – ITHALA LIMITED

Capital requirements

Tier I and Tier II capital comprises issued ordinary shares, share premium, (accumulated loss)/retained income and other regulatory adjustments such as deduction of intangible assets. (Accumulated loss)/retained income is appropriated to reserves in July annually, and as such the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets. The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

The primary objective of the Company's capital management strategy is to ensure compliance with the Regulator's requirements as well as the maintenance of a strong credit rating and healthy capital adequacy ratios required in order to support its business, maximise shareholder value and instil market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 12.14% (2011: 12.42%). The current year level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB).

Capital planning is an integral part of capital management. The Enterprise Risk Committee has been tasked with assisting the Board in discharging its capital management responsibility, and as such, should there be a need for additional capital, this Committee will drive the necessary processes in line with contingency capital planning.

	Regulatory limit	2012	2011 Restated
Capital Adequacy			
Capital Adequacy ratio	≥10.00%	**12.14%**	12.42%
Primary share capital and reserve funds adequacy ratio	≥7%	**11.33%**	11.63%

	2012 R'000	2011 R'000
Risk weighted assets		
Risk weighted assets	**936 034**	931 889
Risk weighted other assets	**92 700**	103 120
Operational risk	**428 243**	430 949
Total risk weighted assets	**1 456 977**	1 465 958
Capital Structure		
Share capital	**190**	190
Share premium	**189 810**	189 810
Reserves	**(21 398)**	29 741
Prescribed deductions against capital and reserve funds	**(3 481)**	(49 313)
Total tier 1 capital	**165 121**	170 428
Subordinated loan from shareholder	**-**	-
Less: Subordinated loan percentage restricted to 50% of primary capital	**-**	-
General provisions	**11 700**	11 648
Total Tier II capital	**11 700**	11 648
Total qualifying capital	**176 821**	182 076

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Group		Corporation	
	2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated

35. PROVISION FOR LANDFILL RESTORATION

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Balance at beginning of year	**45 426**	40 921	**45 426**	40 921
Finance costs	**4 089**	4 505	**4 089**	4 505
Utilised during the year	**(7 901)**	-	**(7 901)**	-
Balance at end of year	**41 614**	45 426	**41 614**	45 426

36. CELL CAPTIVE INSURANCE FUND

	Group 2012 R'000	Group 2011 R'000 Restated	Corporation 2012 R'000	Corporation 2011 R'000 Restated
Unearned premium provision	**5 284**	5 495	**-**	-
Re-insurance unearned provision	**(814)**	(980)	**-**	-
Deferred acquisition cost	**(1 031)**	(795)	**-**	-
Gross outstanding claims	**-**	266	**-**	-
Gross incurred but not reported	**747**	774	**-**	-
Re-insurance incurred but not reported	**(114)**	(136)	**-**	-
Balance at end of year	**4 072**	4 624	-	-

BORROWINGS – ANNEXURE 1

	Instalment	Date of final repayment	Interest rate %	Group		Corporation	
	R'000			2012 R'000	2011 R'000 Restated	2012 R'000	2011 R'000 Restated
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	11 309	2011	8.00	-	11 309	-	11 309
	4 672	2012	7.89	4 672	8 988	4 672	8 988
	2 762	2018	7.89	24 648	25 534	24 648	25 534
	5 679	2020	7.24	59 568	61 074	59 568	61 074
				88 889	106 905	88 889	106 905
Employer Housing Schemes							
Repayable in half-yearly instalments	18	2011	10.64	-	18	-	18
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	2 667	2016	6.00	16 393	19 475	16 393	19 475
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	231	2025	4.45	22 539	24 317	22 539	24 318
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	11.00	286	356	-	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	11.00	69	176	-	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment	-	-	-	1 784	1 784	-	-
Total borrowings				129 961	153 031	127 822	150 716

SUBSIDIARIES – ANNEXURE 2

	Issued share capital		Percentage interest		Shares		Loans	
	2012	2011	2012	2011	2012 R'000	2011 R'000	2012 R'000	2011 R'000
UNLISTED								
Property Development								
Sundumbili Plaza Ltd	**7 570**	7 570	**98**	98	**7**	7	**20 862**	19 889
Nongoma Plaza Ltd	**48 016**	48 016	**99**	99	**47**	47	**24 593**	24 525
Sibaya Conservation Projects (Pty) Ltd	**1 900**	1 900	**-**	-	**-**	-	**-**	-
Durban Wharfside Trust	**-**	-	**100**	100	**6**	6	**32 585**	33 743
Richards Bay IDZ (Pty) Ltd	**-**	-	**-**	60	**-**	1	**-**	195
Other								
Ithala Ltd	**190 000 000**	190 000 000	**100**	100	**139 000**	139 000	**23 957**	2 997
Cowslip Investments (Pty) Ltd	**3 275**	3 058	**100**	100	**-**	-	**-**	-
Ubuciko Twines and Fabric (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-
KZN Growth Fund Managers (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-
					139 060	139 061	**101 997**	81 349

ASSOCIATED COMPANIES – ANNEXURE 3

	Number of shares held		Percentage holding		Shares		Loans	
	2012	2011	2012 %	2011 %	2012 R'000	2011 R'000	2012 R'000	2011 R'000
UNLISTED								
The Good Sugar Company SA (Pty) Ltd	**270**	270	**27**	27	**-**	-	**-**	-
Banzi Pan Development Co (Pty) Ltd	**826**	826	**42**	42	**-**	-	**-**	-
Rocktail Bay Devco (Pty) Ltd	**763**	763	**42**	42	**-**	-	**-**	-
Mabibi Devco (Pty) Ltd	**460**	460	**8**	8	**1**	1	**271**	639
Ntingwe Tea (Pty) Ltd	**384**	384	**38**	38	**-**	-	**-**	-
					1	1	**271**	639

LOAN MORTGAGE DISCLOSURE ACT – ITHALA LIMITED – ANNEXURE 4

Disclosure in terms of the Home Loan Mortgage Disclosure Act
The table below sets out the disclosure required in terms of the Home Loan Mortgage Act:

	Received	Approved	Declined	Disbursed
2012				
Number of applications	**8 581**	**969**	**7 406**	**437**
Value of applications (R)	**5 258 823 753**	**408 034 396**	**3 753 503 897**	**197 108 765**
2011				
Number of applications	7 832	685	6 360	497
Value of applications (R)	3 566 493 935	255 486 463	2 975 612 248	189 424 375
Total number of applications per race group				
2012				
African	**6 739**	**852**	**5 729**	**399**
Coloured	**196**	**10**	**180**	**6**
Indian	**942**	**70**	**853**	**20**
White	**675**	**36**	**617**	**12**
Other**	**29**	**1**	**27**	**-**
Total	**8 581**	**969**	**7 406**	**437**
2011				
African	6 169	615	4 949	452
Coloured	153	5	125	7
Indian	879	47	748	27
White	593	16	514	11
Other**	38	2	24	-
Total	7 832	685	6 360	497

Declines are due to lack of affordability, unacceptable credit record, insufficient documentation, unacceptable security and ineligible application.

** No racial grouping indicated by customer.

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED

2011/2012 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

STRATEGIC GOAL 1: FINANCIAL SUSTAINABILITY AND VIABILITY

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
To achieve financial excellence	Cost to income ratio.	103%	94.9%	Actual is better than budget as a result of lower than budgeted expenditure on maintenance of Properties as well as savings in salary costs.
	Debt to equity.	0.06 times.	0.07 times.	Actual is greater than budget as a result of retained income being lower than estimated resulting in lower equity figure. The debt balance remained the same.
	Return on assets.	4%	3.4%	Actual is lower than budget due to non-recognition of co-operatives grant income as a result of non-advancement of loans to co-operatives.
To raise funding for expansion and growth	Amount of external funding to be raised during the financial year in place.	Funding Plan completed at the end of August 2011.	Funding plan prepared and submitted to Board.	Achieved.
	Secured lines of credit.	May/Nov 2011.	Lines of credit secured. R50 million overdraft and R50 million daylight facility.	Achieved.
To prudently invest own capital (equity investment)	Return on investment.	Long term bond rate plus 1%. Submit business plan end of second quarter.	Not achieved.	This KPI was revised and put on hold due to financial constraints within Ithala.
Revenue Growth	Rental income.	R251 million.	R246 million collected.	Not achieved. Actual below budget.
	% growth in rental income.	9%	7.1%	Due to tough economic times (a) Properties could not increase rental as much as was anticipated; (b) high vacancy rates in some retail properties and in Ezakheni; and (c) some tenants who could not pay and are currently facing liquidations.
	Vacancy rate as a % of Gross Lettable Area (GLA).	15.1%	Vacancy rate of 15%.	Achieved.
Improve performance of loan book	% of non-performing loans to total book.	48%	41%	Achieved.
	Amount collected from the loan book.	R183 million.	R181.2 million.	Not achieved. Actual below budget.

STRATEGIC GOAL 2: DEVELOPMENTAL EFFECTIVENESS

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
To enhance the development dividend	Value of loans.	R270 million.	R261.4 million.	Limited lending to co-operatives due to fewer applications from this sector.
	Number of businesses funded (approved for funding)	150	122	Number of businesses funded/approved is lower due to limited funding to co-operatives.
	Capital spend on Ithala properties within rural and township communities.	R100 million.	R31 million.	Due to miss-alignment of human resources resulting in capacity constraints within Properties and delays in the supply chain procurement process.
	Maintenance spend on Ithala properties within rural and township areas.	R44 million.	R34 million.	Due to miss-alignment of human resources resulting in capacity constraints within Properties and delays in the supply chain procurement process.

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
To facilitate job creation	Number of jobs created by businesses funded.	1 800	1 966	Achieved.
	Number of jobs created through capital and maintenance spend on Ithala properties.	600	260	Not achieved. Number of jobs created is linked to the less than budgeted expenditure on capital and maintenance.
Increase participation of BBBEE businesses in Ithala's procurement spending	% spent on BBBEE suppliers and contractors.	80%	80%	Achieved.
Provide non-financial support to Ithala clients	Number of businesses assisted (trained, coached, mentored) by Business Support.	80% of Business Finance clients.	Only 10% of clients assisted.	Not achieved. Due to limited capacity within the Business Support Unit and limited number of service providers the target was not achieved.
	% of businesses turned around through Ithala's intervention over 12 months.	50% of businesses in debt rehabilitation.	Only 10% turned around.	Not achieved. Due to limited capacity within the Business Support Unit and limited number of service providers the target was not achieved. Also it takes longer than 12 months to turn businesses around.

STRATEGIC GOAL 3: OPERATIONAL EXCELLENCE AND GOOD CORPORATE GOVERNANCE

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
Enhanced information and Communi-cations Technology Enabling Services	User satisfaction rating.	80%	80%	Achieved.
	Approved IT Strategic Plan.	Approved Strategy by 31 March 2012.	Group ICT Strategy approved by Board in February 2012.	Achieved.
	Development of Enterprise Architecture.	Enterprise Architecture for income generating units to be completed by 31 March 2012.	An approved Enterprise Architecture for all the revenue generating business units (Limited, Business Finance and Properties) has been completed.	Achieved.
	Implementation of efficient ICT Governance.	Level of 4.2.	Assessment Maturity level is 2.8.	Not achieved.
Capable Human Resources	Development and implementation of Enterprise Wide Organisational Structure.	Approved structure by April 2011.	Approved structure.	Achieved.
	Implementation of the Human Capital Development Strategy.	Work Skills Plan by 30 June 2011.	Work Skills Plan done.	Achieved.
	Implementation of Culture Change Document.	Phase 1 and 2 Rise Again Implemented.	Rise Again Implemented.	Achieved.
	Implementation of effective performance management systems and processes.	100% signed performance contracts by 30 May 2011.	Partially achieved.	Employees from the industrial estates were not able to sign performance contracts in 2011/2012.
		Quarterly Performance Reports within three weeks of end of quarter.	Quarterly Performance Reports submitted.	Achieved.
	Implement Talent Management Framework.	Identification of scarce skills per Business Unit by end of November 2011.	Scarce skills per business unit identified.	Achieved.

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
Adequate Internal and External Communi-cations	Informed and engaged staff through effective internal communication.	Develop and approve policy.	Policy approved.	Achieved.
	Measure of Ithala brand and reputation among customers and stakeholders.	End of second quarter of 2011.	Brand audit conducted and finalised.	Achieved.
Customer Service Excellence	Development of Customer Services Strategy.	Strategy by end of first quarter of 2011.	Strategy not developed.	Due to limited internal capacity this target was not achieved.
	Improved customer service.	Reduce complaints by 40%.	50% of received complaints resolved.	Not achieved. This indicator was not properly measured by the unit. Only 50% of received complaints were resolved.
	Improved turnaround times to the market.	Adhere to approved times as per business processes.	Approval of loans within approved timeframes.	Achieved. The majority of business loans are approved within the approved time frames.
Sound Financial Management	Develop budget linked to Strategy.	Approved budget by February 2011.	Budget approved on 30 June 2011.	Not achieved.
	Monthly budget reviews (budget vs actual analysis).	Monthly MIF reports 10 days after month end.	MIF reports compiled and presented to EXCO.	Achieved.
	Quarterly financial reports identifying key strategic financial matters.	Quarterly reports 10 days after end of quarter.	Reports were compiled within the target time.	Achieved.
Efficient Business Processes	Identification of key business processes and workflows.	End of third quarter of 2011.	IT identified the service provider and commenced with the project. The project will be concluded in 2012.	Partially achieved.
Compliance with applicable legislation, policies and procedures	Adherence to applicable legislation (SARB, PFMA, EE, Skills Dev Act, etc.).	Periodic reports as per the requirements of each legislation.	Reports submitted.	Achieved.
	Review of group delegations.	Annually.	Draft revised Delegations compiled.	Not achieved.
	Implementation and adherence to Good Codes of Corporate Governance & Principles (Adoption of King III).	Annually.	A gap analysis was done and substantial compliance with King III achieved. The gap analysis was reviewed by the Audit Committee.	Achieved.
Ethical Leadership and Corporate Citizenship	Approved shareholders compact.	March annually.	Shareholders Compact was approved during the financial year.	Not achieved.
	Board Performance Management System.	Annually.	Board Performance Management System in place.	Achieved.

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
Strategic Leadership and Oversight	Approved Corporate Plan.	February annually.	Due to capacity constraints within the organisation the Corporate Plan was approved late.	Not achieved.
	Approved Annual Performance Plan and Budget.	February annually.	Due to capacity constraints within the organisation the APP was approved late in the financial year.	Not achieved.
	Submitted financial statements.	Within two months of end of financial year to Provincial Treasury and Auditor-General.	Financial statements submitted timeously.	Achieved.
	Submitted Annual Report.	Within five months of end of financial year.	Annual Report submitted timeously.	Achieved.
Corporate Governance	Functioning Board.	Meetings conducted as per Corporate Plan.	Board meetings conducted.	Achieved.
	Functioning Board sub-committees.	Board sub-committees fully constituted before beginning of financial year.	Board sub-committees functional.	Achieved.
The Governance of Risk	Approved Audit Plan/ Charter.	February annually.	Audit Plan/Charter approved.	Achieved.
Effective Monitoring and Evaluation	Development and implementation of monitoring and evaluation systems.	June 2011.	Performance Reporting Framework was approved and performance reporting done.	Achieved.

GOAL 4: FORGE STRATEGIC PARTNERSHIPS

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
Identification of Strategic Partnerships	Number of new implementable Memoranda of Understanding (MOUs) signed.	Seven	Three MOUs signed.	Not achieved. MOUs signed with IDC, NEF and Youth Development Agency.
Financial and non-financial support to Ithala from strategic partnerships	Financial support.	R20 million.	Nil.	Not achieved. There were no MOUs signed that had a financial gain to Ithala.
	Non-financial support.	50 market opportunities/ training opportunities.	Nil.	Not achieved. Due to limited capacity within Business Support, this objective was not achieved.

GOAL 5: KNOWLEDGE MANAGEMENT

Strategic Objective	Key Performance Indicator	Target	Actual Output	Management Comments
To become a centre of excellence	Document best practice.			This is a new target that was added in December 2011. This target will be a focus area in 2012/2013.
Data Management				This is a new target that was added in December 2011. This target will be a focus area in 2012/2013.

ITHALA LIMITED

2011/2012 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Programme 1: Office of the Chief Executive				
Measurable objective	**Performance measure/ indicator**	**2012 Target**	**Actual**	**Remarks**
Sub-programme: Directors	**Strategic objective: To ensure that Ithala adheres to the highest standards of Corporate Governance.**			
Effective Board.	Board performance framework.	Periodic reports on Board performance.	Not achieved.	To be tabled at the June 2012 Board meeting.
Functional Board.	Number of meetings attended.	Four meetings per year.	Achieved.	
Implementation of Board resolutions.	Number of resolutions implemented.	100% of resolutions implemented within agreed timeframes.	Achieved.	
Sub-programme: Secretariat services	**Strategic objective: To render administrative support to the Board and management ensuring adherence to good corporate governance.**			
Management of Board meetings.	Board meetings calendar.	Completed prior to the beginning of the financial year.	Achieved.	
Management of Board meetings.	Proper recording and safekeeping of minutes and resolutions.	Up to date records of all meetings.	Achieved.	
Management of Board meetings.	Distribution of Board packs prior to meetings.	Five days before meetings.	Not achieved.	The timely distribution of Board packs will be prioritised during the 2012/2013 financial year.
Management of Board meetings.	Distribution of Board minutes.	Five days after meetings.	Not achieved.	The timely distribution of Board minutes will be prioritised during the 2012/2013 financial year.
Management of Board meetings.	Conduct Board and Committee evaluations.	Completed prior to the beginning of the financial year.	Not achieved.	Evaluation forms will be completed by all Board members during the 2012/2013 financial year.
Monitor implementation of Board resolutions.	Register of all Board resolutions and their status.	Up to date register of resolutions.	Achieved.	
Sub-programme: Risk	**Strategic objective: to ensure efficient and effective governance of significant risks to Ithala's operations.**			
Develop Risk Enterprise Management Framework.	Approved Risk Framework.	Approved Risk Framework to be completed by June 2011.	Achieved.	
Develop Risk Management Strategies and Policies.	Approved Asset and Liability Management including Liquidity and Interest Rate Risk Management Policies and Strategies.	Approved Asset and Liability Management including Liquidity and Interest Rate Risk Management Policies and Strategies.	Achieved.	Asset and Liability Management including Liquidity and Interest Rate Risk Management Policies and Strategies approved on 2 September 2011.
Sub-Programme: Risk	**Strategic Objective: To ensure efficient and effective governance of significant risks to Ithala's operations.**			
Develop a fraud prevention plan.	Approved fraud prevention plan.	Approved fraud prevention plan to be completed by April 2012.	Achieved.	
Annual Risk Assessment.	Annual Risk Assessment Manual.	Annual Risk Assessment Manual to be completed by February 2012.	Not achieved.	Completion of Annual Risk Assessment Manual not considered as required as already encompassed in approved risk framework as noted above.

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Sub-programme: Risk and Compliance	**Strategic objective: To develop Ithala's governance framework and compliance strategy and ensure that the organisation implements an effective compliance framework and process as well as complying with applicable statutory, regulatory and supervisory requirements.**			
Develop Compliance Framework.	Approved Business Continuity Plan.	Implementation and Review.	Achieved.	
Develop and implement Compliance Programme.	Approved Compliance Programme.	Implementation and Review. 70% of the programme to be met.	Achieved.	
Compliance Awareness Training.	Training sessions on Companies Act, King III, Consumer Protection Act, FICA and NCA.	At least five training sessions to be held during the financial year.	Achieved.	
Develop Compliance Manual.	Annual review of Compliance Manual.	Review and update the Compliance Manual before the year-end.	Achieved.	
Ensure statutory reporting.	Compliance statutory reports on Banks Act, FAIS, NCA and HLMPDA.	100% compliance.	Not achieved.	The compliance reporting timetable will be reviewed during the 2012/2013 financial year to ensure that all reports are concluded by 31 March 2013.
Develop Corporate Governance Framework.	Approved Corporate Governance Framework.	Implementation.	Achieved.	
Monitor progress against Corporate Governance Objectives.	Report progress against Corporate Governance.	Submit to Board in January 2011 and November 2011.	Achieved.	
Sub-programme: IGARAS	**Strategic objective: To provide cutting edge and value-adding Internal Audit, Risk Assurance and Consulting Services thus enabling Ithala to adhere to the PFMA and other relevant legislation in carrying out its mandate.**			
Approved Annual Audit Plan.	Complete all audits as per the approved plan.	Approved Audit Plan.	Achieved.	
Effective Internal Audit Function.	Positive appraisal by the Audit Committee and the clients.	Positive appraisal by the Audit Committee and the clients.	Not achieved.	Appraisal by clients not obtained during 2011/2012 financial year. Appraisal feedback by clients commenced during 2012/2013 financial year.
Effective Forensic Special Investigations Unit.	Forensic investigations completed within agreed timeframes.	Quality investigations completed within agreed timeframes.	Not achieved.	Certain forensic investigations remain incomplete as at 31 March 2012. These will be completed during the 2012/2013 financial year.
Assessment of fraud and high risk areas.	Minimise fraud.	Reduce fraud incidents by 20%.	Not achieved.	Certain forensic investigations remain incomplete as at 31 March 2012. These will be completed during the 2012/2013 financial year.

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Programme 2: Savings and Investments				
Sub-programme: Savings and Investments	**Strategic objective: To ensure that the Savings and Investments Division increases its market share and enhances revenue of the entity.**			
Implementation of a Sales Plan.	Develop, approve and implement a Sales Plan.	Develop, approve and implement a Sales Plan.	Not achieved.	Sales Plan approved and implemented for 2012/2013 financial year.
Achievement of the Budgeted growth and sales targets.	• Growth of 10% in depositor funds.	Overall growth of 10% in depositor funds.	Not achieved.	Negative economic factors resulted in actual growth of 1.77%.
	• Growth of 2700 non-SASSA debit card clients.	2700 non-SASSA debit card clients per quarter.	Achieved.	
	• Optimisation of the branch network to sell credit, insurance and savings products.	Optimisation of the branch network to sell credit, insurance and savings products.	Not achieved.	Optimisation of credit, insurance and savings products will be a focus area during the 2012/2013 financial year.
Undertaking product development.	Introduce three new products per quarter.	Three products per quarter.	Not achieved.	Product development will be a focus area during the 2012/2013 financial year.
Ensure that products are correctly priced.	• Development and approval of the Pricing Policy.	Approved Pricing Policy implemented.	Not achieved.	The Pricing Policy has been developed and will be submitted for approval during the 2012/2013 financial year.
Optimisation of IT capability.	• Optimise relation with key service providers.	IT optimisation, centralisation and real-time dashboard.	Not achieved.	The centralisation project is planned for 'go-live' during the 2012/2013 financial year.
Sub-Programme: Savings and Investments	**Strategic objective: To ensure that the Savings and Investments Division increases its market share and enhances revenue of the entity.**			
	• Optimise IT environment.	IT optimisation, centralisation and real-time dashboard.	Not achieved.	The centralisation project is planned for 'go-live' during the 2012/2013 financial year.
	• Implementation of an operational, real time operational dashboard.	IT optimisation, centralisation and real-time dashboard.	Not achieved.	The centralisation project is planned for 'go-live' during the 2012/2013 financial year.
Programme 3: Housing and Loans				
Sub-programme: Lending	**Strategic objective: To provide financial solutions to the people of KZN.**			
Streams of deal flow.	Increase business from the branch network to 20% for the year.	Achieve 20% leverage of advances from the branch network.	Achieved.	
Loan origination.	Loan origination targets of R52.5m for home loans, R7.5m for Home Improvement Loans (HIL) and R7.5m for personal loans (PL).	Loan origination targets of R52.5m for home loans, R7.5m for Home Improvement Loans and R7.5m for personal loans.	Not achieved on Home Improvement Loans (HIL) and personal loans (PL). Achieved on the home loan product.	HIL = R5.4m achieved. PL = R4.9m achieved. Personal loans and Home Improvement Loans will be a focus area during the 2012/2013 financial year.

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Average time taken to grant loans (Turnaround time).	Average time of five days taken to grant loans.	Average time of five days taken to grant loans.	Not achieved.	The turnaround time of five days for the granting of loans will be prioritised during the 2012/2013 financial year.
Return on assets.	Achieve a return on assets of 2.26%.	Achieve a return on assets of 2.26%.	Not achieved.	The budgeted return on assets was not achieved as a result of the difficult economic conditions which contributed to the loss sustained by the Company.
Growth in the housing loan product portfolio.	Achieve a growth in the housing loan product portfolio of 3.52%.	Achieve a growth in the housing loan product portfolio of 3.52%.	Achieved.	
Growth in the personal loan product portfolio.	Achieve a growth percentage of 1.84%.	Achieve a growth percentage of 1.84%.	Not achieved.	The delayed launch of the personal loan product resulted in the target not being achieved. The following initiatives have been planned for the 2012/2013 financial year: • Utilise the branch network to distribute the personal loan product; • Increased product support; • On-going staff training; and • Introducing commission based sales agents.
Sub-programme: Lending	**Strategic objective: to provide financial solutions to the people of KZN**			
Growth on other loans product portfolio.	Achieve a growth of 26.23% on growth in the "other loans" portfolio.	Achieve a growth of 26.23% on growth in the "other loans" portfolio.	Not achieved.	The target was not achieved as a result of the difficult economic conditions as well as the closure of certain manufacturing firms during the year. The following initiatives have been planned for the 2012/2013 financial year: • Increased marketing to fund managers and businesses for home improvement loans; and • Forging partnerships with property developers to increase the number of rural development opportunities.
Programme 4: Insurance				
Sub-programme: Insurance	**Strategic objective: To ensure that the Insurance Division increases its market share and enhances revenue of the entity whilst adding value to the customer.**			
Development, approval and implementation of the sales plan.	Develop, approve and implement the sales plan.	Develop, approve and implement the sales plan.	Not achieved.	The sales plan has been developed and approved. Recruitment of sales staff will be concluded during the 2012/2013 financial year.
Development and implementation of the retention strategy.	Implementation of the approved retention strategy.	Implementation of the approved retention strategy.	Not achieved.	To enhance customer retention, a diversified product offering will be provided to clients during the 2012/2013 financial year.
Undertaking product development.	Introduction of a revised product offering.	Revised product offering.	Achieved.	

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Identification and nomination of dedicated sales resources.	Appointment of dedicated sales resources to drive the sales strategy.	Appointment of dedicated sales resources.	Not achieved.	Recruitment of dedicated sales staff has been initiated in the 2012/2013 financial year.
Development of an E-learning facility.	Development and implementation of an E-learning facility.	Implementation of an E-learning facility.	Not achieved.	Investigation of an E-learning facility will be conducted during the 2012/2013 financial year.
Completion of a customer needs analysis process.	Finalisation of the customer needs analysis process.	Completion of a needs analysis process.	Achieved.	
Optimal utilisation of the customer services centre.	Enhance and ensure optimal utilisation of the customer services centre.	Develop, approve and implement the sales plan.	Not achieved.	A customer services strategy has been developed and will be implemented during the 2012/2013 financial year.
Programme 5: Credit Risk				
Sub-programme: Credit approvals	**Strategic objective: To ensure that the risk assumed by Ithala at the point of granting credit is in line with the organisation's risk appetite and is adequately mitigated.**			
Reduce level of non-performing loans.	Percentage of non-performing loans.	Achieve a 10.7% ratio of non-performing loans.	Achieved.	
Improve turnaround times.	• Average time taken to assess loan. • Average time taken to pay a loan.	An average of 5 days to assess loan applications. An average of 24 hours to payout a loan.	Not achieved. Achieved.	The turnaround time of five days for the assessment of loan applications will be prioritised during the 2012/2013 financial year.
Sub-programme: Credit Risk	**Strategic objective: To manage and control the quality, growth and risk profile of Ithala's credit book in line with its budgets and strategies.**			
Improvement in the legal portfolio.	Legal portfolio is limited to 5.5%.	Limit the legal portfolio to 5.5%.	Not achieved.	Achieved a percentage of 7.0%. This area will be enhanced in the 2012/2013 financial year.
Implementation of the Non-Authenticated Early Debit Order (NAEDO) collection system.	Implementation of the Non-Authenticated Early Debit Order (NAEDO) collection system across all product types.	Implementation of the Non-Authenticated Early Debit Order (NAEDO) system.	Not achieved.	The NAEDO system went live on the 4 May 2012.
Programme 6: Group Information Technology				
Sub-programme: Group CIO's office	**Strategic objective: To provide IT strategic direction, define and implement controls to ensure value on IT investments for Ithala to deliver on its mandate**			
Development of Enterprise Architecture (EA) and IT Strategic Plan.	Business Aligned IT Strategy.	Implementation of a business aligned IT Strategy.	Achieved.	The IT Strategic Plan for the group was approved in February 2012.
Review and implement standard financial and administrative procedures.	Implementation of IT finance and administrative procedures.	Implementation and monitoring of finance and administrative procedures.	Not achieved.	Implementation of these procedures will be completed during the 2012/2013 financial year.

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Implementation of efficient ICT Governance.	Growth in maturity level.	• Targeted overall maturity level is 4.2; • IT Disaster Recovery Plan Review; • IT Governance Framework Review & Development; • Information Security Architecture Review & Development; • Review and development of IT policies.	Not achieved.	Assessment of efficiency improvements will be completed during the 2012/2013 financial year.
Sub-programme: IT service delivery	**Strategic objective: To provide robust technology environments and support to ensure uninterrupted business operations.**			
Identification of points of integration and synergy.	Integration and synergy points identified and with proposed integration projects.	• Server consolidation and major refresh of infrastructure; and • Centralisation of the banking system.	Achieved.	
Support and maintenance with 95% up-time.	95% up time.	• 95% up-time; • Measures to include email, directory services and disparate systems and bureau (3rd party) services; • IT Disaster Recovery Plan Review; • Server consolidation and major refresh of infrastructure; and • Rebuild of Data Centres; and • SLA process with business to inform.	Achieved.	
ICT needs analysis and user survey (User satisfaction rating).	Documented ICT business needs. User Satisfaction Rating of above 70% on an ITIL recommended user sample of 30%.	• User satisfaction rating of 90%; • Projects prioritised according to business needs; and • Service Desk implementation.	Achieved.	
Programme 7: Corporate Services				
Sub-programme				
Ensure Proper Implementation of Human Resources Development Strategy.	Approved HRD. Strategy & signed Work Skills Plan.	Training Committee in place. Interventions to address skills gap as per the audit finding.	Achieved.	
Ensure that there is a succession plan in place.	Talent Management Strategy.	Creation of talent pool. Information of talent. Forums capacitation of people in the talent pool.	Not achieved.	The issue of succession planning will be a focus area during the 2012/2013 financial year.
Inculcate a culture of good performance.	Performance Management System in place.	Individual Performance Assessment and contracting.	Not achieved.	Performance Management will be a focus area during the 2012/2013 financial year.
Instil organisational culture and values.	Design and implement Change Management Programme.	Re-induction of employees on organisation values and implementation of initiatives 1 and 2 of culture change plan.	Achieved.	

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Sub-programme: IT service delivery	**Strategic objective: To provide robust technology environments and support to ensure uninterrupted business operations.**			
Identification of points of integration and synergy.	Integration and synergy points identified and with proposed integration projects.	• Server consolidation and major refresh of infrastructure; and • Centralisation of the banking system.	Achieved.	
Support and maintenance with 95% up-time.	95% up time.	• 95% up-time; • Measures to include email, directory services and disparate systems and bureau (3rd party) services; • IT Disaster Recovery Plan Review; • Server consolidation and major refresh of infrastructure; • Rebuild of Data Centres; and • SLA process with business to inform.	Achieved.	
ICT needs analysis and user survey (User satisfaction rating).	Documented ICT business needs. User Satisfaction Rating of above 70% on an ITIL recommended user sample of 30%.	• User satisfaction rating of 90%; • Projects prioritised according to business needs; and • Service Desk implementation.	Achieved.	
Ithala Incentive Scheme.	Design/develop a Company Incentive Scheme to promote culture of good performance.	Roll-out scheme across the Company.	Not achieved.	The development and roll out of the incentive scheme will be completed during the 2012/2013 financial year.
Time and Attendance System.	Implement Time and Attendance System.	Implement the approved Time and Attendance System.	Not achieved.	The Time and Attendance System will be implemented during the 2012/2013 financial year.
Assist line managers with the reduction of cost to income ratio.	Business case for change to interim restructuring process.	Consultation process. Implementation of new structures.	Not achieved.	Implementation of new structures will be prioritised during the 2012/2013 financial year.
Employee Wellness.	Redefine the whole programme.		Not achieved.	Employee wellness will be a focus area during the 2012/2013 financial year.
IR Training.	Define problem areas and interventions.		Not achieved.	IR training will be a focus area during the 2012/2013 financial year.

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Programme 8: Chief Executive Office				
Sub-programme: Finance	**Strategic objective: To achieve financial excellence.**			
Financial excellence.	Cost to income ratio at 97.38%.	Cost to income ratio at 97.38%.	Not achieved.	Achieved a ratio of 99.5% as a result of the difficult economic trading conditions and losses sustained on branch closures.
	Capital adequacy ratio.	Capital adequacy ratio of 12.25%.	Not achieved.	Achieved 12.14% as at 31 March 2012.
	Return on surplus funds.	Return on surplus funds of 5.4% per quarter.	Achieved.	
	Achieve the average sales price of 70% of market value per quarter.	Average sales price of 70% of market value per quarter.	Achieved.	
Sub-programme: Supply Chain Management	**Strategic objective: To deliver significant value to the business, its customers and to the shareholder.**			
Increase participation of BBBEE business in procurement spending.	% spent on BBBEE businesses.	85%	Achieved.	
Sub-programme: Treasury Management				
To achieve a return on surplus funds in accordance with budget.	Achieve a return on surplus funds of 5.4% per quarter.	5.4%	Achieved.	

Measurable objective	Performance measure/ indicator	2012 Target	Actual	Remarks
Programme 9: Group Strategy				
Sub-programme: Research, Develop-ment and Innovation	**Strategic objective: To provide macro-economic as well as industry analysis that enables Ithala to play a key role in economic development and empowerment in KwaZulu-Natal.**			
Quarterly Market Intelligence reports.	Four reports submitted two weeks after quarter ends.	Four reports.	Achieved.	
Quarterly Competitor Analysis Reports.	Analysis of Provincial Budget.	Four reports.	Achieved.	
Industry/Sector Analysis Reports.	As and when requested – three days turnaround time.	25 reports.	Not achieved.	The preparation of industry/sector reports is demand driven and the request for reports were limited in 2011/2012.
Analysis of State of the Province Address.	Two days after presenta-tion to Legislature.	One report.	Achieved	
Analysis of Provincial Budget.	Two days after presenta-tion to Legislature.	One report.	Achieved.	
Establish a Resource Centre.	Fully functional resource centre.	July 2011	Not achieved.	Investigations pertaining to the feasibility of a resource centre will be completed during the 2012/2013 financial year.
Monitor industry trends and report them accordingly.	A day after official publication of statistics.	Ongoing.	Achieved.	
Facilitate Product Development and Innovation.		2 products.	Not achieved.	Product development and innovation will be a focus area during the 2012/2013 financial year.
Monitor Ithala's Performance in line with APP and prepare quarterly reports.		Quarterly reports.	Achieved.	

KZN GROWTH FUND MANAGERS (PTY) LTD
2011/2012 REPORT ON PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Strategic objective	Performance measure indicator	Measurable objective	Reporting period	Annual target	Annual actual	Means of verification	Comments
Programme 1: Finance and administration		**Strategic Goals: Financial sustainability and active persual of growth opportunities.**					
To provide strategic direction and ensure adherence to fund management agreement.	Number of appraisals conducted annually.	To facilitate effective performance management.	Quarterly.	100%	100%	Individual performance scorecards.	Target score achieved.
	Average performance score for the organisation.	High performance culture.	Quarterly.	>3	3.9	Individual performance scorecards.	Average score is in line with the target.
To ensure statutory compliance in respect of financial management and Corporate Governance.	Submission of report on time: AFS.	Financial reporting.	Annually.	100%	100%	External audit report.	2010/11 AFS submitted to AG on 31 May 2011.
	QPR.	Financial reporting.	Quarterly.	100%	100%	Quarterly submission date.	100% Compliance achieved.
	Unqualified audit report for 2010/2011.	Design and implementation of sound system of internal controls.	Annually.	Unquali-fied.	Unqualified with emphasis of matter.	Annual Report.	N/A.
	Number of repeat findings on internal audit report.	Design and implementation of sound system of internal controls.	Quarterly.	No repeat findings.	No repeat findings.	Internal audit reports.	Target achieved.
	%of audit findings unresolved in quarter.	Design and implementation of sound system of internal controls.	Quarterly.	15%	14%	Internal audit reports.	Target achieved.
To implement sound financial management practices.	% budget variance.	Ensure financial stability.	Quarterly.	15%	45% surplus.	Quarterly reports.	Positive variance was mainly due to low project appraisal costs and salary savings due to CEO and CIO vacancies.
To implement additional revenue streams.	New revenue streams.	Ensure financial sustainability.	Annual.	One	Zero	Quarterly reports.	Fund 11 framework not yet approved by the Trust.
Programme 2: Project origination and aftercare		**Strategic Goals: Excellence in origination and management of projects.**					
To ensure that the Trust reaches its project approval target.	Project origination.	Value of projects approved.	Quarterly.	R360 million	R123.1 million	Deal flow and project pipeline.	Delays in receiving information from promoters as well as an inadequate pipeline developed adversely affected the number of projects approved during the year.
To ensure appropriate portfolio management and aftercare is being done.	To ensure that project collections are done timeously.	% of non-performing loans.	Quarter.	10%	N/A	Deal flow and project pipeline.	No non-performing loans in Trust portfolio.
	To ensure that performance of projects is reported timeously to the Investment Committee and the Board of Trustees.	Identification of non compliance to loan covenants within 7 working days.	Quarterly.	100%	100%	Deal flow and project pipeline.	All instances of non-compliance with loan covenants have been reported timeously.
	To ensure Trust loans portfolio is well managed.	Designated percentage is met.	Bi-annually.	>33%	35%	Fund model.	Actual result in line with the target.

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