INTEGRATED **ANNUAL** REPORT 2015/16

LEADING THE WAY
THROUGH CHANGING
ECONOMIC TIMES

MAKING IT HAPPEN TOGETHER

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DEVELOPMENT FINANCE CORPORATION LIMITED

VISION MISSION VALUES

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

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

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

COMPANY INFORMATION

GROUP COMPANY SECRETARY:
LS Mahamba

BANKERS:
ABSA Bank Ltd

AUDITORS:
The Auditor-General

CORPORATE ATTORNEYS:
Approved panel of attorneys

BUSINESS ADDRESS:
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Point, Durban

POSTAL ADDRESS:
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INTRODUCTION

In addition to this report, Ithala Development Finance Corporation Limited (Ithala) produces reporting publications tailored to readers with specific information requirements.

AIR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL INTEGRATED REPORT

As Ithala's primary report, the annual integrated report aims to present a balanced and succinct analysis of its strategy, performance and prospects.

RCMR

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED AUDIT COMMITTEE REPORT

Provides discussion regarding its composition, statutory duties, overall compliance, its adoption of a combined assurance model and its financial controls.
Visit www.ithala.co.za

AFS

ITHALA DEVELOPMENT FINANCE CORPORATION LIMITED ANNUAL FINANCIAL STATEMENTS

Set-out the full audited financial statements for Ithala, including the report of the Group Audit Committee.
Visit www.ithala.co.za

ABOUT THIS REPORT

This report covers the Ithala Development Finance Corporation Limited's ('Ithala') strategy, material issues and performance for the period 1 April 2015 to 31 March 2016, and our prospects for the future.

We are a state-owned entity and through this report aim to address our material stakeholders, notably, our shareholder, regulators, clients and communities, as well as potential investors with regard to our ongoing viability. In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General in regard to conveying our performance against our annual performance plan (see pages 30 to 31).

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

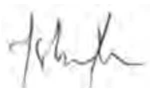
Ithala undertakes no obligation to update the historical information or forward-looking statements in this document.

APPROVAL AND ASSURANCE OF OUR REPORT

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

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

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



Chairman

Audit Committee

WHO WE ARE

As a development finance institution, we are one of the key channels through which Government funding reaches communities. We pioneered small, medium and micro enterprise (SMME) development.

We were the first to bank unbanked communities and to establish shopping centres in rural areas, stimulating development in remote regions of the Province.

We play a finite role in improving the quality of lives of the people and the local economy of KwaZulu-Natal. We continue to draw on these core competencies going forward to deliver ever more effectively on our developmental mandate.

OUR VISION

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

OUR MISSION

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

OUR VALUES

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

OUR MANDATE

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

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

HOW WE DELIVER ON OUR MANDATE

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

MEC'S FOREWORD

The Ithala Development Finance Corporation Limited (Ithala) was established to fulfil a critical role in enabling entrepreneurial development activities in the KwaZulu-Natal Province through SMME financing, development and letting of property assets.

Ithala bridges a critical gap which the mainstream commercial banks and other profit-driven institutions are unable to fulfil insofar as funding the historically disadvantaged SMME sector to achieve business establishment and growth objectives. Ithala grants its financial support mostly against a background of minimal or no collateral base and relatively higher levels of risk exposure.

Alongside its lending services, Ithala offers a significant property portfolio (1 million square metres of Gross Lettable Area {GLA}) invested across the Province in the form of large industrial factories, retail centres and smaller SMME facilities. The terms of occupation and the physical location of these properties denotes the mind-set of Ithala, which is prioritising not only urban-based clientele, but also township and village-based operators, hardly provided for by other mainstream commercial offerings.

This Integrated Annual Report is an encouraging account of the successes achieved by Ithala in delivering on its development mandate. The contents of the report demonstrate that Ithala is a people-centred organisation whose concern is not only to fulfil business transactions, but also to empower beneficiary communities and businesses with information and entrepreneurial skills relevant to achieving successive breakthroughs.

The 2015/16 financial year, however, presented overwhelming challenges for Ithala, similarly to many other organisations in our Province. Constrained economic growth has had a notable negative impact at all levels of business sectors in the country. One of the contributing factors in our environment has been the prolonged drought, which has affected many agri-businesses, including those financed by Ithala.

Faced with these conditions, Ithala has displayed its developmental commitment by upholding its mandate and forging ahead in taking its clientele through the emergent hurdles in the economic and operating landscape. This developmental commitment is seen in the total value of SMME loan advances (R167 million), the number of businesses financed (336) and the number of new jobs created (2 618).

In pursuing its SMME financing services, Ithala has equally given focus to the prudent management of its business affairs, specifically reflected, in this case, by the reduction of its non-performing loans to 16%, against a target of 25%.

Ithala's decision to restructure loans for its funded farmers affected by drought conditions is commendable.
This typifies the Government's stance in driving 'catalytic' and 'counter-cyclical' interventions aimed at advancing development, the retention and creation of jobs amidst adverse economic circumstances.

It is notable that during 2015/16, Ithala undertook a project to reconfigure its large property in Eston in order to support localised warehousing for local traders. This warehouse is set in a rural environment and creates an opportunity for local traders to acquire stock cheaply and, therefore, sell it at competitive prices to end-users. This has obvious benefits for entrepreneurs and consumers respectively, who largely depend on urban-based facilities to service their shops and personal purchasing needs.

During the year under review, Ithala completed its construction of two large properties; namely, Ithala Trade Centre (R130 million investment) and Ithala Paramount Park (R60 million investment). These properties are located at the Durban Point Waterfront and in Mount Edgecombe respectively - the growing nodes of business investment in the eThekwini Metro.

Ithala Paramount Park provides accommodation for small and medium industrial operations based, mainly, in the northern part of the eThekwini Metro. This development is supportive of the National and Provincial vision of advancing industrial and manufacturing activities towards moving away from being a 'consumer economy' to becoming a 'producer economy.' This is also in line with our vision of enforcing integrated value chains in the areas close to the logistics hubs, especially the Dube TradePort's Cargo Terminal and the Durban harbour.

The successes achieved by the retail banking arm of the organisation, Ithala SOC Limited, in reaching its break-even point is also encouraging. The historical and prospective value added by Ithala's banking services throughout the Province, especially in outlying areas, cannot be over-emphasised.

The Provincial Government anticipates that this improvement will be sustained into the future and serve as proof of the organisation's resolute commitment to serve all classes of citizens in the Province.

Going forward, Ithala has positioned itself to fulfil a pivotal role in driving strategic Provincial initiatives that draw on its mandate and which add value to the Provincial Growth and Development Strategy and Plan (PGDS/P). Examples in this regard include active participation in the Black Industrialist Programme, Durban Aerotropolis Programme, Economic Industrial Hubs and Sector Economic Zones and renewal of township and rural economies.

I would also like to thank Dr Mandla Gantsho and the members of Ithala's board for the leadership they have

MEC'S FOREWORD (continued)

displayed in steering the organisation so adroitly on its socio-economic development journey. Finally, my thanks to Ithala's Group Chief Executive, Ms Yvonne Zwane, her executive colleagues and the members of staff for taking development to the people of our Province on a daily basis.

I would like all role-players to be assured that the organisational efforts shared in this report contribute not only to the socio-economic empowerment of the historically disadvantaged groups, but also to the growth of our Provincial and National economy.

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

CHAIRMAN'S LETTER TO STAKEHOLDERS

"The strategy of the Ithala Development Finance Corporation remains anchored on the Provincial Government's imperative to promote radical economic transformation and, in particular, to promote the empowerment of people across the geographic and social spectrum."

DR. MSV GANTSHO
CHAIRMAN

The financial year ended March 2016 brought the crucial role of Ithala, as a provincial development finance institution, into sharp focus.

South Africa and, indeed, the KwaZulu-Natal Province, are not immune to the many impacts of a volatile global economic and geopolitical environment. The most tangible impacts have been slowing growth rates, inflationary pressures and a weakening currency. This has been compounded by a crippling drought that has severely impacted on the important agricultural sector in this Province and, indeed, upon the lives of millions of its citizens. It is under these circumstances that development finance institutions must play a pivotal role as catalysts for development.

The strategy of the Ithala Development Finance Corporation remains anchored on the Provincial Government's imperative to promote radical economic transformation and, in particular, to promote the empowerment of people across the geographic and social spectrum. Simultaneously, Ithala is at an advanced stage of implementation of a multi-year business strategy that seeks to build the foundations for the organisation to play an ever-growing role as a leading agent of development in the KwaZulu-Natal Province.

This Integrated Annual Report outlines Ithala's performance against the multi-dimensional strategic objectives and targets which it has articulated in consultation with our shareholder. It is pleasing to note that substantial progress has been made across all fronts. Ithala is financially stronger, more resilient and institutionally sustainable since the implementation of the 'Rise Again' strategy in 2012.

The board is confident that solid foundations have been laid for Ithala to strengthen its position as a vibrant and thriving catalyst of development into the future.

The primary indicator of Ithala's effectiveness must be how it tangibly impacts upon the lives of the people it serves, while remaining financially sustainable. Within the constraints of its 'headroom' to extend finance to emerging enterprises, it disbursed R167 million on 336 transactions. This represents a mix of internally-generated investment capital, which is directed towards commercially focused transactions and the extension of funding, on highly concessionary terms, to emerging entrepreneurs. Concessionary funding is provided through grants from the Provincial Government.

Through Ithala's Business Finance support programmes, some 2 618 jobs have been created during the year under review.

The performance of our loan book has improved significantly as a result of the business turn-around initiatives that have been implemented. Non-performing loans have reduced from 21% to 16,3% within a year and this is indicative of the progress that has been made in the organisational transformation process.

As a significant owner and operator of industrial, retail and commercial property infrastructure in the Province, Ithala has embarked on a renewal strategy that will not only refurbish existing properties, but also act as a catalyst for the development of new infrastructure, in line with the strategic priorities of Government. We look forward to working with our shareholder to further unlock the enormous value of our property assets in order to mobilise resources for development, particularly in areas identified in provincial growth and development strategies.

During 2015/16 Ithala commissioned its new office facility, Ithala Trade Centre, located within the Durban Waterfront precinct. This development will contribute to the urban rejuvenation process within the precinct, but also heralds a new chapter in Ithala's re-invention.

During the same period, Ithala also completed Ithala Paramount Park, an industrial park located in Mount Edgecombe. These new developments set the precedent for future developments across the Province. As will be noted within this report, significant resources have also been expended on upgrading existing facilities to enhance shareholder value and the sustainability of our business.

A further positive development within the Group has been the remarkable business turn-around by Ithala's retail banking subsidiary, Ithala SOC Limited.

CHAIRMAN'S LETTER TO STAKEHOLDERS (continued)

Over two years, this entity, which was a pioneer in making financial services accessible and affordable to communities previously lacking such access. Ithala SOC Limited is set to reassert its role as a leader in promoting the imperative of financial inclusion.

I would like to express my sincere appreciation to my fellow Board members for their diligence and dedication to our developmental mission. I extend a special debt of gratitude to Mr Jacobs, who resigned from the Board with effect from 1 January 2016, for the entrepreneurial flair which he brought to Board deliberations during his tenure.

Colleagues in Ithala, from executive management to our foot soldiers on the front-line of our business, have demonstrated remarkable commitment, often under challenging circumstances. I would like to acknowledge these champions of development for their dedication to our common cause.

Ithala Development Finance Corporation Group Chief Executive, Ms Yvonne Zwane, has provided exemplary leadership and has shown courage and fortitude in dealing with personal health issues while never deflecting her focus and attention from the issues at hand. I would also like to acknowledge members of the Executive Team for their teamwork and support during a very challenging year.

The Chairman, board and management of our retail banking subsidiary, Ithala SOC Limited, have demonstrated exceptional commitment towards re-establishing this iconic entity on a sustainable basis and I wish to acknowledge their many contributions.

Mr Michael Mabuyakhulu, our former Shareholder Representative, has been a pillar of strength to our board and management, while ensuring that our organisation remains accountable and responsive to our mandate and stakeholders. His guidance and support is deeply appreciated.

On behalf of the board of Ithala and in my own name, I extend a warm welcome to our new MEC for Economic Development, Tourism and Environmental Affairs, Mr Sihle Zikalala (MPP), and express my excitement at the prospect of working with him in his new responsibilities and benefiting from his wisdom and passion for development.

Ithala has never been more ready to support the KwaZulu-Natal Province as a leading catalyst of development, with the goal of creating a better life for all the people of this Province.

Dr GSV Gantsho
Chairman

FROM THE GROUP CHIEF EXECUTIVE'S DESK

"Despite an unfavourable economic climate, Ithala has persisted with its mission to enable SMMEs and Co-operatives through on-lending and other business development services."

MS YEN ZWANE
GROUP CHIEF EXECUTIVE

The year 2015/16 was characterised by notable challenges in a number of different sectors of business activity across South Africa. These included currency weakness, increases in interest rates, the curtailing of spending in Government services, drought, subdued economic growth and rising inflation. Collectively, these events had a ripple effect on both consumers and business, especially as they gave effect to a reduced appetite for new ventures and encouraged extraordinary risk aversion. Commercial lending institutions also became stricter in their assessment of funding applications in response to such economic volatility.

Ithala was not unaffected by such environmental challenges during the period under review. These conditions have necessitated heightened efforts on our part to ensure the organisation's continued sustainability, while also advancing the delivery of our developmental mandate.

Despite an unfavourable economic climate, Ithala has vigorously pursued its mission to enable SMMEs and Co-operatives through on-lending and other business development services. The harsh economic times have demanded greater collaboration with our clients in order to create and package solutions which better fitted the prevailing conditions. Our success in funding more than 336 SMMEs, to the cumulative value of R167 million and facilitating the creation of up to 3 043 new employment opportunities during 2015/16 evidenced our determination to contribute meaningfully to the continued economic growth of KwaZulu-Natal.

The effect of the drought was also felt in our business, as witnessed by some 63 ailing agri-businesses falling behind in servicing their loan accounts as a result of seriously reduced crop yields. We moved to restructure loans for clients directly affected and partnered with other organisations, such as Tongaat-Hulett, to provide ongoing assistance to Ithala-funded farmers until the drought is alleviated.

We deliver unique interventions aimed at extending our support to co-operatives owned by, especially, women and community-based structures. A key example of this approach was a partnership entered into between Ithala and the Department of Education which saw the provision of finance and support for co-operatives and small businesses which had been awarded contracts by the Department of Education for the supply of food to schools. In the enablement of this programme, Ithala created a tailor-made procurement finance solution designed to assist co-operatives and small businesses requiring start-up funding to meet their contractual obligations.

In the first phase of the programme Ithala disbursed R30 million and expects to continue providing grant assistance during the 2016/17 financial year, when phase two of the programme is implemented. Notwithstanding the limitations imposed by poor economic conditions, we were successful in improving the health of our loan book by collecting R285 million on an average debtor book of just under R850 million. The performance of the book improved remarkably during the year resulting in a significant improvement in our non-performing loan book.

In October 2015 we were pleased to celebrate the occupancy of Ithala Trade Centre, our new office building located at the Durban Waterfront. This landmark facility, developed by our own organisation, provides a modern, ergonomic office environment, as well as ensuring greater accessibility for our clients.

This building also became home to other entities of Department of Economic Development, Tourism and Environmental Affairs, thus enabling, to some degree, the introduction of a one-stop-shop service concept for our clients. Additionally, we commissioned a new Industrial Park in Mount Edgecombe, positioned to attract both small and medium industrial enterprises located in and around Greater Durban.

Such initiatives are indicative of the fact that Ithala has achieved success in its turn-around strategy and has worked to improve the performance of our property business by focusing on both revenue growth and cost efficiencies. We remain absolutely committed to advancing the economic emancipation of women and youth in the Province of KwaZulu-Natal and, accordingly, paid close attention to the implementation of programmes such as Imbokod'iyazenzela and Inkunz'isematholeni.

FROM THE GROUP CHIEF EXECUTIVE'S DESK (continued)

Such outreach initiatives are founded on a premise that entrepreneurship and small business development remain a high priority for us in a constrained economy, where job creation remains a challenge.

These achievements are an outcome of Ithala's leadership, management and staff dedication. We believe implicitly that people are central to continued organisational achievement. Our consistent delivery on our developmental mandate is indicative of the unwavering support and guidance we received from our former shareholder representative, Mr Michael Mabuyakhulu, our chairman, Dr Mandla Gantsho, and members of the board and board committees.

I am most grateful for the commitment, support and direction that these individuals have provided in the quest to attain positive results; results which we may all justifiably celebrate. I also look forward to making further progress in delivering our mandate under the leadership and guidance of our new shareholder representative, the Honourable MEC Sihle Zikalala.

Ithala does not operate in isolation, but rather works within the context of collaborative relationships with other national and provincial institutions, whose focus is development, and accordingly acknowledge their role in the progress and achievements we have made to date and trust that we are able to continue the journey towards ever greater accomplishments in the future.

I believe that while we navigate our way through the prevailing tough times, much remains yet to be done and which will require an even greater effort from us. We will continue maintaining a positive outlook and will endeavour to give hope to the sectors we support.

I AM SURE THAT WITH FOCUS AND PURPOSE, WE WILL BRING EVER GREATER RELEVANCE TO OUR ROLE AND FURTHER PROPEL THE CREATION OF BREAKTHROUGH SOLUTIONS FOR THE BENEFIT OF THOSE WE EXIST TO SERVE.

YEN Zwane
Group Chief Executive Officer

GROUP CHIEF FINANCIAL OFFICER'S REPORT

"Ithala will continue on its repositioning strategy trajectory. Although the corporation has made a huge turnaround in both its income generating units, the focus remains on increasing revenue year-on-year, whilst containing costs."

FARHANA AMOD
GROUP CHIEF FINANCIAL OFFICER

KEY FINANCIAL RESULTS AND RATIOS

	Change		2016	2015
	%	R'm	R'm	R'm
Net income/loss	-45,0	(184,7)	225,1	409,2
Revenue Growth	-0,45		5,05%	5,50%
Cost-to-income ratio	15,2%		76,2%	61,1%
Return on total assets	-2,9%		3,56%	6,48%
Capital adequacy ratio	0,5%		17,30%	16,80%

As Ithala forges ahead with phase three of its strategic road map of 'broadening the business portfolio', delivery of Ithala's dual mandate of developmental effectiveness and financial sustainability has once again been ensured.

The corporation recorded a substantial profit of R229,9 million and both met and exceeded all its developmental targets, whilst the group recorded a profit of R225,1 million. A change in accounting policy in the current year from the cost model to the fair value model for investment property elucidates the apparent year-on-year regression in performance. The group recorded a profit of R224,5 million, which represent a 45,1% year-on-year decline, including the effect of the fair value adjustment to investment property. This change in accounting policy triggered the restatement of prior year net profit from R124,9 million to R409,2 million.

The corporation posted pleasing results, with both income-generating units, namely properties (excluding fair value on investment properties) and business finance (excluding grant income), exceeding their budgeted profits and recording a year-on-year growth in profits of 38% and 196% respectively. The support services business units also contained costs to levels similar to the prior year, with a year-on-year decrease in costs of 9,2%. The properties department ascribes its vastly improved performance to the implementation of the revised board-approved properties strategy during the year under review, as well as better negotiated rental rates with lessees and improved gross profit on the sale of municipal services.

Greater emphasis was also placed on cost containment arising from obtaining value for money services. Included in the results is a positive fair value adjustment to investment property of R83,7 million, directly correlating with the better negotiated rental rates. Notwithstanding rental income targets not met, the department reported a positive variance on total income.

The business finance department attributes its enhanced performance to a better performing book, combined with the restructuring of various agri-business loans to assist distressed farmers afflicted by severe drought conditions, resulting in a net reversal of impairments. The performance of the book is evidenced by the non-performing loan book improving from 21% to 16,3% year-on-year.

Ithala SOC Limited posted moderate operating profit for the second consecutive year, recording a small profit of R0,02 million and maintained its capital ratios in excess of the Basel III requirements. This demonstrates a successful turn-around for the entity, when compared to the prior year operating results, largely driven by the successful enhancement of the credit and collections processes.

This is evidenced by the 2,9% year-on-year improvement in non-performing loans to 6,9%. Additionally, impaired advances also reflects a 1,3% year-on-year improvement to 6,9%.This turn-around occurred within the recovery phase of the strategy and has placed Ithala SOC Limited on a sustainable footing for the build phase of the strategy.

INCOME STATEMENT ANALYSIS

The comparative income statement for the year ended 31 March 2016 is disclosed on page 57 of the integrated report.

NET INTEREST INCOME

Net interest income increased by 1,6% in group and decreased by 3,3% in corporation. This low and negative growth in both corporation and group respectively is primarily ascribed to interest income that was affected by the low volume of deals entered into during the year.

GROUP CHIEF FINANCIAL OFFICER'S REPORT (continued)

CREDIT IMPAIRMENT CHARGES ON LOANS AND ADVANCES TO CUSTOMERS

The decrease in corporation of credit impairment charges by 101,3% is attributable to the reversal of provisions from the restructuring of agri-business loans, as well as improved collections on loans. In group, the decrease of 116% was largely due to the reclassification of loans, a release of the provision due to a write-off of personal loans, the reversal of specific impairment for housing loans as a result of settlement of impaired accounts and a change in the debt review provisioning methodology in the latter part of the financial year.

CREDIT IMPAIRMENT CHARGES ON TRADE AND OTHER RECEIVABLES

Credit impairment charges relating to trade and other receivables increased both in the corporation and group. This is attributable to the write-off of the interest portion of amounts owed to Ithala and the raising of a provision against the capital amounts owed.

OTHER OPERATING INCOME

The decrease in other operating income is primarily due to the fair value adjustment to investment property, as a result of a change in accounting policy. In 2015, R258 million was included in other operating income as compared to the R85 million in the current year. An analysis of other operating income is included in Note 20 to the annual financial statements.

OPERATING EXPENSES

Operating expenses decreased by 1,6% in the group and 3,6% in the corporation year-on-year, due to a concerted effort by executive management to contain costs within the group. An analysis of operating expenditure is included in Note 21 to the annual financial statements.

BALANCE SHEET

Ithala's comparative balance sheet position at 31 March 2016 is disclosed on page 56 of the integrated report.

TOTAL ASSETS

Total assets increased by 6,4% to R6,3 billion in the group and by 7,1% to R3,9 billion in the corporation. The increased total assets in the corporation are attributable to an increase in the investment in subsidiary, Ithala SOC Limited, via the purchase of shares of R29,9 million, as well as an increase in property, plant and equipment. Loans and advances declined year-on-year in both the corporation and group, due to a strategic intent to curtail lending in the year under review in order to build up cash reserves. Consequently, cash has increased by 31% in the group and by 58% in the corporation, reflecting a healthy liquidity position in both the corporation and the group.

FUTURE OUTLOOK

Ithala will continue on its repositioning strategy trajectory. Although the corporation has made a huge turn-around in both its income-generating units, the focus remains on increasing revenue year-on-year, whilst cost rationalisation will be a key focus area of the 2016/17 financial year.

The difficult economic climate will continue to impede business in forthcoming years, with GDP growth predicted to be less than 1% and 2% in the 2016 and 2017 years respectively. However, the upward interest rate cycle will assist in greater interest income generation, although higher interest rates will have a negative impact on the performance of loans, as customers are burdened with higher debt repayments. Notwithstanding the above, the forecasted years ahead reflect a healthy increase in profits, thereby meeting Ithala's mandate of financial sustainability. The properties department's reduction in rental impairments, due to better debtors' management of outstanding rental debtors and, consequently, improved rental collections, which commenced in 2015/16 will continue to remain a focus area in the next financial year.

Further thereto, market-related rental rates will continually be negotiated on leases that expire in the ensuing year. Additionally, a disposal strategy is to be implemented on non-performing properties.This will unlock funding for new developments, pending approval by the executive authority, as well as refurbishments to existing developments, thereby enhancing profitability and liquidity in the forecasted years ahead.

The business finance department will continue to focus on a better performing book, as a consequence of the continued effort of the post-investment monitoring unit, as well as the continued application of stringent internal controls in the loan granting process. Increased bad debt recoveries are anticipated to continue, due to the creation of a dedicated legal collections unit in the prior year.

ITHALA SOC LIMITED

With subdued economic growth continuing into the forthcoming year, Ithala SOC Limited will continue to face difficult trading conditions. Total new advances will be limited to R500 million for the year. Taxi finance has been reintroduced, albeit on a managed basis. Non-interest revenue, namely fees on the new and innovative electronic banking and insurance products will primarily drive income growth. Distribution channels will be expanded to include self-service devices and further ATMs. It is anticipated that the new 'branch of the future' concept branch will also be piloted during the year. Ithala SOC Limited forecasts a moderate profit in the forthcoming financial year.

Farhana Amod
Group Chief Financial Officer

OUR LEADERSHIP

Ithala is led by a skilled and committed board, focusing on delivering on its mandate.

BOARD OF DIRECTORS

Dr MSV Gantsho (54)
INDEPENDENT NON-EXECUTIVE DIRECTOR (CHAIRMAN)

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

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

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

Mr DM McLean (60)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

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

Ms NN Afolayan (38)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

Other directorships
- Umgeni Water
- Delta Property Fund (Pty) Ltd

Ms BC Bam (57)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

Other directorships
- Rand Water

OUR LEADERSHIP (continued)

BOARD OF DIRECTORS (continued)

Mr WJ Jacobs (51)
INDEPENDENT NON-EXECUTIVE DIRECTOR

B.Pharm, Certificate in Polyurethane Technology, Certificate in Theory of Constraints
Appointed 15/09/09 (re-appointed wef 15/09/15), (subsequently resigned wef 1/01/16)

Area of Expertise
- Management structures and systems
- Business plans
- Business risk
- Business turn-around strategies

Other directorships
- Jacobs Safety Investments (Pty) Ltd
- K2015117242 (Pty) Ltd
- 5 Ennisdale Drive (Pty) Ltd
- Warhorse Private Equity (Pty) Ltd
- Tario 575 (Pty) Ltd
- Grey West Fencing (Pty) Ltd
- Textile Investments (Pty) Ltd
- Elgin Engineering Investments (Pty) Ltd
- The Good Hope Textile Corporation (Pty) Ltd
- Fascor (Pty) Ltd
- Fascor Distribution (Pty) Ltd
- Jacobs Capital (Pty) Ltd
- Connectco Fastners (Pty) Ltd
- Best Bread Bakeries (Pty) Ltd
- Seashore Properties 43 (Pty) Ltd
- Ubuciko Twines and Fabric (Pty) Ltd
- Wessels Jacobs Properties (Pty) Ltd
- Teleios Tools and Engineering (Pty) Ltd

Rev NNA Matyumza (53)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

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

Mr GNJ White (55)
NON-EXECUTIVE DIRECTOR

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

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

Other directorships

Ms YEN Zwane (56)
EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE

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

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

Other directorships
- Ithala SOC Limited

MANAGEMENT TEAM

Ms YEN Zwane (56)
GROUP - GROUP CHIEF EXECUTIVE

Appointed: 1 December 2011

Qualification

- B Com (Accounting)
- University Education Diploma
- Associate Diploma (CAB)
- Master of Business Leadership
- Management of Technology and Innovation Diploma

Ms F Amod (44)
GROUP CHIEF FINANCIAL OFFICER

Appointed: 1 December 2015

Qualification

- Chartered Accountant (SA)
- Honours B.Compt
- B.Compt
- Post-Graduate Diploma in Auditing
- CIA
- CFSA

Mr NW Nhlangulela (43)
ACTING PROPERTIES EXECUTIVE

Appointed: 10 July 2012

Qualification

- B.Com (Corporate Finance and Economics)
- Post-Graduate Diploma in Business Management

Mr MM Matibe (57)
GROUP CHIEF INFORMATION OFFICER

Appointed: 1 December 2011

Qualification

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

Mr BTT Mathe (53)
EXECUTIVE: GROUP COMMUNICATIONS, MARKETING AND HR

Appointed: 1 January 2011

Qualification

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

OUR LEADERSHIP (continued)

MANAGEMENT TEAM (continued)

Mr M Muthusamy (46)
ACTING BUSINESS FINANCE EXECUTIVE

Appointed Acting Business Finance Executive wef 1/03/15

Qualification

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

Ms B Mokgatle (40)
GROUP CHIEF RISK OFFICER

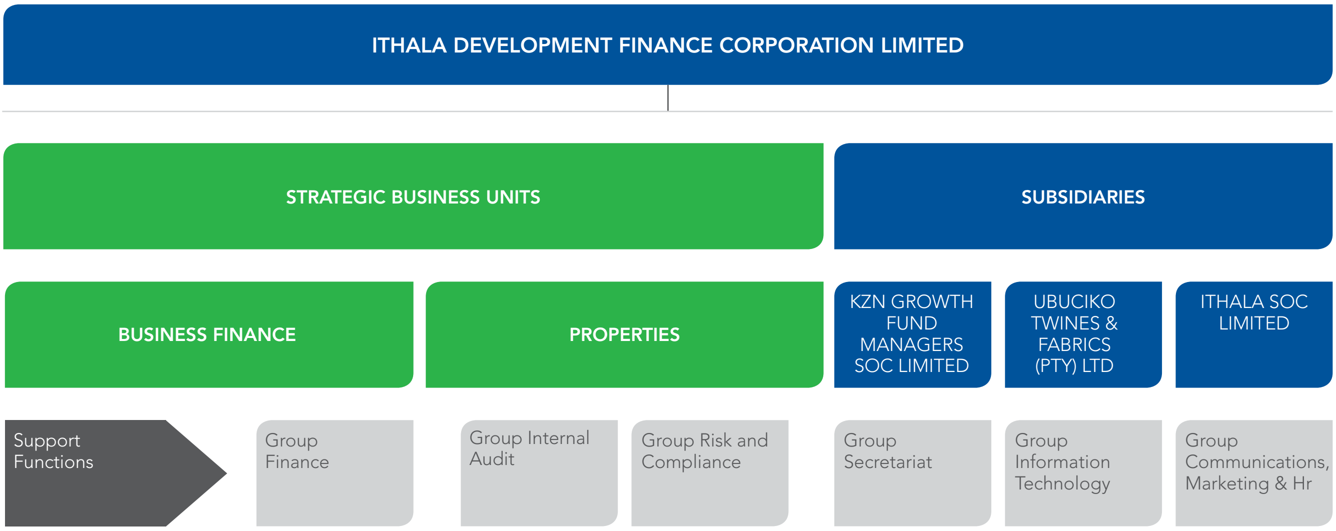
Appointed: 4 May 2015

Qualification

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

OPERATIONAL STRUCTURE

Ithala is structured as follows:



PROPERTIES

Our properties business is responsible for the management and development of Ithala's property portfolio, which comprises large industrial, retail, light industrial and SMME properties.We are one of the largest property portfolio-holders in KwaZulu-Natal. Read about our properties division's performance and prospects on pages 27 to 28.

BUSINESS FINANCE

Our lending activities are undertaken through our business finance unit, which provides financial services to SMMEs and co-operatives within KwaZulu-Natal. In playing this role, the unit packages various products and services to stimulate entrepreneurship, especially among historically disadvantaged individuals and communities.

Lending focuses on sectors in line with the Provincial Spatial Economic Development Strategy, as well as our primary mandate, in terms of the Ithala Act. Read about our business finance performance and prospects on page 26.

SUBSIDIARIES

ITHALA SOC LIMITED

Ithala SOC Limited was formally established in 2001 in order to enhance our service portfolio through its deposit-taking capability, in line with a recommendation from the South African Reserve Bank (SARB).

Its purpose is to provide financial services to the people of KwaZulu-Natal, particularly in areas where such services have not been readily available in the past. It offers retail financial services, savings and investment products, housing and loan products, and insurance products and services via a multi-channel distribution network, to individuals, groups, businesses and other public sector entities. Support services shared between the corporation and Ithala SOC Limited include ICT and Communications, Marketing and Human Resources. Please see additional information about Ithala SOC Limited in its integrated report, which may be downloaded from the website: **www.myithala.co.za**

UBUCIKO TWINES & FABRICS SOC LTD

A wholly-owned subsidiary, Ubuciko Twines & Fabrics was formed in 2006 and produced polypropylene twine, woven material and polypropylene bags and sacks. These products were destined for various sectors, such as the mining and agricultural sectors, geo textiles, polychemical, sugar and furniture industries. Ubuciko Twines & Fabrics is located in Mkondeni, Pietermaritzburg.

However, in November 2015, the Ithala Development Finance Corporation Limited's board resolved to close the Ubuciko factory and lease equipment on commercial terms. This decision was necessitated by the fact that Ubuciko Twines & Fabrics was unable to reach financial self-sustainability and required Ithala to continuously invest funds to sustain its operations.

ASSOCIATE COMPANY

The Ntingwe Tea Estate (Pty) Ltd was established in the Nkandla region in 1988. Ithala has 38% ownership, while 62% is held by the KwaZulu-Natal Department of Agriculture and Rural Development. Ithala is responsible for management support. The enterprise employs between 600 and 800 people from surrounding villages.

OUR STRATEGY

We set strategic objectives with our shareholder and measure our progress towards their achievement by way of agreed-upon key performance indicators (find our annual performance plan report on pages 30 to 31).

During the past year, we set-out to strengthen our property business in order to unlock additional revenue generation potential from our property portfolio and to reduce the holding and maintenance costs associated with the operation.

Business process re-engineering in our business units is ongoing and we continue to strengthen our corporate risk, governance and internal audit structures and systems (please see pages 41 to 46).

WE HAVE SUSTAINED IMPROVEMENTS IN THE QUALITY OF OUR LOAN PORTFOLIO, EVIDENT IN THE IMPROVED LEVELS OF COLLECTIONS AND A REDUCTION OF NON-PERFORMING LOANS.

We play an active role in all strategic provincial projects designed to enable further economic activities in order to grow employment opportunities and advance industrial revolution. We continue to explore alternative funding sources in order to advance small business lending activities beyond stakeholder grants.

CORE STRATEGIC THEMES

This report focuses on material developments and issues affecting Ithala.

We define a material issue as one that affects our ability to remain commercially viable and socially relevant to the communities in which we operate.

Our process of determining material issues includes an analysis of our business environment, the expectations of our material stakeholders, as well as issues emanating from our enterprise risk management process.

Our value creation model and strategy is tailored to respond to these. Material items are those that are both of high concern to stakeholders and have a significant impact on the business. In the following tables we describe our strategic issues, material risks, opportunities and their existing mitigation controls.

ENTERPRISE RISK MANAGEMENT

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

Risk management plays a crucial role in ensuring that Ithala delivers on its mandate, while remaining financially sustainable in its interventions.

The board is ultimately accountable for the effective management of risks and has mandated the ERC to assist it in executing its responsibilities with respect to risk management.

Enterprise Risk Management's (ERM) approach to managing risk exposures has been developed. This involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures inherent in Ithala's strategies, operations and business processes.

The key components of Ithala's ERM framework include risk governance, assurance, control after systematically identifying and assessing, and, finally, fulfilment of an oversight function. Risk is managed on both strategic and operational levels. The former includes the management of strategic risks, processes and systems, regulatory compliance, legal risk, credit risk, occupational health, security risk and business continuity. The latter includes managing the impact of operational risks on Ithala's daily business. Management is committed to ensuring that the risk management process remains robust to ensure that Ithala's assets are protected and, where necessary, the risk is mitigated.

In line with our approved ERM Framework, risk assessment is conducted annually with an output of the material risk register. Controls are in place for the identified risks tracked on a risk register and where additional controls are required, management has developed detailed risk mitigation plans to address the residual risk exposure.

All risks are reviewed on a monthly basis and 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.

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

STRATEGIC RISK

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

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

OPERATING CONTEXT

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

REGULATORY ENVIRONMENT

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

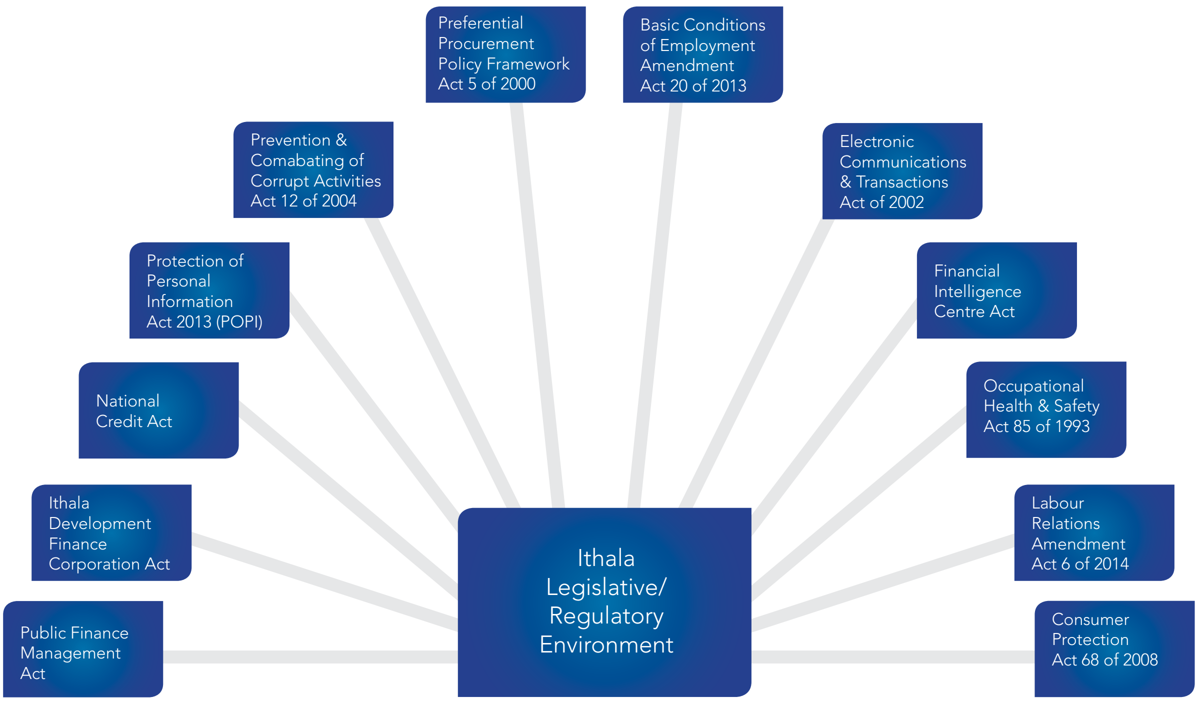
We are also a registered credit and authorised financial services provider in terms of the National Credit Act No. 34 of 2005 (NCA) and Financial Advisory and Intermediary Services (FAIS) Act No. 37 of 2005 respectively. Ithala is the holding company of Ithala SOC Limited, a subsidiary which operates under an exemption notice as a deposit-taking institution and is regulated by the provisions of the Banks Act No. 94 of 1990.

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

We have adopted a compliance risk management framework which is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa, which supports the active management of compliance risk. It uses a four-phase approach to identify, assess, manage and monitor compliance risk. We recognise the value of regulation in protecting customers. The NCA intends to address a range of challenges in the financial services sector, such as affordability, reckless lending, legislative misinterpretation and enhancing consumer education. The Financial Intelligence Centre Act (FICA) is aimed at preventing money laundering.

The purpose of the Companies Act No. 71 of 2008 is to promote compliance with the Bill of Rights, as provided for in the Constitution, with particular reference to the application of company law, and to promoting the development of the South African economy by encouraging entrepreneurship and enterprise efficiency and encouraging transparency and high standards of corporate governance. The Banks Act protects the public by regulating and supervising the entities which take their deposits.

THE FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT REGULATES THE RENDERING OF CERTAIN FINANCIAL ADVISORY AND INTERMEDIARY SERVICES TO CLIENTS, AND THE PUBLIC FINANCE MANAGEMENT ACT REGULATES FINANCIAL MANAGEMENT IN NATIONAL AND LOCAL GOVERNMENT.



ECONOMIC CONTEXT

The South African economy continues to experience low growth rates. Since 2010, South Africa's GDP growth has slowed from 3% to 1,3% in 2015.

The muted South African economic growth rate in 2015 may be mainly attributed to:
- A major decline in agriculture, mainly due to prevailing severe drought conditions, which caused a sharp decline in the production of field crops;
- Flat growth rates in manufacturing, largely a function of low global and domestic demand;
- Lower prices of key export commodities;
- Subdued business and consumer confidence levels; and
- Slow global economic growth levels.

The immediate future outlook remains gloomy, with GDP growth forecasts for 2016 and 2017 remaining below 3%

Institution	SA GDP Growth Forecast (annual average)	
	2016	2017
IMF (as at April 2016)	0 6%	1,2%
SA Reserve Bank (as at March 2016)	0,8%	1,6%
SA Treasury (as at February 2016 Budget Speech)	0,9%	1,5%
BER (as at March 2016)	0,4%	1,3%
Sources - SARB, IMF, BER and Treasury		

Further challenges to economic growth are:
- The weakening currency. The Bureau for Economic Research forecast is for the Rand to average R15 to R16/$ in 2016 and 2017;
- Rising inflation, particularly as a result of a weaker Rand and food prices;
- Pressure on consumer spending, which has been the mainstay of South African GDP growth in the past six years. Growth in real consumer spending slowed from 2,9% in 2013 to 1,5% in 2015, driven largely by a slow-down in real disposable income growth. Increasing cost pressures from the sustained Rand weakness, high administrative prices and weak employment dynamics are expected to further dampen real consumer spending;
- Rising impaired loan ratios, especially at institutions which focus on unsecured lending, have resulted in a tightening of credit standards. Data from the National Credit Regulator suggests that the growth in credit extension to households has continued to ease, with a particular slowing in growth in unsecured lending to low-income groups; and
- Growth in fixed investment remains slow. Government consumption is not likely to be a big growth driver as the Government struggles to meet its fiscal deficit targets this year in the face of weaker-than-expected growth. Furthermore, municipal under-spending continues to depress Government fixed investment, whilst private sector investment is likely to remain muted as long as sentiment is subdued.

For Ithala, the implications of this domestic economic scenario are challenging:
- Lower manufacturing activity means an overall decline in the sector and translates to greater vacancies in the industrial property sector. This has a negative bearing on rental income for our properties division;
- Both our properties and business finance segments will face increased risk of customers' business failure, which also has implications for increased spend in business support; and
- Changing trends in the economy, such as the growth of technology and 'green' sectors, make it necessary that we develop new skills. This will assist in enabling us to understand related applications and to be able to grant finance in these sectors.

STAKEHOLDER CONTEXT

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

Stakeholder Group's Material Issues	Engagement Method	Stakeholder Expectations	Ithala's Response
Provincial Government	• Quarterly performance reports • Quarterly meetings • Annual general meeting • Meetings with Legislature/Portfolio Committee	• Financial sustainability and viability • Alignment with Provincial Government's economic development agenda • Efficient and effective utilisation of allocated funds	• We signed our Shareholder's Compact with the Department of Economic Development, Tourism and Environmental Affairs • Our annual performance plan (APP) is aligned to the Provincial Growth and Development Plan • Quarterly performance reports against the APP are compiled and submitted to the department • Quarterly engagements are held with the department to discuss performance and the achievement of targets
Clients	• Business finance clients - pre-funding interaction • Post-funding interaction • We visit and interact with our properties clients and tenants on an ongoing basis	• Accessible and affordable financial services • Non-financial support services • Well maintained commercial and industrial properties • Affordable rentals • Business premises in prime development nodes	• Business finance has business centres in each municipal district • Pricing for Government Grant funding is less than prime • Post-funding non-financial support is provided through the business support and post-investment monitoring units of business finance • Increased allocations for capital and maintenance expenditure • We offer competitive and, in most cases, highly favourable rentals • Industrial and commercial premises are located in growth nodes
Regulators	• Regulatory reporting	• Responsible lending • Fair treatment of clients • Safekeeping of client records • Good corporate governance	• Submission of all regulatory reports in a timely manner • A fully capacitated compliance unit established
Employees	• Quarterly briefings by the group chief executive • On-line internal magazine business broadcasts	• Job security • Fair reward and recognition • Personal growth and development • Healthy working environment	• Stabilising the finances of the organisation to ensure sustainability • Advancing skills development through study loans and other forms of training support • Advancing talent management initiatives (see page 35)
Service Providers	• Ongoing	• Fair and transparent process of selecting service providers • Pay for services rendered in a timely manner • More opportunities for smaller enterprises	• Approved supply chain policies and procedures in line with Government policy • Specific focus on engaging B-BBEE-compliant service providers (see page 37)

HOW WE CREATE VALUE

We set-out to focus on activities that have the maximum developmental outcome across all the sectors which we support in the Province of KwaZulu-Natal. Our value proposition is the achievement and sustainability of opportunities which would otherwise be unavailable without our interventions.

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

INPUTS

- Financial capital: We receive grant funding from Government for lending to SMMEs (R148 million during the financial year);
- Social and relationship capital: We are dependent on the support of our shareholder, the Provincial Government of KwaZulu-Natal; and
- Intellectual capital: We are guided by our mandate from the Provincial Government of KwaZulu-Natal.

BUSINESS ACTIVITY

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

OUR IMPACTS

- Our activities result in broad economic impacts by stimulating the private sector and helping to fuel the economy by creating jobs, providing income and improving living standards - generating lasting development impacts;
- During the past five years, we have facilitated the creation of 13 588 jobs, generated through our lending activities. We advanced loans in excess of R1 billion;
- We facilitate access to financial services, enabling socio-economic development and financial well-being, which are particularly relevant to our markets;
- Our activities facilitate the allocation of capital for economic development; and
- We focus on understanding the needs of the public sector environment and to developing innovative solutions that are relevant to Local Government's municipal structures.

THIS YEAR

- We created 2 618 jobs through financing business enterprises;
- We funded 336 entrepreneurs (2015: 114);
- We disbursed business loans to the value of R167 million;
- We created 425 jobs through our property developments and maintenance; and
- We opened 36 921 new savings accounts through our wholly-owned subsidiary, Ithala SOC Limited.

OUR PERFORMANCE

We financed 336 businesses and co-operatives, estimated to have enabled the creation of 2 618 jobs. Business finance is responsible for the provision of financial services for SMMEs and co-operatives within KwaZulu-Natal.

BUSINESS FINANCE

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

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

Our organisation offers clients working capital, structured finance, agri-finance, procurement and asset-based finance, finance for commercial property and franchises, as well as micro-finance. Access to business finance for SMMEs is provided through business centres located across the Province, further broadening participation and bringing much-needed access to information for the benefit of local communities. Such economic activity must be KwaZulu-Natal-based, or the benefits of such activity must substantially accrue to the Province in terms of job creation and empowerment. We actively support entities which are owned substantially (30%) by historically disadvantaged individuals. Loans of up to R15 million are approved by our management credit committee, while loans exceeding this amount are referred to the board credit and investment committee for consideration and approval.

POST-INVESTMENT MONITORING AND SUPPORT

Once funding has been approved, clients are allocated a portfolio manager whose responsibility it is to provide post-investment monitoring. This includes coaching and mentorship, training, facilitation of business linkages and access to markets, as well as administrative support.

CREDIT RISK MANAGEMENT

Defaulting clients are referred to debt collection within the business finance unit. Assistance, such as the rescheduling and suspension of instalments, may be negotiated. Should these options fail and accounts fall into arrears for three months, they are referred to our legal division for collection. We have implemented a debt rehabilitation facility, which will be responsible for assisting in the turn-around of distressed businesses which have the potential to become viable.

PERFORMANCE

The size of our investment portfolio was R846 million at the end of March 2016, representing a 4,00% decrease year-on year. Our performing portfolio is R708 million, or 83,64% of the total investment portfolio, representing a R11 million or 1,57% improvement, while the non-performing component of the portfolio is R138 million, or 16,36% of the total investment portfolio, which represents an improvement of 4,64%. We realised a number of cross-selling opportunities by offering our products in conjunction with Ithala SOC Limited's insurance products during the review period.

LOOKING AHEAD

Our strategic priorities are to:

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

While a lack of funding and, therefore, financial sustainability remains a material risk, we have identified a number of opportunities, such as asset finance for replacement and expansion, and micro-financing of township businesses.

HIGHLIGHTS

- Net profit up 196% year-on-year (excluding grants);
- Gross collections ahead of budget by R42 million. An amount of R285 million was collected against a budget of R243 million;
- Non-performing loans: Improved by 4,64% year-to-date to 16,36%; and
- Development impact: Financed 336 businesses and co-operatives, estimated to facilitate the creation of 2 618 jobs.

LOWLIGHTS

- Investment performance: interest income 95% down year-on-year, due mainly to a lower volume of transactions and interest earned on a reduced book size;
- Credit advances: Credit advances 16% adverse to year-to-date budget; and
- The continued drought has created challenges for our clients, particularly in the agricultural sector. This has necessitated a review of loans and the restructuring of repayments to match productivity and reduced revenue levels. The impact has not been limited to agriculture, but also affected to transport, manufacturing and other sectors.

PROPERTIES

The properties strategic business unit provides leasing premises to retail, light industrial, industrial, commercial and SMME clients. We provide integrated property management services, inclusive of property management, asset management and technical services to the property portfolio.

HIGHLIGHTS

- Total income up 4% to R590 million;
- Net profit up 38% to R147 million;
- Total expense down 3% to R442 million;
- Gross collections up 8% to R639 million; and
- Arrears down 21% to R78 million.

REPOSITIONING STRATEGY

In 2015/16 we implemented a turn-around strategy which was aimed at improving operational and financial performance. The strategy focused on the following key deliverables:

- Improving financial performance;
- Optimising the value of the investment portfolio;
- Recapitalising the investment portfolio; and
- Positioning the business for growth opportunities.

The year under review realised significant progress in terms of these deliverables. The recapitalisation of the portfolio will require significant financial resources and we are currently engaging on how this task will be funded.

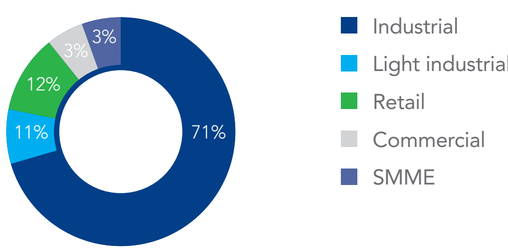
In addition, a number of investment opportunities have also been identified and are currently being packaged for implementation.

PORTFOLIO OVERVIEW

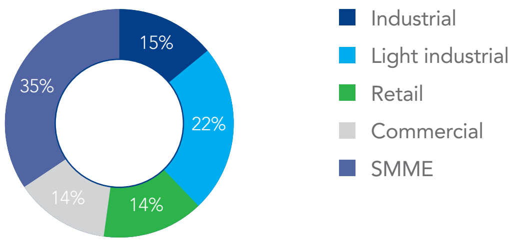
The portfolio comprises retail, light industrial, industrial, commercial and SMME properties. There are 1 325 businesses accommodated within the portfolio with in excess of 45 000 people employed.

The overall vacancy rate grew by 4% to 19%, mainly in the industrial portfolio, as tenants were negatively affected by the economic down-turn.

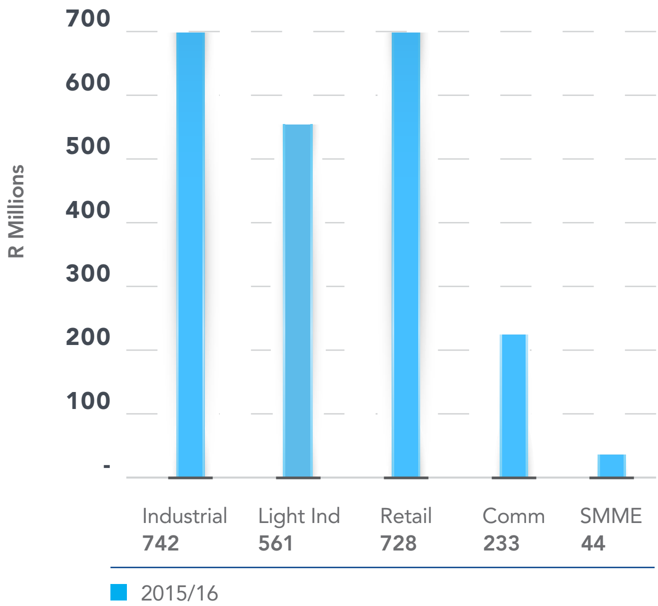
PORTFOLIO BY SECTOR



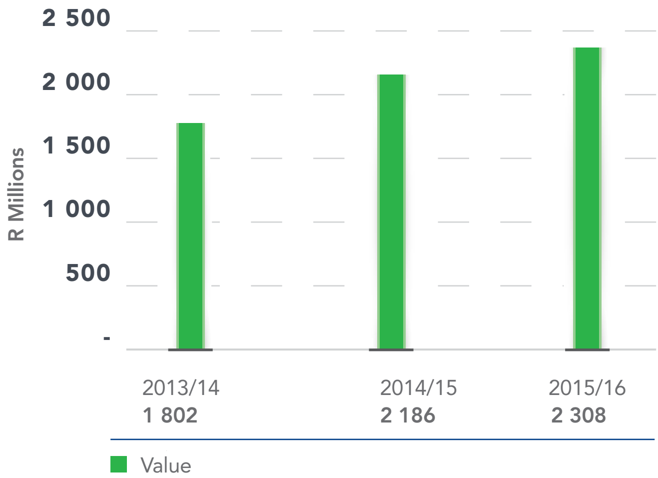
VACANCIES PER SECTOR



INVESTMENT OVERVIEW



VALUE OF PROPERTY INVESTMENT



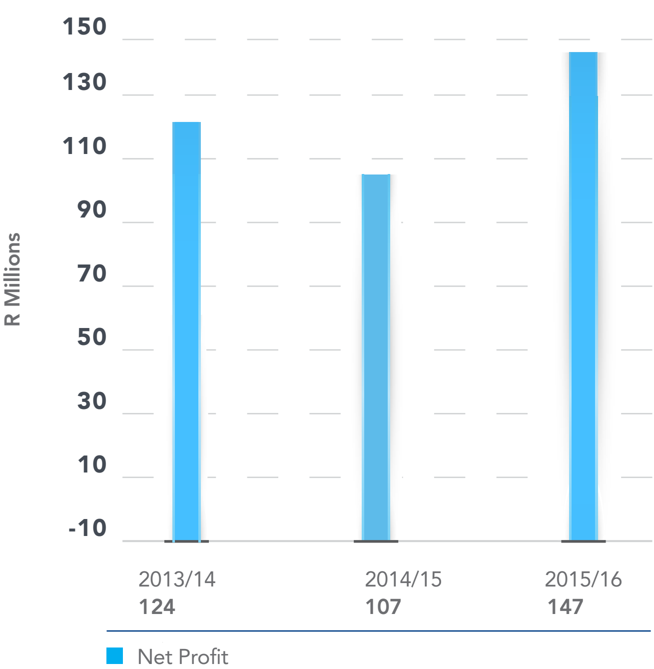
OUR PERFORMANCE (continued)

The total portfolio investment grew by 6% in the year under review.

The industrial and retail portfolio grew marginally by 1% and 2% respectively, while the light industrial and commercial portfolios grew by 11% and 31% respectively, as a consequence, largely, of new investments valued at R183 million.

FINANCIAL OVERVIEW

FINANCIAL PERFORMANCE



Net profit, excluding fair value adjustments, grew by 38% year-on-year to R147 million. The strong financial performance was driven by the following:

- 4% growth in total income to R590 million, excluding fair value adjustments;
- 3% reduction in total expenditure to R442 million; and
- 6% growth in value of investment portfolio to R2,3 billion.

KEY RISKS

- The retail portfolio requires urgent recapitalisation due to its physical condition. The retail property strategy has identified low yielding assets for disposal and high yielding assets for major remodelling and refurbishment. The funding requirement for this strategy is approximately R950 million, to be invested over the next five years. This will be funded through a combination of internal and externally-generated capital;
- The industrial portfolio requires major recapitalisation, due largely to its age (average 45 years). The business unit has committed approximately R300 million over the next three years to refurbish the industrial assets; and
- Slow economic growth, combined with high and increasing administered prices, is impacting negatively on businesses located within the portfolio. The over-concentration to the industrial portfolio poses significant risks to the cash flow generating ability of the business unit. We are currently exploring a number of retail and commercial developments aimed at reducing this concentration and mitigating this risk.

PROSPECTS FOR 2016/17:

The implementation of the repositioning strategy will be continued and our focus will be on the following:

- Increasing revenue;
- Reducing costs; and
- Investing in the investment portfolio.

The business unit is targeting to achieve the following:

- To recapitalise the portfolio by approximately R230 million;
- To grow property revenue by 19%;
- To maintain operational expenditure at current levels;
- To reduce property vacancy levels to 15% by leasing an additional 45 000 square metres; and
- To improve the value of the investment portfolio by 5% and investment yield to 12%.

The business unit will also undertake three new retail property developments located in Mondlo, Ntuzuma and Ulundi as part of our growth strategy.

SUBSIDIARIES

ITHALA SOC LIMITED

Ithala SOC Limited provides financial services in areas where such services have not been readily available in the past. It delivers on this mandate by providing:

- Retail financial services;
- Savings and investment products;
- Housing and loan products; and
- Insurance products and services.

These offerings are provided through a multi-channel distribution network to individuals, groups, businesses and other public sector entities. We remain committed to re-asserting our role as a people's bank. The organisation is endeavouring to build the foundations necessary to become a State Bank which advances the socio-economic imperatives and priorities of our democracy. Ithala SOC Limited's ongoing banking licence exemption is extended until 2017.

In the interim, we are working to ready ourselves to meet all the requirements for a permanent banking licence.Ithala SOC Limited publishes its own integrated annual report, which may be accessed on our website: **www.myithala.co.za**

KEY HIGHLIGHTS FOR 2015/16

The 2015/16 financial year was a period in which organisational performance improvements stood out for Ithala SOC Limited, indicating the turn-around of the business.

- We recorded a profit for the second consecutive year;
- Despite our difficult economic trading environment, net profit for the year, largely as a result of the successful enhancement of our credit and collections processes, remained positive at R0,02 million (2015: R0,54 million);
- Total assets and customer deposits grew by 6,1% and 5,8% to R2,56 billion (2015: R2,42 billion) and 2,19 billion (2015: R2,07 billion) respectively;
- Return on equity was 0,01% (2015: 0,25%) and return on assets was 0,001% (2015: 0,020%); and
- Ithala SOC Limited delivered an impressive credit performance, with our non-performing loans percentage down 30,0% to 6,9% (2015: 9,8%) and the impaired advances ratio at an acceptable 6,9% (2015: 8,2%).

UBUCIKO TWINES & FABRICS (PTY) LTD

In November 2015, Ithala Development Finance Corporation Limited's board resolved to close the Ubuciko Ubuciko Twines & Fabrics factory and lease equipment on commercial terms.

This decision was necessitated by the fact that the company was unable to reach financial self-sustainability and required Ithala to continuously inject funds to sustain its operations.

ASSOCIATE

NTINGWE TEA ESTATE

The Ntingwe Tea Estate was established in the Nkandla region in 1988. Ithala has 38% ownership, while 62% is owned by the KwaZulu-Natal Department of Agriculture and Rural Development. Ithala is responsible for management support.

The enterprise employs between 600 and 800 people from surrounding villages. The establishment of this operation in this rural part of KwaZulu-Natal has assisted in bringing electricity, running water, telephones, clinics and schools to the area. The entity has also trained farm labourers, electricians, managers, administrators and nurserymen.

An investment of R4 million was approved for the attainment of the Rain Forest Alliance Certification (works scheduled to commence in the winter season shut-down period).

This certification is essential to enable Ntingwe Tea Estate to access export markets. It is also the cornerstone of the Ntingwe turn-around plan, which was presented to the KwaZulu-Natal Treasury in 2014.

This plan addresses critical challenges relating to competitiveness, faced by the entity due to inexpensive imports from other parts of Africa.

OUR PERFORMANCE (continued)

PERFORMANCE SCORECARD

GOAL 1: FINANCIAL SUSTAINABILITY AND VIABILITY (WEIGHTING = 30%)

Strategic Objective	Key Performance Indicator	2015/16 Target	2015/16 Actual	Management Comment
Financial sustainability	Gross collections (cumulative)	R589 million	R908,2 million	Target achieved
	Non-performing loans percentage ceiling (loan book)	25%	16%	Target achieved
	Net profit (cumulative)	R110,4 million	R229,9 million	Target achieved
Financial efficiency	Cost-to-income ratio ceiling	85,0%	78,7%	Target achieved

GOAL 2: DEVELOPMENTAL EFFECTIVENESS (WEIGHTING = 35%)

Strategic Objective	Key Performance Indicator	2015/16 Target	2015/16 Actual	Management Comment
Job creation	Number of jobs created by funded SMMEs and co-operatives (estimated)	1 282	3 043	Target achieved
SMME capacity development	Number of new businesses financed	120	336	Target achieved
	Total value of loans disbursed	R240 million	R167 million	Target not achieved. Ceased commercial lending, due to clients not meeting Development Fund requirements
Increase B-BBEE spend	% spent on B-BBEE-compliant service providers	83%	89,95%	Total value of loans disbursed
Investment in economic infrastructure	Capital and maintenance expenditure (cumulative)	R154 million	R95,2 million	86% achieved, mainly due to savings from better rates negotiated with suppliers and a moratorium on spending until maintenance plan in place. Cash flow constraints and scope changes in capital expenditure caused delays in implementation of project

GOAL 3: OPERATIONAL EXCELLENCE AND GOOD CORPORATE GOVERNANCE (WEIGHTING = 25%)

Strategic Objective	Key Performance Indicator	2015/16 Target	2015/16 Actual	Management Comment
IT excellence: Delivery of agile, integrated and modular business systems within budget, schedule and scope	System availability	97% uptime	98,63% uptime	Target achieved
	Customer satisfaction level	92% by March 2016	99,36% satisfaction level	Target achieved
To obtain a clean audit	Unqualified (clean) audit as per Auditor-General's Audit Report	Achieve clean audit status for 2014/15	Achieved	Target achieved
Customer satisfaction (external)	Customer satisfaction index	52%	54%	Target achieved

GOAL 4: FORGE STRATEGIC PARTNERSHIPS (WEIGHTING = 5%)

Strategic Objective	Key Performance Indicator	2015/16 Target	2015/16 Actual	Management Comment
Forge and sustain strategic partnership	Community partnership	2	2	Target achieved
	Business partnership	2	2	Target achieved
	Government partnership	2	2	Target achieved

GOAL 5: KNOWLEDGE MANAGEMENT (WEIGHTING = 5%)

Strategic Objective	Key Performance Indicator	2015/16 Target	2015/16 Actual	Management Comment
Institutionalise knowledge management at Ithala	Knowledge management centre at Ithala Trade Centre by end of March 2016	Completed installation and commissioning of the knowledge management centre	Knowledge management centre completed, set-up and functioning - opened 17 November 2015	Target achieved

ECONOMIC VALUE CREATION

During the 2015/16 financial year, we contributed value to the local economy and created stakeholder wealth. Our value and wealth contribution is depicted as follows:

VALUE ADDED STATEMENT

For the year ended 31 March 2016

	2016		2015	
	R'000	%	R'000	%
			Restated	
VALUE ADDED				
Net interest income	229 238	18	225 736	15
Non-interest income	1 034 851	82	1 315 006	85
Other expenditure	(581 264)	(46)	(662 088)	(43)
	682 825	54	878 654	57
VALUE ALLOCATED				
To employees:				
Staff costs	368 816	54	388 047	44
To government:	53 867	8	52 402	6
Skills development levies	2 977	0	2 696	0
Value added taxation	11 521	2	9 845	1
Rates and taxes paid to local authorities	32 865	5	35 464	4
South African normal taxation	6 504	1	4 397	1
To retention for expansion and growth:	260 142	38	438 205	50
Depreciation	35 626	5	28 966	3
Retained income for year	224 516	33	409 239	47
Total value allocated	682 825	100	878 654	100

DEVELOPMENT IMPACT

	2012	2013	2014	2015	2016	TOTAL
Jobs created through financing business enterprises	1 966	3 650	4 468	886	2 618	**13 588**
Primary agriculture	440	282	991	12	482	**2 207**
Construction	870	1 850	2 828	697	435	**6 680**
Manufacturing	312	50	78	2	22	**464**
Trade and services (2015 trade only)	242	1 106	520	13	178	**2 059**
Co-operatives	102	362	51	44	945	**1 504**
Property	-	-	-	2	33	**35**
Franchise	-	-	-	5	34	**39**
Logistics	-	-	-	25	309	**334**
Micro-finance	-	-	-	86	180	**266**
Jobs created through property development and maintenance	232	301	373	845	425	**2 176**
Hectares of Agri-land financed	2 979	762	428	25	2 157	**6 351**

OUR PEOPLE

Our members of staff are the organisation's single most important asset.

HUMAN CAPITAL

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

- Nurturing a performance-orientated organisational culture;
- Enhancing an integrated human resources system to support a transformational human resources service philosophy;
- Supporting initiatives set-out by business units through the provision of human capital capability;
- Contributing to cost management by ensuring that we have a lean, productive and effective workforce;
- Providing human resources processes aimed at transformational objectives and service delivery;
- Providing effective implementation of the talent management process; and
- Providing an integrated employee-wellness service.

We continue to aspire to being an employer of choice in KwaZulu-Natal and remain totally committed to investing in all our employees so as to ensure that they develop the skills necessary to perform optimally. Our strategy is focused on delivering tangible benefits for Ithala employees and their futures, whilst contributing to the growth and success of the business and the achievement of the organisation's vision.

Our success is not only reliant on the retention of its capable staff members, but also on ensuring that the knowledge, skills-sets and expertise of those carrying out our mandate remain current and relevant. The purpose of our human capital strategy is to ensure optimal human capital enhancement and value creation through:

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

STAFF PROFILE

Of our staff complement of 778 permanent employees:

- 98,33% are historically disadvantaged individuals;
- 51,41% are female (an increase of 1,95% from the previous year);
- 32,13% are 35 years and below (youth), and 11,57% are 55 years and above;
- 38,82% of our staff have a tenure of more than 10 years;
- 0,64% of our staff have disabilities;
- 100% of our staff are employed in KwaZulu-Natal; and
- Low levels of staff attrition at 10,28%, down 1,34% from the previous year.

GROUP EMPLOYEE PROFILE AS AT 31 MARCH 2016

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Executive Management	4	0	0	1	2	0	1	0	8
Senior Management	12	0	4	0	6	0	1	0	23
Professionally qualified and experienced specialists and middle-management professionals	55	1	18	9	26	0	5	7	121
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	107	2	4	3	165	5	19	9	314
Semi-skilled and discretionary decision-making	118	0	0	0	129	0	1	1	249
Unskilled and defined decision-making	40	0	0	0	23	0	0	0	63
Total	336	3	26	13	351	5	27	17	778
%	43,9%	0,39%	3,34%	1,67%	45,12%	0,64%	3,47%	2,19%	100,00%

OUR PEOPLE (continued)

Although Ithala has a historically disadvantaged individual representation of more than 98%, we, however, fall behind on the demographics of the categories of provincial Indian and national Coloured and White populations.

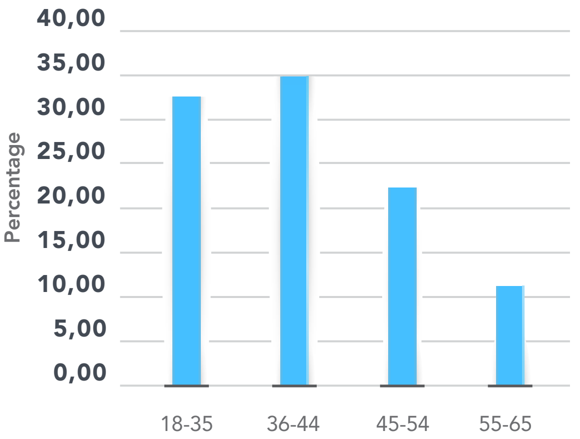
Ithala should, therefore, focus on targeting increasing its numbers in the Indian category, as this represents a significant group in the Province. Those levels below national benchmarks may be dealt with as and when opportunities arise.

OUR STAFF COMPLEMENT REFLECTS THE STRIDES WE HAVE MADE TOWARDS ACHIEVING IN EXCESS OF 50% FEMALE (51%) REPRESENTATION IN THE WORKPLACE.

We, however, need to focus on further increasing female representation at managerial levels, given that currently only one third of the senior managerial levels (30%) are female.

People with disabilities currently represent less than one percent (0,64%). Targeted efforts with regard to employment is required within these categories.

GROUP EMPLOYEE AGE DISTRIBUTION AS AT 31 MARCH 2016



Ithala has achieved a noteworthy youth employment profile, with one third (32%) of our workforce being within the youth category and only one tenth (11%) comprising older people nearing retirement.

We believe that this profile demonstrates our commitment to contributing to eradicating youth unemployment in the country. We remain committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration being given to historically disadvantaged groups.

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

EMPLOYEE ENGAGEMENT

We regularly engage with the members of our staff in order to establish their priorities, needs and expectations.

These include:

- Career and personal development opportunities;
- Effective performance management and recognition;
- Effective and efficient employee relations;
- Improved employee well-being; and
- A healthy and safe work environment.

HOW WE RESPONDED

- **Performance management and remuneration:**
  Performance management is a key instrument used to establish and reinforce employee outputs and behaviours, through which our strategic business objectives and results may be achieved. A focus on constant performance improvement facilitates our business transformation and motivates our employees to focus on both business and personal objectives, deliver and sustain outstanding performance and consistently behave in accordance with our values. Our remuneration policy supports our performance-driven culture and our total remuneration is commercially competitive in the relevant markets within which we operate. In addition, we have launched a career and performance management tool, which is driven electroncially, for usage throughout the organisation.

- **Effective employee relations:**
  Our approach to employee relations ensures that we recognise our employees' rights to fair and equitable employment practices and to freedom of association. The South African Municipal Workers Union (SAMWU) is the recognised collective bargaining agent at Ithala, with a combined representation of 72,88% of all employees. The bargaining unit, however, comprises only employees within Patterson Grades A to C. We did not experience any serious industrial action during the year under review, other than a peaceful march. During the review period seven dismissals took place, of which four were for gross misconduct, two for dishonesty and one for absenteeism.

- **Employee wellness:**
  The Ithala employee well-being programme (EWP) provides our staff members with professional wellness support and resources in both their professional and personal lives. Our wellness strategy aims to create a 'culture of healthy living', premised on the belief that healthy employees tend to be happier and more productive.

The EWP co-ordinates support through our referral doctors and service providers, which cover a range of issues, inclusive of emotional and personal difficulties, family and relationship concerns, alcohol or drug abuse, stress and change management, financial matters, legal concerns, HIV/AIDS, violence, bereavement and loss.

Our quarterly wellness days focus on various health issues, ranging from disability to disease management.

An occupational health and safety service is provided through an on-site nurse and work safety programme. We will continue working to increase the level of participation regarding these offerings.

Following extensive investigation of international and local best practice in terms of employee health and wellness and obtaining inputs from employees, our employee health and wellness programme is rapidly transforming its services into more holistic support, integrating risk management, occupational health, safety, productivity and the well-being of employees in the world of work.

CHANGE MANAGEMENT

Change management is the process of taking a planned and structured approach to assist in aligning an organisation with structural, people, process or system changes.

Ithala employs change management interventions in its organisational change implementation efforts.

A change management strategy has been formulated in order to enable change opportunities and identification of associated risks.

Our change programmes involve leadership as sponsors of change. Our employees receive the necessary guidance and support required during change, so that their capacity to adapt and work effectively and efficiently in new or modified situations is sustained.

We are currently rolling-out a change management capacity-building programme for our senior leadership, managers and supervisors, focusing on:

- Strategically positioning their projects for success;
- Effectively leading change;
- Tools and skills necessary for understanding and processing change themselves first;
- Evaluating changes that are taking place in the organisation and the impact change will have on both their teams and themselves; and
- Successfully leading teams through change.

This will ensure that we obtain the expected return from our change interventions and programmes implemented, going forward.

TALENT MANAGEMENT

The talent forum committee, which was established in 2013, aims at focusing on the talent management strategy and framework applied by the organisation. In furthering talent management practices, a leadership competency framework was approved during the year under review.

This approval was followed by the roll-out of leadership assessments, aimed at establishing the maturity levels of leadership role incumbents. Executive management was assessed during the year under review and the next levels of management will be assessed during 2016/17.

LEARNING AND DEVELOPMENT

Our human resources interventions set-out to unlock value by releasing the potential of our employees and to enable the organisation to sustain itself into the future, through its human capital.

During the year under review, we spent a total of R1,88 million on training, which focused on compliance, product knowledge and technical skills. We issued 41 study loans (2014/15: 26) to our employees.

The breakdown of our investments in this respect is as follows:

Study loans to staff	R828 824.00
Other training (Ithala-funded)	R1 882 020.48
Other training (Bank Seta-funded)	R396 000.00
External bursary scheme	R691 038.59
Total	**R3 797 883.07**

We partnered, for the second consecutive year, with the National Ministry of Small Business Development in a Techno Girl Programme, focusing on 120 girls from 12 schools across the Province in terms of SMME development.

In addition, our organisation awarded bursaries to 11 young students in KwaZulu-Natal. The scope of these awards was on critical and/or scarce skills development.

LEARNERSHIPS

We continued utilising learnerships as a significant mode of delivery for addressing scarce skills in accordance with our workplace skills plan. We have designed programmes in partnership with external service providers in order to allow participating employees and unemployed graduates to achieve South African Qualifications Authority- (SAQA) accredited qualifications.

In 2015, four graduates from Mangosuthu University of Technology were placed within our internal audit unit for a three-year period, whilst being offered professional training through the Institute of Internal Auditors. We also embarked on a tripartite partnership between Ithala, ICB

OUR PEOPLE (continued)

and the German Chamber. This learnership focuses on 20 personal assistants and administrators drawn from across the Province.

The learners will complete a NQF Level 6 qualification, with international recognition. The programme commenced in January 2016 and concludes in April 2018.

A total of nine Letsema learners who had enrolled for the National Certificate in Banking, were placed at Ithala by BankSeta in order to acquire workplace experience. A further nine graduates, sponsored by Ithala for ICT studies, were also placed within our organisation during the same period.

INTERNSHIPS

Three interns were awarded permanent posts and four were placed on 24-month fixed-term contracts with Ithala during the review period.

In addition, the organisation introduced a total of five new interns to the organisation with a view to their gaining workplace experience in answer to the shortage of critical and scarce skills-sets. They have since been granted fixed-term contract employment, given their proven potential for learning and growth.

WORK INTEGRATED LEARNING

Our organisational contribution to increasing the supply of artisans was fulfilled through the placement of eight young graduates at our Ezakheni and Isithebe Industrial Estates to work in electrical operations.

THIS ENDEAVOUR ALIGNED WITH OUR FOCUS ON 2015 AS THE 'YEAR OF THE ARTISAN.' THE APPRENTICESHIP PROGRAMME LASTED 12 MONTHS.

In our drive to align with the Ministry of Higher Education and Training's national agenda of 'creating every workspace into a training space,' Ithala signed Memoranda of Understanding with Technical Vocational Education and Training (TVET) Colleges and Universities of Technology throughout the Province in a bid to ensure that we are able to create opportunities for young students to access our organisation and experience work integrated learning for a 12 to 18-month period ahead of graduation.

During 2015, we successfully hosted 83 students, placed in various of our organisation's business units. The table below summarises beneficiary numbers impacted by each intervention:

Type of Placement	Number of Incumbents	Permanent or Fixed-Term Contract Placement Opportunities
Experiential learning	83	3
Graduate in training	2	2
Artisan programme	4	0
Internship programme	5	5
Learnerships	6	6
Letsema learners	5	0

LEADERSHIP DEVELOPMENT

In 2015 BankSeta sponsored seven internal middle management employees to enrol for a management development programme.

A further intake of 10 employees commenced the same programme in 2016. This important programme aims to equip our potential leaders for career progression within the organisation. This, together with a range of other interventions, ably demonstrates our organisation's commitment to building leadership capacity and ensuring the supply of candidates equipped to adopt senior leadership roles into the future.

SOCIO-ECONOMIC TRANSFORMATION

As a public entity, we are subject to the Public Finance Management Act's (PFMA) Broad-Based Black Economic Empowerment (B-BBEE) principles.

Whilst our mission centres on supporting the integration of Black people into the economy, we further contribute to B-BBEE in a number of ways, including skills development, providing equal opportunities and ensuring preferential procurement. We are subject to the PFMA, which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

We, accordingly, maintain appropriate procurement and provisioning systems which aim to be fair, equitable, transparent, competitive and cost-effective.

LEVELS	Procurement Spend (R)	B-BBEE Spend (R)	% B-BBEE Spend
1	34 513 130.00	46 685 689.59	135,27
2	111 913 267.81	141 186 639.43	126,16
3	252 827 055.57	281 283 917.40	111,26
4	15 879 916.54	15 952 619.01	100,46
5	6 375 320.76	5 145 143.93	80,70
6	1 685 163.50	1 013 410.02	60,14
7	772 287.67	390 970.62	50,62
8	0	0	0,00
20	122 917 781.15	0	0,00
	546 883 923.00	491 658 390.00	89,9

Our organisation is a level 3 B-BBEE contributor and is classified as a value-adding supplier, a benefit that accrues to those that utilise us as a supplier. Our procurement spend amounted to approximately R547 million (2014/15: R582 million), whilst our weighted procurement spend from B-BBEE suppliers during the review period totalled R492 million (2014/15: R524 million).

COMMUNITY INVOLVEMENT

Ithala's Corporate Social Investment (CSI) programme is designed to support specific initiatives concerned with financial literacy, entrepreneurship and skills development, with great emphasis being placed on women and the youth.

Our CSI initiatives encourage interaction with businesses, Government and the wider community, at either partnership or beneficiary levels.

Imbokodo Iyazenzela Women In SMMEs Programme:
This is a Province-wide programme for women operating SMMEs, largely in rural areas and townships. The programme content includes business advice, motivational inputs and the presentation of opportunities prioritised for women in communities, including coaching those intending to start a business.

Between April and July 2015, outreach sessions were delivered jointly with the provincial Department of Economic Development, Tourism and Environmental Affairs, the Small Business Enterprise Development Agency (SEDA), the South African Revenue Service (SARS) and Local Economic Development (LED) managers from a range of municipalities, amongst other stakeholders.
A total of 1 041 women from 16 towns and representing all the Province's districts attended.

Siyasebenza Entrepreneurial Development Programme:
This is a programme which aims to link the youth and women to specifically-identified opportunities within their particular business landscapes, while also providing the means to access, wherever possible.

Opportunities set-out for this initiative during the 2015/16 financial year included the following examples:
- School Nutrition Feeding Programme;
- Micro-Finance Programme; and
- Entrepreneur Development Workshops.

Ithala interacted with no fewer than 1 581 emerging and aspiring entrepreneurs across all 11 districts of the Province during the review period.

Inkunz'isematholeni Youth in Business Competition:
This competition focused on driving innovation and self-employment during 2015/16, specifically within the green economy field. The competition winners for this period are already under incubation and their businesses are expected to be fully operational later in the year.

During 2015/16 candidates identified the previous year were enrolled in the incubation programme, enabling the kick-start of their ventures:
- A remarkable innovation introduced by one young candidate from Umlazi was a portable cooking instrument which does not require electricity, gas or paraffin and which may be used both indoors and outdoors. The patenting and registration of the concept have been finalised, premises and equipment secured and the enterprise has become operational; and
- With the assistance of Enactus-UKZN students, a young woman from Hammarsdale was able to implement an innovative method of farming potatoes, which substantially decreases operational costs and water usage, which will be most welcome, given the country's current water crisis. Suitable land has already been identified to establish the farm in order to pursue this initiative.

The School Enterprise Challenge:
This is a student-led business start-up competition sponsored by Ithala and co-ordinated by a United Kingdom-based Teach a Man to Fish Foundation for schools around the world. In addition to being a key sponsor of the initiative, Ithala contributed significantly to the mentorship and up-skilling of participants. The initiative enables students to develop essential business and entrepreneurial skills in a practical, entertaining and innovative manner. In this way, schools are able to generate an income which they are able to invest towards developing the facilities or social causes of their choice. Participation in the annual competition is free and open to learners of all age groups. The objectives are to guide and support teachers and students to set up tangible school businesses.

CSI Bursary Scheme
Ithala established a bursary scheme some years ago to assist learners from historically disadvantaged communities in KwaZulu-Natal to acquire tertiary qualifications in specified fields of study at certain recognised tertiary educational institutions in South Africa.

Commencing with just one student - who is now a chartered accountant - Ithala, in 2015, selected nine bursary recipients from areas across KwaZulu-Natal, affording them the opportunity to embark on, or further, their tertiary studies. The scheme has developed significantly since inception and has been expanded to include financial assistance to students undertaking under-graduate degrees in the fields of accounting and auditing.

In addition, we launched the Ithala Education Fund during February 2016. The intention behind this intervention was to assist academically-deserving, yet historically disadvantaged students to pay for their registration fees at tertiary institutions. A total of 20c of every R1 earned from our Student debit card product will be donated to this fund. Members of the public who are in a position to assist are also able to contribute to the Ithala Education Fund #LeaveNoStudentBehind.

INFORMATION & COMMUNICATION TECHNOLOGY

The efforts of group information & communication technology (ICT) to enable the organisation to run its operations in an efficient and cost-effective manner continue to bear fruit.

UNDERLYING ALL OUR EFFORTS IS THE ASSURANCE OF BUSINESS CONTINUITY IN THE EVENT OF DISASTER, THROUGH THE IMPLEMENTATION OF A BUSINESS CONTINUITY PLAN (BCP) AND PERFORMING TESTING OF OUR DISASTER RECOVERY PLAN (DRP).

The completion of a number of projects attests to the achievement of our set goals. During the year under review we were able to complete and launch into operation the following projects:

Human Resources Management System:
This project, for implementation of the human resource management system, is aimed at automating all key human resource processes. With such processes automated, employees will be able to access the system from anywhere, anytime, using web interfaces through a self-service functionality. The following modules are now effectively utilised by the organisation:
- Career and performance management;
- Employment equity;
- Employee relations and industrial relations;
- Employee recruitment; and
- Employee training and development.

Integrated Governance, Risk, Compliance and Audit System:
IT supported the organisation in its implementation of the BarnOwl system, being a fully integrated governance, risk management, compliance and audit software solution. The implementation of the system was completed on 31 March 2016 and went live on 1 April 2016.

Implementation of ICT Infrastructure at Ithala Trade Centre (ITC):
With the relocation of Ithala Development Finance Corporation Limited from Umlazi to Durban's Point Waterfront, group IT recognised an opportunity to upgrade the organisation's IT infrastructure to the latest available technologies.

Infrastructure was deployed within schedule and provides for:
- Unified communication technology;
- Robust wireless connection to support and promote mobility in the Ithala Trade Centre building;
- A biometric access control, time and attendance system, in line with labour and safety requirements; and
- Back-up power, enabling business continuity during power outages.

Data Centre Infrastructure Refresh:
Group IT embarked on a multi-year programme to refresh technology infrastructure by acquiring infrastructure to be placed at Ithala Trade Centre, as well as at our disaster recovery site (Terraco). The infrastructure will gradually be upgraded and applications migrated from the existing infrastructure to a new one.

Enterprise Content Management System:
The enterprise content management (ECM) project focuses on the digitisation of paper documents and forms so as to achieve a reduced use of paper.

The system has delivered its second outcome, being the digitisation of client mandate files (available electronically instead of branches having to contact the home branch of clients in order to secure client balances and who, in turn, must manually verify client records before allowing withdrawals).

The third deliverable of the project entailed connecting Ithala's home loan system to the switching systems of OOBA and Comcorp, in order that bond originators may submit applications for home loans electronically.

This functionality was delivered and the project went live in February 2016.

HEALTH, SAFETY AND ENVIRONMENT

Making health, safety and environment improvements is vital to the success of our business.

OUR HEALTH, SAFETY AND ENVIRONMENTAL (HSE) APPROACH STARTS WITH OUR HSE POLICIES, WITH WHICH ALL OUR OPERATIONS MUST COMPLY.

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

Our current HSE strategy is based upon a combination of risk management, policy setting, employee awareness and a culture which promotes the desired HSE behaviours, implementation of management systems, promotion of employee health and well-being, as well as compliance.

Ithala is committed to meeting or exceeding its legal and other HSE requirements. We periodically assess our compliance, including assurance processes that confirm for the board that our operations and business units comply with policies and legislative requirements, and are making progress with their improvement plans.

Our employee health programme aims to protect our people against illness. A total of 98 employees participated in a base-line medical surveillance programme, to provide fit-for-duty medical testing for employees.

Examples of tests conducted included: a full physical examination, vision screening, lung function tests and hearing tests. Employees with abnormal examination results were followed-up with appropriate interventions.

A programme of monthly chronic disease management was also introduced to ensure all our employees are fit for duty, consistent with legal requirements and in accordance with the Medical Surveillance Policy.

During the review period, Ithala also commissioned an independent, approved inspection authority to conduct a series of occupational hygiene surveys at our industrial estates.

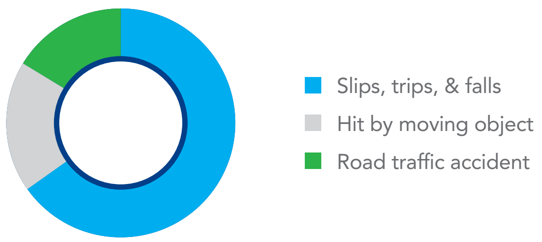
The following surveys were conducted in accordance with legal requirements and various SANS standards and other guidelines to obtain quantitative exposure levels:
- Illumination;
- Ventilation;
- Vibration;
- Ergonomics; and
- Noise levels.

Following these surveys, we prepared action plans, which we closely monitored to ensure issues were properly resolved in a timely manner.

We continued delivering health and safety training, using - primarily - in-house, as well as external resources.

Course	Attendance Figures
First Aid Level 1	82
Health and safety for managers and supervisors	111

The number of lost time injuries suffered in 2015/16 decreased to five (2014/15: 6). The accident breakdown by type is indicated below.



During the period under review Ithala oversaw the decommissioning and rehabilitation activities at two industrial sites which had reached their closure phase.

These initiatives reinforced the following environmental principles:
- The need to comply with legislative and regulatory requirements for decommissioning and environmental remediation;
- The need to promote the recycling and re-use of decommissioned plant and equipment and materials; and
- The need to ensure that measures are in place to safely dispose of all waste and to clean-up any contaminated areas on-site.

GOVERNANCE

We endeavour to continuously ensure our organisation's compliance with King III.

KING III

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

Ithala complies with the King III Report on Corporate Governance (King III) principles in all material respects, except in areas which are not permissible because of our legislative framework, being the Ithala Act (the Act).

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

BOARD APPOINTMENTS AND RESIGNATIONS

The board is appointed by the Executive Council of the Province of KwaZulu-Natal. In terms of the Ithala Act, the board comprises at least seven, but no more than 13 members.During the review period, the board continued operating at the minimum level, with seven directors. The skills gaps, which require addressing, have been communicated to the office of the Member of the Executive Council responsible for Ithala.

Mr WJ Jacobs resigned from the board, with effect from 1 January 2016. Mr GNJ White, originally appointed to the Ithala board on 1 June 2011 and seconded to Ithala SOC Limited - a wholly-owned subsidiary of Ithala - as an executive deputy chairman, was re-instated to the Ithala board as a non-independent, non-executive director with effect from 1 December 2015, having resigned from the subsidiary with effect from 30 November 2015.

The term of office of Ms M Makano, who was co-opted as an IT specialist to the enterprise risk committee (ERC), expired on 31 December 2015 and was not renewed. Ms R Ramdew was co-opted as an IT specialist to the ERC with effect from 1 April 2016.

BOARD EFFECTIVENESS

During the 2015/16 financial year, the board engaged an independent service provider to evaluate its performance, the results of which indicated that the board was functioning efficiently.

The only matter to have emerged from the evaluation was the need for a refresher induction session. Given that existing vacancies were expected to be filled in the near future, the board resolved that all members would participate during the induction of new members.

ITHALA BOARD

During the year under review, the board continued to monitor the implementation of the repositioning strategy, together with the management of associated risks. The three-year properties holding strategy, which was approved by the board during the previous financial year, was not endorsed by the shareholder due to certain elements thereof involving the outsourcing of the management function.

The board considered and approved a new properties strategy, the implementation of which is topical in board discussions.The board continues to monitor Ithala's ethics programmes, with the intention of strengthening the organisation's ethics culture. To this end, the board approved an anti-fraud and corruption policy, as well as a whistle-blowing policy.

The board and executives also underwent ethics training, which was also cascaded down to lower level employees.

In addition, the board approved a governance framework which embodies the policies, practices and processes by which Ithala is directed, governed and held accountable. The implementation of this comprehensive framework of policies, procedures and systems promotes a responsible and ethical culture. The performance of subsidiaries and associated companies, inclusive of Ithala SOC Limited, KwaZulu-Natal Property Development Holdings SOC Limited (formerly KZN Growth Fund Managers SOC Limited) and Ubuciko Twines & Fabrics (Pty) Limited, as well as Ntingwe Tea (Pty) Limited respectively, was reviewed and remain a key focus area for the board due to the risk associated with the non-performance of these entities in relation to overall group performance.

GIVEN THE NEGATIVE IMPACT OF THE CONTINUED LOSSES SHOWN BY UBUCIKO TWINES & FABRICS, THE BOARD ACCEPTED THE SUBSIDIARY BOARD'S PROPOSAL TO CEASE OPERATIONS, LEASING THE EQUIPMENT TO A THIRD PARTY/IES, SUBJECT TO MAINTAINING THE OPERATIONS WITHIN THE PROVINCE OF KWAZULU-NATAL AND EMPLOYING STAFF FROM THE PROVINCE, WITH PREFERENCE AFFORDED TO UBUCIKO'S FORMER EMPLOYEES.

GOVERNANCE (continued)

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2015/16

BOARD AND COMMITTEES' MEETING ATTENDANCE 2015/16									
Date of first appointment		Board of Directors		Audit Committee		Enterprise Risk Committee		Human Resources & Remuneration Committee	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
Dr MSV Gantsho	01/06/2011	4	3	-	-	-	-	-	-
Mr DM McLean	15/09/2009	4	4	4	4	4	4	-	-
Rev NNA Matyumza	01/06/2011	4	4	4	4	4	4	-	-
Mr WJ Jacobs (Resigned wef 1/01/2016)	15/09/2009	4	3	-	-	4	2	-	-
Ms M Mosidi (co-opted to the ERC wef 01/01/2013 - term ended 31/12/2015		-	-	-	-	4	1	-	-
Ms BC Bam	15/09/2009	4	4	-	-	-	-	6	6
Mr GNJ White (appointed wef 1/12/2015)	01/12/2015	4	1	-	-	-	-	-	-
Ms NN Afolayan	21/04/2008	4	4	4	3	-	-	6	6

* Non-executive directors are appointed for a term of no more than three years and may be re-appointed for a further two terms, subject to a non-executive director serving no more than nine years on the board.
* All directors were re-appointed by the shareholder at the annual general meeting, held on 02 December 2014
* GNJ White was reappointed to the board from 01 December 2015
* - = Not a member

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2015/16

BOARD AND COMMITTEES' MEETING ATTENDANCE 2015/16

Date of first appointment		Credit & Investment Committee		Nominations, Governance, Social & Ethics Committee		Banking Licence Committee	
		Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended	Scheduled Meetings	Meetings Attended
Dr MSV Gantsho	01/06/2011	-	-	4	3	4	1
Mr DM McLean	15/09/2009	-	-	4	4	4	3
Rev NNA Matyumza	01/06/2011	-	-	-	-	-	-
Mr WJ Jacobs (Resigned wef 1/01/2016)	15/09/2009	10	8	-	-	-	-
Ms M Mosidi (co-opted to the ERC wef 01/01/2013 - term ended 31/12/2015		-	-	-	-	-	-
Ms BC Bam	15/09/2009	10	8	4	4	-	-
Mr GNJ White (appointed wef 1/12/2015)	01/12/2015	-	-	-	-	-	-
Ms NN Afolayan	21/04/2008	10	7	-	-	-	-

* Non-executive directors are appointed for a term of no more than three years and may be re-appointed for a further two terms, subject to a non-executive director serving no more than nine years on the board.
* All directors were re-appointed by the shareholder at the annual general meeting, held on 02 December 2014
* GNJ White was reappointed to the board from 01 December 2015
* - = Not a member

GOVERNANCE (continued)

CREDIT AND INVESTMENT COMMITTEE

The credit and investment committee focused on the performance of the loan book and, in particular, strengthening the credit assessment process, prior to funding, in order to maintain Ithala's financial sustainability in line with our repositioning strategy.

The committee also concentrated on post-investment initiatives, ensuring that businesses in distress and those which have a probability of success, were assisted by way restructuring loan terms or referral to turn-around or other business support specialists.

In addition, the independence of credit risk has also been addressed, by separating the credit approval process from origination. During the review period, the credit and investment committee reviewed and recommended the Enterprise Development Fund Investment Policy for approval by the board.

ENTERPRISE RISK COMMITTEE (ERC)

During the year under review, the ERC focused on occupational health, safety and environmental risk. To this end, the audit of the occupational health, safety and environmental status of all Ithala entities was concluded and a plan developed for addressing identified gaps.

Progress made in bridging such gaps remains a standing item on the agenda of the ERC. An internal occupational health and safety committee deals with related risks at operational level. This body reports to the executive committee (EXCO).

The ERC also focused on mitigation strategies against the top 10 risks identified through a formal risk assessment, which is conducted annually, with special attention being placed on the mitigating strategies against repositioning strategy risks.

During 2015/16, the properties portfolio achieved a measurable and improved performance, particularly in terms of its collection of rent from defaulting tenants. This followed the ERC's resolution to introduce rigorous action against tenants who failed to abide by lease agreements.

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

- Treasury management policy;
- Enterprise risk management framework;
- Business continuity framework;
- Health and safety strategy;
- Risk and compliance strategy; and
- Security management strategy.

The rehabilitation of the Ezakheni landfill site continued as a priority for the committee, given the need to ensure that the group complies with the Occupational Health and Safety Act, Act No. 85 of 1993.

INTERNAL CONTROL

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

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

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

Management is deemed to own the controls, whereas the other lines of defence are to assist in ensuring their application and viability. Internal audit - as the third line of defence - provides independent and objective assurance to management and the board regarding the adequacy and effectiveness of the control environment. Internal audit liaises and co-ordinates with all assurance providers to enhance efficiencies, in terms of combined assurance, and reports to the audit committee and the ERC.

IT GOVERNANCE

In line with King III guidelines, the board takes responsibility for information technology (IT) governance and has delegated the oversight role of IT risk and governance to the ERC by way of:

- Delegated powers of authority, as set-out in the approved terms of reference of the ERC, which terms specifically include responsibilities for information communication and technology governance;
- The appointment of a co-opted IT specialist member, who is included in the composition of the ERC, and whose primary purpose is to ensure the effectiveness and provision of assurance for the IT function;
- Ensuring that the group chief executive has appointed a suitably qualified and experienced group chief information officer, responsible for the management of IT; and
- Ensuring that IT governance is integrated into all Ithala group's operations and governance practices and frameworks. This is reviewed as part of the annual internal audit plan.

The ERC reports quarterly to the board on its oversight responsibilities, including that of IT governance. In terms of IT governance, key deliberations of the committee focused on contract management and job costing, disaster recovery planning (DRP) and testing and the migration of the WAN infrastructure, which was completed successfully during the year under review. The enterprise content management (ECM) project, which focuses on the digitisation of paper documents and forms, is currently underway.

AUDIT COMMITTEE

During the year under review, the audit committee focused on the group's financial performance and its performance against its annual performance plan, as agreed upon with the Department of Economic Development, Tourism and Environmental Affairs and Provincial Treasury in March 2015.

An area of particular focus for the audit committee included long-outstanding internal and external audit findings, to which management continuously attends. These issues are monitored and reported to the committee by internal audit.

In addition, non-adherence to the supply chain management processes and which result in instances of irregular expenditure, continue to be a key concern for the audit committee. It has directed management to implement disciplinary action in all instances of non-compliance, as required by legislation. During the review period, the audit committee reviewed and recommended a change in the Accounting Policy for Investment Property.

NOMINATIONS, GOVERNANCE, SOCIAL AND ETHICS COMMITTEE

The committee continued monitoring fraud, ethics and corruption trends within the organisation. To this end, all employees were requested to sign anti-fraud pledges, which give effect to the responsibility to avoid engagement in fraudulent activities and to report all fraudulent activities.

The committee directed that the campaign to report fraud and corruption be given close attention, resulting in increased activity through the tip-offs line.

The marketing and corporate social investment plans, the dual thrusts of which are to maintain close relationships with customers in order to create and enhance brand intimacy, were considered and approved by the committee. Progress on the implementation of these plans and the impact thereof is monitored on a quarterly basis.

The committee further directed that health and safety management initiatives undertaken by management in Ithala's main centres also be disseminated to remote sites.

The committee chairman continued engaging the shareholder, who, in terms of the Ithala Act, is responsible for the appointment of board members, with regard to the filling of vacancies, particularly those requiring skills and experience in law, with specialist knowledge of environmental law, and in property and economic development, with specialist abilities in agriculture and tourism.

The committee also recommended a training plan, based on the directors' development needs, to the board for approval. The board approved the plan, but resolved to hold training in abeyance in order to support the organisation's cost-cutting initiatives.

ANTI-FRAUD AND CORRUPTION

We are implacably committed to zero tolerance of any incidents of fraud and/or unethical behaviour and, therefore, apply great effort in preventing, detecting and combating fraud and unethical behaviour of any description.

The anti-fraud and ethics committee (AFEC), under the guidance of our nominations, governance, social and ethics committee, continued to oversee the group's anti-fraud and ethics framework. This committee focused on the organisation's code of ethics and business conduct, the declaration of interest framework, internal controls, physical and information security management and risk management.

The AFEC, an executive oversight structure chaired by the group chief risk officer, deals with all incidents of fraud and unethical behaviour. It engages various assurance units and relevant divisions within Ithala, including the forensic investigation unit, which works in collaboration with law enforcement agencies.

The committee monitored the implementation of a fraud and ethics awareness plan, being a collaboration between the compliance and risk and the communications and marketing divisions. The plan was based on the findings and recommendations emanating from an ethics risk survey, conducted during the previous financial year. We continued encouraging both staff and external stakeholders to utilise our anonymous fraud reporting line, Tip-Offs Anonymous, which operation is provided by an independent external service provider and administered by the group internal audit unit.

BANKING LICENCE COMMITTEE

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

Whilst the committee continued to deliberate and make recommendations on the capitalisation requirements of the subsidiary, it also recommended that there be a parallel process for the sourcing of a technical partner.

GOVERNANCE (continued)

HUMAN RESOURCES AND REMUNERATION COMMITTEE (HR & REMCO)

The committee's composition changed during the review period from two members, both of whom are independent non-executive directors, to three members, the result of the appointment of a non-executive director, who is not independent, as at 1 January 2016.

During the year under review, the committee concentrated on improving Ithala's performance management, change management and talent management strategies and activities.

The performance management system underwent a process of automation in order to facilitate business transformation and to motivate employees to focus on both business and personal objectives, delivering and sustaining outstanding performance and consistently behaving in accordance with our organisational values. All users were trained on the new system.

The committee also provided support with regard to bolstering the employee well-being programmes implemented during the year under review. The wellness strategy moved away from focusing exclusively on HIV education and testing, instead adopting a more holistic lifestyle disease management approach. This, it is believed, will go a long way towards de-stigmatising HIV.

Our change management strategy was reviewed and approved by the committee during 2015/16. This strategy seeks to drive Ithala's innovative and continuous improvement initiatives.

One of the key projects driven through change management was the move of staff and resources from Corporate Services Centre in Umlazi to Ithala Trade Centre, the newly-completed Ithala properties building situated at Durban's Point Waterfront.

Included amongst the change management action items was a review of Ithala's existing organisational culture. A decision was taken to develop Ithala into an innovative and learning organisation that 'is continuously expanding its capacity to create its future' by constantly learning new ways of doing things and leaving the ways of the past behind. These programmes will be developed and rolled-out during 2016/17.

The organisational development function is to be combined with the change management function, making training initiatives more effective.

The committee also approved a leadership competency framework which seeks to bolster leadership at every level within the organisation.

With the committee's support, a talent management forum was established and its first session, which facilitated intensive refresher training, clarified the roles and responsibilities of all parties concerned, so changing the way forward in terms of the activities and deliverables set-out in the plan surrounding this strategic framework.

FINALLY, THE COMMITTEE APPROVED THE IMPLEMENTATION OF SALARY NOTCHES FROM 1 APRIL 2015 FOR A TO C BAND EMPLOYEES.

ANNUAL
FINANCIAL STATEMENTS
2015/16

ANNUAL **FINANCIAL** STATEMENTS

CONTENTS

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

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

REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee of the Board in terms of regulation 27.1.10(b) and (c) of the Treasury regulations [in terms of sections 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act of 1999 as amended]

We are pleased to present our report for the financial year ended 31 March 2016.

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

TERMS OF REFERENCE

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

COMPOSITION

The committee consists of three Independent Non-Executive Directors.

At 31 March 2016 the Audit Committee comprised:
• Rev NNA Matyumza (Chairperson), Chartered Accountant (SA);
• Ms NN Afolayan, MBA: Finance; and
• Mr DM McLean, Chartered Accountant (SA);

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

The Group Chief Executive, the Group Chief Financial Officer, Head of Internal Audit, External Auditors and Senior Executives of the Corporation attend committee meetings by invitation only.

The internal and external auditors have unrestricted access to the Audit Committee.

MEETINGS

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

Members	Dates of meetings				
	21 May '15	18 June '15	06 Aug '15	12 Nov '15	30 Mar '16
Rev NNA Matyumza	√	√	√	√	√
Ms NN Afolayan	√	□	√	√	√
Mr DM McLean	√	√	√	√	√

√ = Present
□ = Apology

STATUTORY DUTIES

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

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

INTERNAL CONTROLS

The Audit Committee has:

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

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

REGULATORY COMPLIANCE

The Audit Committee has:

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

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.

REPORT OF THE AUDIT COMMITTEE (continued)

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

Details of the external auditor's fees are set out in Note 21.1 of the Annual Financial Statements.

INTERNAL AUDIT

The Audit Committee has:

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

FINANCE FUNCTION

We believe that the Group Chief Financial Officer, Ms Farhana Amod, possesses the appropriate expertise and experience to meet her responsibilities in this position.

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

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

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

COMBINED ASSURANCE MODEL

In compliance with Chapter 3, Principle 3.5 of King III on Corporate Governance, the Audit Committee has adopted a combined assurance model to provide a co-ordinated approach to all assurance activities and address significant risks facing the company.

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

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

Assurance is provided, primarily, by the second and third lines of defence.

With combined assurance, the Audit Committee is able to fulfil its oversight function much more effectively and efficiently. The model was rolled out and implemented.

However, reporting did not occur as we did not have the risk register for more than six months into the financial year.

On behalf of the Audit Committee

Rev NNA Matyumza
Chairman

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

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

The Directors acknowledge that they are required by the KwaZulu-Natal Ithala Development Finance Corporation Act No. 5 of 2013 and the Public Finance Management Act of 1999 to prepare financial statements each year which fairly present the state of affairs, results and cash flow for the year and that the independent auditors' responsibility is limited to reporting on the financial statements.

It is the responsibility of the Directors to ensure that the Corporation and the Group maintain a system of internal control designed to provide reasonable, but not absolute assurance that the assets are safe-guarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

The control system includes written accounting and control policies and procedures and clearly drawn lines of accountability and delegation of authority.

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

The concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits. The Corporation and the Group maintain their internal control system through management reviews and a programme of internal audits.

Nothing has come to the attention of the Directors to indicate any breakdown in the functions of these controls during the year, which resulted in any material loss to the Corporation and the Group.

The Corporation and Group Annual Financial Statements have been prepared on the going concern basis. This basis of accounting has been adopted by the Board of Directors after having made enquiries of management and given due consideration to information presented to the Board, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto.

Accordingly, the Directors 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 52 to 53. The Annual Financial Statements which appear on pages 56 to 117 were approved by the Board of Directors on 23 August 2016 and are signed on its behalf by:

Dr MSV Gantsho
Chairman

Ms YEN Zwane
Group Chief Executive

GROUP COMPANY SECRETARY'S CERTIFICATION

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

Ms LS Mahamba
Group Company Secretary

REPORT OF THE AUDITOR-GENERAL

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the consolidated and separate financial statements of the Ithala Development Finance Corporation Limited (IDFC) and its subsidiaries set out on pages 56 to 117, which comprise the consolidated and separate statement of financial position as at 31 March 2016, the consolidated and separate statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the 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 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 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 financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements.

   The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

   An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

OPINION

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the IDFC and its subsidiaries as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Statements of GAAP and the requirements of the PFMA.

EMPHASIS OF MATTERS

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

BANKING LICENCE EXEMPTION

8. As disclosed in the accounting policy 3.4 to the consolidated and separate financial statements, the Minister of Finance signed a memorandum of agreement with Ithala SOC Limited which records specific performance obligations that the entity must achieve for the renewal of the banking licence exemption for the years commencing 1 July 2015 and 1 July 2016. The Minister has assessed the performance obligations for the year ending 31 March 2016 and has granted the entity a banking licence exemption to operate until 30 September 2017.

SIGNIFICANT UNCERTAINTIES

9. As disclosed in note 25.2 to the consolidated and separate financial statements, the group was the defendant in various claims as at 31 March 2016. The ultimate outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the consolidated and separate financial statements.

MATERIAL LOSSES

10. As disclosed in note 1.3 to the consolidated and separate financial statements, losses of R47,28 million (2014: R63,39 million) were reported by the group as a result of a write-off of previously impaired loans and advances. This included a R33,01 million (2014: R57,24 million) write-off of capital and a further R14,27 million (2014: R6,15 million) relating to non-realisable revenue.

ADDITIONAL MATTERS

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

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

12. As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2016, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material

REPORT OF THE AUDITOR-GENERAL

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

FINANCIAL REPORTING FRAMEWORK

13. As a result of the Companies Act requirements, SA Statements of GAAP have been withdrawn for financial years commencing on or after 1 December 2012. In terms of Directive 5 issued for determining the accounting framework for Government Business Enterprises (GBEs), the Accounting Standards Board, after consultation with its constituents, agreed that GBEs should retain the status quo regarding the reporting frameworks applied in preparing their financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each sub-heading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the financial sustainability and viability on page 30 and developmental effectiveness on page 30 presented in the annual performance report of the entity for the year ended 31 March 2016.

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

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

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the financial sustainability and viability and developmental effectiveness objectives.

ADDITIONAL MATTER

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

ACHIEVEMENT OF PLANNED TARGETS

20. The annual performance report on pages 30 to 31 includes information on the achievement of planned targets for the year.

COMPLIANCE WITH LEGISLATION

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

INTERNAL CONTROL

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

OTHER REPORTS

23. I draw attention to the following engagements that could potentially impact on the entity's financial, performance and compliance-related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

INVESTIGATIONS

24. Ithala Group Internal Audit Services conducted investigations which covered the period 01 April 2015 to 31 March 2016. The investigations emanated from the alleged irregularities as a result of non-compliance with the policies and procedures. The outcomes were communicated to management and action taken where necessary.

AUDIT-RELATED SERVICE

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

Auditor-General
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Pietermaritzburg
21 October 2016

AUDITOR-GENERAL
SOUTH AFRICA

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016

The Directors take pleasure in presenting this report as part of the Annual Financial Statements (AFS) of Ithala Development Finance Corporation Limited (The Corporation) and the consolidated financial statements of the Corporation and its subsidiaries (referred to as The Group) for the financial year ended 31 March 2016.

A. LEGAL FORM AND DOMICILE

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

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

The Corporation is domiciled in South Africa.

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

B. NATURE OF OPERATIONS

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

The Corporation makes equity investments in various subsidiaries and associated companies located in the KwaZulu-Natal Province in keeping with its legislated developmental mandate.

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

C. FINANCIAL RESULTS

A financial overview of the Corporation's results is presented in the Group Chief Financial Officer's Review on page 11.

The results of the Corporation and the Group for the year ended 31 March 2016 are disclosed in the Annual Financial Statements set out on pages 56 to 117.

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

D. POLICY DIRECTIVES

No policy directives were received from the MEC for Economic Development, Tourism and Environmental Affairs during the financial year ended 31 March 2016.

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

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

FAIR VALUE OF INVESTMENTS

The fair value of listed investment as disclosed in Note 10 is R18,0 million at year-end (2015: R18,3 million) and was quoted at R19,7 million on 18 July 2016.

F. ORDINARY SHARE CAPITAL

The Share Capital of the Corporation has remained unchanged during the financial year under review. The authorised and issued share capital of the company is R1,008 billion (2015: R1,008 billion).

G. DIVIDENDS

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

H. INTERESTS IN CONTRACTS

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

I. SOURCES OF FUNDING

The Corporation raised a loan of R50 million from Nedbank for property development during the year under review (2015: Nil) - refer to Annexure 1 of the AFS for more details on existing Borrowings.

During the year under review, the Corporation received Government grants of R148 million (2015: R148 million) from EDTEA for SMME on-lending.

The Corporation received a grant of R29,9 million from EDTEA during the year for the purpose of re-capitalising Ithala SOC Limited.

J. GOING CONCERN BASIS OF ACCOUNTING

- Corporation

  The Corporation's business activities, together with the factors likely to affect its future development, performance and position as at 31 March 2016, have been assessed by the Directors.

  The financial position of the Corporation, its cash flows, liquidity position and borrowing facilities are described in the relevant sections of the financial statements. In addition, Note 33 to the financial statements includes the company's policies, processes for managing its capital, details of its financial instruments and its exposures to credit and liquidity risk.

  As highlighted in Notes 8 and 33 to the financial statements, the Corporation meets its day-to-day working capital requirements from its own cash resources and has open unutilised lines of credit of R93,8 million from major financial banking institutions.

The Group posted a profit of R225,1 million for the year ended 31 March 2016 (2015 restated: R409,2 million).

The Group is solvent since its total assets exceeded its total liabilities by R3,6 billion (2015 restated: R3,5 billion) with a solvency ratio of 2.3:1 (2015 restated: 2.3:1).

The Group is able to pay its debts as they become due and its liquidity is evident by its current assets exceeding its current liabilities by R1,7 billion (2015 restated: R1,3 billion) with a liquidity ratio of 9,9% (2015 restated: 7%).

The directors have a reasonable expectation that the Corporation and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the annual financial statements have been prepared on a going concern basis.

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

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

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

  The Board of Directors of Ubuciko Twines & Fabrics resolved to lease the assets of the company and on that basis the Corporate Plan and Budget for the 2016/17 financial year were prepared. Subsequently, a submission is to be made to the Executive Authority requesting to enter into a lease to buy agreement of Ubuciko Twines & Fabrics manufacturing equipment.

  The approval process is a long drawn-out process. Therefore under the current prevailing circumstances, the going concern basis has been adopted in preparing the financial statements for the year under review.

BANKING LICENCE EXEMPTION OF ITHALA SOC LIMITED

The Minister of Finance has signed a Memorandum of Agreement with Ithala SOC Limited which records specific performance obligations that must be achieved for the renewal of the banking licence exemption for the years commencing 1 July 2015 and 1 July 2016.

The Minister of Finance has assessed the performance obligations for the year ending 31 March 2016 and has granted Ithala SOC Limited a banking licence exemption until 30 September 2017 subject to the fulfilment of certain conditions set out by the Minister. The Directors of Ithala SOC Limited have implemented processes to ensure that these conditions are met before 31 March 2017.

K. BOARD OF DIRECTORS

Information pertaining to Board Members and Committees is covered in the Governance Report, on pages 41 to 46.

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

CORPORATION

The following movements occurred in the Board of Directors during the period under review:
GNJ White - 1 December 2015 (Re-appointed); and
W Jacobs - 1 January 2016 (Resigned)

ITHALA SOC LIMITED

The following movements occurred in the Board of Directors during the period under review:
VJ Klein - 1 August 2015 (Resigned);
P Radebe - 11 August 2015 (Appointed); and
T Nyoka - 24 March 2016 (Appointed).

KWAZULU NATAL PROPERTY DEVELOPMENT HOLDINGS SOC LIMITED

The following movements occurred in the Board of Directors during the period under review:
P Langeni - 1 October 2015 (Appointed);
BA Khumalo - 1 October 2015 (Appointed); and
CM Cronje - 1 October 2015 (Appointed).

L. COMPANY SECRETARIAT

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

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

- Particulars of irregular expenditure and fruitless and wasteful expenditure incurred are disclosed in Note 30 and 32 of the AFS.

- In the ordinary course of business and in accordance with prevailing business rules, the Group wrote-off bad loans of R47,3 million (2015: R63,3 million), comprising a capital portion of R33 million (2015: R57,2 million) and non-realised revenue (NRR) of R14,3 million (2015: R6,1 million). None of the bad debts written-off were un-provided for.

- Despite the write-off of these bad debts, the company continues to pursue these defaulters and no effort is spared in trying to recover monies owed to the Corporation. During the year under review a total of R20,1 million (2015: R22,2 million) was recovered from bad debts previously written-off.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Note	Group			Corporation		
		2016	2015	2014	2016	2015	2014
		R'000	R'000	R'000	R'000	R'000	R'000
			Restated	Restated		Restated	Restated
ASSETS							
Non-current assets		**4 445 556**	4 384 076	3 918 467	**3 313 775**	3 191 195	2 645 283
Loans and advances	1.1	**1 838 436**	1 940 282	1 898 320	**523 415**	576 861	497 452
Properties in possession	1.4	**8 731**	8 878	13 410	**389**	1 212	5 456
Investment properties	2	**2 220 349**	2 174 236	1 737 435	**2 025 423**	1 992 298	1 576 213
Property, plant and equipment	3	**272 416**	173 661	186 536	**228 701**	128 131	124 741
Intangible assets	4	**65 978**	38 446	31 604	**50 885**	30 184	25 564
Straightlining of operating leases	5	**38 740**	48 163	50 325	**30 320**	39 708	41 388
Subsidiaries	6.2	**-**	-	-	**453 736**	422 391	373 632
Goodwill	6.3	**300**	299	246	**300**	299	246
Associated companies	7	**606**	111	591	**606**	111	591
Current assets		**1 868 503**	1 555 374	1 548 577	**617 630**	478 282	695 268
Loans and advances	1.1	**238 500**	224 915	251 906	**160 716**	133 758	146 900
Straightlining of operating leases	5 & 24.2	**2 266**	2 673	16	**2 089**	3 227	16
Cash and cash equivalents	8.1	**1 362 369**	1 037 328	956 103	**344 505**	217 889	368 470
Statutory liquid assets	8.2	**129 882**	152 493	146 205	**-**	-	-
Trade and other receivables	9	**113 039**	113 067	155 189	**87 873**	100 240	142 744
Investments	10	**18 047**	18 308	14 946	**18 047**	18 308	14 946
Inventory and contracts in progress	11	**4 400**	6 590	24 212	**4 400**	4 860	22 192
Total assets		**6 314 059**	5 939 450	5 467 044	**3 931 405**	3 669 477	3 340 551
EQUITY AND LIABILITIES							
Capital and reserves		**3 588 665**	3 364 149	2 954 910	**3 513 773**	3 283 875	2 897 901
Ordinary share capital	12	**1 008 582**	1 008 582	1 008 582	**1 008 582**	1 008 582	1 008 582
Retained income		**2 580 083**	2 355 567	1 946 328	**2 505 191**	2 275 293	1 889 319
Non-controlling interest	13	**(262)**	(881)	(826)	**-**	-	-
Total equity		**3 588 403**	3 363 268	2 954 084	**3 513 773**	3 283 875	2 897 901
Non-current liabilities		**2 536 223**	2 353 554	2 325 620	**288 852**	232 449	309 203
Borrowings	14	**86 279**	54 514	70 143	**84 204**	52 438	68 015
Deposits due to customers	15	**2 193 805**	2 072 977	1 973 429	**-**	-	-
Post-retirement obligation	16.1	**87 476**	80 646	74 125	**57 234**	53 153	49 220
Long service obligation	16.3	**26 410**	24 964	18 796	**14 193**	13 190	9 984
Government grants	17	**127 638**	102 139	156 432	**127 638**	102 139	156 432
Straightlining of operating leases	24.2	**542**	6 012	6 316	**75**	5 556	5 552
Deferred tax	26	**1 403**	986	1 097	**-**	-	-
Provision for landfill restoration	35	**5 508**	5 973	20 000	**5 508**	5 973	20 000
Cell captive insurance fund	36	**7 162**	5 343	5 282	**-**	-	-
Current liabilities		**189 433**	222 628	187 340	**128 780**	153 153	133 447
Borrowings	14	**18 541**	23 175	23 488	**18 541**	23 175	23 488
Post-retirement obligation	16.1	**3 389**	3 130	2 875	**2 473**	2 385	2 270
Long service obligation	16.3	**2 040**	1 647	2 818	**924**	1 049	1 689
Trade and other payables	18	**163 203**	194 676	156 618	**104 582**	126 544	105 572
Straightlining of operating leases	5 & 24.2	**2 260**	-	1 541	**2 260**	-	428
Total liabilities		**2 725 656**	2 576 182	2 512 960	**417 632**	385 602	442 650
Total equity and liabilities		**6 314 059**	5 939 450	5 467 044	**3 931 405**	3 669 477	3 340 551

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

	Note	Group 2016 R'000	Group 2015 R'000	Corporation 2016 R'000	Corporation 2015 R'000
Interest income	19.1	**321 517**	307 747	**91 264**	94 148
Interest expenditure	19.2	**92 279**	82 011	**5 777**	5 729
Net interest income before credit impairment charges		**229 238**	225 736	**85 487**	88 419
Credit impairment charges		**29 400**	93 048	**38 611**	72 678
Loans and advances	1.3	**(11 997)**	75 082	**(712)**	56 347
Properties in possession	1.4	**(1 301)**	(2 712)	**(717)**	(2 282)
Straightlining of operating lease income	5	**894**	(851)	**609**	(788)
Trade and other receivables	9	**41 804**	21 529	**39 431**	19 401
Net interest income after credit impairment charges		**199 838**	132 688	**46 876**	15 741
Other operating income	20	**1 034 851**	1 315 006	**849 310**	1 076 174
Operating income before operating expenditure		**1 234 689**	1 447 694	**896 186**	1 091 915
Operating expenditure	21	**1 003 129**	1 033 744	**666 784**	705 461
Operating expenses		**1 000 152**	1 050 490	**658 055**	720 215
Non-credit related impairments	21.4	**-**	(19 442)	**6 836**	(16 431)
Indirect taxation	22.1	**2 977**	2 696	**1 893**	1 677
Equity accounting loss		**496**	(480)	**496**	(480)
Operating profit before taxation		**232 056**	413 470	**229 898**	385 974
Taxation expense	22.2	**6 921**	4 286	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**225 135**	409 184	**229 898**	385 974
Profit attributable to:					
Equity holders of the parent		**224 516**	409 239	**229 898**	385 974
Non-controlling interest		**619**	(55)	**-**	-
		225 135	409 184	**229 898**	385 974

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

	Ordinary Share Capital	Retained Income	Attributable to Equity Holders of Parent	Non-Controlling Interest	Total
	R'000	R'000	R'000	R'000	R'000
2016					
Group					
Balance at 31 March 2015	1 008 582	2 355 567	3 364 149	(881)	3 363 268
Income attributable to the shareholder	-	224 516	224 516	619	225 135
Balance at 31 March 2016	1 008 582	2 580 083	3 588 665	(262)	3 588 403
Corporation					
Balance at 31 March 2015	1 008 582	2 275 293	3 283 875	-	3 283 875
Restated income attributable to the shareholder	-	229 898	229 898	-	229 898
Balance at 31 March 2016	1 008 582	2 505 191	3 513 773	-	3 513 773
2015					
Group					
Restated balance at 31 March 2014	1 008 582	1 946 328	2 954 910	(826)	2 954 084
Income attributable to the shareholder	-	409 239	409 239	(55)	409 184
Balance at 31 March 2015	1 008 582	2 355 567	3 364 149	(881)	3 363 268
Corporation					
Restated balance at 31 March 2014	1 008 582	1 889 319	2 897 901	-	2 897 901
Restated income attributable to the shareholder	-	385 974	385 974	-	385 974
Balance at 31 March 2015	1 008 582	2 275 293	3 283 875	-	3 283 875

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

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2016

	Note	Group 2016	Group 2015	Corporation 2016	Corporation 2015
		R'000	R'000	R'000	R'000
Cash flow from operating activities					
Cash generated/(utilised) from operating activities	23.1	61 551	(26 245)	64 566	(24 535)
Decrease/(increase) in working capital	23.2	(29 204)	117 057	(9 139)	100 249
Taxation paid	23.3	(6 558)	(4 813)	-	-
Net cash generated from operating activities		25 789	85 999	55 427	75 714
Cash flow from investing activities					
Investments to promote economic development in KwaZulu-Natal:					
Loans and advances					
- granted		(357 197)	(537 820)	(167 318)	(276 766)
- repaid		723 661	508 058	271 472	178 696
- other loan movements		(266 754)	(59 687)	(76 889)	(24 542)
Additions to and transfers from investment properties		38 442	(155 091)	38 830	(154 012)
Additions to property, plant and equipment		(125 884)	(12 050)	(115 521)	(9 895)
Additions to intangible assets		(36 867)	(14 728)	(28 592)	(10 913)
Additions to properties in possession		(2 013)	(5 362)	(248)	(4 108)
Proceeds on disposal of investment properties and property, plant and equipment		300	114	289	94
Proceeds on disposal of properties in possession		3 641	9 370	2 309	8 105
Increase in goodwill		(1)	(53)	(1)	(53)
Decrease in cell captive insurance fund		1 819	61	-	-
Decrease/(increase) in liquid assets		22 611	(6 288)	-	-
Decrease/(increase) in subsidiaries and associated companies		(495)	480	(31 840)	(51 290)
Net cash utilised by investing activities		1 263	(272 996)	(107 509)	(344 684)
Cash flow from financing activities					
Borrowings received/(capital repaid)		27 131	(15 942)	27 132	(15 890)
Increase in fixed, short-term deposits and savings accounts		120 828	99 548	-	-
Post-retirement medical paid		(4 349)	(3 874)	(3 428)	(3 244)
Long service obligations paid		(1 701)	(2 818)	(1 086)	(1 689)
Net Government grants received/(utilised)		156 080	191 308	156 080	139 212
Net cash generated/(utilised) by financing activities		297 989	268 222	178 698	118 389
Net increase/(decrease) in cash and cash equivalents		325 041	81 225	126 616	(150 581)
Cash and cash equivalents at beginning of year		1 037 328	956 103	217 889	368 470
Cash and cash equivalents at end of year		1 362 369	1 037 328	344 505	217 889

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

1. REPORTING ENTITY

Ithala Development Finance Corporation (Ithala) is a company domiciled in the Republic of South Africa. The address of its registered offices and principal place of business is 29 Canal Quay Road, Point Waterfront, Durban.

The consolidated financial statements of Ithala as at and for the year ended 31 March 2016 comprise Ithala and its subsidiaries, together referred to as the Group and individually, referred to as the Corporation. The words Group and Ithala are used interchangeably throughout the Annual Financial Statements.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), as prescribed by the Accounting Standards Board.

Statements of GAAP are based on the International Financial Reporting Standards (IFRS) with the exception of six new IFRSs (IFRS 10, 11, 12, 13, 14 and 15), amendments to IFRSs, including amendments made under the annual improvements process (namely amendments to IFRS 1, 3, 7, 9, 10, 11, 12 and 13 and amendments to IAS 1, 16, 19, 27, 28, 32, 34, 38 and 40 and 2 IFRCs (IFRC 20 and 21), which have not been included in Statements of GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Standards Council withdrawing Statements of GAAP, which ceased to apply from financial years commencing on or after 1 December 2012.

Although no longer formally issued by a particular standard-setter, the Accounting Standards Board adopted and defined Statements of GAAP as the reporting framework for Government Business Enterprises, like Ithala, through its amendments to Directive 5.

The financial statements were approved and authorised for issue by the Board of Directors on 23 August 2016.

3. BASIS OF PREPARATION

3.1 BASIS OF MEASUREMENT

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

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

3.2 FUNCTIONAL AND PRESENTATION CURRENCY

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

3.3 USE OF ESTIMATES AND JUDGEMENTS

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

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

3.4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

GOING CONCERN

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. The Minister of Finance has signed a Memorandum of Agreement with Ithala SOC Limited which records specific performance obligations that Ithala SOC Limited must achieve for the renewal of the banking licence exemption for the years commencing 1 July 2015 and 1 July 2016. The Minister of Finance has assessed the performance obligations for the year ending 31 March 2016 and has granted Ithala SOC Limited a banking licence exemption until 30 September 2017 subject to the fulfilment of certain conditions set out by the Minister.

The Directors of Ithala SOC Limited have implemented processes to ensure that these conditions are met before 31 March 2017. Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES AND PROPERTIES IN POSSESSION

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

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

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

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

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

IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS

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

DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLAN

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

3.5 COMPARATIVE FIGURES

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

3.6 SIGNIFICANT ACCOUNTING POLICIES

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

3.6.1 BASIS OF CONSOLIDATION

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

(a) BUSINESS COMBINATIONS

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

(b) SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in companies acquired to protect advances or as a conduit for advances, which assets are included in advances, and investments in companies acquired to facilitate the funding of Government projects with no benefits accruing to the Group from those companies' activities are not consolidated. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All inter-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Goodwill arising from the excess of the purchase consideration paid over the fair value of the net identifiable assets on acquisition is not amortised and is tested for impairment annually. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of original business combination and the non-controlling interest's share of changes in equity since the date of the business combination. Investments in subsidiaries are recognised at cost in the Corporation accounts and are reviewed annually and written-down for impairment where considered necessary. Losses applicable to the non-controlling interest, in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and the financial ability to cover such losses.

(c) SPECIAL PURPOSE ENTITIES

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates a 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 'auto-pilot' mechanism, the Group has delegated these decision-making powers;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; and
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

The assessment of whether the Group has control over a 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.

(d) LOSS OF CONTROL

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

(e) TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

(f) ASSOCIATES AND JOINT VENTURES

Associates are those entities in which the Group has significant influence, but not control over financial and operating policies of an entity, generally comprising a shareholding of at least 20% of the voting rights.

Where the Group holds less than 20% of an entity's issued share capital and is able to exert significant influence and it can be clearly demonstrated that significant influence exists, the Group classifies such entities as associates. Investments in companies acquired to protect advances or as a conduit for advances are included in advances.

Joint ventures are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates are accounted for using the equity method. The Group recognises its interest in a jointly controlled entity using the proportionate consolidation method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investments, after adjustments to align the accounting policies with those of the Group where applicable, from the date that significant influence commences until that significant influence ceases. The consolidated financial statements include the Group's share of assets, liabilities, income and expenses that it jointly controls. The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

3.6.2 INTANGIBLE ASSETS

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

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

(a) COMPUTER SOFTWARE AND LICENCES

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

- Computer software - 2 years

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred. Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the Group and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as work-in-progress up to the date of completion of projects after which the asset is transferred to computer software and accounted for as per the computer software and licences policy. Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment.

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

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

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

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

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

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

Financial instruments at fair value through profit or loss are measured at fair value, and changes in value are recognised in profit or loss. The fair value of publicly traded investments is based on quoted bid prices.

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

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

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

3.6.5 DERECOGNITION OF FINANCIAL ASSETS
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

3.6.6 IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

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

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

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

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

3.6.7 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

(a) SPLIT BETWEEN DEBT OR EQUITY

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

(b) EQUITY INSTRUMENTS

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

(c) OTHER FINANCIAL LIABILITIES

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

3.6.8 DERECOGNITION OF FINANCIAL LIABILITIES

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

3.6.9 OFFSETTING

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

3.6.10 AMORTISED COST MEASUREMENT

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

3.6.11 FAIR VALUE MEASUREMENT

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

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

3.6.12 PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

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

SUBSEQUENT COSTS

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

DEPRECIATION

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

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

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

3.6.13 INVESTMENT PROPERTY

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

3.6.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

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

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

3.6.15 INVENTORIES AND CONTRACTS IN PROGRESS

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

3.6.16 EMPLOYEE BENEFITS

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

(a) DEFINED BENEFITS PLANS

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

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

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

(b) DEFINED CONTRIBUTION PLANS

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

(c) POST-RETIREMENT MEDICAL BENEFITS

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

(d) LONG SERVICE AWARD BENEFITS

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

3.6.17 BORROWING COSTS

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

3.6.18 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the Group has complied with the conditions attached to the grant and that the grant has been received. Government grants whose primary condition is that the Group should purchase, construct or acquire non-current assets are deducted in arriving at the carrying amount of the assets. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Group with no future related cost are recognised in profit or loss in the period in which they are received. Government grants received for specific loans and advances programmes are recognised as income when all the conditions of the grant have been fulfilled and there is reasonable assurance that the grant will be received.

3.6.19 TAXATION

Ithala Development Finance Corporation is exempt from normal tax in terms of Section 10(1) (cA) (i) of the Income Tax Act. Consequently, all wholly-owned subsidiaries of the Corporation are exempt from normal tax in terms of Section 10(1) (cA)(ii) of the Income Tax Act. Subsidiaries that are not wholly-owned are subject to normal taxation. Tax expense for subsidiaries that are not wholly-owned comprise current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.6.20 PROVISIONS AND CONTINGENT LIABILITIES

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

3.6.21 REVENUE

(a) RENTAL INCOME

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

(b) INTEREST INCOME AND INTEREST EXPENSE

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

3.6.22 OTHER OPERATING INCOME

(a) DIVIDENDS RECEIVED

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

(b) FEE INCOME

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

(c) COMMISSION INCOME

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

(d) SALE OF GOODS

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

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

3.6.23 LEASED ASSETS

OPERATING LEASE

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

FINANCE LEASE

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

3.7 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Below are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2016, these have not been applied in preparing these consolidated financial statements.

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

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

Standard	Description	Annual periods beginning on or after
IFRS 10 (not adopted into SA GAAP)	Consolidated financial statements • Standard that replaces the consolidation requirements in SIC-12 Consolidation Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • The Group is currently assessing the impact of the new standard on the Group's consolidation requirements.	1 January 2016
IFRS 11 (not adopted into SA GAAP)	Joint arrangements • Standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. Standard requires a single method for accounting for interests in jointly controlled entities. • Amendments adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business which specifies the appropriate accounting treatment for such acquisitions. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • The Group is currently assessing the impact of the new standard as there is currently a joint arrangement in the properties department.	1 January 2016
IFRS 12 (not adopted into SA GAAP)	Disclosure of interest in other entities • Comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • The Group is currently assessing the disclosure requirements for interest in subsidiaries, joint arrangements, associates and unconsolidated structures in comparison with the existing disclosures.	1 January 2016
IFRS 13 (not adopted into SA GAAP)	Fair value measurements • IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. • Annual Improvements 2010-2012 Cycle: Amendments to clarify the measurement requirements for those short-term receivables and payables • Annual Improvements 2011–2013 Cycle: Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9. • Although many of the IFRS13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in level 3.	1 July 2014 1 July 2014
IFRS 15 (not adopted into SA GAAP)	Revenue from Contracts from Customers • New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. • The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. • The new standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and (f) SIC-31 Revenue - Barter Transactions Involving Advertising Services	1 January 2018

SUMMARY OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2016

Standard	Description	Annual periods beginning on or after
IFRS 16 (AC105)	Leases • New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. • IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases - Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. • Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's annual financial statements when applied.	1 January 2019
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	Presentation of Financial Statements • Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	1 January 2016
IAS 7 (AC 118)	Statement of Cash Flows • Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017
IAS 12 (AC 102)	Income Taxes • Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): Narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017
IAS 16 (AC 123)	Property, Plant and Equipment • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. • Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. • Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, Plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	1 July 2014 1 January 2016

Standard	Description	Annual periods beginning on or after
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	Employee Benefits • IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. • For defined benefit plans, removal of the accounting policy for recognising actuarial gains and losses is expected to have an impact on the Group as the Group currently utilises the corridor method to account for such gains and losses. Should the amended IAS 19 be adopted, unrecognised actuarial losses in the balance sheet of R13,3 million for the Corporation and R5,0 million for a subsidiary would have to be released to the income statement. The net impact to the Group would be a reduction of R18,3 million net profit. • Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended.	1 January 2013 1 July 2014
IAS 27 (AC 132)	Consolidated and Separate Financial Statements • Amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 January 2016
IAS 28 (AC 110)	Investments in Associates and Joint Ventures • Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10, IFRS 12 and IAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow-scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2016 The effective date of this amendment has been deferred indefinitely until further notice
IAS 38 (AC 129)	Intangible Assets • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. • Amendments to IAS 16 and IAS 38 to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. • Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.	1 July 2014 1 January 2016
IAS 40 (AC 135)	Investment Property • Annual Improvements 2011-2013 Cycle: Amendments to clarify the inter-relationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014
IFRIC Interpretation 21	Levies • IFRIC 21 defines a levy as an outflow from an entity imposed by a Government in accordance with legislation. It confirms that an entity recognises a liability when, and only when, the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Groups financial statements.	1 January 2014

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

3.8 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 2012 financial year, the Accounting Practices Board (APB), together with the Financial Reporting Standards Council (FRSC) jointly announced the withdrawal of SA GAAP, which ceased to exist from financial years commencing on or after 1 December 2012.

The ASB approved a directive in July 2015 permitting Government Business Entities to use IFRS.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	Note	Group		Corporation	
		2016	2015	2016	2015
		R'000	R'000	R'000	R'000
1. LOANS AND ADVANCES					
1.1. Sectoral analysis					
Housing and commercial property		1 388 913	1 469 553	-	-
Micro-finance - secured		61 718	66 480	-	-
Micro-finance - unsecured		29 955	57 382	-	-
Micro-finance		11 774	7 633	11 775	7 633
Agri-finance		238 343	249 141	238 343	249 141
Franchise finance		21 942	29 459	21 942	29 459
Procurement finance		42 227	44 477	42 227	44 477
Commercial property finance		237 375	300 629	237 375	300 629
Asset finance		142 950	124 439	142 950	124 439
Structured finance		154 079	127 616	154 079	127 616
		2 329 276	2 476 809	848 691	883 394
Credit impairment for loans and advances		(252 340)	(311 612)	(164 560)	(172 775)
Net loans and advances including current portion		2 076 936	2 165 197	684 131	710 619
Less: current portion included under current assets		(238 500)	(224 915)	(160 716)	(133 758)
Net loans and advances		1 838 436	1 940 282	523 415	576 861
Non performing loans		240 162	341 803	138 362	185 222
Impairment of loans and advances		(181 571)	(240 598)	(122 477)	(140 340)
Unimpaired portion of non-performing loans		58 591	101 205	15 885	44 882

* Included in Primary Agriculture business loans and advances are amounts totaling R196,2 million (2015: R201,2 million) which have been ceded and assigned to the Land and Agricultural Bank of South Africa.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
1.2. Maturity analysis				
Maturing:				
Up to 1 month	39 444	16 336	32 662	16 336
From 1 month to 6 months	104 581	97 732	71 974	52 034
From 6 months to 1 year	94 475	110 847	56 080	65 388
From 1 year to 5 years	677 378	639 706	371 328	302 171
After 5 years	1 413 398	1 612 188	316 647	447 464
	2 329 276	2 476 809	848 691	883 393

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

	Note	Group 2016	Group 2015	Corporation 2016	Corporation 2015
		R'000	R'000	R'000	R'000
1.3. Credit impairment for loans and advances					
Balance at beginning of the year		311 612	299 916	172 775	176 057
Amounts written-off		(47 275)	(63 386)	(7 503)	(59 629)
Bad debt write-off		(33 007)	(57 235)	(4 150)	(53 629)
Non-realised revenue (NRR) write-off		(14 268)	(6 151)	(3 353)	(6 000)
Charge to income statement		(11 997)	75 082	(712)	56 347
Balance at end of the year		252 340	311 612	164 560	172 775
Comprising:					
Impairment for performing loans (IBNR)*		70 513	71 014	41 827	32 435
Impairment for non-performing loans		181 827	240 598	122 733	140 340
Impairment for loans and advances		252 340	311 612	164 560	172 775

*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.

1.4. Properties in possession					
Balance at beginning of the year		17 993	25 236	5 238	11 764
Acquisitions		2 013	5 362	248	4 108
Disposals		(3 461)	(12 605)	(1 788)	(10 634)
Carrying amount before impairment		16 545	17 993	3 698	5 238
Accumulated impairment loss		(7 814)	(9 115)	(3 309)	(4 026)
Net carrying amount		8 731	8 878	389	1 212
Accumulated impairment loss					
Balance at beginning of the year		9 115	11 827	4 026	6 308
Reversal of impairment to income statement		(1 301)	(2 712)	(717)	(2 282)
Balance at end of the year		7 814	9 115	3 309	4 026

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

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	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
2. INVESTMENT PROPERTIES				
Cost				
Land and buildings	**2 111 808**	1 924 970	**1 917 818**	1 743 636
Work-in-progress	**108 541**	249 266	**107 605**	248 662
Net book value	**2 220 349**	2 174 236	**2 025 423**	1 992 298

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

2.1. Amounts recognised in profit or loss for:				
- Rental income from investment properties	**296 717**	282 951	**257 019**	253 381
- Direct operating expenses arising from investment property that generated rental income	**183 010**	192 991	**181 662**	180 429
- Direct operating expenses arising from investment property that did not generate rental income	**11**	202	**6**	202

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

	Land & buildings	Work-in-progress	Total
	R'000	R'000	R'000
2.3. Movement in investment properties			
2016			
Group			
Net book value at beginning of year	**1 924 970**	**249 266**	**2 174 236**
Additions	**6 352**	**62 575**	**68 927**
Fair value movements	**84 555**	**-**	**84 555**
Transfers	**95 931**	**(203 300)**	**(107 369)**
Net book value at end of year	**2 111 808**	**108 541**	**2 220 349**
Corporation			
Net book value at beginning of year	**1 743 636**	**248 662**	**1 992 298**
Additions	**6 296**	**62 243**	**68 539**
Fair value movements	**71 955**	**-**	**71 955**
Transfers	**95 931**	**(203 300)**	**(107 369)**
Net book value at end of year	**1 917 818**	**107 605**	**2 025 423**
2015			
Group			
Net book value at beginning of year	1 628 305	109 130	1 737 435
Additions	7 161	148 652	155 813
Fair value movements	281 710	-	281 710
Transfers	7 794	(8 516)	(722)
Net book value at end of year	1 924 970	249 266	2 174 236
Corporation			
Net book value at beginning of year	1 467 504	108 709	1 576 213
Additions	6 687	148 047	154 734
Fair value movements	262 073	-	262 073
Transfers	7 372	(8 094)	(722)
Net book value at end of year	1 743 636	248 662	1 992 298

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FOR THE YEAR ENDED 31 MARCH 2016

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
3. PROPERTY, PLANT AND EQUIPMENT				
Cost	**511 441**	399 762	**348 455**	240 648
Land, infrastructure and buildings	**219 175**	133 486	**219 175**	134 501
Buildings on leasehold land	**12 665**	12 665	**12 665**	12 665
Plant, equipment and vehicles	**272 827**	225 083	**109 841**	64 954
Work-in-progress	**6 774**	28 528	**6 774**	28 528
Accumulated depreciation	**224 707**	211 783	**110 347**	103 110
Infrastructure and buildings	**55 627**	55 388	**55 627**	55 388
Buildings on leasehold land	**3 258**	3 258	**3 258**	3 258
Plant, equipment and vehicles	**165 822**	153 137	**51 462**	44 464
Accumulated impairment				
Land, infrastructure and buildings	**9 407**	9 407	**9 407**	9 407
Plant, equipment and vehicles	**4 911**	4 911	**-**	-
Net book value	**272 416**	173 661	**228 701**	128 131
Fair value of land and buildings in property, plant and equipment	**112 204**	51 200	**112 204**	38 800

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

3.2. Property, plant and equipment with nil book values				
Original Cost	**69 381**	36 410	**36 863**	9 310

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

	Land, infrastructure and buildings	Plant, equipment and vehicles	Work-in-progress (WIP)	Total
	R'000	R'000	R'000	R'000
3.3. Movements in property, plant and equipment				
2016				
Group				
Net book value at beginning of year	**78 099**	**67 034**	**28 528**	**173 661**
Additions	**1 623**	**15 286**	**1 634**	**18 543**
Depreciation charge	**(4 663)**	**(21 661)**	**-**	**(26 324)**
Disposals	**-**	**(805)**	**-**	**(805)**
Transfers	**88 500**	**42 229**	**(23 388)**	**107 341**
Net book value at end of year	**163 559**	**102 083**	**6 774**	**272 416**
Corporation				
Net book value at beginning of year	**79 114**	**20 490**	**28 527**	**128 131**
Additions	**1 625**	**5 949**	**1 634**	**9 208**
Depreciation charge	**(4 663)**	**(9 874)**	**-**	**(14 537)**
Disposals	**-**	**(414)**	**-**	**(414)**
Transfers	**87 471**	**42 229**	**(23 387)**	**106 313**
Net book value at end of year	**163 547**	**58 380**	**6 774**	**228 701**
2015				
Group				
Net book value at beginning of year	77 598	83 069	25 868	186 535
Additions	411	8 844	3 340	12 595
Depreciation charge	(632)	(20 277)	-	(20 909)
Disposals	-	(4 016)	-	(4 016)
Transfers	722	(586)	(680)	(544)
Net book value at end of year	78 099	67 034	28 528	173 661
Corporation				
Net book value at beginning of year	78 612	24 818	21 311	124 741
Additions	410	1 547	7 216	9 173
Depreciation charge	(630)	(5 682)	-	(6 312)
Disposals	-	(193)	-	(193)
Transfers	722	-	-	722
Net book value at end of year	79 114	20 490	28 527	128 131

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
4. INTANGIBLE ASSETS				
Cost	128 187	102 610	71 022	53 719
Software	38 734	44 882	23 798	32 576
System development costs (WIP)	86 041	52 134	43 811	15 550
Other	1 600	1 485	1 601	1 484
Licences and warranties	1 812	4 109	1 812	4 109
Accumulated amortisation	29 443	31 398	20 137	23 535
Software	26 942	28 212	17 636	20 349
Other	689	427	689	427
Licences and warranties	1 812	2 759	1 812	2 759
Accumulated impairments				
System development costs	32 766	32 766	-	-
Net book value	65 978	38 446	50 885	30 184

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

	Software	System development costs (WIP)	Licences & other	Total
	R'000	R'000	R'000	R'000
2015				
Group				
Net book value at beginning of year	19 164	9 467	2 973	31 604
Additions	598	12 360	504	13 462
Amortisation	(6 817)	-	(1 069)	(7 886)
Transfers	3 726	(2 460)	-	1 266
Net book value at end of year	16 671	19 367	2 408	38 446
Corporation				
Net book value at beginning of year	13 124	9 467	2 972	25 562
Additions	598	9 811	503	10 913
Amortisation	(5 222)	-	(1 069)	(6 291)
Transfers	3 726	(3 726)	-	-
Net book value at end of year	12 226	15 552	2 406	30 184

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
5. STRAIGHT-LINING OF OPERATING LEASE INCOME				
Opening balance	**50 831**	48 784	**42 931**	40 960
Straight-line accrual during the year	**(8 931)**	1 197	**(9 913)**	1 183
Decrease/(increase) in provision for doubtful debts	**(894)**	851	**(609)**	788
	41 006	50 832	**32 409**	42 931
Current portion of long-term debtor	**(2 266)**	(2 669)	**(2 089)**	(3 223)
Closing balance	**38 740**	48 163	**30 320**	39 708

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

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
Next 12 months	**2 266**	2 669	**2 089**	3 223
From 2 to 5 years	**20 704**	21 261	**17 342**	19 701
Later than 5 years	**20 508**	28 480	**14 827**	21 247
	43 478	52 410	**34 258**	44 171
Less: Provision for doubtful debts	**(2 472)**	(1 578)	**(1 849)**	(1 240)
	41 006	50 832	**32 409**	42 931
Analysis of provision for doubtful debts				
Balance at the beginning of the year	**1 578**	2 429	**1 240**	2 028
Reversal/(charge) to income statement	**894**	(851)	**609**	(788)
Balance at end of the year	**2 472**	1 578	**1 849**	1 240

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

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	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
6. SUBSIDIARIES (ANNEXURE 2)				
6.1. Cowslip Investments (Pty) Ltd				
Shares at cost	3	3	3	3
Share premium	2 778 928	2 778 928	2 778 928	2 778 928
Grants applied	(2 778 931)	(2 778 931)	(2 778 931)	(2 778 931)
	-	-	-	-
6.2. Other subsidiaries	-	-	364 061	334 161
Shares at cost	-	-	375 061	345 161
Less provisions	-	-	(11 000)	(11 000)
Net loans	-	-	89 675	88 230
Loans to subsidiaries	-	-	173 558	165 277
Less provisions	-	-	(83 883)	(77 047)
Total investment in subsidiaries	-	-	453 736	422 391
6.3. Goodwill	300	299	300	299

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

	Group 2016 R'000	Group 2015 R'000	Corporation 2016 R'000	Corporation 2015 R'000
7. ASSOCIATED COMPANIES (ANNEXURE 3)				
7.1. Unlisted Investments				
Shares at cost	3	3	3	3
Less: provisions	(2)	(2)	(2)	(2)
Group carrying value	1	1	1	1
Net loans	605	110	605	110
Loans to associates	57 302	57 302	57 302	57 302
Less: provisions	(56 697)	(57 192)	(56 697)	(57 192)
Total interest in associated companies	606	111	606	111
7.2. Significant financial information of associated companies				
Total assets	21 147	46 173	21 147	46 173
Total non-current assets	13 353	39 162	13 353	39 162
Total current assets	7 794	7 011	7 794	7 011
Total liabilities	120 590	195 568	120 590	195 568
Total non-current liabilities	114 088	173 706	114 088	173 706
Total current liabilities	6 502	21 862	6 502	21 862
Net liabilities	(99 443)	(149 395)	(99 443)	(149 395)
Group's share of net liabilities of associates	(49 285)	(54 816)	(49 285)	(54 816)
Total revenue	2 950	19 182	2 950	19 182
Total losses	(6 408)	(10 259)	(6 408)	(10 259)
Unrecognised share of losses:				
- Current period	(6 392)	(2 854)	(6 392)	(2 854)
- Cumulative	(50 244)	(43 851)	(50 244)	(43 851)

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.

	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
8. CASH AND LIQUID ASSETS				
8.1. Cash and cash equivalents				
Coin and bank notes	79 255	53 864	12	24
Balance with banks	1 283 114	983 464	344 493	217 865
	1 362 369	1 037 328	344 505	217 889

Included in cash is an amount of R12,8 million (2015: R7,6 million) relating to cash in transit at year-end to be delivered by a security company to branches. The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+ excluding those with Ithala SOC Limited, which is not independently rated, but has been approved as an authorised intermediary by the Directors. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
8.2. Statutory liquid assets				
Treasury bill	129 882	152 493	-	-
	129 882	152 493	-	-
Undrawn facilities available are as follows:				
Absa Bank				
Overdraft facility	93 800	93 800	93 800	93 800
Financial guarantees	9 200	9 200	6 200	6 200
Other facilities	-	25 091	-	-
Day light facility	25 000	25 000	-	-
	128 000	153 091	100 000	100 000
9. TRADE AND OTHER RECEIVABLES				
Trade receivables	72 008	94 839	66 568	90 053
Other receivables	126 188	107 602	101 408	92 696
	198 196	202 441	167 976	182 749
Provision for doubtful debts	(85 157)	(89 374)	(80 103)	(82 509)
Net trade and other receivables	113 039	113 067	87 873	100 240
Ageing of past due but not impaired trade and other receivables				
<30 days	63 740	16 690	52 525	15 008
30 to 60 days	2 351	7 365	1 906	6 231
60 to 90 days	1 409	9 123	1 409	8 592
>90 days	43 461	63 195	30 045	52 952
	110 961	96 373	85 885	82 783
Ageing of past due and impaired trade and other receivables				
<30 days	4 073	18 142	3 701	17 634
30 to 60 days	3 118	8 296	2 783	7 165
60 to 90 days	2 612	6 067	2 370	5 679
>90 days	77 432	73 563	73 237	69 488
	87 235	106 068	82 091	99 966
Analysis of provision for doubtful debts				
Balance at beginning of year	89 374	69 305	82 509	64 478
Amounts written-off	(46 021)	(1 460)	(41 837)	(1 370)
Charge to income statement	41 804	21 529	39 431	19 401
Balance at end of year	85 157	89 374	80 103	82 509

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. The amount due by the Department of Education at year-end was R5,5 million (2015: R15,6 million) and Department of Health R9,9 million (2015: R21,1 million).

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	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
10. INVESTMENTS				
Designated at fair value through profit and loss				
Balance at beginning of year	**18 308**	14 946	**18 308**	14 946
Fair value movement	**(261)**	3 362	**(261)**	3 362
Balance at end of year	**18 047**	18 308	**18 047**	18 308

Investments comprise of 3 736 400 units in SA Corporate Real Estate Fund (2015: 3 736 400).
Fair value is determined by reference to stock exchange quoted bid prices.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
11. INVENTORY AND CONTRACTS IN PROGRESS				
Raw materials	**-**	1 729	**-**	-
Consumables	**1 760**	2 238	**1 760**	2 237
Contracts in progress	**1 463**	1 455	**1 463**	1 455
Residential stands and houses	**1 177**	1 168	**1 177**	1 168
	4 400	6 590	**4 400**	4 860
12. ORDINARY SHARE CAPITAL				
Authorised				
1 008 582 361 (2015: 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 (2015: 1 008 582 361) ordinary shares of R1 each	**1 008 582**	1 008 582	**1 008 582**	1 008 582
13. NON-CONTROLLING INTEREST				
Balance at beginning of year	**(881)**	(826)	**-**	-
Movement	**619**	(55)	**-**	-
Balance at end of year	**(262)**	(881)	**-**	-

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

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
14. BORROWINGS (ANNEXURE 1)				
At amortised cost				
Total borrowings	**104 820**	77 689	**102 745**	75 613
Portion repayable within 12 months	**(18 541)**	(23 175)	**(18 541)**	(23 175)
Long-term portion	**86 279**	54 514	**84 204**	52 438

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
15. DEPOSITS DUE TO CUSTOMERS				
Call deposit accounts	**121 135**	71 938	-	-
Savings accounts	**798 799**	838 163	-	-
Term deposits	**1 273 871**	1 162 876	-	-
	2 193 805	2 072 977	-	-
Maturity analysis repayable:				
On demand	**1 004 561**	977 366	-	-
Up to 1 month	**175 689**	177 454	-	-
From 1 month to 6 months	**633 607**	526 656	-	-
From 6 months to 1 year	**337 539**	351 531	-	-
From 1 year to 5 years	**42 409**	39 970	-	-
	2 193 805	2 072 977	-	-

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2016, the balance of funds deposited by various trusts for land restoration compensation exceeded 5% of total deposits.The Department of Land Affairs disburses these funds to community trusts for land restitution. The current condition of this disbursement is that the funds are placed with the Company.

Savings accounts are further analysed as follows:

Pass book*	**565 852**	589 451	-	-
Trust accounts	**59 478**	83 494	-	-
Debit card	**136 162**	116 324	-	-
Corporate	**37 307**	48 894	-	-
Total savings	**798 799**	838 163	-	-

Term deposits are further analysed as follows:

Retail accounts	**882 389**	886 112	-	-
Corporate accounts	**391 482**	276 764	-	-
Total term deposits	**1 273 871**	1 162 876	-	-

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Group				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000

16. EMPLOYEE BENEFITS

16.1. Post-retirement medical obligations (closed fund)

The Group provides post-retirement medical benefits to substantially all employees who commenced employment prior to 1 August 2000. An actuarial valuation of post-retirement medical obligations at 31 March 2016 quantified the present value of unfunded obligations at R113,9 million (2015: R102,0million) for Group and R76,4 million (2015: R68,8million) for Corporation. These actuarial valuations are conducted annually, as at balance sheet date. The principal actuarial assumptions used included a discount rate of 10,40% (2015: 8,60%), and a health-care cost inflation rate of 9,90% (2015: 8,40%).

	2016	2015	2014	2013	2012
The movement in the liability recognised in the balance sheet is as follows:					
Balance at beginning of year	**83 776**	77 000	71 591	67 619	64 218
Expensed during the year	**11 438**	10 649	8 988	7 084	6 255
Contributions paid	**(4 349)**	(3 873)	(3 579)	(3 112)	(2 854)
Balance at end of year	**90 865**	83 776	77 000	71 591	67 619
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**113 817**	102 033	90 355	80 894	70 247
Unrecognised actuarial (loss)/gain	**(22 952)**	(18 257)	(13 355)	(9 303)	(2 628)
Liability at end of year	**90 865**	83 776	77 000	71 591	67 619
Amounts recognised in the income statements are as follows:					
Current service cost	**1 805**	1 766	1 623	1 548	1 222
Interest cost	**8 577**	8 037	6 794	5 536	5 033
Net actuarial gain/(loss) recognised in the year	**1 057**	846	572	-	-
	11 439	10 649	8 989	7 084	6 255
Membership statistics:					
In-service members	**131**	145	172		
Continuation members	**162**	161	146		
	293	306	318		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**113 817**	**102 032**	90 354	80 894
CPI Inflation	+1%	**130 536**	**102 168**	90 495	92 376
	+1,50%	**114 001**	**102 249**	90 585	98 117
	+1,75%	**113 980**	**102 224**	90 557	100 987
	-1%	**100 154**	**101 868**	90 190	71 898
Post-retirement mortality	+1 year	**110 195**	**93 851**	93 851	83 704
Average retirement age	-1 year	**117 518**	**105 556**	90 354	87 567

	Corporation				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Balance at beginning of year	**55 539**	51 490	48 302	46 245	44 256
Expensed during the year	**7 596**	7 293	6 225	4 681	4 360
Contributions paid	**(3 428)**	(3 245)	(3 037)	(2 624)	(2 371)
Balance at end of year	**59 707**	55 538	51 490	48 302	46 245
Amounts recognised in the balance sheet are as follows:					
Present value of unfunded obligations	**76 374**	68 823	63 040	57 927	49 602
Unrecognised actuarial (loss)/gain	**(16 667)**	(13 285)	(11 550)	(9 625)	(3 357)
Liability at end of year	**59 707**	55 538	51 490	48 302	46 245
Amounts recognised in the income statements are as follows:					
Current service cost	**918**	866	811	789	706
Interest cost	**5 763**	5 581	4 844	3 892	3 654
Net actuarial gain/(loss) recognised in the year	**915**	846	570	-	-
	7 596	7 293	6 225	4 681	4 360
Membership statistics:					
In-service members	**64**	70	74		
Continuation members	**126**	127	124		
	190	197	198		

Sensitivity Analysis - unfunded accrued liability

Assumptions	**Change**				
Central assumptions:		**76 374**	68 824	63 040	57 927
CPI Inflation	+1%	**86 238**	68 940	74 474	65 409
	+1,50%	**76 535**	69 011	63 210	68 700
	+1,75%	**76 517**	68 989	63 234	72 002
	-1%	**68 162**	68 687	56 140	51 808
Post-retirement mortality	+1 year	**74 368**	64 802	64 802	62 515
Average retirement age	-1 year	**78 412**	70 702	63 040	59 372

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Group				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000

16.2. Pension and Provident Fund Schemes

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

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

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

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2016 showed that in respect of the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

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

16.2.1 Defined Benefit Pension Fund (closed fund)

	2016	2015	2014	2013	2012
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**1 304**	1 071	27 945	44 128	68 871
Fair value of plan assets	**(14 243)**	(11 883)	(32 960)	(44 644)	(71 825)
	(12 939)	(10 812)	(5 015)	(516)	(2 954)
Unrecognised actuarial gain	**12 939**	10 812	5 015	516	2 954
Liability at end of year	**-**	-	-	-	-
The movement in the defined benefit obligation over the year is as follows:					
Balance at beginning of year	**1 071**	27 945	44 128	66 871	68 112
Interest cost	**78**	1 313	2 364	4 151	5 304
Current service cost	**-**	-	-	-	552
Benefits paid	**-**	(25 518)	(15 775)	(30 541)	(4 495)
Contributions by plan participants (employees)	**-**	-	-	-	230
Actuarial (gain)/loss on obligation	**155**	(2 669)	(2 772)	3 647	(2 832)
Balance at end of year	**1 304**	1 071	27 945	44 128	66 871
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**11 883**	32 960	44 644	71 825	70 841
Expected return on assets	**867**	1 741	2 030	5 119	6 193
Contributions received	**-**	-	-	-	344
Benefits paid	**-**	(25 518)	(15 775)	(30 541)	(4 495)
Investment gain/(loss) on assets	**1 493**	2 700	2 061	(1 759)	(1 058)
Balance at end of year	**14 243**	11 883	32 960	44 644	71 825
Amounts recognised in the income statement are as follows:					
Current service cost	**-**	-	-	-	552
Interest cost	**78**	1 313	2 364	4 151	5 304
Expected return on plan assets	**(867)**	(1 741)	(2 030)	(5 119)	(6 192)
Recognised actuarial losses	**-**	-	-	532	448
	(789)	(428)	334	(436)	112

	Group				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Plan assets portfolio:					
Investment assets	**19 426**	35 588	32 878	42 514	47 115
Annuity contracts	**-**	-	-	-	27 134
Current (liabilities)/assets	**(5 183)**	(23 705)	82	2 130	(2 424)
	14 243	11 883	32 960	44 644	71 825
Effective rate of return on plan assets (actual)	**9,82%**	16,02%	20,67%	7,48%	10,16%
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:					
Discount rate (annualised yield on R202, 2015: R208)	**10,00%**	7,30%	8,50%	6,50%	8,00%
Expected rate of return on plan assets	**10,00%**	7,30%	8,50%	9,00%	9,00%
Future salary increases (inflation plus 1%)	**9,00%**	6,90%	7,60%	7,40%	7,30%
Inflation	**8,00%**	5,90%	6,60%	6,40%	6,30%

Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**1 304**	1 071	27 945	44 128	66 871
Discount rate	+1%	**1 304**	1 071	27 945	44 128	66 871
	-1%	**1 304**	1 071	27 945	44 128	66 871
Expected rate of salary increases	+1%	**1 304**	1 071	27 945	44 128	66 871
	-1%	**1 304**	1 071	27 945	44 128	66 871
No salary increases		**1 304**	1 071	27 945	44 128	66 871

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	Corporation				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
16.2.1 Defined Benefit Pension Fund (Closed Fund) (continued)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**587**	482	12 574	19 856	44 746
Fair value of plan assets	**(6 409)**	(5 347)	(14 831)	(20 090)	(48 061)
	(5 822)	(4 865)	(2 257)	(234)	(3 315)
Unrecognised actuarial gain	**5 822**	4 865	2 257	234	3 315
Liability at end of year	**-**	-	-	-	-

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

The movement in the defined obligation is as follows:					
Balance at beginning of year	**482**	12 574	19 856	44 746	45 972
Interest cost	**35**	591	1 063	1 868	3 549
Current service cost	**-**	-	-	-	(26)
Benefits paid	**-**	(11 482)	(7 098)	(13 742)	(3 008)
Contributions by plan participants (employees)	**-**	-	-	-	154
Actuarial (gain)/loss on obligation	**70**	(1 201)	(1 247)	(13 016)	(1 895)
Balance at end of year	**587**	482	12 574	19 856	44 746
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**5 347**	14 831	20 090	48 061	47 815
Expected return on assets	**390**	783	914	2 304	3 733
Contributions received	**-**	-	-	-	229
Benefits paid	**-**	(11 482)	(7 098)	(13 742)	(3 007)
Investment gain/(loss) on assets	**672**	1 215	925	(16 533)	(709)
Balance at end of year	**6 409**	5 347	14 831	20 090	48 061
Amounts recognised in the income statement are as follows:					
Current service cost	**-**	-	-	-	369
Interest cost	**35**	591	1 063	1 868	3 548
Expected return on plan assets	**(390)**	(783)	(1 068)	(2 304)	(4 144)
Recognised actuarial losses	**-**	-	5	436	301
	(355)	(192)	-	-	74
Plan assets portfolio					
Investment assets	**8 741**	16 013	14 794	19 132	31 526
Annuity contracts	**-**	-	-	-	18 157
Current assets/(liabilities)	**(2 332)**	(10 666)	37	958	(1 622)
	6 409	5 347	14 831	20 090	48 061
Effective rate of return on plan assets (actual)	**9,29%**	15,96%	21,53%	7,34%	9,98%

		Corporation				
		2016	2015	2014	2013	2012
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R202, 2015: R208)		**10,00%**	7,30%	8,50%	6,50%	8,00%
Expected rate of return on plan assets		**10,00%**	7,30%	8,50%	9,00%	9,00%
Future salary increases (inflation plus 1%)		**9,00%**	6,90%	7,60%	7,40%	7,30%
Inflation		**8,00%**	5,90%	6,60%	6,40%	6,30%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**587**	482	12 574	19 856	44 746
Discount rate	+1%	**587**	482	12 574	19 856	44 746
	-1%	**587**	482	12 574	19 856	44 746
Expected rate of salary increases	+1%	**587**	482	12 574	19 856	44 746
	-1%	**587**	482	12 574	19 856	44 746
No salary increases		**587**	482	12 574	19 856	44 746

	Group				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
16.2.2 Defined Benefit Provident Fund (Closed Fund)					
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**45 903**	46 409	50 683	55 557	44 011
Fair value of plan assets	**(63 993)**	(66 395)	(63 444)	(53 159)	(51 172)
	(18 090)	(19 986)	(12 761)	2 398	(7 161)
Unrecognised actuarial gain	**18 090**	19 986	12 761	(2 398)	7 161
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**46 409**	50 683	55 557	44 011	47 255
Interest cost	**3 152**	3 104	3 506	3 432	3 603
Current service cost	**1 455**	1 676	1 675	1 739	2 091
Benefits paid	**(8 569)**	(8 390)	(5 654)	(4 663)	(7 343)
Contributions by plan participants (employees)	**569**	757	677	676	720
Benefit increase	**-**	-	-	(2 436)	-
Actuarial (gain)/loss on obligation	**2 887**	(1 421)	(5 078)	12 798	(2 315)
Balance at end of year	**45 903**	46 409	50 683	55 557	44 011

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	Group				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
16.2.2 Defined Benefit Provident Fund (Closed Fund) (continued)					
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**66 395**	63 444	53 159	51 172	50 155
Expected return on assets	**4 583**	3 915	3 331	4 498	4 264
Contributions received	**1 199**	1 845	1 809	2 170	1 683
Benefits paid	**(8 569)**	(8 390)	(5 654)	(4 663)	(7 343)
Investment gain/(loss) on assets	**385**	5 581	10 799	(18)	2 413
Balance at end of year	**63 993**	66 395	63 444	53 159	51 172
Amounts recognised in the income statement are as follows:					
Current service cost	**1 455**	1 676	1 675	1 739	2 091
Interest cost	**3 152**	3 104	3 506	3 433	3 603
Expected return on plan assets	**(4 583)**	(3 915)	(3 331)	(4 498)	(4 264)
Benefit increase	**-**	-	(3 292)	5 440	-
Recognised actuarial (gains)	**-**	-	-	-	(702)
	24	865	(1 442)	6 114	728
Plan assets portfolio:					
Investment assets	**65 779**	69 402	61 685	53 514	53 707
Net current liabilities	**(1 786)**	(3 007)	1 759	(355)	(2 535)
	63 993	66 395	63 444	53 159	51 172
Effective rate of return on plan assets (actual)	**9,82%**	16,02%	20,67%	7,34%	9,00%
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:					
Discount rate (annualised yield on R208, 2015: R208)	**10,00%**	7,30%	8,50%	6,50%	8,00%
Expected rate of return on plan assets	**10,00%**	7,30%	8,50%	9,50%	9,00%
Future salary increases (inflation plus 1%)	**9,00%**	6,90%	7,60%	7,40%	7,30%
Inflation	**8,00%**	5,90%	6,60%	6,40%	6,30%

Sensitivity analysis (Fund liability)	Change					
At valuation assumptions:		**47 207**	46 000	49 996	54 975	40 706
Discount rate	+1%	**45 901**	44 568	48 333	52 630	39 050
	-1%	**48 636**	47 570	51 815	57 561	42 532
Expected rate of salary increases	+1%	**48 176**	47 061	51 276	56 912	42 086
	-1%	**46 318**	45 052	48 819	53 180	39 447
No salary increases		**41 827**	41 225	43 431	44 941	33 832

	Corporation				
	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Amounts recognised in the balance sheet are as follows:					
Present value of funded obligations	**30 066**	29 445	28 380	29 929	26 145
Fair value of plan assets	**(41 915)**	(42 126)	(35 525)	(28 637)	(30 399)
	(11 849)	(12 681)	(7 145)	1 292	(4 254)
Unrecognised actuarial gain	**11 849**	12 681	7 145	(1 292)	4 254
Liability at end of year	**-**	-	-	-	-
Balance at beginning of year	**29 445**	28 380	29 929	26 145	28 278
Interest cost	**2 065**	1 969	1 962	1 848	2 140
Current service cost	**954**	1 063	938	937	1 036
Benefits paid	**(5 613)**	(5 323)	(3 165)	(2 512)	(4 362)
Contributions by plan participants (employees)	**372**	480	380	365	427
Benefit increase/(decrease)	**-**	-	1 179	(2 435)	-
Actuarial (gain)/loss on obligation	**2 843**	2 876	(2 843)	5 581	(1 374)
Balance at end of year	**30 066**	29 445	28 380	29 929	26 145
The movement in the fair value of plan assets over the year is as follows:					
Balance at beginning of year	**42 126**	35 525	28 637	30 399	30 013
Expected return on assets	**3 002**	2 484	2 995	2 422	2 315
Contributions received	**785**	1 171	1 012	1 169	1 000
Benefits paid	**(5 613)**	(5 323)	(3 165)	(2 512)	(4 362)
Investment gain/(loss) on assets	**1 615**	8 269	6 046	(2 841)	1 433
Balance at end of year	**41 915**	42 126	35 525	28 637	30 399
Amounts recognised in the income statement are as follows:					
Current service cost	**954**	1 063	938	937	1 242
Interest cost	**2 065**	1 969	1 962	1 849	2 140
Expected return on plan assets	**(3 002)**	(2 484)	(1 865)	(2 422)	(2 533)
Benefit (decrease)/increase	**-**	-	(3 292)	2 931	-
Recognised actuarial (gains)/losses	**-**	-	-	-	(417)
	17	548	(2 257)	3 295	432
Plan assets portfolio:					
Investment assets	**43 085**	44 034	34 540	28 828	31 905
Net current liabilities	**(1 170)**	(1 908)	985	(191)	(1 506)
	41 915	42 126	35 525	28 637	30 399
Effective rate of return on plan assets (actual)	**15,96%**	15,96%	21,53%	7,48%	9,98%

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		Corporation				
		2016	2015	2014	2013	2012
		R'000	R'000	R'000	R'000	R'000
The principal actuarial assumptions at balance sheet date (expressed as weighted averages) were as follows:						
Discount rate (annualised yield on R202, 2015: R208)		**10,00%**	7,30%	8,50%	6,50%	8,00%
Expected rate of return on plan assets		**10,00%**	7,30%	8,50%	9,50%	9,00%
Future salary increases (Inflation plus 1%)		**9,00%**	6,90%	7,60%	7,40%	7,30%
Inflation		**8,00%**	5,90%	6,60%	6,40%	6,30%
Sensitivity analysis (Fund liability)	**Change**					
At valuation assumptions:		**30 066**	29 186	28 932	29 616	26 145
Discount rate	+1%	**29 211**	28 277	27 955	28 352	25 081
	-1%	**31 003**	30 182	30 001	31 009	27 318
Expected rate of salary increases	+1%	**30 702**	29 859	29 692	30 659	27 031
	-1%	**29 484**	28 584	28 236	28 654	25 336
No salary increases		**26 542**	26 156	25 040	24 210	21 730

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

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000

16.3. Long service obligation

The Company provides long service awards to permanent employees in the form of cash from 10 years of continuous service and every five years thereafter. An actuarial valuation of the provision for long service awards is conducted annually. The principal actuarial assumptions used included a discount rate of 9,5% (2015: 7,5%) and an average salary inflation of 8,1% (2015: 6,2%).

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

	Group 2016 R'000	Group 2015 R'000	Corporation 2016 R'000	Corporation 2015 R'000
Balance at beginning of year	**26 611**	21 614	**14 239**	11 673
Expensed during the year	**5 300**	4 256	**2 996**	2 364
Contributions paid	**(1 701)**	(2 818)	**(1 086)**	(1 689)
Unrecognised actuarial gain	**(1 760)**	3 559	**(1 032)**	1 891
Balance at end of year	**28 450**	26 611	**15 117**	14 239
Amounts recognised in the balance sheet are as follows:				
Present value of unfunded obligations	**30 210**	30 170	**16 149**	16 130
Unrecognised actuarial gain	**(1 760)**	(3 559)	**(1 032)**	(1 891)
Liability at end of year	**28 450**	26 611	**15 117**	14 239

	Change	Group 2016	Group 2015	Corporation 2016	Corporation 2015
		R'000	R'000	R'000	R'000
Amounts recognised in the income statements are as follows:					
Current service cost		3 376	2 340	1 970	1 330
Interest cost		1 926	1 916	1 027	1 033
Net actuarial loss recognised in the year		(1 760)	3 559	(1 032)	1 891
		3 542	7 815	1 965	4 254
Membership statistics:					
In-service members		797	830	418	453
Sensitivity analysis - unfunded accrued liability					
Assumptions	**Change**				
Central assumptions:		28 452	26 612	15 117	14 238
CPI Inflation	+1%	30 557	28 686	16 172	15 265
	-1%	24 862	24 755	13 304	13 314
Average retirement age	-2 years	24 522	18 431	12 576	9 540
	+2 years	31 843	24 328	17 349	13 329
17. GOVERNMENT GRANTS					
17.1 Government grants - deferred income					
BEE risk fund		6 599	10 334	6 599	10 334
Share participation		12 685	12 686	12 685	12 686
Co-operatives - business		13 339	20 369	13 339	20 369
Co-operatives - agriculture		170	170	170	170
DTI grant		10 232	-	10 232	-
SMME onlending		71 827	17 341	71 827	17 341
Ndumo		4 880	35 800	4 880	35 800
Ntingwe		6 228	5 319	6 228	5 319
Drakensberg cable car		1 566	-	1 566	-
		127 526	102 019	127 526	102 019
17.2 Government grants - other					
EDTEA equity fund		112	120	112	120
Total Government grants		127 638	102 139	127 638	102 139
18. TRADE AND OTHER PAYABLES					
Trade creditors		25 896	14 475	20 670	7 744
Accruals		38 090	53 648	24 002	41 020
South African Revenue Service		7 731	10 050	11	4 360
Audit fee accrual		7 390	6 602	3 270	2 654
Sundry creditors		51 972	76 132	36 447	50 068
Leave pay accrual		30 582	30 551	18 659	19 124
Bonus pay accrual		1 542	3 218	1 523	1 574
		163 203	194 676	104 582	126 544

The audit fee accrual is in repect of the audit fee to be incurred for the financial year under review. The audit fee is approved by the Audit Committee.

The bonuses accrual relates to a "13th cheque" payable to "A - C band" employees only that are employed by the Company at the time of payment being in November each year.

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	Group 2016	Group 2015	Corporation 2016	Corporation 2015
	R'000	R'000	R'000	R'000
		Restated		Restated
19. INTEREST				
19.1. Interest income				
Balances with banks and short-term funds	87 632	59 672	16 437	11 427
Advances	233 855	248 040	74 797	82 686
Other	30	35	30	35
	321 517	307 747	91 264	94 148
Analysis per financial instrument category				
Interest on financial assets at amortised cost	321 517	307 747	91 264	94 148
19.2. Interest expenditure				
Interest on:				
Savings and deposit accounts	80 812	71 477	-	-
Borrowings	11 167	10 534	5 777	5 729
Other	300	-	-	-
	92 279	82 011	5 777	5 729
Analysis per financial instrument category				
Interest on financial liabilities at amortised cost	92 279	82 011	5 777	5 729
20. OTHER OPERATING INCOME	1 034 851	1 315 006	849 310	1 076 174
Other operating income is stated after crediting the following items:				
20.1. (Loss)/surplus on sale of investment properties, property, plant and equipment and properties in possession	(288)	(7 191)	424	(2 630)
20.2. Profit/(loss) on valuation of listed investments	(261)	3 362	(261)	3 362
20.3. Dividends received	1 367	1 334	39 529	1 334
Listed investments	1 367	1 334	1 366	1 334
Unlisted investments	-	-	38 163	-
20.4. Grants applied	130 581	245 601	130 581	193 505
Co-operatives onlending	-	12 846	-	12 846
SMME onlending	100 544	130 659	100 544	130 659
Projects	137	-	137	-
Ithala SOC Limited restructuring	-	52 096	-	-
Share capital Ithala SOC Limited	29 900	50 000	29 900	50 000
20.5. Rental received	294 823	288 595	262 850	259 015
20.6. Sale of electricity, water and sewage	227 378	220 325	227 378	220 325
20.7 Fees, commission and services recovered	140 704	141 441	31 379	37 439
20.8 Fair value adjustment	84 555	281 710	71 955	262 073

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
21. OPERATING EXPENDITURE	**1 003 129**	1 033 744	**666 784**	705 461
Operating expenditure is stated after charging/(crediting) the following items:				
21.1. Auditor's remuneration				
Audit fees - current year	**8 256**	7 775	**3 616**	3 222
21.2. Depreciation of property, plant and equipment	**26 324**	20 909	**14 537**	6 312
21.3. Amortisation of intangible assets	**9 302**	7 886	**7 858**	6 291
21.4. Non-credit related impairments				
Amounts due from subsidiaries	**-**	-	**6 836**	3 011
Property, plant and equipment	**-**	-	**-**	-
Inventory and contracts in progress	**-**	(19 442)	**-**	(19 442)
Investment properties	**-**	-	**-**	-
	-	(19 442)	**6 836**	(16 431)
21.5. Professional fees	**27 096**	24 701	**19 613**	15 404
21.6. Purchases of electricity, water and sewage	**171 199**	163 838	**171 199**	163 838
21.7. Rent, rates and utilities	**125 666**	124 309	**92 767**	89 119
21.8. Directors' emoluments				
Emoluments paid to Executive Directors:				
YEN Zwane - Chief Executive Officer	**3 161**	2 801	**3 161**	2 801
Emoluments paid to Non-Executive Directors:				
MSV Gantsho - Chairperson	**689**	996	**689**	996
AN Zondi (Passed away 4 May 2014)	**-**	14	**-**	14
AN Matyumza	**512**	601	**324**	409
B Bam	**327**	423	**327**	423
B Ngonyama	**517**	425	**-**	-
D McLean	**1 146**	1 379	**648**	801
GNJ White (Resigned 30/09/2014 Corporation and appointed 01/09/2014 Ithala SOC Limited)	**45**	1 128	**45**	324
G Simelane	**102**	109	**-**	-
P Langeni (Appointed 1/10/2015)	**93**	-	**-**	-
BA Khumalo (Appointed 1/10/2015)	**43**	-	**-**	-
CM Cronje (Appointed 1/10/2015)	**53**	-	**-**	-
M Kekana	**880**	921	**-**	-
M Mia	**619**	520	**-**	-
MC Clark (Resigned 31/12/15)	**161**	183	**-**	-
M Mosidi	**22**	50	**22**	50
N Khambule (Resigned 30/06/14)	**-**	73	**-**	73
NN Afolayan	**285**	373	**285**	373
RS Garach	**205**	230	**-**	-
S Ngidi	**330**	335	**-**	-
P Radebe (Appointed 11/08/15)	**263**	-	**-**	-
W Jacobs (Resigned 31/12/15)	**185**	710	**185**	390
VJ Klein (Resigned 1/08/15)	**134**	123	**-**	-
	6 611	8 593	**2 525**	3 853

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	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
21. OPERATING EXPENSES (continued)				
21.9 Executive management remuneration				
BTT Mathe	2 020	1 899	2 020	1 899
B Silungwe (Resigned 10/11/2015)	1 417	1 576	1 417	1 576
F Ferguson (Resigned 30/04/2015)	224	2 131	224	2 131
F Amod (Acting 01/04/2015, Appointed 01/12/2015)	1 610	-	1 610	-
GNJ White (Resigned 01/12/2015)*	3 060	1 193	-	-
MM Matibe	2 020	1 794	2 020	1 794
NF Dikgale (Appointed 01/07/2015)	1 050	-	-	-
NW Nhlangulela	2 426	2 048	2 426	2 048
M Muthusamy (Acting 01/04/2015)	1 314	-	1 314	-
EB Mokgatle	1 479	-	1 479	-
P Ireland	1 883	1 716	-	-
S Madondo (Resigned 13/06/14)*	-	2 444	-	2 444
SV Khoza - Chief Executive Officer Ithala SOC Limited (Resigned 01/09/2014)*	-	2 799	-	-
	18 503	17 600	12 510	11 892

*The remuneration includes severance packages in termination of contracts

21.10 Personnel costs	340 541	359 053	224 581	214 551

Included in personnel costs is R4,4 million (2015: R4,2 million) paid in respect of staff costs for Ntingwe Tea (Pty) Ltd in terms of an agreement between Ithala and the Department of Agriculture.

21.11 Contribution to retirement benefit schemes*				
Defined benefit schemes	1 226	1 506	748	903
Defined contribution schemes	19 539	18 712	10 420	10 034
	20 765	20 218	11 168	10 937
22. TAXATION				
22.1. Indirect taxation				
Skills development levies	2 977	2 696	1 893	1 677
	2 977	2 696	1 893	1 677
22.2. Direct Taxation				
South African normal taxation	6 505	4 398	-	-
Deferred taxation	416	(112)	-	-
	6 921	4 286	-	-

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		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
23. NOTES TO CASH FLOW STATEMENT				
23.1. Cash generated from operating activities				
Net income before taxation	232 056	413 470	229 898	385 974
Adjustment for non-cash items:				
Grants applied	(130 581)	(245 601)	(130 581)	(193 505)
Landfill sites provision	(465)	(14 027)	(465)	(14 027)
Straight-lining of operating lease income and expenditure	6 619	(2 340)	7 305	(1 956)
Depreciation and amortisation	35 626	28 795	22 395	12 603
Impairment of assets and inventory	-	(19 442)	-	(16 431)
Fair value adjustments	(84 555)	(281 710)	(71 955)	(262 073)
Credit impairment for loans and advances	(11 997)	75 082	(712)	56 347
Movement in other provisions	(1 301)	(2 712)	(717)	(2 282)
(Profit)/loss on disposal of assets	288	7 193	(424)	2 630
Post-retirement provision	11 439	10 649	7 596	7 293
Long service provision	3 542	7 815	1 965	4 254
Movement in non-controlling interest	(619)	(55)	-	-
Revaluation of shares	261	(3 362)	261	(3 362)
	61 551	(26 245)	64 566	(24 535)
23.2. Decrease/(increase) in working capital				
Trade and other payables	(31 418)	37 871	(21 962)	20 971
Trade and other receivables	28	42 122	12 367	42 504
Inventory and contracts in progress	2 186	37 064	456	36 774
	(29 204)	117 057	(9 139)	100 249
23.3. Taxation paid				
Opening balance	674	259	-	-
Charge for the year	(6 504)	(4 398)	-	-
Closing balance	(728)	(674)	-	-
Taxation paid	(6 558)	(4 813)	-	-
24. COMMITMENTS				
24.1. Capital commitment				
Authorised but not yet contracted	100 000	26 860	100 000	26 860
Authorised and contracted	33 393	113 392	17 786	93 300
	133 393	140 252	117 786	120 160

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	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
24. COMMITMENTS (continued)				
24.2. Operating lease commitments				
The future minimum lease payments under non-cancellable leases are as follows:				
Next 12 months	12 918	12 544	525	732
From 1 - 5 years	11 791	9 155	2 627	3 887
Later than 5 years	13 311	22 058	13 311	22 058
Total future cash flows	38 020	43 757	16 463	26 677
Straight-lining of operating lease expenditure accrued on balance sheet:	(2 802)	(6 008)	(2 335)	(5 552)
Long-term portion	(542)	(6 012)	(75)	(5 556)
Short-term portion	(2 260)	4	(2 260)	4
Future expenses	35 218	37 749	14 128	21 125
Total commitments	168 611	178 001	131 914	141 285

ITHALA SOC LIMITED

The Company as a lessee has entered into 16 (2015: 16) related party lease agreements with the holding company. These contracts, in aggregate, amount to R2,8 million (2015: R8,0 million).

The Company has entered into commercial leases for premises and equipment. These lease agreements contain clauses indicating an average lease period of five years and, in some instances, a one term renewal option. Operating lease commitments have been calculated on the original lease term. No renewal periods have been considered due to the uncertainties, amongst others, around the amount to be paid on renewal.

Unutilised facilities on advances at statement of financial position date was R2,1 million (2015: R9,7 million).

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
25. CONTINGENT LIABILITIES				
25.1. Guarantees issued				
Loans by petrol companies to service station operators	131	131	131	131
South African Insurance Association	3 000	3 000	-	-
Eskom guarantees	5 985	6 066	5 904	5 985
EThekwini Municipality	111	111	111	111
Enza Construction (Pty) Ltd*	-	5 210	-	5 210
WBHO Construction*	-	20 000	-	20 000
Total	9 227	34 518	6 146	31 437

*Builders guarantees issued in the ordinary course of business.

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

25.2 Legal matters

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

ITHALA CORPORATION

- Claim for damages of R14,2 million in respect of an alleged early lease termination.
- Claim for loss of income of R4,5 million in respect of a contract that was awarded to another service provider.
- Claim of R0,03 million for services not rendered.

ITHALA SOC LIMITED

- Claim for R0,3 million for rentals and related charges.
- Claim for R0,3 million for a property in possession sold by Ithala, but not transferred.
- Claim for R0,07 million for misappropriation of funds from a client's savings account.

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
	R'000	R'000	R'000	R'000
26. DEFERRED TAXATION				
Deferred taxation liability comprises:				
- Provision for doubtful debts	(1 095)	(1 328)	-	-
- Straight-line rental debtors	2 691	2 413	-	-
- Provision for straight-line rental debtors	(187)	(92)	-	-
- Assessed losses	(6)	(7)	-	-
	1 403	986	-	-
The movement is reconciled as follows:				
Balance at beginning of year	(986)	(1 097)	-	-
Movement during the year:				
- Provision for doubtful debts	(223)	225	-	-
- Straight-line rental debtors	(10)	(38)	-	-
- Provision for straight-line rental debtors	(267)	(62)	-	-
- Assessed losses	84	(14)	-	-
	(1 403)	(986)	-	-

27. RELATED PARTIES

Parent/holding company

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

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

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

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	R'000	R'000	R'000
2016						
Corporation	**14 175**	**13 046**	**-**	**-**	**12 260**	**638**
2015						
Corporation	14 175	12 956	-	-	12 260	630

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	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
	R'000	R'000	R'000	R'000	R'000	R'000

27.2. Loans to key management personnel
These are individuals responsible for planning, directing and controlling the activities of Ithala Development Finance Corporation, its subsidiaries and associated companies.

	Loans granted	Outstanding balance	Arrears	Specific impairment charge	Security amount	Interest received
2016						
Corporation	**39 016**	**29 263**	**-**	**-**	**18 685**	**2 819**
Ithala SOC Limited	**2 429**	**6 017**	**-**	**-**	**6 548**	**415**
2015						
Corporation	39 016	34 600	815	7 051	18 454	3 230
Ithala SOC Limited	6 868	9 466	-	-	10 399	702

No specific credit impairments (2015: Nil) have been recognised in respect of loans to Executive and Non-Executive Directors. These loans are secured by mortgage bonds over properties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length except for housing loans where all full-time employees qualify for the prime overdraft rate less 1,75%.

	2016	2015
	R'000	R'000
27.3. Transactions between the Corporation and its subsidiaries		
These are transactions with wholly-owned subsidiaries of the Corporation. These amounts are only included in the Corporation accounts and are eliminated on consolidation.		
a) Ithala SOC Limited		
Bank charges received	**106**	94
Interest paid on customer deposits and retention accounts	**2 807**	2 335
Shared services	**(14 789)**	(16 385)
Rental	**(4 996)**	(4 600)
Recovery of operating expenses	**2 603**	2 696
Insurance recovery	**2 496**	2 496
Dividends received	**33 484**	-
The outstanding balances of the current and shareholders loan accounts:		
Outstanding balance on savings and fixed deposits	**45 308**	3 705
Ithala Development Finance Corporation inter-company balance	**7 945**	8 181
b) KwaZulu-Natal Property Development Holdings (KPDH)		
Balance owed to KPDH - grant income and interest	**7 593**	-
Balance owed by KPDH	**(1 727)**	687
27.4. Transactions between the Corporation and other subisidiaries under the Department of Economic Development, Tourism and Environmental Affairs		
Rental	**405**	-
Parking	**87**	-
Recovery of operating expenses	**34**	-

	Deposits due	Interest expense	Outstanding balance	Fees received
	R'000	R'000	R'000	R'000
27.5 KwaZulu-Natal Provincial Government				
2016				
Group				
Department of Corporate Governance and Traditional Affairs	28 023	1 659	-	-
Department of Agriculture	1 160	24	-	-
Department of Human Settlement	-	94	-	-
KZN Growth fund	47 879	2 602	-	-
Ezemvelo - KZN Wildlife	31 780	1 780	-	-
KZN Municipalities	67 525	2 072	-	-
Department of Health	1 843	6	-	-
Total	178 210	8 237	-	-
Corporation				
Department of Education	-	-	5 484	-
Department of Health	-	-	9 852	-
Total	-	-	15 336	-
2015				
Group				
Department of Corporate Governance and Traditional Affairs	26 134	1 478	-	-
Department of Agriculture	1 138	23	-	-
Department of Human Settlement	12 694	264	-	-
Department of Education	-	-	15 635	-
Department of Health	3 260	12	21 064	-
Total	43 226	1 777	36 699	-
Corporation				
Department of Education	-	-	15 635	-
Department of Health	-	-	21 064	-
Total	-	-	36 699	-

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	Group		Corporation	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
28. PRIOR YEAR ADJUSTMENTS				
28.1. Change in accounting policy - investment property				
During the year the the accounting policy for investment property was changed from the cost model to the fair value model as it results in the financial statements providing more relevant information. The prior year results were restated for the effect of the change in policy.				
Effect on statement of financial position:				
Increase in investment property	**1 214 031**	926 643	**1 090 308**	824 166
Increase in property, plant and equipment	**374**		**374**	
Effect on statement of comprehensive income:				
Fair value adjustment	**(281 710)**	(549 449)	**(262 073)**	(474 188)
Decrease in depreciation/impairment charges	**(6 052)**	(377 194)	**(4 443)**	(349 976)
Increase in operating income	**(287 762)**	(926 643)	**(266 516)**	(824 164)
28.2 Correction of prior period errors				
Certain office blocks were in prior years incorrectly classified as property, plant and equipment as opposed to investment property. During the year, these office blocks were transferred to investment property, resulting in prior results being corrected. Furthermore, output VAT was not previously recognised from sales made, resulting in prior results being corrected. The defined benefit provident fund had an employer surplus that was not recorded in prior years.				
Effect on statement of financial position:				
Increase in investment property	**8 613**	8 613	**8 613**	8 613
Decrease in property, plant and equipment	**(4 295)**	(4 295)	**(4 295)**	(4 295)
Increase in trade and other receivables	**1 984**	1 548	**2 048**	1 548
Increase in inventory	**35**	-	-	-
Increase in trade and other payables	**(4 104)**	-	-	-
Effect on statement of comprehensive income:				
Decrease in depreciation/impairment charges	**(172)**	(4 318)	**(172)**	(4 318)
Increase in other operating income	**(500)**	(1 548)	**(500)**	(1 548)
Decrease in other operating income	**4 632**	-	-	-
Decrease in operating expenses	**(499)**	-	-	-
28.3. Reconciliation of the impact on retained income				
Retained income as previously reported	**1 138 757**	1 013 819	**1 178 075**	1 059 289
Cumulative increase in operating income	**1 216 810**	932 509	**1 097 218**	830 030
Restated retained income	**2 355 567**	1 946 328	**2 275 293**	1 889 319

	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
29. CHANGE IN ESTIMATES				
29.1 Property, plant and equipment				
Equipment is depreciated over its useful life taking into account their residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:				
Effect on statement of financial position:				
Increase in net book value - equipment	**756**	6 069	**223**	5 377
Effect on statement of comprehensive income:				
Decrease in depreciation	**(756)**	(6 069)	**(223)**	(5 377)
30. FRUITLESS AND WASTEFUL EXPENDITURE	**201**	792	**30**	-

The Group incurred fruitless and wasteful expenditure in the current year mainly on interest and penalties payable to the South African Revenue Service for late and non-payment of VAT, PAYE and provisional tax (2015: R0,8 million).

		Group		Corporation	
		2016	2015	**2016**	2015
		R'000	R'000	**R'000**	R'000

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

There were no events subsequent to year-end that may have a significant impact on the annual financial statements.

32. IRREGULAR EXPENDITURE

		Group 2016 R'000	Group 2015 R'000	Corporation 2016 R'000	Corporation 2015 R'000
Opening balance		**8 192**	**4 999**	**2 109**	4 580
Add: Irregular expenditure - current year		**2 543**	**11 206**	**1 921**	7 154
Add: Prior year amounts identified in current year		**51**	11 118	**51**	9 087
Less: Amounts condoned		**(9 568)**	(19 131)	**(3 485)**	(18 712)
Irregular expenditure awaiting condonation		**1 218**	8 192	**596**	2 109
Analysis of expenditure awaiting condonation per age classification					
Current year		**1 218**	6 161	**596**	2 109
Prior years		**-**	2 031	**-**	-
Total		**1 218**	8 192	**596**	2 109
Incident	**Disciplinary steps taken/criminal proceedings**				
Non-compliance with supply chain management policies	Employee dismissed	**13**	11 780	**13**	**11 780**
Non-compliance with supply chain management policies	Employee resigned	**1 933**	656	**1 933**	656
Non-compliance with supply chain management policies	Warnings given	**1 272**	5 782	**649**	2 109
Total		**3 218**	18 218	**2 595**	14 545
Incident	**Condoned by**				
Non-compliance with supply chain management policies	Accounting authority	**9 568**	19 131	**3 485**	18 712
Total		**9 568**	19 131	**3 485**	18 712

33. FINANCIAL RISK MANAGEMENT

Introduction

The Board has adopted an integrated risk management strategy in which internal audit, compliance and other specialist functions operate within the Enterprise-Wide Risk Management (ERM) framework.

Whilst the Board retains overall responsibility for risk management, policies and frameworks are developed by management on an enterprise-wide basis striving to identify all relevant risks, to measure and understand such risks and to manage and monitor them in order to minimise and control the impact of adverse occurrences.

The Board has delegated the responsibility for risk management to three Board Sub-Committees, namely the Enterprise Risk Committee, the Audit Committee and the Human Resources Committee.

Each committee has specific terms of reference and delegated powers of authority that are reviewed annually by the Board. Management is accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into daily operations.

The Group has exposure to the following risks from financial instruments, namely, credit risk, liquidity risk, market risks and operational risks.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

33.1. Credit Risk

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

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit and Investment Committee. A separate Management Credit Committee is responsible for management of the Group's credit risk.

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

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

Credit Risk Concentration

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

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
Concentration risk by product				
Housing and commercial property	**1 388 913**	1 469 553	-	-
Micro-finance - secured	**61 718**	66 480	-	-
Micro-finance - unsecured	**29 955**	57 382	-	-
Micro-finance	**11 774**	7 633	**11 775**	7 633
Agri finance	**238 343**	249 141	**238 343**	249 141
Franchise finance	**21 942**	29 459	**21 942**	29 459
Procurement finance	**42 227**	44 477	**42 227**	44 477
Commercial property finance	**237 375**	300 629	**237 375**	300 629
Asset finance	**142 950**	124 439	**142 950**	124 439
Structured finance	**154 079**	127 616	**154 079**	127 616
	2 329 276	2 476 809	**848 691**	883 394
Concentration risk by location				
Staff loans	**4 457**	4 394	**4 457**	4 394
Amajuba District	**30 543**	29 216	**30 543**	29 216
Ilembe District	**130 965**	131 497	**130 965**	131 497
Sisonke District	**30 270**	32 374	**30 270**	32 374
EThekwini Metropolitan	**388 548**	446 829	**388 548**	446 829
Ugu District	**60 903**	70 631	**60 903**	70 632
Umgungundlovu District	**42 251**	48 234	**42 251**	48 234
Umkhanyakude District	**34 445**	36 222	**34 445**	36 222
Umzinyathi District	**2 518**	2 640	**2 518**	2 640
Uthukela District	**4 309**	4 851	**4 309**	4 851
Uthungulu District	**87 969**	57 774	**87 969**	57 774
Zululand District	**31 513**	18 731	**31 513**	18 731
Ithala SOC Limited loans - KZN Province	**1 480 585**	1 593 416	-	-
	2 329 276	2 476 809	**848 691**	883 394

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

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

	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
Credit risk exposures relating to on-balance sheet assets are as follows:				
Assets	4 037 770	3 884 236	1 379 219	1 300 291
Loans and advances	2 329 276	2 476 809	848 691	883 393
Investments	18 047	18 308	18 047	18 308
Trade and other receivables	198 196	199 298	167 976	180 701
Statutory liquid funds	129 882	152 493	-	-
Cash and cash equivalents	1 362 369	1 037 328	344 505	217 889
On-balance sheet exposure	4 037 770	3 884 236	1 379 219	1 300 291
Loan Commitments:	73 678	72 105	71 556	62 436
Housing and commercial property	2 122	9 669	-	-
Micro-finance	1 282	12 991	1 282	12 991
Agri finance	18 731	-	18 731	-
Franchise finance	-	7 107	-	7 107
Procurement finance	6 562	40 583	6 562	40 583
Commercial property finance	12 107	195	12 107	195
Asset finance	32 874	-	32 874	-
Structured finance	-	1 560	-	1 560
Off-balance sheet exposure	73 678	72 105	71 556	62 436

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	2016			2015		
	Original carrying amount	**Impairment**	**Carrying amount**	Original carrying amount	Impairment	Carrying amount
	R'000	**R'000**	**R'000**	R'000	R'000	R'000
33.1. Credit Risk (continued)						
Analysis of impairment provisions per product						
			Group			
Housing and commercial property	**1 388 913**	**68 338**	**1 320 575**	1 469 553	86 761	1 382 793
Micro-finance - secured	**61 718**	**2 936**	**58 782**	66 480	18 679	47 801
Micro-finance - unsecured	**29 955**	**16 506**	**13 449**	57 382	33 397	23 985
Micro-finance	**11 774**	**1 322**	**10 452**	7 633	1 073	6 559
Agri finance	**238 343**	**13 914**	**224 429**	249 141	71 088	178 053
Franchise finance	**21 942**	**2 183**	**19 759**	29 459	2 819	26 640
Procurement finance	**42 227**	**32 061**	**10 166**	44 477	22 988	21 489
Commercial property finance	**237 375**	**19 293**	**218 082**	300 629	7 378	293 251
Asset finance	**142 950**	**42 837**	**100 113**	124 439	22 782	101 657
Structured finance	**154 079**	**52 950**	**101 129**	127 616	44 646	82 969
	2 329 276	**252 340**	**2 076 936**	2 476 809	311 612	2 165 197

Analysis of impairment provisions per product

			Corporation			
Micro-finance	**11 775**	**1 322**	**10 452**	7 633	1 073	6 559
Agri finance	**238 343**	**13 914**	**224 429**	249 141	71 088	178 053
Franchise finance	**21 942**	**2 183**	**19 759**	29 459	2 819	26 640
Procurement finance	**42 227**	**32 061**	**10 166**	44 477	22 988	21 489
Commercial property finance	**237 375**	**19 293**	**218 082**	300 629	7 378	293 251
Asset finance	**142 950**	**42 837**	**100 113**	124 439	22 782	101 657
Structured finance	**154 079**	**52 950**	**101 130**	127 616	44 646	82 969
	848 691	**164 560**	**684 131**	883 394	172 775	710 619

Individually assessed exposures

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

	Loan balance	Impairment	Carrying amount	Collateral
	R'000	R'000	R'000	R'000
2016		**Group**		
Housing and commercial property	**67 548**	**16 500**	**51 048**	**401 802**
Agri finance	**31 099**	**6 421**	**24 678**	**22 157**
Franchise finance	-	-	-	-
Procurement finance	**8 118**	**8 118**	-	-
Commercial property finance	**74 736**	**17 066**	**57 670**	**58 410**
Asset finance	**25 355**	**19 460**	**5 895**	**8 840**
Structured finance	**47 929**	**45 749**	**2 180**	**18 287**
	254 785	**113 314**	**141 471**	**509 496**
2015				
Housing and commercial property	54 203	34 803	19 400	42 657
Agri finance	56 564	38 958	17 606	32 825
Franchise finance	-	-	-	-
Procurement finance	5 017	(4 517)	500	-
Commercial property finance	3 358	(2 541)	817	1 800
Asset finance	9 656	(4 875)	4 781	8 327
Structured finance	42 438	(31 997)	10 441	18 135
	171 236	29 831	53 545	103 744
2016		**Corporation**		
Agri finance	**31 099**	**6 421**	**24 678**	**22 157**
Franchise finance	-	-	-	-
Procurement finance	**8 118**	**8 118**	-	-
Commercial property finance	**74 736**	**17 066**	**57 670**	**58 410**
Asset finance	**25 355**	**19 460**	**5 895**	**8 840**
Structured finance	**47 929**	**5 749**	**42 180**	**18 287**
	187 237	**56 814**	**130 423**	**107 694**
2015				
Agri finance	56 564	38 958	17 606	32 825
Franchise finance	-	-	-	-
Procurement finance	5 017	4 517	500	-
Commercial property finance	3 358	2 541	817	1 800
Asset finance	9 656	4 875	4 781	8 327
Structured finance	42 438	31 997	10 441	18 135
	117 033	82 888	34 145	61 087

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

Assets subject to credit risk on balance sheet	Type of collateral
Loans and advances to customers	Bonds over properties
	Equipment
	Fixed deposit certificates
	Cession over life assurance
	Cession over income
	Cession over shares
	Deeds of suretyship

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
Valuation of collateral				
The fair value of collateral held at balance sheet date was as follows:				
Housing and commercial property	**1 265 310**	1 323 046	**-**	-
Micro-finance	**36**	309	**36**	309
Agri finance	**235 566**	249 324	**235 566**	249 324
Franchise finance	**7 046**	7 507	**7 046**	7 507
Procurement finance	**5 631**	5 690	**5 631**	5 690
Commercial property finance	**181 992**	-	**181 992**	233 564
Asset finance	**61 336**	65 304	**61 336**	65 304
Structured finance	**26 889**	30 781	**26 889**	30 781
	1 783 806	1 681 961	**518 496**	592 479
Enforcement of collateral				
Carrying amounts of assets held as a result of enforcement of collateral were as follows:				
Properties in possession:				
Opening balance	**17 993**	25 236	**5 238**	11 764
Acquisitions	**2 013**	5 362	**248**	4 108
Disposals	**(3 461)**	(12 605)	**(1 788)**	(10 634)
Closing balance	**16 545**	17 993	**3 698**	5 238

The assets held by the Group as a result of enforcement of collateral consists of shops, shopping complexes, farms, residential properties, equipment, vacant land, plant and machinery.

Loans and advances past due and not impaired
Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

	< 30 days past due	30 - 60 days past due	60 - 90 days past due	> 90 days past due	Total
	R'000	R'000	R'000	R'000	R'000
Loans and advances past due and not impaired					
2016			**Group**		
Housing and commercial property	**13 643**	**12 627**	**11 433**	**46 955**	**84 658**
Micro-finance	**400**	**75**	**-**	**-**	**475**
Agri finance	**-**	**82**	**113**	**-**	**195**
Franchise finance	**-**	**-**	**341**	**-**	**341**
Procurement finance	**96**	**584**	**1 135**	**-**	**1 815**
Commercial property finance	**9**	**1 017**	**1 422**	**-**	**2 448**
Asset finance	**-**	**85**	**-**	**444**	**529**
Structured finance	**-**	**475**	**-**	**-**	**475**
	14 148	**14 945**	**14 444**	**47 399**	**90 936**
2015			Group		
Housing and commercial property	7 810	9 406	10 924	38 689	66 829
Micro-finance	-	2	-	-	2
Agri finance	116	67	637	-	820
Franchise finance	-	4	9	-	12
Procurement finance	7	203	2 833	-	3 043
Commercial property finance	208	14	14	-	237
Asset finance	45	467	2 031	-	2 542
Structured finance	-	-	-	-	-
	8 186	10 163	16 448	38 689	73 485
2016			**Corporation**		
Micro-finance	**400**	**75**	**-**	**-**	**475**
Agri finance	**-**	**82**	**113**	**-**	**195**
Franchise finance	**-**	**-**	**341**	**-**	**341**
Procurement finance	**96**	**584**	**1 135**	**-**	**1 815**
Commercial property finance	**9**	**1 017**	**1 422**	**-**	**2 448**
Asset finance	**-**	**85**	**-**	**444**	**529**
Structured finance	**-**	**475**	**-**	**-**	**475**
	505	**2 318**	**3 011**	**444**	**6 278**
2015			Corporation		
Micro-finance	-	2	-	-	-
Agri finance	116	367	637	-	2 265
Franchise finance	-	4	9	-	418
Procurement finance	7	203	2 833	-	15
Commercial property finance	208	14	14	-	4 840
Asset finance	45	467	2 031	-	116
Structured finance	-	-	-	-	-
	376	1 057	5 524	-	7 654

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	< 30 days past due	30 - 60 days past due	60 - 90 days past due	> 90 days past due	Total
	R'000	R'000	R'000	R'000	R'000
33.1. Credit Risk (continued)					
Loans and advances past due and not impaired					
2016		**Group**			
Housing and commercial property	**-**	**-**	**-**	**70 318**	**70 318**
Micro-finance	**-**	**-**	**-**	**614**	**614**
Agri finance	**-**	**-**	**-**	**3 041**	**3 041**
Franchise finance	**-**	**-**	**-**	**931**	**931**
Procurement finance	**-**	**-**	**-**	**30 940**	**30 940**
Commercial property finance	**-**	**-**	**-**	**183**	**183**
Asset finance	**-**	**-**	**-**	**18 910**	**18 910**
Structured finance	**-**	**-**	**-**	**27 218**	**27 218**
	-	**-**	**-**	**152 155**	**152 155**
2015		Group			
Housing and commercial property	-	-	-	86 563	86 563
Micro-finance	-	-	-	37	37
Agri finance	-	-	-	18 703	18 703
Franchise finance	-	-	-	2 778	2 778
Procurement finance	-	-	-	3 065	3 065
Commercial property finance	-	-	-	13 436	13 436
Asset finance	-	-	-	19 911	19 911
Structured finance	-	-	-	1 753	1 753
	-	-	-	146 246	146 246
2016		**Corporation**			
Micro-finance	**-**	**-**	**-**	**614**	**614**
Agri finance	**-**	**-**	**-**	**3 041**	**3 041**
Franchise finance	**-**	**-**	**-**	**931**	**931**
Procurement finance	**-**	**-**	**-**	**30 940**	**30 940**
Commercial property finance	**-**	**-**	**-**	**183**	**183**
Asset finance	**-**	**-**	**-**	**18 910**	**18 910**
Structured finance	**-**	**-**	**-**	**27 218**	**27 218**
	-	**-**	**-**	**81 837**	**81 837**
2015		Corporation			
Micro-finance	-	-	-	512	512
Agri finance	-	-	-	17 997	17 997
Franchise finance	-	-	-	468	468
Procurement finance	-	-	-	23 236	23 236
Commercial property finance	-	-	-	1 504	1 504
Asset finance	-	-	-	18 952	18 952
Structured finance	-	-	-	15 917	15 917
	-	-	-	78 586	78 586

	Group		Corporation	
	2016	2015	**2016**	2015
	R'000	R'000	**R'000**	R'000
Fair value of collateral for loans past due and impaired				
Housing and commercial property	**63 703**	78 510	**-**	-
Micro-finance	**36**	83 100	**36**	19
Agri finance	**13 198**	3 468	**13 198**	82 710
Franchise finance	**422**	789	**422**	455
Procurement finance	**4 693**	5 622	**4 693**	4 350
Commercial property finance	**66 762**	15 603	**66 762**	23 173
Asset finance	**16 858**	20 300	**16 858**	20 076
Structured finance	**24 741**	455	**24 741**	18 276
	190 413	207 847	**126 710**	149 059

Loans and advances renegotiated
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. Rescheduled/renegotiated loans include extended payment arrangements, modification and deferral of payments:

	Group 2016	Group 2015	Corporation 2016	Corporation 2015
Continuing to be impaired after rescheduling:				
Micro-finance	**8 475**	-	**8 475**	-
Non-impaired after rescheduling - would otherwise have been impaired:				
Agri finance	**66 052**	-	**66 052**	-
Procurement finance	**585**	-	**585**	-
Asset finance	**3 911**	-	**3 911**	-
Non-impaired after rescheduling - would otherwise not have been impaired:	**-**	4 425		4 425
Micro-finance	**68 433**	-	**68 433**	-
Agri finance	**44**	-	**44**	-
Procurement finance	**521**	9 512	**521**	9 512
Commercial property finance	**12 817**	-	**12 817**	-
Asset finance	**-**	5 644	**-**	5 644
Structured finance	**28 683**	33	**28 683**	33
	189 521	19 614	**189 521**	19 614

Write-off policy
Business loans are written-off when management determines that the loan is uncollectible and that security held against the loan is unrealisable. This determination is made after all recovery efforts including litigation have been exhausted.

33.2 Liquidity Risk
Liquidity risk is the risk that the Group will be unable to service payment obligations in a timely manner or fund asset growth.

The Group's Board of Directors sets the Group strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation thereof to the Group Enterprise Risk Committee. The Treasury divisions of the Group are responsible for the management of liquidity risk. Liquidity risk is monitored on a projected cash flow basis, incorporating ongoing review and assessment of assumptions applied and strategies in place to ensure that commitments are funded in a timely manner.

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

The details of the Group's expected contractual maturity for its financial liabilities has been drawn-up based on the summary of the undiscounted contractual maturities of financial liabilities, including interest that would be payable. A summary of the Group liquidity profile and the contractual maturity is reflected in the table overleaf:

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	Group				
	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
	R'000	R'000	R'000	R'000	R'000
33.2 Liquidity Risk (continued)					
2016					
Financial assets					
Loans and advances	39 444	104 581	94 475	677 378	1 413 398
Investments at fair value through profit and loss	18 047	-	-	-	-
Trade receivables	67 812	130 384	-	-	-
Statutory liquid assets	129 882	-	-	-	-
Cash and cash equivalents	968 309	285 205	48 036	60 819	-
Total assets	1 223 494	520 170	142 511	738 197	1 413 398
Financial liabilities					
Borrowings	420	7 517	10 604	72 126	14 153
Liability to depositors	1 180 250	633 607	337 539	42 409	-
Trade payables	163 203	-	-	-	-
Total liabilities	1 343 873	641 124	348 143	114 535	14 153
Net liquidity excess/(shortfall)	(120 378)	(120 954)	(205 632)	623 662	1 399 245
Cumulative liquidity	(120 379)	(241 332)	(446 964)	176 698	1 575 943
2015			Group		
Financial assets					
Loans and advances	16 336	97 732	110 847	639 706	1 612 188
Investments at fair value through profit and loss	18 308	-	-	-	-
Trade receivables	41 654	178 560	-	-	-
Statutory liquid assets	152 493	-	-	-	-
Cash and cash equivalents	1 037 328	-	-	-	-
Total assets	1 266 119	276 292	110 847	639 706	1 612 188
Financial liabilities					
Borrowings	7 645	6 246	9 069	46 633	8 096
Liability to depositors	1 154 820	526 656	351 531	39 970	-
Trade payables	190 572	-	-	-	-
Total liabilities	1 353 037	532 902	360 600	86 603	8 096
Net liquidity excess/(shortfall)	(86 917)	(256 610)	(249 753)	553 103	1 604 092
Cumulative liquidity	(86 917)	(343 528)	(593 281)	(40 178)	1 563 914

	On demand to 1 month	1 to 6 months	6 months to 1 year	From 1 to 5 years	After 5 years
			Corporation		
	R'000	R'000	R'000	R'000	R'000
2016					
Financial assets					
Loans and advances	32 662	71 974	56 080	371 328	316 647
Investments at fair value through profit and loss	18 047	-	-	-	-
Trade receivables	56 226	111 749	-	-	-
Cash and cash equivalents	215 505	128 989	-	-	-
Total assets	322 440	312 712	56 080	371 328	316 647
Financial liabilities					
Borrowings	420	7 517	10 604	72 126	12 078
Trade payables	104 582	-	-	-	-
Total liabilities	105 002	7 517	10 604	72 126	12 078
Net liquidity excess/(shortfall)	217 438	305 195	45 476	299 202	304 569
Cumulative liquidity	217 438	522 634	568 110	867 312	1 171 881
2015			Corporation		
Financial assets					
Loans and advances	16 336	52 034	65 388	302 171	447 464
Investments at fair value through profit and loss	18 308	-	-	-	-
Trade receivables	32 642	148 059	-	-	-
Cash and cash equivalents	217 889	-	-	-	-
Total assets	285 175	200 093	65 388	302 171	447 464
Financial liabilities					
Borrowings	7 645	6 246	9 069	46 633	6 020
Trade payables	126 544	-	-	-	-
Total liabilities	134 189	6 246	9 069	46 633	6 020
Net liquidity excess/(shortfall)	150 986	193 847	56 319	255 538	441 444
Cumulative liquidity	150 986	344 833	401 152	656 690	1 098 134

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

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

33.3.1. Interest rate risk
Interest rate risk refers to the potential adverse impact on earnings as a result of changes in interest rates. Yields on assets and liabilities are monitored monthly. In addition, interest rate shock analysis is performed to assess the sensitivity on net interest due to unanticipated movement in interest rates. Interest rate forecasts are reviewed monthly taking into account market and economic data available. Pricing of assets is informed by the trends emerging from the review of interest rates and maturity profiles of assets and liabilities.

Interest rate sensitivity
The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and IFRS 7.34(a) non-derivative instruments at balance sheet date. The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable and possible change in interest rates. If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2016 would increase by R5,2 million (2015: R1,3 million) or decrease by R5,2 million (2014: R1,3 million). This is mainly attributable to the Group's exposure to interest on its variable financial instruments.

33.3.2. Equity price risk
The Group is exposed to equity risk arising from investments in marketable equity securities at fair value through profit and loss. These investments are held for strategic rather than trading purposes and the Group does not actively trade these investments.

Equity price sensitivity
The sensitivity is based on the exposure to equity price risk at the reporting date. The investments are fair valued annually at the close of business on 31 March 2015. Fair value is determined by reference to stock exchange quoted bid prices. The Group applies a critical judgement of 5% on the valuation of these investments. If the valuation of the investment at year-end had been 5% higher or lower while other variables were held constant, the fair value of investment and fair value gains would have increased or decreased by R0,9 million (2015: R1,0 million).

33.3.3. Foreign exchange risks
The Group has no exposure to transactions or balances traded or denominated in foreign currencies.

33.4 Operational risk
Operational risk arises from human or system error within daily product and service delivery. It transcends all divisions and products. This risk includes the potential that inadequate technology and information systems, operational problems, insufficient human resources, breaches of integrity or non-compliance with regulations and laws will result in direct or indirect losses. The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities.

The lending unit has, as part of preventive controls, operational policies and procedures with clear segregation of functions and duties and clear and independent reporting structures. Furthermore, Group Internal Audit and Compliance function act as secondary-level control through systematic and independent continuous review of the operations and controls within the lending unit. Results of Internal Audit and Compliance Review Reports are discussed with business unit heads, Executive Committee and submitted to the Audit Committee and the Enterprise Risk Committee.

34. CAPITAL MANAGEMENT - ITHALA SOC 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 18,33% (2015: 16,80%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB). Capital planning is an integral part of capital management. The Enterprise Risk Committee has been tasked with assisting the Board in discharging its capital management responsibility and, as such, should there be a need for additional capital, this Committee will drive the necessary processes in line with contingency capital planning.

Capital adequacy	Regulatory limit	2016	2015
Capital adequacy ratio	≥10,00%	18,33%	16,80%
Primary share capital and reserve funds adequacy ratio	≥7,00%	17,55%	16,00%
Risk weighted assets		889 957	921 700
Risk weighted other assets		76 870	62 477
Operational risk		467 392	445 159
Total risk weighted assets		1 434 219	1 429 336
Capital structure			
Share capital		190	190
Share premium		374 710	344 810
Reserves		(108 051)	(108 074)
Prescribed deductions against capital and reserve funds		(15 094)	(8 262)
Total tier 1 capital		251 755	228 664
General provisions		11 124	11 521
Total Tier II capital		11 124	11 521
Total qualifying capital		262 879	240 185

	Group		Corporation	
	2016	2015	2016	2015
	R'000	R'000	R'000	R'000
35. PROVISION FOR LANDFILL RESTORATION				
Balance at beginning of year	5 973	20 000	5 973	20 000
Finance costs	(465)	(11 648)	(465)	(11 648)
Change in estimated useful life	-	(2 379)	-	(2 379)
Balance at end of year	5 508	5 973	5 508	5 973
36. CELL CAPTIVE INSURANCE FUND				
Unearned premium provision	9 101	5 704	-	-
Re-insurance unearned provision	(1 166)	(813)	-	-
Gross outstanding claims	(1 648)	949	-	-
Deferred acquisition cost	71	(1 167)	-	-
Gross incurred but not reported	954	761	-	-
Re-insurance incurred but not reported	(150)	(91)	-	-
Balance at end of year	7 162	5 343	-	-

BORROWINGS - ANNEXURE 1
FOR THE YEAR ENDED 31 MARCH 2016

	Instalment	Date of final repayment	Interest rate	Group 2016	Group 2015	Corporation 2016	Corporation 2015
	R'000	repayment	%	R'000	R'000	R'000	R'000
Development Bank of Southern Africa Ltd							
Repayable in half-yearly instalments	**2 193**	2018	9,01	**7 295**	13 339	**7 295**	13 339
	4 784	2020	8,41	**25 148**	37 417	**25 148**	37 417
				32 443	50 756	**32 443**	50 756
Land and Agricultural Development Bank of South Africa							
Repayable in annual instalments	**3 204**	2017	7,50	**5 485**	8 204	**5 485**	8 204
Nedbank	**654**	2026	9,75	**50 239**	-	**50 239**	-
Khula Enterprise Finance Ltd							
Repayable in monthly instalments	**241**	2025	5,95	**14 578**	16 653	**14 578**	16 653
Sundumbili Plaza Ltd							
No fixed terms of repayment	-	-	11,25	**227**	228	-	-
Nongoma Plaza Ltd							
No fixed terms of repayment	-	-	11,25	**65**	65	-	-
Sibaya Conservation Projects (Pty) Ltd							
No fixed terms of repayment	-	-	-	**1 783**	1 783	-	-
Total borrowings				**104 820**	77 689	**102 745**	75 613

SUBSIDIARIES - ANNEXURE 2
FOR THE YEAR ENDED 31 MARCH 2016

	Issued share capital		Percentage interest		Shares		Dividends		Loans	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Unlisted										
Property development										
Sundumbili Plaza Ltd	**7 570**	7 570	**98**	98	**7**	7	**17 203**	-	**20 193**	19 795
Nongoma Plaza Ltd	**48 016**	48 016	**99**	99	**47**	47	**16 281**	-	**26 028**	24 729
Sibaya Conservation Projects (Pty) Ltd	**1 900**	1 900	**-**	-	**-**	-	**-**	-	**-**	-
Durban Wharfside Trust	**-**	-	**100**	100	**6**	6	**-**	-	**35 412**	35 515
Other										
Ithala SOC Ltd	**190 045 400**	190 010 500	**100**	100	**363 900**	334 000	**-**	-	**7 945**	8 191
Cowslip Investments (Pty) Ltd	**4 047**	3 776	**100**	100	**-**	-	**-**	-	**-**	-
Ubuciko Twines & Fabrics (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-	**-**	-
KZN Growth Fund Managers SOC (Pty) Ltd	**100**	100	**100**	100	**-**	-	**-**	-	**-**	-
					363 960	334 060	**33 484**	-	**89 578**	88 230

Nongoma Plaza Ltd has declared and paid a dividend of R340 per share over the period 2003 to 2015. This was received in 2015. Ithala holds 47 885 shares (99,7% shareholding) in this related party. Sundumbili Plaza Ltd has declared and paid a dividend of R23 per share over the period 2003 to 2015. This was received in 2015. Ithala holds 747 956 shares (98,81% shareholding) in this related party. Ithala SOC Ltd is exempt from income tax in terms of S10 (1) (cA) (i) (cc) of the Income Tax Act and is hence exempt from dividends tax as well.

ASSOCIATED COMPANIES - ANNEXURE 3
FOR THE YEAR ENDED 31 MARCH 2016

	Number of shares held		Percentage holding		Shares		Loans	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
			%	%	**R'000**	R'000	**R'000**	R'000
UNLISTED								
Golden Ribbon Trading 303 (Pty) Ltd t/a Port Shepstone Quarries	**30**	30	**30**	30	**-**	-	**531**	-
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	**74**	110
Ntingwe Tea (Pty) Ltd	**384**	384	**38**	38	**-**	-	**-**	-
					1	1	605	110

2015/16 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

The performance against pre-determined objectives, as set-out in the Annual Performance Plans, is contained in this section. The section presents actual performance against targets for Ithala SOC Limited

STRATEGIC OBJECTIVE 1: FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)

Key Objectives	Key performance indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Increase & Enhance Capital Base & Assets	Achieve the budgeted return on assets (ROA) by 31 March 2016	New KPI not in 2014/15	0,002%	0,001%	Target not achieved The failure to achieve the target is attributable to: The negative variance in new advances, which resulted in interest and fee income from advances being below budget; The customer deposit target not being achieved, resulting in the return on surplus funds being below budget; The growth in electronic transactional accounts was not achieved during 2015/16, resulting in electronic transactional account fee income being below budget; The negative variance in insurance income, due to the delays in launching certain insurance products
	Achieve the budgeted return on equity (ROE) by 31 March 2016	New KPI not in 2014/15	0,027%	0,010%	
	Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2016	16,80%	15,10%	18,33%	Target achieved
	Achieve the budgeted non-performing loans (NPL) percentage by 31 March 2016	9,84%	9,00%	6,89%	Target achieved

STRATEGIC OBJECTIVE 1: FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)					
KEY Objectives	Key performance indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Sustainable Profitability	Achieve the budgeted annual net profit (R'000)	537	285	24	Target not achieved The failure to achieve the target is attributable to the negative variance in new advances, the return on surplus funds, and non-interest income, as discussed above. Despite these challenges, this is the first time in six years that Ithala has posted an operating profit, highlighting the success of the turn-around strategy
	Achieve the budgeted JAWS ratio by 31 March 2016	10%	14,90%	22,90%	Target achieved
	Achieve the budgeted cost-to-income ratio (CTIR) by 31 March 2016	93,41%	96,20%	106,69%	Target not achieved The failure to achieve the target is attributable to the negative variance in new advances, the return on surplus funds, and non-interest income, as discussed above. It should be noted, however, that the cost-to-income ratio is an 8,3% improvement on 2013/14, which was our first full year without the South African Social Security Agency (SASSA) recipient clients
	Achieve 100,00% resolution of the 2015/2016 internal audit coverage plan by 31 March 2016	77,53% completed within the stipulated timeframe	100,00% completed within the stipulated timeframe	96,00% completed within the stipulated timeframe	Target not achieved The overall plan was not achieved due to delays in finalising audit assignments. Despite these delays there has been an improvement of 23,8% compared to the prior year. Proactive planning, more effective communication with management to finalise audit issues, on-going upskilling of staff and review of staff structures within internal audit will see this target being achieved in 2016/17
	Achieve an unqualified audit opinion with no other matters for the 2015/16 financial year	New KPI not in 2014/15	Achieved an unqualified audit opinion with no other matters	n/a	Target achieved

2015/16 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

STRATEGIC OBJECTIVE 1: FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)

KEY Objectives	Key performance indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Sound Governance & Stakeholder Management	To have a fit and proper board and governance arrangement that complies with the provisions of the Companies Act, King III, Banks Act and PFMA during the 2015/16 financial year	Maintained functional board and sub-committees which complied with applicable laws	Maintained a fit and proper board and governance arrangement which complied with all applicable laws	Maintained a fit and proper board and governance arrangement which complied with all applicable laws	Target achieved
Smart & Beneficial Partnerships Implemented	Enter into an agreement with a strategic equity partner by 31 March 2016	New KPI not in 2014/15	Agreement concluded	Agreement not concluded	Target not achieved A formal request to the Public Investment Corporation SOC Limited (PIC) to consider acquiring an equity stake in Ithala has been finalised and is being considered by the PIC
	Enter into the targeted number of partnerships with public sector entities by 31 March 2016	New KPI not in 2014/15	2	1	Target not achieved During 2015/16 Ithala formalised a strategic partnership with Telkom SOC Limited (Telkom) to provide value added features to our enhanced Student debit card product. However, no further partnerships of a strategic, value adding nature were identified with public sector entities during 2015/16

STRATEGIC OBJECTIVE 2: CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

KEY Objectives	Key performance indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Increase Market Share	Achieve the budgeted total number of active electronic transactional accounts by 31 March 2016	122 217	249 640	156 424	Target not achieved The failure to achieve the target is attributable to the lower than budgeted sales volumes and account usage as discussed above; Despite these challenges, there has been a 28,0% increase in electronic transactional accounts during 2015/16 which equates to a growth of 71 035 new accounts since 2013/14

STRATEGIC OBJECTIVE 2: CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key Performance Indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Increase Market Share	Achieve the budgeted number of new insurance policies sold by 31 March 2016	6 957	15 809	6 005	Target not achieved The increase in the number of insurance policies was dependent upon having a fully resourced insurance division, the availability of the insurance management system (IMS), and having the correct products to sell through our multi-channel distribution network; The resignation of key management personnel and the delay in identifying suitable candidates to fill key vacancies has resulted in the insurance division being under-resourced, exacerbated by delays with product development; Key vacancies have since been filled and, a new sales strategy has been prepared which should see sales volumes improve as we move into the 2016/17 financial year
	Achieve the budgeted number of new insurance policies sold by 31 March 2016	New KPI not in 2014/15	60,00%	71,65%	Target achieved
Establish Public Sector Banking Services	Secure the targeted number of new public sector clients by 31 March 2016	6	20	9	Target not achieved Achievement of these targets was dependent on being able to offer prospective public sector clients the most competitive return on their investments; The introduction of our treasury capability in 2016/17, will allow for a more competitive pricing framework, enabling Ithala to be more competitive in the market
	Secure the budgeted total value of deposits from public sector clients (R'000)	233 527	517 363	331 693	

2015/16 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

STRATEGIC OBJECTIVE 2: CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key Performance Indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Increased Range & Quality of Products & Services	Launch the targeted number of new products by 31 March 2016	New KPI not in 2014/15	4	0	Target not achieved The strategic decision was made to focus on enhancing the customer value proposition (CVP) on our existing products, rather than introducing new products during 2015/16. Simultaneously, development of the gold current account, to be launched in 2016/17, is being completed
	Achieve the budgeted number of new insurance policies sold by 31 March 2016	New KPI not in 2014/15	60,00%	71,65%	Target achieved
Sound Customer Relationship Management	Achieve the targeted score per the customer satisfaction measure by 31 March 2016	76,00%	90,00%	100,00%	Target achieved

STRATEGIC OBJECTIVE 3: BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key Performance Indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Effective Distribution Channels	Introduce the targeted number of new distribution channels by 31 March 2016	3	1	1	Target achieved
	Achieve the budgeted fee income (R'000) by 31 March 2016	New KPI not in 2014/15	150 690	97 284	Target not achieved The failure to achieve the target is attributable to the negative variance in fee income from customer deposits, debit card fee income and insurance income, as discussed above
	Introduce the budgeted number of new automatic teller machines (ATMs) by 31 March 2016	New KPI not in 2014/15	20	0	Target not achieved The cash recycling automatic teller machines (ATMs) could not be deployed due to the changes required on the hosted banking system (HBS) environment to support the cash recycling functionality. The cash recycling functionality scope has been reduced to cash-depositing only, so as to limit the changes required on the back-office environment. However, the roll-out has been deferred to the 2016/17 financial year

STRATEGIC OBJECTIVE 3: BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key Performance Indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Enhanced Business Effectiveness through Technology	Achieve the Hosted Banking System (HBS) implementation milestones by 31 March 2016	87,30%	100,00% adherence to the implementation milestones	71,00% adherence to the implementation milestones	Target not achieved Poor quality and the delayed delivery of functionality by the service provider has resulted in a failure to deliver the required functionality according to the base-lined project plan; Escalations have taken place to senior management at the service provider to expedite the resolution of testing issues. In addition, possible interventions, including penalties, have been escalated to the project board for review; A longer-term solution is being developed and a business case has been approved by the Ithala IT Governance Committee, and implementation will begin during 2016/17
	Achieve the Insurance Management System (IMS) implementation milestones by 31 March 2016	New KPI not in 2014/15	100,00% adherence to the implementation milestones	39,68% adherence to the implementation milestones	Target not achieved The IMS Project has experienced delays due to continuous changes in scope by the business as well as the project team not being adequately resourced to deliver on the required milestones per the project implementation ‘flight plan’; A revised scope and project implementation plan has since been produced in line with the revised priorities and an offer has been made to a potential candidate who will alleviate the workload
Effective Treasury Function	Achieve the treasury function implementation milestones by 31 March 2016	New KPI not in 2014/15	100,00% adherence to the implementation milestones	70,00% adherence to the revised implementation milestones	Target not achieved The project manager failed to meet the deadline for developing the policies and procedures, initiating the recruitment process for the treasurer, as well as identifying a fit-for-purpose system/process to manage the treasury function; The project manager has committed to revised timelines, which will result in a fully functional treasury capability by June 2016. Adherence to the revised timelines will be closely monitored and regularly reported on

2015/16 REPORT ON PERFORMANCE AGAINST PRE-DETERMINED OBJECTIVES

STRATEGIC OBJECTIVE 4: PEOPLE, LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key Performance Indicators	Actual 2014/15	Target 2015/16	Actual 2015/16	Management comment
Adequate Human Resources Capacity	Achieve the targeted percentage of branch staff who are required to be FAIS-compliant in terms of requirements by 31 March 2016	New KPI not in 2014/15	100,00%	92,51% adherence to the implementation milestones	Target not achieved Delays were experienced in submitting the supervision plans and the confirmation of role changes of non-FAIS-accredited staff to the compliance department; The supervision plans and confirmation of role changes for non-FAIS-accredited staff have since been submitted to the compliance department, and the Financial Services Board (FSB) register has been updated to reflect the current 100% FAIS-compliance status
	Achieve the workplace skills plan (WSP) implementation milestones by 31 March 2016	New KPI not in 2014/15	90,00% adherence to the implementation milestones	97,00% adherence to the implementation milestones	Target achieved
	Achieve the executive succession plan implementation milestones by 31 March 2016	New KPI not in 2014/15	100,00% adherence to the implementation milestones	100,00% adherence to the implementation milestones	Target achieved
Excellence through Sound Performance Management	Achieve the targeted average organisational performance score by 31 March 2016	New KPI not in 2014/15	Average score of 3	n/a	Target not achieved Due to the delays in the implementation of the automated system for performance management. The final organisational performance results were not available by 25 July 2016
A Culture that Promotes Excellence	Achieve the Ithala Incentive Scheme implementation milestones by 31 March 2016	New KPI not in 2014/15	100,00% adherence to the implementation milestones	100,00% adherence to the implementation milestones	Target achieved
	Ensure that there is no industrial action during the 2015/16 financial year	New KPI not in 2014/15	No industrial action	No industrial action	Target achieved

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