STRENGTH IN NUMBERS

INTEGRATED ANNUAL REPORT

2015/16

MAKING IT HAPPEN TOGETHER

WWW.MYITHALA.CO.ZA

ithala SOC LIMITED

"

WE PROVIDE FINANCIAL SERVICES IN AREAS WHERE SUCH SERVICES HAVE NOT BEEN READILY AVAILABLE IN THE PAST.

ABOUT ITHALA

We are a licenced financial services provider and registered credit provider and conduct our business through a banking exemption notice. We are on-track to apply for our permanent banking licence by 2017.

Ithala SOC Limited (Ithala) is a subsidiary of the Ithala Development Finance Corporation Limited (IDFC), a state-owned entity, and listed as a public entity in terms of Schedule 3 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

Formally established in 2001 in order to enhance the IDFC's capital position through its deposit-taking capability and in line with the recommendation from the South African Reserve Bank (SARB), our purpose is to provide financial services to the people of KwaZulu-Natal, thereby contributing to the Province's socio-economic development.

We deliver on this mandate by providing

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

We use a multi-channel distribution network to provide these products and services, to individuals, groups, businesses and other public sector entities. Our compact with our shareholder incorporates our corporate (strategic) and annual performance plans strategic objectives and aligned performance targets and specific short-term deliverables which our board contracts with our shareholder.

VISION

To be an innovative and responsive banking and insurance institution owned by and serving the State and people of South Africa

MISSION

To provide banking and insurance products and services focusing on corporate and retail customers

VALUES

RESPECT
We will treat each and every person the same way that we would expect to be treated.

INTEGRITY
We will always do what's right, no matter what.

EMPOWERMENT
We will go the extra mile to ensure that everybody has an opportunity to influence or make decisions that will improve our business engagement with our stakeholders.

INNOVATION
We will become part of the solution by coming up with ways of making things happen.

CUSTOMER SATISFACTION
We will always put ourselves in the customer's shoes and deliver exceptional service all the time.

FAIR AND EQUITABLE EMPLOYMENT PRACTICES
We will ensure that we provide an environment that is fair and non-biased, no matter the gender or creed of a person, in accordance with best practices.

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FEEDBACK

We welcome the views of our stakeholders on our integrated report. Please contact us at: nnaidoo@ithala.co.za with your feedback.

REFERENCE

Looking Ahead = Forward-looking statements

= Audited information

KEY PERFORMANCE INDICATORS

THIS WAS OUR YEAR; OUR PERFORMANCE IS CONFIRMED BY THE STRENGTH OF OUR NUMBERS

NET PROFIT/ (LOSS)	▲ 100,1%	2016: 0,02 Rm	2015: *(41,47) Rm	2014: (69,98) Rm
COST TO INCOME RATIO	▲ 8,2%	2016: 106,7%	2015: *112,8 %	2014: 116,3 %
JAWS	▲ 129,0%	2016: 22,9%	2015: *10,0 %	2014: (19,1) %
NUMBER OF DEBIT CARDS	▲ 28,0%	2016: 156 424	2015: 122 217	2014: 85 389
NON-PERFORMING LOANS	▼ 30,0%	2016: 6,9%	2015: 9,8%	2014: 9,5%
CAPITAL ADEQUACY RATIO	▲ 5,4%	2016: 17,7%	2015: 16,8%	2014: 12,2%
LIQUIDITY RATIO	▼ (8,5%)	2016: 11,0%	2015: 12,0%	2014: 11,6%
LEVERAGE RATIO	▲ 5,8%	2016: 9,9%	2015: 9,3%	2014: 7,7%
CUSTOMER DEPOSITS	▲ 5,8%	2016: 2,19 Rb	2015: 2,07 Rb	2014: 1,97 Rb
TOTAL ASSETS	▲ 6,1%	2016: 2,56 Rb	2015: 2,42 Rb	2014: 2,25 Rb
RETURN ON EQUITY	▲ 100,1%	2016: 0,01%	2015: *(19,59)%	2014: (34,30)%
RETURN ON ASSETS	▲ 100,1%	2016: 0,001%	2015: *(1,777)%	2014: (3,300)%

* The effect of the once-off turn-around grant received during the 2014/15 financial year, has not been included when calculating these amounts. Therefore these figures represent the business as usual performance.

ABOUT THIS REPORT

AS A TRULY SOUTH AFRICAN FINANCIAL SERVICES COMPANY WE HAVE A FUNDAMENTAL ROLE TO PLAY IN THE DEVELOPMENT OF THE SOCIETIES IN WHICH WE OPERATE.

The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long-term. This forms the basis for integrated thinking and integrated reporting for us. This report covers Ithala's strategy, material issues and performance for the period 1 April 2015 to 31 March 2016 as well as our prospects for the future.

Our aim, as a subsidiary of a state-owned entity, is to address our material stakeholders, notably our holding company, the IDFC, our ultimate shareholder, the KwaZulu-Natal Provincial Government, the National Treasury, the SARB, our regulators and potential investors, with regard to our ongoing viability. This report may be read in conjunction with the IDFC's integrated annual report 2016 (www.ithala.co.za). In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General of South Africa (A-G) in regard to conveying our performance against our annual performance plan (see page 28 - 34). Materiality is determined by the board, 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, Act No. 71 of 2008 (Companies Act), the Banks Act, Act No. 94 of 1990 (Banks Act), and the PFMA.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking. These relate to 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 these 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 ANNUAL REPORT AND THE ANNUAL FINANCIAL STATEMENTS TO THE BOARD FOR APPROVAL.

The board has applied its mind to the integrated annual 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. Similar to our previous reports, a combined financial and non-financial assurance team from Deloitte and the A-G, supported by Ithala's internal audit team, again adopted a combined assurance approach to the information in this report. In addition to the annual financial statements and opinion included here, selected information contained within the annual performance report has been assured by the external auditors. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well-defined, verifiable, specific, measurable and time-bound) and relevant, as required by the National Treasury Framework, for managing programme performance information. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings on the performance information report concerning the usefulness and reliability of the information.

STATEMENT OF THE BOARD OF DIRECTORS OF ITHALA SOC 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.

MALOSE KEKANA
Chairman
25 July 2016

PETER IRELAND
Chief executive officer
25 July 2016

CHAIRMAN'S LETTER TO STAKEHOLDERS

ITHALA IS UNIQUE IN SOUTH AFRICA, IN THAT IT IS THE ONLY STATE-OWNED PROVINCIAL ENTITY THAT DELIVERS AN EXTENSIVE RANGE OF RETAIL BANKING AND INSURANCE PRODUCTS, THEREBY PROMOTING FINANCIAL INCLUSION TO COMMUNITIES THAT HAVE TO DATE BEEN UNDER-SERVED.

MALOSE KEKANA

"We have made a strategic decision to diversify and enter the youth market by launching an innovative Student debit card product, #LeaveNoStudentBehind"

We are ideally placed to create the foundation for a Black-owned and managed bank in a financial services sector that remains largely untransformed.

The first step in achieving this is to be financially sustainable. I am pleased to report that the implementation of the business turn-around plans drafted in 2014 have resulted in Ithala making a small operating profit for the first time in six years.

In order to establish ourselves as a leading State Bank in South Africa, it is imperative that we progress from operating under a banking licence exemption to acquiring a permanent banking licence.

This strategy is embedded in a Memorandum of Agreement signed with the Minister of Finance in 2014 which makes provision for Ithala to apply for a permanent licence by 2017.

Management has developed a detailed project plan in this regard and progress is firmly on-track.

Ithala's physical presence, particularly in rural areas, remains key to our market positioning. In order to keep up with the evolving banking landscape, we have developed our 'branch of the future' concept which will transform the branch into a customer engagement platform where the physical branch is integrated with digital channels.

The first branch to be transformed has been identified and will be launched by the second quarter of the next financial year. The technology revolution in the banking sector has brought financial services within reach of the masses through mobile and internet banking. To remain relevant, we have invested in developing our digital capability which includes mobile and internet banking, electronic money transfer services, the roll-out of self-service devices, and the ability to purchase airtime and electricity, as well as to making municipal bill payments.

Since our customer base has traditionally been made up of the older generation, we made a strategic decision to diversify and enter the youth market by developing and launching an innovative and exciting Student debit card product.

This product will introduce the youth to Ithala and is promoted using social media platforms.

Aligned to the Student debit card product, and in response to the tertiary education crisis facing the country, we launched the Ithala Education Fund, which assists academically-deserving, yet historically disadvantaged students pay for their registration fees to tertiary institutions.

The fund, which is promoted on social media platforms using the hashtag **#LeaveNoStudentBehind**, receives contributions from members of the public and, in addition, 20c of every R1 of fee income earned from our Student debit card product will be donated to this fund.

Strengthening our human capacity is key to our sustainable recovery. As part of our turn-around strategy, we have prioritised investment in people as a key pillar. During the year a number of key appointments were made at executive level, including the chief risk officer and chief audit executive. We have always adhered to the principles of good corporate governance and in support of this I am pleased to confirm that we have a fully complemented board of directors with the required independence and skills to fulfil our fiduciary duties in the highly regulated environment in which we operate. I can also report that Mr Peter Ireland, the previous finance director, who acted as the chief executive officer from 1 December 2015, was appointed to the position with effect from 1 April 2016. This is the first time in a decade in which a chief executive officer has been appointed from within the business.

I must express my gratitude to the Department of Economic Development, Tourism and Environmental Affairs for its support in ensuring that Ithala keeps its rightful place in the province and that it has sufficient capital to achieve its objectives.

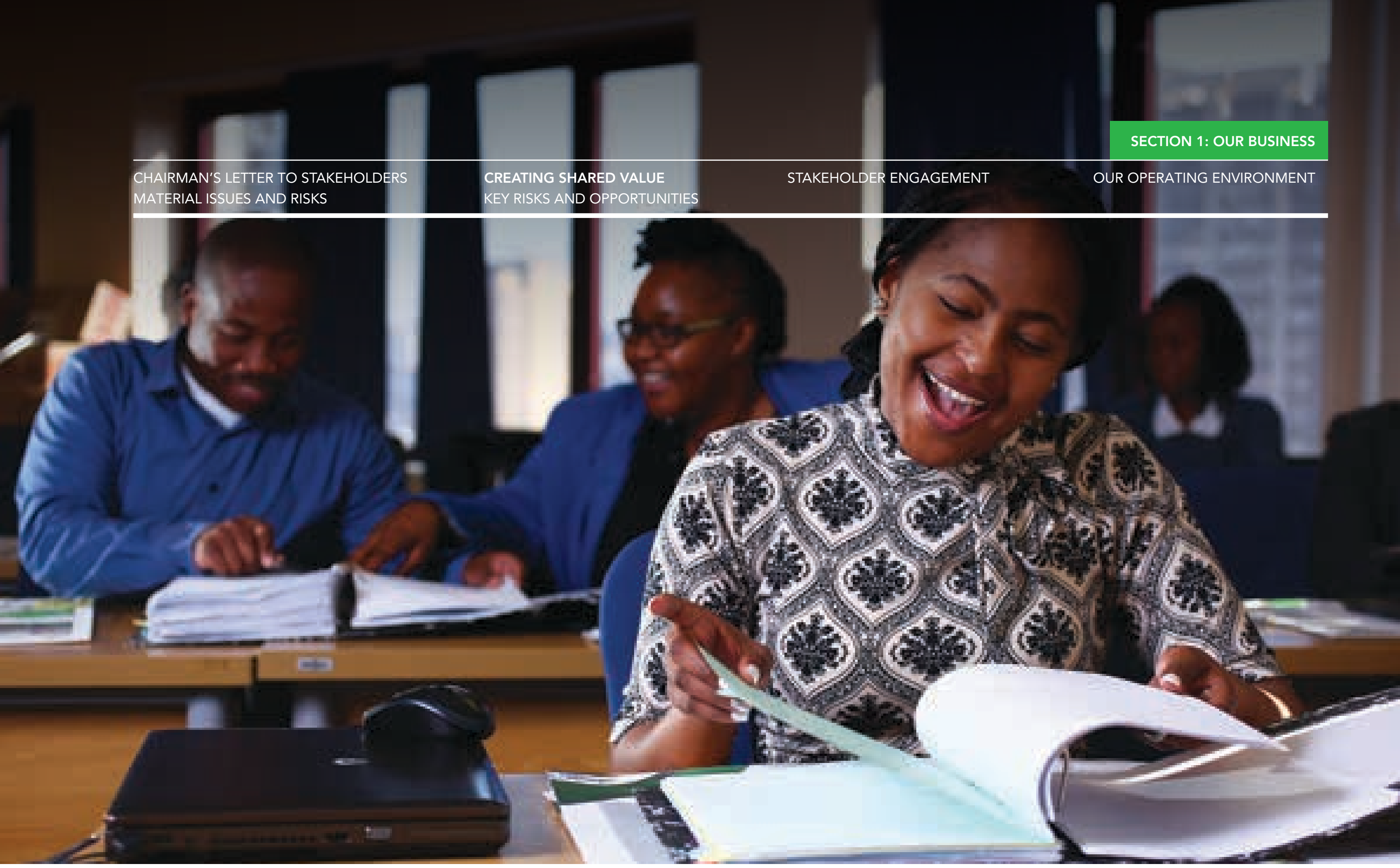
The board of Ithala Development Finance Corporation Limited has provided steadfast support and guidance during this difficult turn-around phase, for which my board and I are truly grateful.

I am deeply appreciative of the commitment demonstrated by my fellow board members and look forward to their on-going contribution as Ithala moves into the growth phase of its turn-around strategy. During the year we welcomed two new additions to our board, Ms Polo Radebe and Mrs Tantaswa Nyoka, both of whom bring with them a wealth of experience. Sadly we bid farewell to Mrs Venete Klein who, during her short time as a member of our board, made an invaluable contribution, particularly to the development of our customer and product strategy.

Thanks also go to Mr Gregory White for leading the company in an acting capacity before the appointment of the chief executive officer.

Management and staff of Ithala have shown commitment to turning the business around, for which I am grateful. Together, we are firmly on the road to establishing ourselves as a State Bank.

Finally, I would like to acknowledge and thank our customers. Without you, we do not have a business. We are dedicated to bringing you the very best relevant products and services.



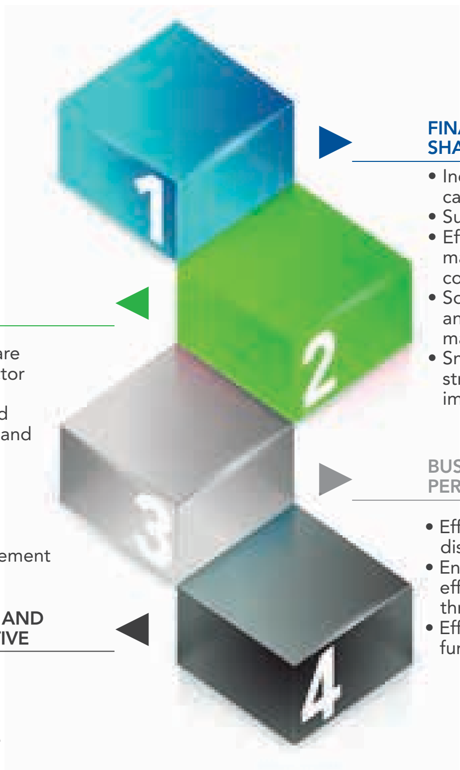
CREATING SHARED VALUE

WE REMAIN FOCUSED ON BECOMING AN INNOVATIVE AND RESPONSIVE BANKING AND INSURANCE INSTITUTION OWNED BY AND SERVING THE STATE AND PEOPLE OF SOUTH AFRICA WHICH PROVIDES BANKING AND INSURANCE PRODUCTS AND SERVICES FOCUSING ON CORPORATE AND RETAIL CUSTOMERS.

We create value through our business activities, using and enhancing the value of resources (also known as capitals: financial, manufactured, human, natural and social and relationship capital) upon which we rely to run our business.

In our context, our dependence on the availability of some of these capitals - for example, financial and human capital - are material issues of this report. Understanding our contribution to and dependence on these forms of capital is fundamental to our ability to continue creating value over the long-term and delivering on our mandate. We manage our business strategy implementation by way of a balanced scorecard approach that was developed by the board.

This approach focuses on creating shared value for our stakeholders who have a material interest in our success.



FINANCIAL AND SHAREHOLDER PERSPECTIVE

- Increase and enhance capital base and assets
- Sustainable profitability
- Effective risk management and compliance
- Sound governance and stakeholder management
- Smart and beneficial strategic partnerships implemented

CUSTOMER PERSPECTIVE

- Increase market share
- Establish public sector banking services
- Increased range and quality of products and services
- Enhanced market positioning and brand identity
- Sound customer relationship management

BUSINESS PROCESS PERSPECTIVE

- Effective and diversified distribution channels
- Enhanced business effectiveness through technology
- Effective treasury function

PEOPLE, LEARNING AND GROWTH PERSPECTIVE

- Adequate human resource capacity
- Excellence through sound performance management
- An organisational environment and culture that promotes excellence

HOW WE CREATE VALUE

INPUTS

We are dependent on our capital inputs to conduct our business activities and to create value over time

Financial capital -
R2,6 billion of total assests (2015: R2,4 billion)

Human capital -
373 employees (2015: 368)

Intellectual capital -
Brand, IT systems, processes, procedures and innovative products

Manufactured capital -
R55,6 million (2015: R48,7 million) of properties in possession, equipment and intangible assets at cost

Social and relationship capital -
our relationships with:
- Clients
- Shareholder
- Employees
- Regulators
- National and Provincial Government
- Communities

BUSINESS ACTIVITIES

Business units -
Focus on target markets, including stokvels, public sector entities, and the youth

Our intent has been to create opportunity for the unbanked of KwaZulu-Natal, those who were historically excluded from financial inclusion

Our customer value creation is evidenced in the range of mainstream banking and insurance products we offer, which include: mortgage lending, vehicle and taxi finance, savings and investment products, transactional banking and bancassurance

Support services -
Provides support functions and partners with the revenue-generating business units

These support functions include:
- Risk
- Internal audit
- Compliance
- Company secretariat
- Finance and administration
- Credit granting and collections
- Human resources
- Information technology
- Marketing

OUTPUTS

- Interest income and credit impairment charges
- Interest expense
- Net fee and commission revenue
- Other revenue

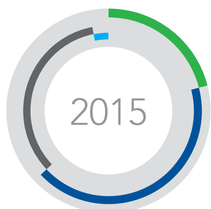
- Robust enterprise risk management
- Internal audit assurance
- Regulatory compliance and reporting
- Meaningful and informed internal and external reporting for decision-making
- Maintaining low credit losses
- People management
- Fit for purpose IT platform and services
- Brand development

THE VALUE WE'VE ADDED

We facilitate access to financial services, enabling socio-economic development and financial well-being, which are particularly relevant to our markets. Our activities facilitate allocation of capital, such as credit for economic development. Through our governance and compliance practices, we contribute to the stability of South Africa's banking sector. We support the long-term financial health of all our clients. The insurance products and services we offer, help make people and our society more resilient.

VALUE ADDED STATEMENT	2016	2015	2014
	R'000	R'000	R'000
Value created			
Interest income	**228 914**	211 987	177 789
Commission and fee income	**111 954**	102 292	105 349
Other income	**9 688**	8 610	7 483
Net impairment charge on loans and advances to customers	**11 285**	(18 736)	(29 671)
	361 841	304 153	260 950
Value distributed			
To suppliers	**121 498**	116 352	125 059
To employees	**137 550**	142 203	128 866
Interest paid to depositors	**80 812**	71 472	55 654
To government	**9 945**	10 603	7 476
To the community	**-**	76	158
	349 805	340 706	317 213
Retained Value			
Accumulated profit/(loss)	**23**	537	(69 978)
Turn-around grant funding	**-**	52 096	-
Depreciation and amortisation	**12 013**	15 006	13 715

23% INTEREST PAID TO DEPOSITORS
39% TO EMPLOYEES
35% TO SUPPLIERS
3% TO GOVERNMENT



21% INTEREST PAID TO DEPOSITORS
42% TO EMPLOYEES
34% TO SUPPLIERS
3% TO GOVERNMENT

18% INTEREST PAID TO DEPOSITORS
41% TO EMPLOYEES
39% TO SUPPLIERS
2% TO GOVERNMENT

STAKEHOLDER ENGAGEMENT

AT ITHALA, OUR PROCESS OF DEVELOPING STRATEGY IS UNDERPINNED BY STAKEHOLDER ENGAGEMENT SO THAT WE, AS A BUSINESS, ARE ABLE TO CREATE VALUE AND DELIVER ON STAKEHOLDER EXPECTATIONS.

The board is committed to meeting stakeholder information requirements and provides oversight of our stakeholder relationship management. We identify our material stakeholders by assessing our footprint as an organisation and from there we are able to determine those who have a direct or indirect stake in Ithala, due to them being in a position to affect or be affected by our actions, objectives and policies.

We engage with stakeholders to varying degrees, based on the level of their interest in us as an organisation and the ability of stakeholders to be affected by our actions. External governance structures also affect the degree of engagement.

For example, we are continuously engaged in interactions with the IDFC as they are our immediate shareholder, to a lesser extent with the Provincial Government, and again to a lesser extent with National Government. We are constantly engaged with our customers, employees, suppliers and regulatory bodies.

STAKEHOLDERS	EXPECTATIONS/KEY ISSUES	OUR RESPONSE
NATIONAL GOVERNMENT	Fulfilling our mandate as a sustainable and responsive provincially-owned retail deposit-taking institution Returning to profitability	Strategy formulation and business plans are based on our mandate from Government Our mission is to be a State Bank furthering the interests of Government policy
PROVINCIAL GOVERNMENT	The Ithala Act, 5 of 2013 of the KwaZulu-Natal Legislature, defines our mandate Deliver on our corporate plan and the targets contained within our annual performance plan Returning to profitability	Promote financial inclusion and support our parent in delivering on its developmental mandate Execution of strategic plans to return to profitability
OUR SHAREHOLDER, THE IDFC	Good governance Returning to profitability	Our strategic vision complements the development agenda of our parent. Execution of strategic plans to return to profitability
REGULATORY BODIES	Full regulatory compliance Risk management Good governance Board leadership and effectiveness	We maintain strong relationships with regulators, including the SARB, the Banking Association of South Africa (BASA), the Financial Services Board (FSB), the Financial Intelligence Centre (FIC), the National Credit Regulator (NCR) and the Payments Association of South Africa (PASA) We ensure compliance with legal and regulatory requirements, thereby retaining our various operating licences and minimising our operational risk Good governance (please refer to the Governance and Transparency Report on page 48) We maintain a fully functional board and sub-committee structure, in line with the provisions of all applicable regulations and legislation

STAKEHOLDERS	EXPECTATIONS/KEY ISSUES	OUR RESPONSE
SUPPLIERS	On-time payment against invoices. Fairness and transparency	Effective Ithala supply chain management processes Prioritisation of Broad-Based Black Economic Empowerment (B-BBEE) suppliers
STRATEGIC PARTNERS	Fulfilling our contractual obligations Quality relationships	We enter into Memorandums of Understanding (MoU) with strategic partners We are focusing on building partnerships with fellow public sector institutions
PUBLIC SECTOR CUSTOMERS	Tailored products and services	Increase in our public entity customer base and deposit balance
EMPLOYEES	Our long-term viability Reward Labour relations Honest and prompt communication Learning and development opportunities Opportunities for career advancement Consultation on changes to working conditions	Human resources (HR) manages labour relations with the South African Municipal Workers' Union (SAMWU), to which employees belong, on an ongoing basis Our joint engagement committee, consisting of representatives from management, including the chief executive officer (CEO) and HR, as well as shop stewards, engage on labour issues with SAMWU
CUSTOMERS, INDIVIDUALS, YOUTH, ENTREPRENEURS AND COMMUNITY-BASED BUSINESSES (TAXI ASSOCIATIONS, CO-OPERATIVES AND STOKVELS)	Customer service Affordable products Honest and understandable communication Being treated fairly Trained and competent Ithala people	We conduct quarterly customer satisfaction surveys We constantly engage our customers during our interactions with them and the marketing campaigns that we run We ensure that we communicate efficiently with our customers and invite their commentary on our value offering, so that we may meet their evolving needs and desires
THE ENVIRONMENT	To cause the least amount of environmental damage possible	As a financial institution, the environmental impact of our actions is fairly limited Employee awareness assists us to ensure that consumption is kept to a minimum

OUR OPERATING ENVIRONMENT

THE ECONOMIC CONDITIONS IN SOUTH AFRICA DURING THE 2015/16 FINANCIAL YEAR HAVE BEEN CHALLENGING, AND MORE OF THE SAME IS EXPECTED AS WE ENTER THE 2016/17 FINANCIAL YEAR.

ECONOMIC CONDITIONS

The impact of the severe drought, the depreciation of the Rand, political instability, increased imported inflation, labour and civil unrest, electricity challenges and uncertainty in global markets translates into a difficult trading environment.

South Africa is at risk of a sovereign rating downgrade as the country has been placed under review by the major credit rating agencies. This has increased our capital risk as a downgrade would result in an increased risk-weighted asset exposure and, therefore, a weaker capital adequacy ratio.

Ithala is, however, well capitalised with a year-end capital adequacy ratio of 17,73% and are therefore well positioned to absorb increased economic risks and resultant losses. This risk is further mitigated by the fact that we have a healthy liquid asset portfolio and are, therefore, able to invest in less risky assets which gives management flexibility in times of stress.

The aforementioned economic risks may result in increased bad debts, slower growth in deposits as clients' savings are eroded, and therefore, ultimately Ithala not achieving its targets. During the year, we reviewed and improved our credit collection process and policy. The advances book as a whole is well collateralised and in cases of default, it is unlikely that no recoveries will be made. Ithala does not have a trading book and does not invest in any derivative financial instruments.

Our activities, from a banking perspective, are therefore significantly less risky than those of our peers. Management will continue to monitor closely and manage the risks facing the business to ensure that we continue to add value to our stakeholders.

REGULATORY ENVIRONMENT

We operate in a highly regulated environment. The regulatory framework of the SARB, emanating from the Bank's Act, compels us to operate fully and independently as a financial services institution, subject to all the associated regulatory frameworks, including King III, the PFMA and the Companies Act. In addition, we operate under heightened regulations in the area of risk and capital management with the introduction of Basel III in 2013. We have a dedicated and independent compliance department, as prescribed by the Banks Act

The compliance function operates under a policy approved by the board. It assists the organisation in mitigating risks through the identification, assessment, management, monitoring and reporting on compliance. During the past financial year the compliance department played a vital role in developing a stronger compliance culture within the organisation. Having a compliance presence in branches and business units has contributed to creating awareness around the reporting of suspicious transactions, amongst other regulatory requirements. The focus has been on ensuring that all existing and new products meet regulatory requirements. Internal broadcasts have been used as a mechanism to drive employee awareness.

Although Ithala operates under an exemption notice from the banking licence requirements, we currently comply with all applicable laws and regulations as if a registered bank.

FINANCIAL INTELLIGENCE CENTRE ACT (FICA)

The past financial year, saw Ithala reach a major milestone in its drive to manage money laundering within the organisation. Ithala worked to meet the FIC GoAML live date of April 2016. The new GoAML system is an international tool that will be used in the fight against money laundering.

LOOKING AHEAD
The next financial year will see the business re-launch its FICA Internal Rules to be in line with the FIC Amendment Bill of 2016. Furthermore, we are in the process of proactively increasing awareness through an extensive training plan around money laundering activities to all employees.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT (FAIS)

The compliance department annually develops a risk management plan incorporating the Code of Conduct for authorised financial services providers as a measure for compliance. Monitoring, of the FAIS Act, is at the top of our compliance priorities.

This includes the addition and removal of representatives, monitoring the fit and proper requirements of the representatives and the auditing of files for FAIS compliance.

All compliance findings were reported to the audit and compliance committee. The department has ensured that existing monitoring remains focused appropriately, as FAIS requirements relating to the debarment of representatives and professional indemnity insurance were amended. In managing conflicts of interest, a gift register was developed. The compliance department reviewed all FAIS-related complaints received on a monthly basis and material complaints were escalated to the appropriate channels for resolution.

INSURANCE ACTS (LONG-TERM AND SHORT-TERM INSURANCE ACT)

During the year under review, the compliance department worked closely with the insurance department in order to give effect to added efficiencies and ensure regulatory requirements were filtered through to all departments. Reviews were conducted on the department's compliance with the policyholder protection rules, with all findings being reported to the audit and compliance committee.

The compliance department has also assisted in unpacking various new legislative components affecting the insurance department. These included, inter-alia, various amendments to existing legislation, regulations and new legislation. The department developed an impact analysis for pending legislation, such as the Draft Insurance Bill, the Retail Distribution Review (RDR) and the Solvency Assessment and Management (SAM) framework.

CONSUMER PROTECTION ACT (CPA)

In order to test adherence to regulatory obligations imposed by the CPA, the compliance department developed a risk management plan and the marketing and call centre activities were assessed to measure compliance with the regulatory requirements.

NATIONAL CREDIT ACT (NCA)

The compliance department has developed a risk-based management plan for the purposes of measuring adherence to the act and continues to monitor and keep abreast of legislative developments relating to this area.

PENDING LEGISLATION

Over the past year the pace of regulatory change in the financial sector has shown little signs of abating. Whilst maintaining a close focus on current legislation affecting the organisation, the compliance department also ensured an understanding of the following pending legislation:

RETAIL DISTRIBUTION REVIEW

The RDR, carried out by the FSB, proposes far-reaching reforms to the regulatory framework for distributing retail financial products to clients in South Africa. A high impact on distribution management is expected, particularly relating to the categorisation of intermediaries, as well as the introduction of fee-based advice. The compliance department is actively engaging with the regulator to manage implementation to prevent unforeseen negative consequences. An assessment of the RDR proposals is currently underway.

TREATING CUSTOMERS FAIRLY (TCF)

TCF is a regulatory approach that seeks to ensure that specific, clearly articulated fairness outcomes are demonstrably delivered by regulated financial institutions. TCF is not implemented through a specific piece of legislation, but through multiple initiatives addressing the behaviour of financial institutions towards their customers. These include RDR, a thematic review done on binders, credit life product reviews and a proposed new conduct of business return (for regular market conduct reporting). The compliance department is currently focusing primarily on delivering evidence of a TCF culture and ensuring that processes are aligned with the requirements underpinning the six TCF outcomes.

PROTECTION OF PERSONAL INFORMATION ACT (POPI)

This Act protects the personal information of clients and employees of an organisation. Although an effective date for this Act is yet to be set, it is likely to become effective later next year. The compliance department is preparing a preliminary alignment with the requirements of the Act to ensure readiness when it comes into effect.

FINANCIAL SECTOR REGULATION BILL (TWIN PEAKS)

The proposed implementation of the Twin Peaks model in South Africa is contained in the Financial Sector Regulation (FSR) Bill tabled in Parliament in October 2015. Twin Peaks is a comprehensive system for regulating the financial sector and involves the creation of two primary regulators: a prudential regulator (the Prudential Authority) and a new market conduct regulator (the Financial Sector Conduct Authority).

Market conduct regulation under Twin Peaks will primarily be implemented through Conduct of Financial Institutions legislation and will be informed by recent regulatory initiatives, such as TCF and the RDR.

These will create standards for advertising, complaints management, language, disclosure, intermediary remuneration and management of conflicts of interest. The prudential regulator housed in the SARB aims to secure the safety and soundness of banks, insurers, financial conglomerates and financial market infrastructure.

The Bill will also introduce group supervision, which will add another layer of regulatory requirements with which financial services groups will have to comply. The compliance department attended the Banking Summit in 2015 in preparation for compliance readiness for Twin Peaks. The full impact of the introduction of Twin Peaks will only become known when the subordinate legislation and standards provided for are published.

DRAFT INSURANCE BILL

The Draft Insurance Bill of 2015 aims to achieve a seamless transition into the Twin Peaks model of governance envisaged in the FSR Bill which is enabling legislation that sets out the minimum provisions and powers necessary to regulate insurers, whilst delegating the power to make secondary legislation, as well as the authority to implement and enforce the Bill to the FSB.

The compliance department is currently developing an impact analysis, particularly in view of the classes and sub-classes of insurance business introduced in Schedule 2 of the Bill.

MATERIAL ISSUES AND RISKS

THIS INTEGRATED REPORT FOCUSES ON MATERIAL DEVELOPMENTS AND ISSUES AFFECTING ITHALA.

We define a material development or issue as one that affects our ability to deliver on our strategy, 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 and strategy, our material stakeholders' expectations, as well as issues emanating from our risk management process.

Each year we conduct an intensive analysis of the risks we face, that could disrupt progress or hinder the achievement of our strategic objectives. We evaluate the robustness of our mitigation strategies on a regular basis.

From this process we have derived the following material issues (in no particular order of importance), which encompass our key risks, while also addressing our values.

MATERIAL ISSUE	WHY IS THIS A MATERIAL ISSUE?	HOW ARE WE POSITIONED TO DEAL WITH THIS?	WHAT RISKS ARISE FROM THIS ISSUE?
ACHIEVING A PERMANENT BANKING LICENCE BY 2017	Not being granted a permanent banking licence may result in a change to our business model	• We were able to successfully motivate for an extension of the banking licence exemption until 30 June 2017 • A project team is currently managing the preparation of the permanent banking licence application during 2017	Operational risk
SECURING CAPITAL	Inability to grow our business to the projected levels and meet the performance obligations associated with our agreement with the Minister of Finance, due to insufficient capital to meet the minimum prudential requirements	• We have identified potential capital partners • Progress in acquiring an equity partner has been made • Operationally, we continue to focus on diversifying our funding sources and customer base, to mitigate against the risk of potential default • We continue to identify non-interest income revenue streams, as well as developing our distribution network and cross-selling opportunities • We received a capital injection of R29,9 million from the parent company, the IDFC, this year (2015: R50,0 million) in order to meet the performance obligations associated with our agreement with the Minister of Finance	Capital risk
IT SYSTEMS IMPLEMENTATION AND CYBER RISK	The implementation of the hosted banking and insurance management systems and renewal of Informtion Technology (IT) infrastructure, collectively known as our core banking systems, is intended to drive revenue growth through improved business flexibility and faster development, launch and distribution of products to market We may be exposed to the risk of attack by third parties on our information systems, which may result in a loss of sensitive or proprietary information or fraud	• We have begun to invest significantly in technologies that promote access to financial services • We are currently implementing our insurance management system • We have re-focused our energies to developing an in-house centralised core banking platform • We are focusing on the effective implementation of ancillary IT systems, such as client relationship management, in line with our IT strategy • Our approach to cyber security risk management will be addressed by using a combination of compliance and risk-based approaches	Operational risk

MATERIAL ISSUE	WHY IS THIS A MATERIAL ISSUE?	HOW ARE WE POSITIONED TO DEAL WITH THIS?	WHAT RISKS ARISE FROM THIS ISSUE?
STAFF CAPABILITY AND SKILLS DEVELOPMENT	We consider our employees integral to our business and the primary link in our high-touch service model to our clients Banking and financial services continue to evolve and become more complex. Providing excellent client service, a wider range of consumer products, driving balance sheet growth, while managing complex risk, increasing shareholder value and remaining liquid and solvent requires the highest level of skilled, client-focused and analytical employees There is a significant shortage of specialised skills in KwaZulu-Natal, giving rise to competition for a small pool of qualified employees within the banking and financial services industry. Key IT, finance and risk skills are at a premium. We need to ensure that we recruit, motivate, retain and reward exceptional people	• We continue to invest in our people, increasing and honing in on a number of initiatives to train and develop them • The recently-relaunched programmes designed for emerging and middle management in collaboration with the University of KwaZulu-Natal (UKZN), serves to 'home-grow' our skills base and create our own talent pool • Finalisation of a comprehensive HR strategy and employee value proposition	Operational risk
REMAINING COMPETITIVE AND RELEVANT	The financial sector has been transformed by the digital age The expectations that are placed on banks by clients have increased significantly. Clients are empowered to research and search for the most cost-effective options for their particular needs	• High-touch client service helps us to understand our client requirements and needs • We offer our clients value-adding financial solutions • Continuous product development and innovation, particularly with regard to electronic banking, ensures that we meet our clients' needs	Credit risk Liquidity risk Operational risk

MATERIAL ISSUE	WHY IS THIS A MATERIAL ISSUE?	HOW ARE WE POSITIONED TO DEAL WITH THIS?	WHAT RISKS ARISE FROM THIS ISSUE?
TOUGH ECONOMIC CONDITIONS	The South African economy continues to face headwinds from sustained weakness in the global economy; pressure on the Rand; escalating imported inflation; continued labour unrest; electricity challenges and a possible further sovereign rating downgrade Consumers remain burdened by high levels of debt, diminishing levels of disposable income, escalating energy prices and rising inflation These factors will impact on our performance as a result of: • Muted demand for credit • Increased risk of defaults and bad debts • Higher input costs, resulting from higher inflation • Increased threat of cyber fraud	• We have strong capital and liquidity levels, well in excess of the regulatory minimums to absorb economic downturns • A dedicated and committed approach to responsible lending • A strong focus on cost containment • Client-centric service helps us to understand our clients' requirements and identify and manage risks	Credit risk Liquidity risk Capital risk
INCREASED REGULATORY REQUIREMENTS	The introduction of the new Twin Peaks regulatory model, resulting in the SARB, as the prudential regulator, and the FSB, as the market conduct regulator, is designed to protect clients, promote stability in the banking sector and create consolidated regulatory oversight and supervision IFRS 9, a new accounting standard, will significantly change the way in which we account for credit impairments and expected credit losses	• Risk management and absolute compliance with legislation is core to our culture and approach to our business • We pride ourselves in maintaining high capital adequacy levels and liquidity ratios well in excess of the prescribed minimums • The SARB is regarded as one of the key stakeholders with whom we maintain healthy, open and honest relations • We have an experienced, competent and qualified board, which is well-equipped to handle the changing regulatory landscape • During the next financial year we will embark on an intensive IFRS 9 project involving all affected divisions to ensure compliance with IFRS 9 in time for its implementation date of 1 April 2018	Credit risk Liquidity risk Operational risk

KEY RISKS AND OPPORTUNITIES

AS A DEPOSIT-TAKING FINANCIAL SERVICES COMPANY, EFFECTIVE MANAGEMENT OF RISK IS AT THE CENTRE OF OUR BUSINESS.

Through proactive risk management by departments, executives, risk management committees and our board, we cautiously and prudently manage risks, within our board-approved risk appetite, which translates these into opportunities.

WHAT KEY RISKS ARE WE EXPOSED TO?	WHY DO WE TAKE THIS RISK?	WHAT OPPORTUNITIES ARISE FROM TAKING THIS RISK?
CREDIT		
Our clients or counterparties do not fulfil their contractual obligations to us	We lend money to our clients that create assets for us and from which we earn interest and fees over time	Responsible lending results in sustainable returns over the long-term We are agile, and proactive throughout the process of granting and monitoring the loans we grant to our clients This allows us to be a market leader in our chosen lending markets, while maintaining low credit losses
LIQUIDITY		
We are not able to meet our financial obligations or depositors' requests for their funds	We fund our lending activities through the funds received from our clients, funders and shareholders that create liabilities for us against which we pay interest and fees	Prudent management of funds received allows us to lend funds to clients We manage our assets and liabilities with extensive executive oversight, in the form of the asset and liability committee This enables us to have a growing and diversified funding base and surplus liquidity position from which to fund our lending and investment activities

WHAT KEY RISKS ARE WE EXPOSED TO?	WHY DO WE TAKE THIS RISK?	WHAT OPPORTUNITIES ARISE FROM TAKING THIS RISK?
CAPITAL		
Not maintaining sufficient capital to cover unforeseen losses	To engage in the business of banking, we must maintain a high-quality capital base to cover unexpected losses	Effective capital and balance sheet management will allow us to generate returns to the providers of our capital, namely our shareholder We manage our capital and balance sheet with the requisite skills and experience to ensure regulatory compliance and safeguard our capital base Our ability to manage our capital and balance sheet, while holding sufficient levels of capital and generating increasing returns, inspires confidence in all our stakeholders and forms the basis for future growth
REGULATORY AND COMPLIANCE		
Reputational and loss of confidence from providers of capital In a highly regulated financial services environment, compliance with regulations that govern the industry is of paramount importance in upholding our reputation and acts as a safeguard to providers of capital	Our range of products and services span several disciplines Active management of our regulatory and compliance risk ensures that we remain at the forefront in providing our clients with a safe and confident financial services partner	Regulatory change has an extensive bearing on our day-to-day operations, impacting on systems, people and processes This enables us to embed regulatory best practice in our operations on an ongoing basis, promoting a culture of compliance. This is an important enabler in meeting our financial and strategic objectives

FROM THE DESK OF THE CHIEF EXECUTIVE OFFICER

ITHALA HAS DELIVERED A GOOD RESULT FOR THE 2015/16 FINANCIAL YEAR BY POSTING A SMALL OPERATING PROFIT FOR THE FIRST TIME IN SIX YEARS.

PETER IRELAND

> "The positivity of our 2015/16 results reflects the strength of our turn-around strategy"

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This is a commendable performance in light of the lacklustre economic conditions being experienced in South Africa and is indicative of the continued turn-around of the business.

The net profit for the year of R23 000 is a good improvement on what was effectively a R41,5 million loss in the prior year, when excluding the net effect of the once-off turn-around grant of R52,1 million received and the restructuring costs incurred.

Total assets grew by an acceptable 6,1%, driven mostly by the 5,8% growth in customer deposits. The positivity of our 2015/16 results reflects the strength of our turn-around strategy.

One of our focus areas during the year was the re-engineering of the end-to-end credit process, including policies and procedures.

The result has been an overall improvement in the performance of the loan book with the non-performing loan percentage reducing to 6,9% of the total loan book compared against 9,8% in the prior year.

We have stayed out of all unsecured lending in line with our current risk appetite.

During the year, we successfully introduced our innovative Student debit card product as part of our youth strategy (see adjacent).

Coupled with this we launched the Ithala Education Fund, under the banner of **#LeaveNoStudentBehind** with the intention of assisting academically-deserving, yet historically disadvantaged students to pay their registration fees to tertiary institutions.

Our long and short-term insurance business, through our partnerships with underwriting industry leaders, continues to show considerable potential for growth.

During the year we concluded agreements with two large affinity groups which will meaningfully upscale this business to contribute significantly towards non-interest income.

Ithala still operates under an annual banking licence exemption in terms of the Memorandum of Agreement signed with the Minister of Finance in 2014.The renewal of the exemption is dependent on Ithala meeting certain annual performance obligations.

I am pleased to report that we substantively met all of these performance obligations, except for the cost to income ratio, which was 106,7% for the year versus the target of 90,0%.

When committing to the target, we were overly aggressive in our expectations of our business turn-around strategy.

It is now evident that the path to profitability at the level required by the Memorandum of Agreement will take longer to achieve, given the investment that is required to complete the turn-around plan.

I would like to acknowledge the continued support of our shareholder, the Ithala Development Finance Corporation Limited, for its unwavering operational support, and the Department of Economic Development, Tourism and Environmental Affairs, for always committing to the needs of Ithala by providing much needed capital of R29,9 million during the year to support the growth of the business.

I would also like to acknowledge the valuable contribution of Mr Gregory White, who acted as chief executive officer in a care-taker capacity prior to my appointment.

Last but not least, I would like to thank our chairman, Mr Malose Kekana, together with our board, for the leadership and inspiration that they have provided, which has guided the turn-around of the business. I am truly grateful.

I look forward to the year ahead in which we migrate from the build phase of our strategy into the growth phase, to become an innovative and responsive banking and insurance institution owned by and serving the State and people of South Africa.

OUR FINANCE AND PERFORMANCE REVIEW

A SOLID SET OF RESULTS

We recorded a profit for the second consecutive year.

Despite our difficult economic trading environment, net profit for the 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), while total assets and customer deposits grew by 6,1% and 5,8% to R2,56 billion (2015: R2,42 billion) and R2,19 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%).

Ithala 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%).

Considering the low growth rate of the economy and our substantial investment in people and systems in order to enhance efficiency and cater for ongoing growth, we are pleased with our performance.

It is pleasing that each business unit has made progress in positioning itself for improved performance and has made a positive contribution to revenue, as reflected opposite.

NET PROFIT/ (LOSS)
▲ (95,7%)
2016: 0,02 Rm
2015: 0,54 Rm
2014: (69,98) Rm

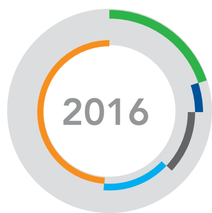
NET MARGIN
▲ 7,2%
2016: 71,7%
2015: 66,8%
2014: 72,9%

COST TO INCOME RATIO
▲ 129,0%
2016: 106,7%
2015: 93,4%
2014: 116,3%

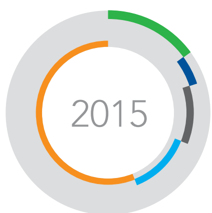
CAPITAL ADEQUACY RATIO
▲ 5,4%
2016: 17,7%
2015: 16,8%
2014: 12,2%

LEVERAGE RATIO
▲ 5,8%
2016: 9,9%
2015: 9,3%
2014: 7,7%

CONTRIBUTION TO REVENUE FOR THE YEAR – BY BUSINESS UNIT AT A GLANCE



- 20% TREASURY
- 5% ITHALA INSURANCE
- 12% TRANSACTIONAL BANKING
- 14% CUSTOMER DEPOSITS
- 49% SECURED & UNSECURED LENDING

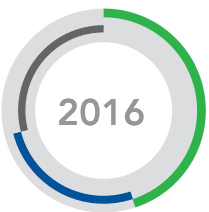


- 15% TREASURY
- 5% ITHALA INSURANCE
- 11% TRANSACTIONAL BANKING
- 13% CUSTOMER DEPOSITS
- 56% SECURED & UNSECURED LENDING

STATUTORY INCOME STATEMENT ANALYSIS

The overview that follows will highlight the main reasons for the variance in the major category line items in the face of the income statement during the year under review.

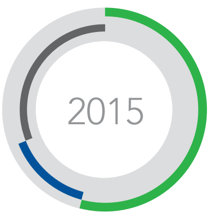
	CHANGE %	2016	2015
		R'000	R'000
Interest earned on loans and advances to customers	(3,8%)	159 058	165 354
Interest expenditure	13,1%	(80 812)	(71 472)
Net margin	(16,7%)	78 246	93 882
Interest on held to maturity investments	49,8%	69 856	46 633
Net interest income	5,4%	148 102	140 515
Fees and other income	(25,4%)	121 642	162 998
Net income	(11,1%)	269 745	303 513
Credit impairment charges	(148,3%)	9 401	(19 451)
Loans and advances to customers	(160,2%)	11 285	(18 736)
Properties in possession	30,5%	560	429
Trade and other receivables	113,6%	(2 444)	(1 144)
Operating income	(1,7%)	279 145	284 062
Operating expenditure	(1,6%)	(279 122)	(283 525)
Profit/(loss) and total comprehensive income/(expense) for the year	(95,7%)	23	537



45% FEES & OTHER INCOME

26% INTEREST ON HELD TO MATURITY INVESTMENTS

29% NET MARGIN



54% FEES & OTHER INCOME

15% INTEREST ON HELD TO MATURITY INVESTMENTS

31% NET MARGIN

NET INTEREST INCOME

Net interest income increased 5,4% to R148,1 million (2015: R140,5 million) mainly as a result of a 19,8% increase in surplus funds held during the year to R1,03 billion (2015: R855,6 million), the effect of a 125 basis point increase in the repo rate, and the R29,9 million (2015: R50,0 million) capital injection from the shareholder.

The growth in surplus funds is attributable to the increase in customer deposits during the year and the receipt of the additional capital from the shareholder. This increase was partially offset by the liquidating legacy book and a higher cost of funding.

FEES AND OTHER INCOME

Fees and other income decreased by 25,4% to R121,6 million (2015: R163,0 million) largely as a result of the once-off turn-around grant of R52,1 million which was received from the Department of Economic Development, Tourism and Environmental Affairs during 2015.

This decrease was partially offset by the increase in commission and fee income and other income of 11,5% and 12,5% respectively.

Fee income increased due to higher fees earned on customer deposits resulting from the annual price revision, in particular the book-based, club save and target save products. Fee income on debit cards increased by 12,1% to R39,9 million (2015: R35,6 million) during the year as a result of the number of accounts increasing from 122 217 to 156 424.

During the year our enhanced Student debit card product account was re-launched with benefits that address the needs of students and is also linked to the Ithala Education Fund that is aimed at addressing the student funding crisis.

This product completes our ability to execute on the lifecycle approach to customer acquisition and progression, as described in our customer and product strategy.

LOOKING AHEAD

In the next financial year, we will also be introducing a money transfer capability.

This will enable remittances to both banked and unbanked customers, which, together with the roll-out of our expanded automatic teller machine (ATM) network, will considerably improve accessibility and therefore preference to our brand.

Insurance income remained static despite intensified efforts from the insurance advisory committee, established to oversee the growth and development of the business.

LOOKING AHEAD

Improved performance is anticipated in the next financial year following a management change. We will place emphasis on groups, such as stokvels, with products specifically developed for this sector.

CREDIT IMPAIRMENT CHARGES ON LOANS AND ADVANCES

The credit and collections value chain was reviewed, refocused and realigned to ensure it meets the business objectives, taking into account the challenging economic conditions.

With the assistance of an experienced external service provider, collections was refocused from product-centric to process-centric and all key policies and procedures were updated to align with best practice. Credit impairments charges on loans and advances decreased by 160,2% from R18,7 million to a positive R11,3 million.

This improvement is one of the main contributors to Ithala's profitability this year. A change in the debt review methodology and the improvements in debt collections resulting in the reclassification of a non-performing loan to a performing loan were the main contributors of this positive movement.This result is to be commended in light of the current economic and credit pressures being experienced in the South African economy.

OPERATING EXPENDITURE

The ratio of total operating expenditure to total operating income was 100,0% (2015: 99,8%). Total operating expenditure decreased by 1,6% to R279,1 million (2015: R283,5 million). Prior year costs include the once-off turn-around costs of R10,1 million, comprising retrenchment costs and lease termination and reinstatement costs. Excluding the effect of these once-off costs, total operating expenses for the year have, in fact, only resulted in a fractional increase from the prior year reflecting: an increase in variable operating costs; an increase in marketing expenditure; and inflationary increases in fixed costs.

The above highlights our continuous efforts to contain cost growth, such that there was only a nominal increase in the cost-to-income ratio at 106,7% (2015: 93,4%), and a positive JAWS ratio. If the effects of the turn-around entries are excluded from the prior year calculation, the cost-to-income ratio would have been 110,8%, highlighting a 3,7% reduction in real terms.

Our cost-to-income ratio is high, relative to the South African banking sector, which is due to our high-touch service model and people-intensive non-banking and value added businesses, which is supportive of our developmental mandate.

STATUTORY BALANCE SHEET ANALYSIS

Since 31 March 2015:

- Total shareholders' equity increased by 12,6% to R266,8 million (2015: R236,9 million);
- We continue to build a robust, solvent and liquid balance sheet, with asset growth of 6,1% to R2,56 billion (2015: R2,42 billion);
- The return on shareholders' equity decreased from 0,25% to 0,1%; and
- The return on assets decreased from 0,020% to 0,001%.

Ithala's comparative balance sheet position, at 31 March 2016, is as follows:

	CHANGE %	2016	2015
		R'000	R'000
Assets			
Cash	47,2%	79 244	53 840
Statutory investments	(14,8%)	129 882	152 493
Investments and deposits with banks	27,4%	895 537	703 095
Loans and advances to customers	(4,2%)	1 392 805	1 454 578
Trade and other receivables	144,9%	11 409	4 658
Properties in possession	8,8%	8 342	7 667
Equipment	(1,8%)	32 174	32 775
Intangible assets	82,7%	15 094	8 262
Total assets	6,1%	2 564 487	2 417 368
Liabilities			
Customer deposits	5,8%	2 193 805	2 072 979
Trade and other payables	(14,0%)	45 966	53 459
Provisions	6,7%	18 762	17 587
Loan account with holding company	(2,9%)	7 946	8 181
Retirement benefit obligations	10,4%	31 159	28 236
Defined benefit provident fund shortfall	0,0%	-	-
Total liabilities	5,4%	2 297 638	2 180 442
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	0,0%	190	190
Issued share premium	8,7%	374 710	344 810
Accumulated loss	0,0%	(108 051)	(108 074)
Total equity	12,6%	266 849	236 926
Total liabilities and equity	6,1%	2 564 847	2 417 368

LOANS AND ADVANCES

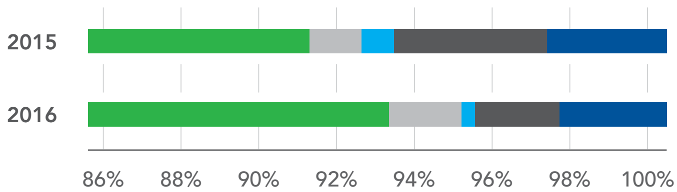
Loans and advances decreased by 7,1% to R1,48 billion (2015: R1,59 billion).

Following the curtailment of our lending operations last year and the resumption of secured lending this year, there has been a lower than anticipated uptake of our lending products as a result of the temporary absence from the lending market.

Changing global economic and local socio-economic conditions, such as rising unemployment, continued to put pressure on customers during the year, impacting on their ability to repay their debts. People are borrowing more, despite not necessarily saving more.

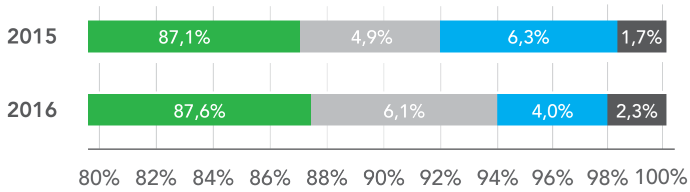
Despite these extraneous economic conditions, our enhanced credit and collection processes have resulted in our non-performing loans remaining well-managed at 31 March 2015, being 6,9% (2015: 9,8%) or R102,0 million (2015: R156,6 million) of total advances.

GROSS LOANS AND ADVANCES BY PRODUCT



	2016	2015
Housing loans	93,7%	91,4%
Cash loans	1,8%	1,6%
Commercial property loans	0,1%	0,8%
Unsecured loans	2,0%	3,6%
Vehicle and Taxi finance	2,4%	2,6%

LOANS AND ADVANCES CHARACTERISTICS AND METRICS



- Assets that are neither past due nor impaired
- Assets that are neither past due, but not yet impaired
- Specifically impaired loans
- Non-performing, but not specifically impaired loans

LOOKING AHEAD

Looking ahead, an overdraft facility is due to be launched during next year as part of our current account offering. We will also be re-introducing our taxi finance product, albeit on a managed basis. As macro-economic and domestic economic uncertainty persists, combined with the prospect of higher interest rates and inflationary expectations, we continue to expect subdued household sentiment with regard to overall credit appetite.

We expect that all of these factors, either individually or in combination, will continue to present challenges to growth in retail credit demand during the next 18 months.

CUSTOMER DEPOSITS

Despite the constrained economic conditions, our customer deposits balance grew by 5,8% to R2,19 billion (2015: R2,07 billion).

Consistent with trends seen during previous periods, growth in customer deposits continues to be driven by retail deposits. However, strong growth has also been seen in Government deposits.

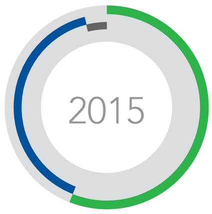
Our public sector banking unit, which was established during 2014, secured R331,7 million (2015: R233,5 million) in public sector funds during the year.

The rate of growth in customer deposits has been greater than that of loans and advances. The ratio of advances to deposits was 67,0% (2015: 76,9%) at year-end, well below the 85,0% contingency funding plan trigger rate.

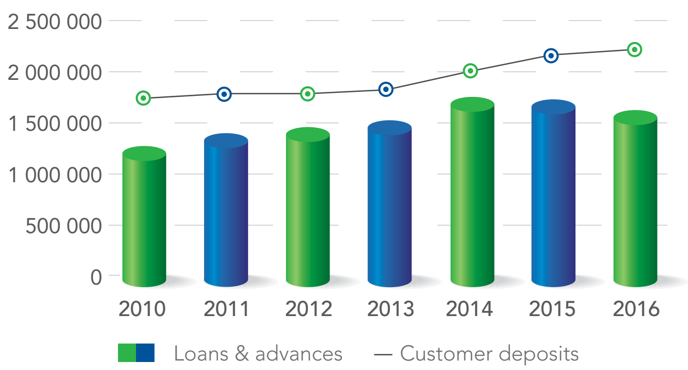
There was no negative business as usual mismatch between assets and liabilities on a cumulative basis.

CUSTOMER DEPOSITS BY PRODUCT

6% CALL DEPOSIT ACCOUNTS
36% SAVINGS ACCOUNTS
58% TERM DEPOSITS



4% CALL DEPOSIT ACCOUNTS
40% SAVINGS ACCOUNTS
56% TERM DEPOSITS



LOOKING AHEAD

Looking into the new year, a detailed review of our suite of savings and investments products is planned, the outcome of which will be a strategy which will be the road-map for growing our customer deposits. We will also be in a position to leverage off our new treasury capability to offer more competitive interest rates.

LIQUIDITY AND CAPITAL MANAGEMENT

Our capital and liquidity position remains strong, with both capital and liquidity ratios well above the regulatory and Basel minimums.

This is attributable to the R29,9 million (2015: R50,0 million) capital injection by the shareholder.

A reduction in the risk weighted assets, as a result of a reduced loans and advances portfolio, also contributed to the strong capital ratios. At 31 March 2016 the tier 1 capital ratio was 17,6% (2015: 16,0%) and the total capital adequacy ratio was 17,7% (2015: 16,8%).

Our liquidity position remains strong with appropriate liquidity risk hurdle rates and policies in place. Surplus funds increased by 21,5% to R1,10 billion (2015: R909,0 million).

We are obliged to hold an average of 7,5% of our liabilities in liquid assets on a monthly basis in terms of the Banks Act. As at 31 March 2016, we held R129,9 million (2015: R152,5 million), or 11,0% (2015: 12,0%) in liquid assets.

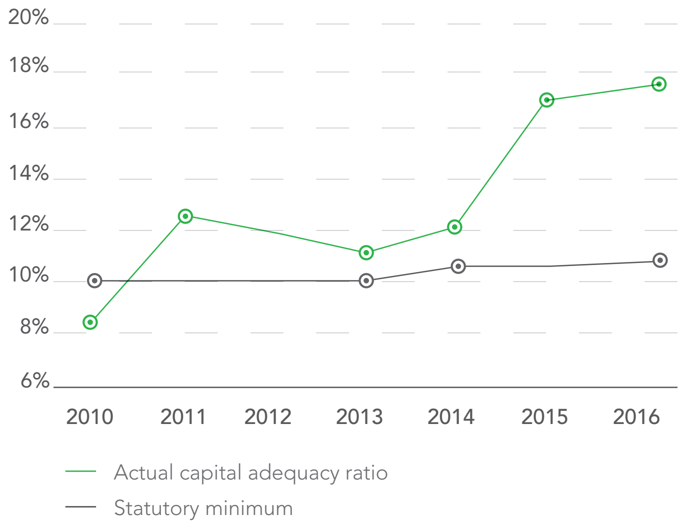
Our liquidity coverage ratio (LCR) was 371,0% (2015: 488,0%), while our net stable funding ratio (NFSR) was 129,0% (2015: 118,0%), both well above the minimum prescribed ratios and well ahead of the full implementation date.

Both ratios demonstrate our ability to comfortably meet our short and long-term liquidity requirements.

FUTURE OUTLOOK

Against subdued economic growth prospects in the forthcoming year, as with all financial institutions, Ithala will continue to face difficult trading conditions. Total new advances will be limited to R500,0 million for the year. Taxi finance has been reintroduced, albeit on a selective basis. The main driver of income growth will continue to come from non-interest revenue, namely fees on new and innovative electronic banking and insurance products.

Distribution channels will be expanded to include self-service devices and additional ATMs. It is anticipated that our new 'branch of the future' concept branch will be piloted during the year. Ithala forecasts a moderate profit in the next financial year.



ANNUAL PERFORMANCE REPORT

AS A STATE-OWNED ENTITY, ITHALA EACH YEAR AGREES ITS PERFORMANCE OBJECTIVES, MEASURES AND INDICATORS, AS WELL AS ITS ANNUAL TARGETS WITH ITS ULTIMATE SHAREHOLDER, THE DEPARTMENT OF ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS AND PROVINCIAL TREASURY, IN LINE WITH THE PFMA.

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%	17,73%	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

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
	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 net margin percentage 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	

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

KEY 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
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%)

KEY 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%)

KEY 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

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

KEY 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

HOW WE DELIVER

OUR HIGH-TOUCH SERVICE MODEL AND VALUE ADDED SERVICES ARE SUPPORTIVE OF OUR DEVELOPMENT MANDATE.

INFORMATION TECHNOLOGY

IT is an integral part of the business of banking and is fundamental to the support, sustainability and growth of Ithala. The implementation of the hosted banking and insurance management systems and renewal of IT infrastructure, collectively known as our core banking systems, is intended to drive revenue growth through improved business flexibility and faster development, launch and distribution of products to market.

To improve the customer experience, our systems are being designed to include an end-to-end customer relationship management capability to provide us with a single view of all the products and services a customer has with us. Our investment in this business enabler is critical to improving productivity and maintaining our competitive edge and is, therefore, a significant part of our capital expenditure.

During the year, we spent R11,5 million (2015: R4,8 million), representing 61,4% (2015: 77,1%) of total capital expenditure.

Our banking and business systems and applications consist of a mixed bag of the old and the new. The old and obsolete technology creates maintenance and service delivery challenges. A business case has been approved to transform the legacy decentralised architecture and infrastructure into a new centralised modern architecture which will allow us to control and operate our own in-house banking platform that will be scalable, flexible and robust.

LOOKING AHEAD

Our plans for next year are to focus on implementing mobile banking technologies and providing our customers with alternative banking channels, improving our information management and beginning the implementation of our centralisation project, thereby simplifying our infrastructure landscape. Stability and availability (uptime) are key aspects for any IT system.

The estimated availability of the legacy system and the hosted banking system during the year has been an impressive 99,1% (2015: 99,4%) and 99,9% (2015: 99,9%) respectively, despite the amount of change associated with the core banking system implementation.

OPERATING INFRASTRUCTURE

OUR SELF-SERVICE CHANNELS

There is no doubt that 'anywhere, anytime' banking is the future of the industry.

Technology has made it possible for customers to manage their everyday banking online, on their mobile phones or through devices, such as ATMs.

IthalaConnect, our electronic banking department, delivers our technological banking solutions.

The average ATM uptime for our existing fleet of 57 ATMs was 92,2% (2015: 94,0%). During the year, we processed 1,46 million (2015: 1,33 million) ATM transactions.

The same measure of the total Rand value of transactions shows an increase of 10,1% to R592,80 million (2015: R538,83 million). The average withdrawal is steady at approximately R405. Our estimated average internet banking uptime for the year was 99,90% (2015: 99,90%) and our 1 300 (2015: 600) registered user's processed 6 161 (2015: 1 800) transactions through this channel.

Our estimated average USSD mobile banking uptime for the year was 99,95% (2015: 99,70%) and our 7 821 (2015: 948) registered USSD mobile banking customers processed 322 435 electronic payments worth R5,01 million (2015: 1 120 transactions worth R0,79 million) through this channel.

LOOKING AHEAD

In the new financial year, we begin the expansion of our self-service banking offering with the introduction of a mobile banking application and enhanced e-commerce website. We will also embark on a three-year project to upgrade our ATMs to the latest technology, as well as an initiative to roll-out mini ATMs, and cashless ATMs in retail outlets and municipal buildings as an alternative to fully-fledged ATMs.

The upgrades and expansions allow for greater functionality, such as automated note accepting, which removes the need for envelopes when depositing money and domestic remittances, enabling customers to send money to anyone in South Africa who can subsequently withdraw this money by entering a pin and voucher number.

OUR BRANCH NETWORK

The cost-to-income ratio of all branches in the network at 31 March 2016 is 100,8%.

This is a net improvement of 10,8% from the peak of 111,5% in June 2015. The overall trend continues downwards. Ithala maintains branches in areas such as Izingolweni and Pongola as part of our continued commitment to promoting financial inclusion and serving the 'under-served' market. These areas may have little chance of becoming profitable. However, to close these branches would be contrary to our developmental mandate and would deprive these communities of access to mainstream financial services.

LOOKING AHEAD

We have embarked on a project to pilot a new cutting-edge store design. Our design team is physically working the floor to understand the challenges customers face and to ensure that our branches are 'fit for future'.

While the new look of branches will incorporate technological advances, they will remain well-placed to accommodate the human factor where our customers can interact with people when mobile and automated mechanisms are insufficient to meet their needs.

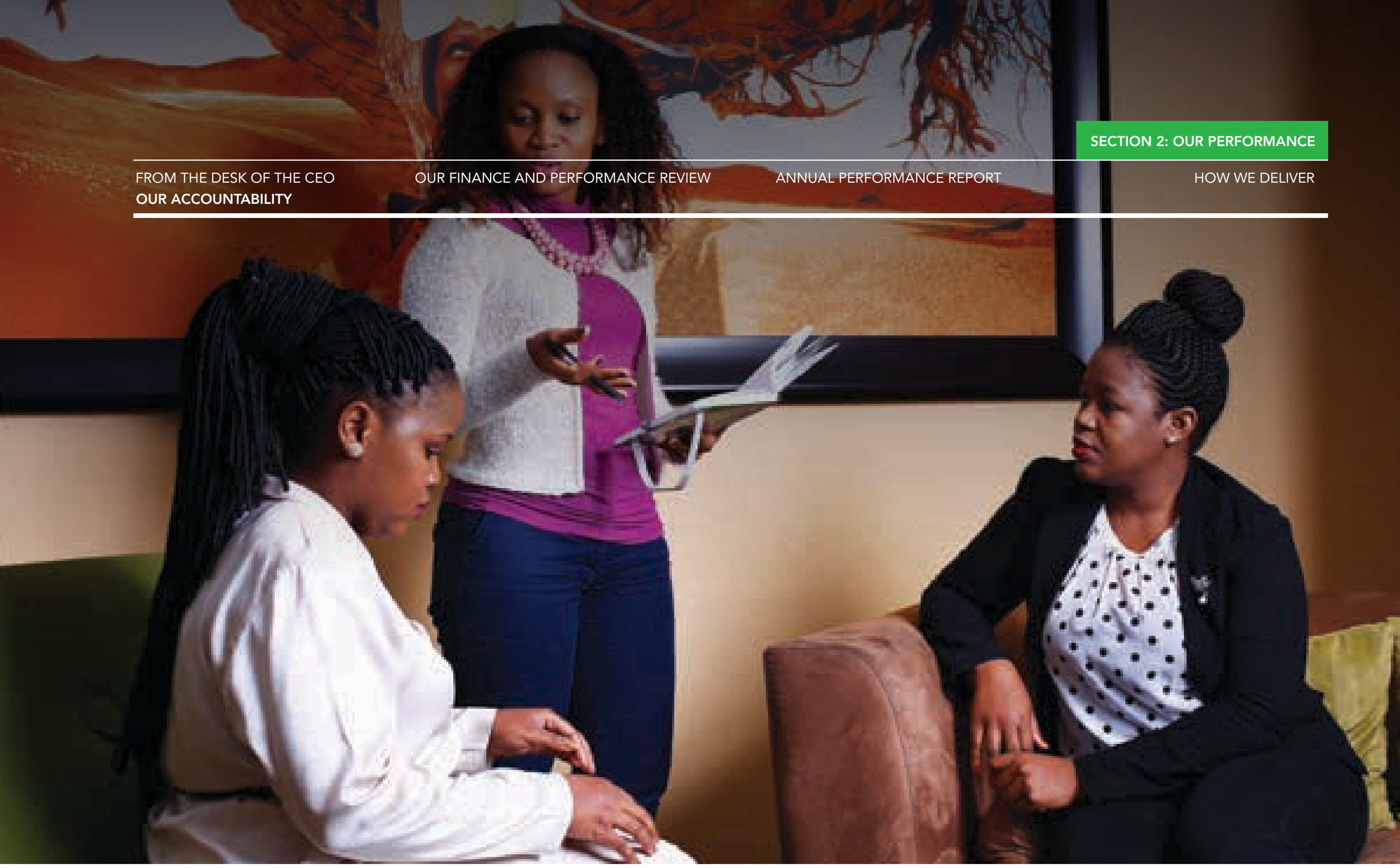
CUSTOMER SERVICE

Our customers remain loyal to the Ithala brand.

A total of 100,0% (2015: 76,0%) of Ithala customers indicated that they are extremely satisfied with the overall service they are receiving from us.

Ithala clients perform most of their transactions in-branch, resulting in long queues, especially during pay days and the stokvel season. This negatively impacts on customer service levels during busy periods. Process re-engineering projects have been implemented to automate most in-branch processes.

This has had a direct positive impact on the speed of service to our customers. The core banking systems allow for account applications to be captured directly onto the banking system, eliminating the paper-based application system.



OUR ACCOUNTABILITY

ITHALA WAS THE FIRST FINANCIAL INSTITUTION TO PROVIDE FINANCIAL SERVICES TO THE PREVIOUSLY MARGINALISED AND FINANCIALLY EXCLUDED PEOPLE OF KWAZULU-NATAL AND ASPIRES TO CONTINUE TO BE THE EMPOWERMENT VEHICLE FOR COMMUNITIES.

SOCIO-ECONOMIC DEVELOPMENT

Today we are a unique retail financial services institution that provides money management solutions for individuals, businesses and Government.

We are the only institution (other than Postbank) that provides a book-based savings account, which remains in high demand by rural communities. We promote a savings culture through products aimed at stokvels and savings clubs.

SUPPORTING SMMES AND COMMUNITY BASED BUSINESSES

We work with a number of stakeholders, including Provincial and local Government departments, our corporate customers and our parent company, through its business finance department, to address the needs of the SMME sector.

We offer community-based businesses customised group financial services that are linked to their community and cultural needs.

NATIONAL SCHOOLS NUTRITION PROGRAMME (NSNP)

The NSNP is a high-profile programme which offers excellent brand-building and revenue-generation opportunities.

Our involvement has been to facilitate direct payments from the credit facility provided by IDFC's business finance department to suppliers/wholesalers and the cater's monthly stipend. This ensures that all members of the NSNP value chain are properly remunerated in a timely manner.

AFFORDABLE HOUSING

In KwaZulu-Natal we remain the only provider of housing loans to rural communities on land under tribal tenure.

During the year, we issued rural home loans to the value of R3,9 million (2015: R6,7 million).

Low-income earners who belong to pension and provident funds may qualify for a home improvement loan which would grant them access to credit to build or renovate a home.

During the year, we issued home improvement loans to the value of R27,0 million (2015: R8,3 million).

SUPPORTING OUR YOUTH

The Ithala Education Fund was launched during the year with the intention of assisting academically-deserving, yet historically disadvantaged students to pay their registration fees at tertiary institutions.

Twenty cents of every R1 fee income earned from our Student debit card product will be donated to this fund. In addition, members of the public who are in a position to assist are also able to contribute to the Ithala Education Fund #LeaveNoStudentBehind.

PROCUREMENT
As a public entity, 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.

As such, we maintain appropriate procurement and provisioning systems which aim to be fair, equitable, transparent, competitive and cost-effective.

The Ithala group, as a level 3 B-BBEE contributor, is classified as a value-adding supplier, a benefit that accrues to those who utilise us as a supplier.

The procurement spend amounted to approximately R547,0 million (2015: R582,0 million). The weighted procurement spend from B-BBEE suppliers in 2016 amounted to R492,0 million (2015: R524,0 million).

OUR PEOPLE AND CAPACITY
Our employees are integral to our business. Due to long tenure, we are able to boast a deep corporate memory.

Employees play a vital role in improving current systems and procedures to constantly enhance the value we add to our various stakeholders. Our culture is one of commitment, passion, continuous development, diversity and ethical practice.

EMPLOYEE PROFILE
As at 31 March 2016, our headcount was 373 employees (2015: 368), comprising 137 males and 236 females (2015: 137:231), of which 94,9% (224) are African women. Our female headcount increased by 2,2%, and the female representation of total headcount increased by 0,8% to 63,3% (2015: 62,8%).

INVESTMENT IN HUMAN CAPITAL
For our employees to perform at optimal levels, it is essential that we invest in their well-being. This includes learning and development initiatives, a supportive culture, strong leadership, sound working conditions and employee assistance.

This year we invested R2,21 million (2015: R0,96 million) in learning initiatives across the business, which benefited all employees.

LOOKING AHEAD
We are committed to promoting a learning culture which enables employees to develop and grow so as to reach their full potential. Through our relationship with the UKZN, customised programmes designed for emerging and middle management have been introduced and will commence during the next financial year.

Our mandatory workplace skills plan and annual training reports were submitted to the various Sector Education and Training Authorities, which awarded us rebates totaling R0,35 million (2015: R0,36 million).

The following training and development initiatives took place during the period under review:

Product training: To promote customer loyalty, create an environment of cross-selling and a deeper understanding of the various business units and their respective portfolios. This included relevant training to facilitate the successful launch of the Student debit card.

Compliance training: Covering statutory and regulatory requirements.

Formal degrees and certifications: We assisted 56 (2015: 25) employees with study bursaries and loans in order to enable them to pursue under-graduate and post-graduate studies.

Learnerships: We sustained an intensive internship programme during the year, with 106 (2015: 61) learners being placed into the business.

We have signed Memorandums of Agreement (MoA) with strategic regional technical vocational education and training (TVET) entities and we continue our support by allowing their students to pursue experiential training.

Employee Engagement: The organisation-wide programme of engagement and change was driven in collaboration with the labour union. The labour union contributed immensely and drove a positive message to staff, for example, the campaigns for anti-fraud at branches. We created key themes that were driven through regional chat forums. We used this platform to position our human resources strategy and futuristic change plan.

RISK AND CAPITAL MANAGEMENT

EFFECTIVE RISK AND CAPITAL MANAGEMENT LAYS THE FOUNDATION UPON WHICH EVERY BUSINESS DECISION AND THE DEVELOPMENT OF WINNING STRATEGIES IS BASED.

MANAGING RISK

Everything we do at Ithala is birthed in the process of understanding and assessing the risks of the activities in which the business wishes to engage.

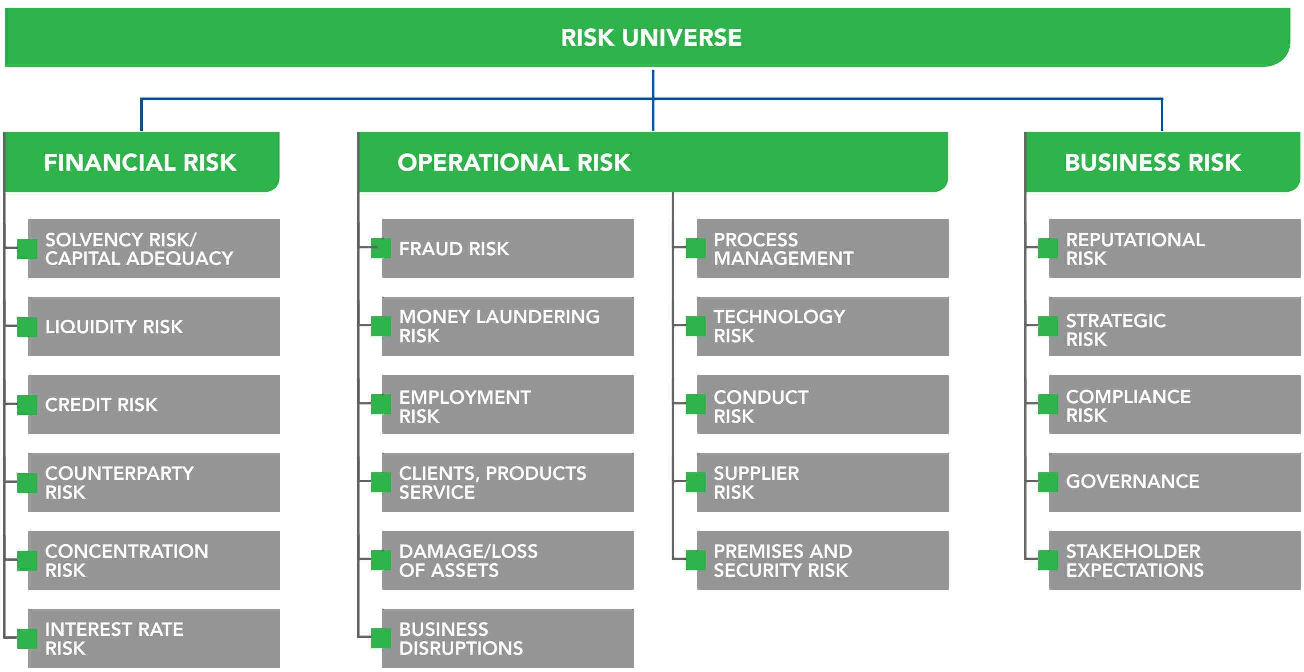
From there, we formulate strategies which mitigate the assessed risks to an acceptably low level in line with the board's approved risk appetite, and in so doing we are able to maximise the stakeholder value creation process. In formulating our strategy and determining our strategic imperatives, we consider the full range of issues that impact the viability of our business.

The risk management process is continuous, and management remains committed to identifying and making improvements where necessary. Given the constantly changing regulatory environment, the biggest challenge facing the business is ensuring that we comply with relevant laws and regulations, particularly in the 2016/17 financial year as we approach the date for the application of a permanent banking licence.

To determine whether a risk is material to our company, we consider:

- The guidelines issued by the National Treasury;
- The nature of our business;
- Applicable statutory requirements;
- The inherent and control risks affecting Ithala;
- Quantitative aspects, such as financial losses in excess of 2,0% of qualifying capital and reserve funds;
- Qualitative aspects, such as the reputation of the company being negatively affected to the extent that it causes a deterioration in overall liquidity; and
- Stakeholder expectations.

Our approach to managing risk is outlined in our enterprise risk management framework (ERMF), which defines the risk management process and sets-out specific mitigation and control frameworks, activities, tools, techniques and organisational arrangements for those risks taken by the company that are foreseeable, continuous and material.



RISK GOVERNANCE

Risk governance is the management of risk with the responsibility for oversight by the board and board committees, namely the risk and capital management committee (RCMC), audit and compliance committee (ACC), IT governance committee and the human resources, social and ethics committee (HRSEC).

Operational risks are managed by management committees, namely the executive committee (EXCO), management credit committee (MCC) and asset and liability committee (ALCO).

The roles and responsibilities of the various committees and individuals involved in managing risks within Ithala are set out below:

THE BOARD OF DIRECTORS

The tone for risk management is set at the top and the overall responsibility for risk management lies with the board.

The board ensures that risks are managed and remain within acceptable parameters and is assisted by the risk and capital management and audit and compliance committees in its risk management responsibilities.

RISK AND CAPITAL MANAGEMENT COMMITTEE

The risk and capital management committee assists the board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the company in the day-to-day management of its business, in the identification of the build-up of and concentration of the various risks to which the company is exposed and in developing risk mitigation strategies to ensure that the company manages risk in an optimal manner.

A formal risk assessment is undertaken at least annually which supports the board in identifying and regularly monitoring all key risks and key performance indicators.

AUDIT AND COMPLIANCE COMMITTEE

The role of the audit and compliance committee is to assist the board in fulfilling its oversight responsibilities, especially in evaluating the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes in the day-to-day management of the business.

IT GOVERNANCE COMMITTEE

The responsibility of the IT governance committee includes assisting the board in evaluating and monitoring IT-related risks, including cyber risk, disaster recovery planning, physical security, information security, computer security and oversight of system development.

EXECUTIVE COMMITTEE

As part of its overall responsibility for the day-today business of the company, the executive committee manages strategic and reputational risks and actively monitors other risks, including stakeholder, compliance and human resources risks, and identifying and monitoring new types of risks. It is responsible for ensuring the adequacy of all policies, procedures and controls applied to the business, promoting a risk culture within the business, and ensuring that the risk and compliance functions are independent, impartial and effective.

It reviews internal audit's reports on operational and compliance practices, as well as matters arising out of management committees, and monitors progress against our corporate plan and strategic objectives.

MANAGEMENT CREDIT COMMITTEE

The management credit committee ensures the implementation of the strategies that conform to the risk appetite and levels of exposure as approved by the board and reviews the credit risk reports and credit risk legislative requirements and recommends changes in policies and procedures.

Where necessary, it recommends amendments to the credit granting and control environment within the business to the board's risk and capital management committee.

The committee is also responsible for considering and monitoring the performance of the loans portfolio, including large exposures, monitoring the performance of properties in possession (PIPs), including losses from sales thereof, and recommends credit granting and control policies and procedures for new products.

In addition, it reviews re-scheduled loans, monitors the effectiveness of credit risk controls and monitors our exposure to credit and counterparty risk.

ASSET AND LIABILITY COMMITTEE

The asset and liability committee ensures that all strategies conform to the risk appetite and levels of exposure, as approved by the board and focuses on protecting our equity base and ensures growth over time. It is also responsible for managing interest rate and liquidity risks that occur in the business and ensures adequate pricing methodology across the business units, as well as developing a contingency funding plan.

APPROACH TO STRESS TESTING

The board has approved an appropriate stress testing framework comprising a broad range of scenarios, including company-wide, as well as product and business segment-specific stress tests.

These form an integral part of our overall governance and risk management culture and our internal capital adequacy assessment process (ICAAP), which requires us to undertake rigorous, forward-looking stress testing that identifies the impacts of severe events or changes in market conditions. Our stress testing evaluates our financial position under severe, though plausible scenarios and includes setting-out our risk appetite and risk tolerance, strategic planning and budgeting process, and capital planning and management.

We develop risk mitigation and contingency plans across a range of these stress conditions. In our recovery and resolution planning, we assess the adequacy and plausibility of proposed recovery actions.

We conduct stress testing across all major risk types using a number of macro-economic stress scenarios. Stress testing is augmented by product and service-specific stress testing and sensitivity analysis to identify the drivers of our risk profile.

Our risk and capital management committee approves both the appropriateness of the stress scenarios we use and the impact of these stress situations on the risk profile for use in the ICAAP and our broader capital planning process.

CAPITAL MANAGEMENT

Capital management is focused on ensuring the business is capitalised in line with our risk appetite and targeted ratios, both of which are approved by the board to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.

To ensure that adequate capital is maintained to support current business activities, anticipated growth and absorption of unexpected losses, capital adequacy assessments are conducted, taking into consideration:

- Current and future minimum regulatory capital requirements;
- Additional internal capital requirements for risks not fully covered by regulatory minimums, if the need arises as assessed by the board;
- Available capital against capital required in order to grow the business as planned; and
- Our ability to raise additional capital.

Our ICAAP assesses our capital requirements against available capital. The process is forward-looking and takes into account budgeted growth, risk exposures and anticipated losses. In addition, stress testing is conducted to test the capacity to absorb unexpected losses.

CAPITAL STRUCTURE

Common Equity Tier I (CET I) capital is made up of issued ordinary shares, share premium and retained income.

Tier II capital comprises secondary unimpaired reserve funds which consist of the prescribed general allowance for credit impairment.

Capital requirements are calculated using the standardised approach for credit risk and the basic indicator approach for operational risk.

Other risk relates to other assets for which we are also required to hold capital. Ithala has a very simple capital structure and we do not have any hybrid debt/equity instruments and therefore the phase-out requirements do not affect any of our issued equity instruments. The only deduction applied against capital is that of our intangible assets balance.

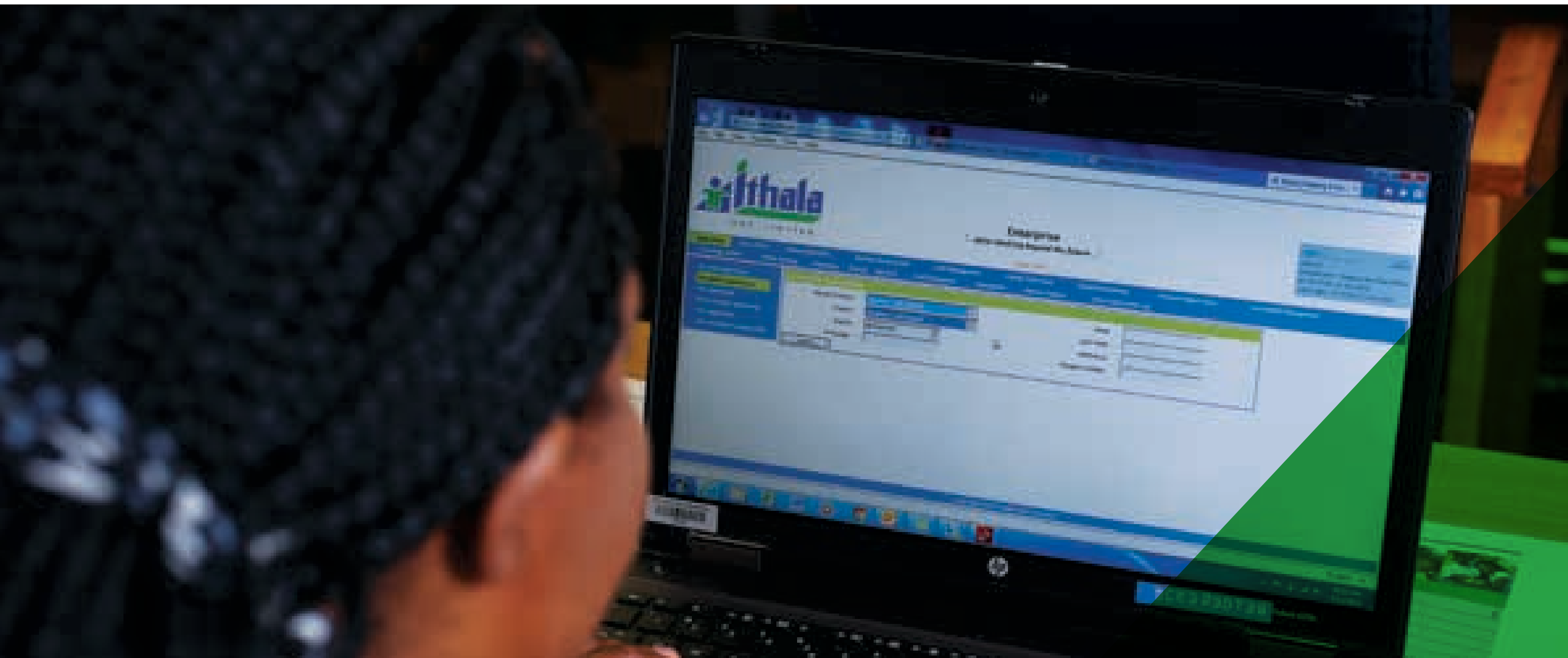
OUR CAPITAL POSITION

Our year-end capital adequacy ratio is 17,73% and is well above the regulatory minimum of 10,875% as a result of the R29,9 million capital injection received from the shareholder during the year.

The business holds surplus liquid asset investments, which generally attract a lower risk weighting than that which applies to mortgage loans and other types of credit.

If the need ever arises, management is, therefore, able to invest in less risky assets for which we are required to hold less capital which decreases our overall capital risk.

Business growth is, however, forecast to accelerate in the next financial year, which will increase the risk profile of our asset base and increase our capital requirement. The effects of this will, however, be offset by increased profitability. Management remains committed to developing business



strategies that are in the best interests of all stakeholders, and the number one priority is to be a sustainable, self-sufficient entity dependent only on its primary inputs and application of the six capitals.

CREDIT RISK

Credit risk arises from the potential that a borrower is either unwilling to perform on an obligation or the borrower's inability to perform such obligation is impaired, resulting in economic loss to the organisation.

Credit risk is composed of counterparty risk (including primary, pre-settlement, issuer and settlement risk) and concentration risk.

The major portion of credit risk exposure arises via individuals in the form of home, home improvement, personal, cash loans and vehicle and taxi finance, and the balance to businesses and property developers in the form of property development and commercial property loans.

HOW WE MANAGE CREDIT RISK

Primary responsibility for credit risk management resides with the board which, together with the risk and capital management committee, oversees our credit risk management process.

The executive committee and management credit committee implement our credit risk processes on a day-to-day basis.

The risk and capital management committee approves key aspects of rating systems, credit risk modelling and credit concentration risk decision-making and delegates implementation thereof to credit officers and committees charged with credit management.

Regular model validation and reporting to these committees is undertaken by the risk department that is independent of the credit department.

The management credit committee ensures the implementation of the strategies that conform to the risk appetite and levels of exposure as approved by the board, and reviews the credit risk reports and credit risk legislative requirements and recommends changes in policies and procedures.

Where necessary, it recommends amendments to the credit granting and control environment within the business to the board's risk and capital management committee.

The committee is also responsible for considering and monitoring the performance of the loans portfolio, including large exposures, monitoring the performance of PIPs, including losses from sales, and recommends credit granting and control policies and procedures for new products.

In addition, it reviews re-scheduled loans, monitors the effectiveness of credit risk controls and monitors our exposure to credit and counterparty risk.

Credit risk is further mitigated by way of:

- Maintaining a strong culture of responsible lending and a robust risk policy and control framework;
- Investing time in understanding our target market;
- Setting clearly-defined risk appetite thresholds and triggers, using applicable stress test measures;
- Identifying, assessing and measuring credit risk clearly and accurately from the level of individual facilities up to the total portfolio;
- Continually defining, implementing and re-evaluating our risk appetite under actual and stress conditions; and
- Monitoring our credit risk relative to limits, ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

We have implemented a more prudent approach and updated our policies to be more stringent in provisioning arrears and write-offs including:

- Full provision of accounts at loss category; and
- Our write-off policy now provides for accounts to be written-off after 12 months of non-payment.

THE CREDIT PROCESSES

The credit and collections process is aligned to the current regulation and is updated regularly to give effect to the changes recorded in the NCA.

This ensures that credit and collections is compliant and maintains a culture of responsible lending within the ambit of a robust risk policy which defines the risk appetite which is supported by stress testing outcomes.

In respect of home loans, the underlying asset is secured by means of a mortgage bond and additional security of life insurance cover. Pension-backed loans are secured by pledges against the pension fund.

PROVISIONING

The provisioning model is based on the Basel III standards and is reviewed by the SARB and the A-G.

The approach is prudent and the model is such that the loans in the loss category are fully provided for in general. In line with industry practice, the loans under debt review are rescheduled to the performing loans category on receipt of six consecutive payments. The write-off policy recommends write-off of loans after 12 consecutive months of non-payment.

COLLECTIONS

Payments due are collected via an employer deduction, debit order and stop order payments.

The outbound call centre of the collections department follows up on unsuccessful collections and past due amounts. The strategy employed is to review large and group exposures and collections, based on urgency.

Rescheduling is also used as a collections strategy and is governed by an approved policy on rescheduling of loans.

RECOVERY

The trace team within the credit and collections department is responsible for tracing clients, confirming employment and renegotiating resumptions of repayment terms and re-instating salary deductions and debit orders. Further assistance is offered on property disposal. Legal action is the last resort to recover outstanding loans.

PROVISION METHODOLOGY

The escalating number of clients' falling under the debt review criteria "financially distressed", compelled Ithala to re-look at the provision methodology during the year. The change to the provision methodology was reviewed in line with financial industry practice.

WRITE-OFF/CLEAN-UP OF THE LEGACY LOANS

The board also resolved that the legacy loans should be written-off as per the write-off policy.

RESOLUTION OF LEGACY LEGAL LARGE EXPOSURE

A number of legacy legal large exposures were resolved through a number of interventions, amongst others:
Sale in execution and discounted full and final settlements, as well as cash sales. This resulted in the reduction of non-performing loans as well as the release of the provisions held against these loans when funds were paid in.

CREDIT AND COLLECTION PROCESS REVIEWED

The review realigned and refocused the credit and collections activities which resulted in an increase in arrears collected thereby reducing the number of non-performing loans due to the improving roll rate.

The current tough economic conditions, increasing the numbers of customers falling into debt review due to rising interest rates and increasing living expenses, such as electricity and petrol, compelled us to review our provision methodology and credit risk assessment processes.

LIQUIDITY RISK

Liquidity risk is the risk that Ithala will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk arises from mismatches between maturities of assets and liabilities. Ithala's business-as-usual liabilities are sufficiently matched with appropriate assets and it has significant liquidity available to cover its obligations.

The company's liquidity and ability to meet financial obligations is constantly monitored by the asset and liability committee and the risk and capital management committee.

Business activities of Ithala are geared towards short-term maturities on deposits and long-term maturities on advances which compound the liquidity risk.

Ithala's liquidity portfolio primarily consists of bank balances and cash on hand, money market instruments, such as call and fixed-term deposits with banks, treasury bills issued by the SARB, promissory notes and floating rate notes issued by state-owned companies.

LIQUIDITY RISK MANAGEMENT

Ithala's liquidity position is continuously monitored by the asset and liability management committee.

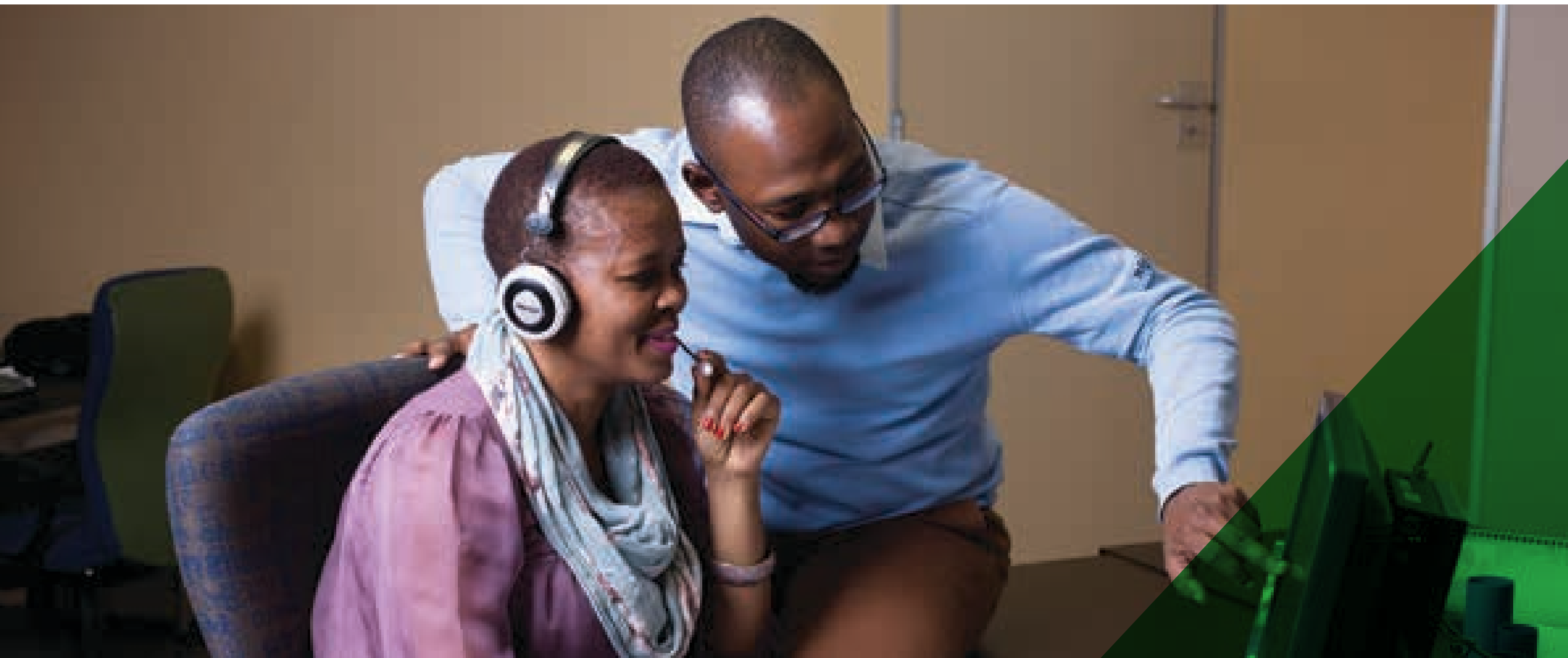
Ithala manages its liquidity risk in accordance with the approved liquidity risk policy. The policy is designed to ensure proper management of liquidity risks and that regulatory and prudential, as well as internal minimum requirements are met at all times.

This is achieved through maintaining adequate liquidity buffers to ensure that cash flow requirements can be met.

Ithala uses cash flow forecasts and maturity gap analysis to assess and monitor its liquidity requirements and risk levels.

A maturity gap profile report is reviewed and analysed by the asset and liability management committee on a monthly basis.

Ithala has successfully implemented the LCR, in accordance with Basel III. LCR sets out minimum requirements to ensure short-term resilience of liquidity risk profile i.e. maintenance



of an adequate level of unencumbered level one and level two high-quality liquid assets that can be converted into cash to meet the company's liquidity needs over a 30-calendar day time horizon under a significantly severe liquidity stress scenario.

Ithala has exceeded the minimum regulatory requirement of 60% for 2015 and is exceeding the 70% requirement for 2016. Ithala is well positioned to exceed the minimum requirement throughout the phase-in period. An additional requirement in respect of liquidity risk management to be introduced is the Basel III NSFR. It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration has been finalised.

NSFR sets out minimum requirements to promote resilience over a one-year time horizon and ensures continuous maintenance of a specified amount of stable sources of funding relative to the liquidity profile of the liabilities and the potential for contingent liquidity needs arising from off balance sheet commitments.

The ratio calculates the amount of available stable funding relative to the amount of required stable funding. As at 31 March 2016, Ithala met the 100% minimum requirement for the NSFR.

LIQUIDITY RISK MEASUREMENT

Liquidity risk is measured by conducting an analysis of net funding requirements.

Net funding requirements are determined by analysing future cash flows based on the assumptions of the expected behaviour of assets and liabilities and off balance sheet items.

Liabilities are short-term with the major part maturing contractually within six months, and assets are long-term with the major part falling within the greater than one-year maturity category.

However, under business-as-usual circumstances, adequate liquidity is maintained as deposits are rolled over and not withdrawn on maturity.

In terms of section 72 of the Banks Act, on a monthly basis, all banks are obliged to hold an average amount of statutory investments that shall not be less than 5,0% of its liabilities to the public. It was agreed with the SARB that we would hold a further 2,5%, instead of depositing an amount as a reserve balance with the SARB.

In terms of Ithala's liquidity management policy, a buffer of 20% above the prudential requirements will be held to ensure that the minimum balances required to be held are not breached in any instance. These funds are not available for use in operational activities.

BUSINESS-AS-USUAL LIQUIDITY MISMATCH

Behavioural profiling is applied to assets, liabilities and off balance sheet commitments, as well as to certain liquid assets because actual cash flows typically vary significantly from the contractual position. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Business-as-usual liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the company's defined liquidity risk thresholds.

Under business-as-usual circumstances, adequate liquidity is maintained as deposits are rolled over and not withdrawn on maturity.

CONTINGENCY LIQUIDITY RISK MANAGEMENT

CONTINGENCY FUNDING PLANS

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis.

The plans incorporate an early warning indicator process supported by clear crisis response strategies.

In terms of our liquidity risk management policy, the advances to deposits ratio in excess of 85,0% will trigger the implementation of the contingency funding plans.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

LIQUIDITY STRESS TESTING AND SCENARIO ANALYSIS

Stress testing is conducted to assess the ability of the organisation to withstand stressed liquidity conditions and to determine how it will cope in such a situation.

Stressed liquidity is defined as a condition that arises from a sudden deterioration of the perceived safety and credibility of the organisation, which results in substantial withdrawal of funds by depositors.

Liquidity crisis is brought about by the organisation's inability to roll-over deposits or replace withdrawn deposits, resulting in it not being able to meet its financial obligations.

Stress testing and scenario analysis are based on hypothetical, as well as historical events.

Full scope stress testing is performed and reported to the asset and liability management committee on a monthly basis, whereas the LCR is calculated daily.

With regard to standby lines of credit and the availability of funding in stress scenarios and as part of the Resolution Plan by the KwaZulu-Natal Provincial Government, we have immediate access to a R300,0 million guarantee facility.

For further discussion in respect of liquidity risk management refer to note 28.3 in the annual financial statements.

INTEREST RATE RISK

Ithala is exposed to interest rate risk due to its deposit-taking and lending activities. The repricing mismatches of these assets and liabilities, as a result of the change in prime lending rates, expose Ithala to this risk.

Ithala's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates.

To achieve this objective, Ithala needs to measure and manage its interest rate risk exposure over both the short and long-term in order to protect the earnings stream and ensure its continued financial sustainability.

During the current financial year the SARB increased rates by 125 basis points from 5,75% at the beginning of the financial year to 7,00% at the end of March 2016, staggered during the year. These increases have had a positive impact on margins.

HOW WE MANAGE INTEREST RATE RISK

Interest rate risk is the responsibility of the asset and liability management committee at management level, and the risk and capital management committee at board level.

The role of management is to protect both the financial performance, as a result of a change in earnings, and to protect the long-term economic value of Ithala.

The treasury department, under the supervision of the asset and liability management committee, manages our interest rate exposure within board-approved limits.

The treasury department hedges against the impact of interest rate risk by investing large client funds in back-to-back investments, as well as investing surplus funds in financial instruments that change when market interest rates change, such as the Johannesburg Interbank Agreed Rate (JIBAR) linked financial instrument. Ithala does not invest or trade in any derivative instruments.

Interest rate risk is also monitored and managed through margin analysis and the monitoring of mismatch levels between re-pricing assets and liabilities.

Sensitivity analysis is another tool used by Ithala to manage and monitor interest rate risk. Sensitivity analysis is performed regularly, which measures the impact of a shock increase or decrease in interest rates.

For regulatory purposes, an interest rate shock of 200 basis points is used, and for business purposes it is aligned to the expected basis points increase/decrease per economists' views, for which the year under review was 50 basis points.

SENSITIVITY ANALYSIS

Assuming no change in the balance sheet and no management intervention in response to interest rate movements, a 200 basis points increase in interest rates would result in an increase in projected 12-month NII of R15,9 million (2015: R18,0 million) and a decrease in interest rates would result in a reduction in projected 12-month NII of R25,0 million (2015: R28,8 million).

For further discussion in respect of stress testing and sensitivity measures, refer to note 28.4.1 in the annual financial statements.

OPERATIONAL RISK MANAGEMENT

The approach that Ithala has taken in managing the risks it faces (amongst other things) is to pay special attention to the top 10 risks that might prevent the achievement of our strategic goals and business objectives. (please refer to Material Issues and Risks on page 14).

The adopted practice is to implement an adequately aggressive operational risk management framework that will give effect to the micro-management of operational risks from their point of origin.

Operational risk analysts, internal audit and compliance provide assurance services and give an opinion on how the business is performing in terms of managing risks.
The mandate of operational risk is to build a solid foundation for an operational risk management culture and implementation of its programmes that will drive the achievement of efficient and effective customer service.

Ithala has also implemented a risk management tool called BarnOwl.

This tool will assist in the management and monitoring of risk trends of the organisation, risk appetite exposures and real time information on activities management embarked on to mitigate, avoid or transfer risks.

TOP FOUR EMERGING RISK THREATS

Enterprise risk management has identified top trending risk threats faced by most organisations at large and shift the focus to prioritise them in line with the level of exposure and severity of the impact each of these risks have on Ithala.

The four emerging risk threat criteria have been derived from our existing top 10 risks, in consideration with relevant industry analysis of top trending emerging risks.

The following risks have been identified by risk management experts as the main concerning risks for most organisations and organisations are urged to implement robust operational risk management programmes:

1. Cyber Security Risk

Cyber security risk has remained the main threat for many organisations due to the expansion of digital service channels along with an increase in the sophistication of cyber-attacks, which indicate a significant increase in vulnerability to cyber risk exposure for all organisations.

This exposure will result in reputational impact through loss of client information or denial of core customer service (e.g. branch network services).

With our risk management approach, there is going to be a close look at digital service expansion and due diligence will be required from responsible executives to perform adequate feasibility studies and risk and impact analyses for all technological developments to minimise risk exposure.

Our approach to cyber security risk management will be addressed by using a combination of compliance and risk-based approaches.

The compliance-based cyber security risk management approach is also known as Standards Based Security, which relies on regulations and standards to determine security implementation.

Our risk mitigation approach in this regard will be control implementation, regardless of the applicability or necessity to keep abreast with the growing trends and threats which might impact on the organisation at a later stage.

The risk-based cyber security risk management approach relies on identifying the unique risk a particular organisation faces and designing and implementing security controls to address that risk above and beyond the entity risk tolerance and business needs.

2. Conduct Risk

Poor conduct frequently results in problems, such as mis-selling, market abuse and fraud, which may lead to law suits and regulatory penalties.

Ithala prides itself on its values which set the tone of the organisation's business code to its staff, stakeholders and role-players. Ithala's business code of conduct states that the chairman, board, executive management and general staff of Ithala are committed to the principles of governance, as set forth in the King Report on Corporate Governance and are, therefore, dedicated to conducting the business of the organisation with integrity, and in accordance with generally accepted corporate practice to ensure the effectiveness of Ithala's values.

Therefore our conduct risk is mainly governed by defined values and a code of business conduct defined by the organisation, together with laws and regulations.

3. Regulatory Changes Risk

Regulatory changes brought about by the Basel Committee on Banking Supervision are also identified as one of the top emerging risks.

This includes an increase in the requirements and expectations of regulators, shifting timelines and a lack of transactional consistency.

The focus has been shifted with limited company resources being directed towards regulatory requirements as opposed to business and customer needs.

We effectively manage regulatory changes by managing our compliance risk at operational level. Our compliance department is responsible for the implementation, monitoring and management of compliance regulation changes that affect Ithala. The gaps identified are reported to the relevant committees of the affected areas and management implements controls as a first line of defence to keep compliance risk at acceptable tolerance levels.

4. Outsourcing Of Services And Information Technology's Inability To Support Business Risks

Outsourcing core business services and technology to third parties has its benefits as well disadvantages,which present operational risks.

When a business outsources services, the risks are meant to be transferred to the service organisation. However, if you don't have adequately designed policies and service level agreements (SLA) in place, you are likely to inherit risks that the service provider is exposed to operationally if they do not have a sound enterprise risk management methodology in place.

This method of risk mitigation avoids risks by implementing contracts and SLA’s that favour the service organisation instead of your business. Information technology’s inability to support business operations may result in wasteful expenditure on technological investments that do not fulfil the organisations strategic direction.

RISK MANAGEMENT TOOLS

BarnOwl software has been implemented to promote a mature risk management culture in the organisation and technology is developed to support effective and efficient business process management.

Enterprise risk management has also implemented the tool in the firm belief that it will assist risk management to efficiently maintain risk registers within the organisation, monitor risk exposure levels, manage and monitor management action items relating to risks in their control environment and to provide supporting information that management will need to prioritise according to their level of importance and urgency.

GOVERNANCE AND TRANSPARENCY

GOOD CORPORATE GOVERNANCE REMAINS INTEGRAL TO THE WAY WE OPERATE. IT IS FUNDAMENTAL TO ITHALA'S APPROACH TO THE ENHANCEMENT OF SHAREHOLDER VALUE AND THE PROTECTION OF STAKEHOLDERS' FUNDS.

HOW OUR BUSINESS IS GOVERNED

Ithala's board is committed to ensuring that it operates in a precise, principled and astute manner. Given its commitment to good corporate governance, the board has noted the early developments pertaining to King IV that were released for public comment in March 2016.

The board is committed to this new process of corporate governance to uphold the primary pillars of fairness, accountability, responsibility and transparency.

Ithala operates in a highly regulated environment that is constantly evolving. The board continues, through effective leadership, to ensure that Ithala complies with the provisions and regulations of all applicable laws.

The board endeavours to maintain a healthy relationship with regulators and ensures continued compliance with regulatory requirements.

The board reiterates its commitment to sound corporate governance structures, policies and practices as fundamental to ensuring Ithala acts in a responsible and transparent manner.

We are committed to continually enhancing our corporate governance processes in line with best practice and ensuring that operations are ethically conducted within the regulatory framework in which we operate. The board is accountable to the shareholder for the strategic direction of Ithala and value-creation for the shareholder.

The board operates within a defined governance framework, whereby it provides strategic and risk oversight, while adhering to regulatory requirements and risk tolerance.

The board delegates authority to the relevant board committees and the CEO, with clearly defined mandates and authorities, while preserving its ultimate accountability.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. Each committee has clear terms of reference and mandate, which the board reviews at least once a year.

The mandate for each committee sets out its role, responsibilities, scope of authority, composition, terms of reference and procedures.

The day-to-day management of the company vests in the hands of the CEO, subject to the delegated powers of authority approved by the board.

The executive committee assists the CEO in the day-to-day management of the affairs of Ithala, subject to statutory parameters and matters reserved for the board.

BOARD, DIRECTORS AND COMMITTEES

ROLE OF THE BOARD

The board takes overall responsibility for directing Ithala towards the achievement of its strategic objectives, vision and mission, as well as our overall performance.

The board is responsible for the decision-making process regarding strategy, planning and performance, allocation of resources, business ethics and risk management and communication with stakeholders.

The terms of reference and charter for the board define the framework, authority and parameters within which the board operates.

For ease of alignment and business interface with the company, the board invites executive management to its meetings, whilst specifically reserving its right to meet without management's presence when required.

The board charter includes the directors' code of conduct. The board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance.

The charter confirms the board's accountability, fiduciary duties, duty to declare conflicts of interest, appointments to committees and meeting procedures.

BOARD PROFILE

The board comprises a majority of independent non-executive directors who, with the CEO, have an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the board's responsibilities and objectives.

This includes finance, audit, legal, risk management and human resources skills, as well as general business.

BOARD STRUCTURE AND COMPOSITION

The composition of the board ensures that there is a balance of power and authorities, meaning all directors decide company policy by consensus. The structure consists of one executive and seven non-executive directors, six of whom are independent. Ithala's definition of 'independent' and 'non-executive' are in line with those of King III.

The board functions effectively and efficiently and is considered to be of an appropriate size in terms of its memorandum of incorporation, taking into account, among other considerations, the need to have sufficient directors to structure board committees appropriately, as well providing for succession planning.

Non-executive directors bring diverse perspectives to board deliberations, and the constructive challenging of the views of executive directors and management is encouraged.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independence of the board is maintained by adhering to certain key principles:

- The annual general meeting confirms the nomination and ratifies the appointment of the majority of the board for a fixed term;
- The positions of chairperson and CEO are separate;
- The chairperson is an independent non-executive member of the board; and
- All board committees are chaired by an independent non-executive member.

RESIGNATION AND APPOINTMENT OF DIRECTORS

During the course of the year, Mr Gregory White resigned as the acting CEO on 30 November 2015. Mr Peter Ireland was appointed as the CEO on 1 April 2016.

Ms Venete Klein resigned as a member of the board on 31 July 2015.

Ms Polo Radebe was appointed on 11 August 2015 as a member of the board, the directors' affairs committee, the audit and compliance committee, risk and capital management committee and the IT governance committee.

Mrs Tantaswa Nyoka was appointed on 24 March 2016 as a member of the board, the directors' affairs committee, the audit and compliance committee, risk and capital management committee, human resources, social and ethics committee and insurance advisory committee (IAC).

OUR LEADERSHIP

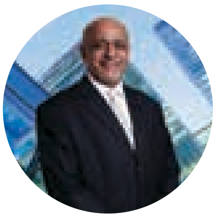
Ithala is led by a skilled and committed board. Our board focuses on building the strength of the organisation with regard to delivering on its mandate and providing an extensive array of retail banking and insurance products, thus encouraging the financial inclusivity of the communities we exist to serve.

MALOSE KEKANA (46)
CHAIRMAN OF ITHALA SOC LIMITED

B.Comm (Finance), B.Comm (Hons) (Finance)
Appointed 2013

EXTERNAL APPOINTMENTS:

* Executive director: Pareto Limited
* Chief executive officer: Belelani Investment Managers
^ Chief executive officer: Umsobomvu Youth Fund
* Chairperson: Khula Enterprise Finance Limited
* Chairperson: National Development Agency
* Tristar Group Holdings (Pty) Limited



MAHMOOD MIA (69)
INDEPENDENT NON-EXECUTIVE DIRECTOR

Matriculation Exemption
Appointed 2010

EXTERNAL APPOINTMENTS:

* Mutual & Federal Insurance Company Limited
* Mutual & Federal Risk Financing Limited
* Durban Technology Hub
* Credit Guarantee Insurance Corporation Limited
* Momentum Health Audit Committee

SIPHO NGIDI (61)
INDEPENDENT NON-EXECUTIVE DIRECTOR

B.Admin, B.Comm (Hons) (Economics)
Appointed 2011

EXTERNAL APPOINTMENTS:

* Chairperson: Spectramed
* Chairperson: Fibre Processing and Manufacturing Sector Education and Training Authority
* Reatile (Pty) Limited
* Beagles Run Investments
* Kilepsy (Pty) Limited
* Sonke Skills Solutions (Pty) Limited

BABALWA NGONYAMA (42)
INDEPENDENT NON-EXECUTIVE DIRECTOR

CA(SA)
Appointed 2012

EXTERNAL APPOINTMENTS:

* Chief executive officer: Sinayowetu Securities (Pty) Limited
^ Founding chairperson: African Women Chartered Accountants
* Barloworld Limited
* Group Five Limited
* Clover Industries Limited
* Hollard Insurance
* Impala Platinum Limited
* Aspen Pharmacare Holdings Limited
* Kagiso Tiso Holdings (Pty) Limited
* Brand Engineering SA (Pty) Limited

POLO RADEBE (41)
INDEPENDENT NON-EXECUTIVE DIRECTOR

B.Compt (Hons), B.Comm (Accounting)
Appointed 2015

EXTERNAL APPOINTMENTS:

* ICAS Southern Africa
* Financial Services Charter Council
* Knorr Bremse SA (Pty) Limited

TANTASWA NYOKA (44)
INDEPENDENT NON-EXECUTIVE DIRECTOR

CA(SA)
Appointed 2016

EXTERNAL APPOINTMENTS:

* Founding managing director: Cerebral Cross Consultancy
* Santam Limited
* Public Investment Corporation SOC Limited
* Presidential BEE Advisory Council

YVONNE ZWANE (56)
NON-EXECUTIVE DIRECTOR

B.Comm (Accounting), UED (University Educational Diploma), CAIB (SA), MBL
Appointed 2012

EXTERNAL APPOINTMENTS:

* Group chief executive officer: Ithala Development Finance Corporation Limited

PETER IRELAND (51)
CHIEF EXECUTIVE OFFICER

CA(SA)
Appointed 2012 and as CEO in 2016

EXTERNAL APPOINTMENTS:

^ Group chief financial officer: Ithala Development Finance Corporation Limited

* Present directorships
^ Past directorships

BOARD AND BOARD COMMITTEE ATTENDANCE

	Board of Directors	Directors' Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committe	Human Resources, Social and Ethics Committee	Remuneration Committee	Insurance Advisory Committee
	Number of meetings: 6	Number of meetings: 3	Number of meetings: 7	Number of meetings: 5	Number of meetings: 4	Number of meetings: 4	Number of meetings: 2	Number of meetings: 2
BOARD MEMBER	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED
MALOSE KEKANA	5	2	n/a	n/a	n/a	n/a	1	n/a
MAHMOOD MIA	6	3	7	5	4	4	2	2
SIPHO NGIDI	6	3	n/a	n/a	n/a	4	2	n/a
BABALWA NGONYAMA	6	3	7	5	4	n/a	1	1
YVONNE ZWANE	3	2	3	1	1	3	2	1
POLO RADEBE*	1	2	5	3	2	n/a	n/a	n/a
VENETE KLEIN**	4	1	2	2	2	n/a	n/a	n/a
TANTASWA NYOKA!	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GREGORY WHITE#	3	2	2	3	2	2	1	n/a
PETER IRELAND^	6	2	7	5	4	1	n/a	2

Gregory White - Resigned as the acting CEO and from the board on 30 November 2015
^ Peter Ireland - Appointed as CEO of Ithala, effective 1 April 2016
* Polo Radebe - Appointed on 11 August 2015 as a member of the board
** Venete Klein - Resigned as a member of the board on 31 July 2016
! Tantaswa Nyoka - Appointed on 24 March 2016 as a member of the board

DIRECTORS' APPOINTMENT, ROTATION AND INDUCTION

In terms of the shareholders compact, all non-executive directors retire every year and are, if available, considered for reappointment by the shareholders at the annual general meeting.

The board has a formal and transparent process in place for the appointment of directors and the directors' affairs committee serves as the nominations committee of the board and identifies suitable candidates for recommendation and approval by the board.

A formal induction process is followed to familiarise new incumbents with our business and the operational and legislative context within which we operate.

BOARD EFFECTIVENESS AND EVALUATION

A formal process to evaluate the performance of individual board members and a skills gap analysis takes place annually.

Every board member completes a self-assessment form evaluating their own performance and the performance of their peers for the year. This assists the chairman to identify training needs of board members, as well as necessary skills.

BOARD REMUNERATION

The independent non-executive directors' remuneration is determined at the annual general meeting, in line with the provisions of the National Treasury guidelines on remuneration for independent non-executive directors of state-owned entities.

The directors are remunerated on the basis of a monthly retainer and board/committee meeting attendance.

DECLARATION OF INTEREST

The board conforms to a conflict of interest process, whereby any interest in matters before the board or its committees are required to be disclosed by individual directors.

THE BOARD

MAIN RESPONSIBILITIES

The main responsibilities of the board include:

- Ensuring that the business is a going concern;
- Retaining full and effective control of the company by considering and approving the company's strategy, business plan, annual and operating budget, as well as any subsequent material changes in strategic direction or material deviations from its business plans and its performance criteria;
- On an on-going basis monitoring and assessing the effectiveness of the processes relating to corporate governance, internal controls, risk management, compliance, capital management and capital adequacy;
- Approving the annual financial statements upon recommendation of the audit and compliance committee. It records the relevant facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead;
- Ensuring that the audit and compliance committee consists of independent non-executive directors;
- Identifying and monitoring the company's key risk areas and key performance indicators and satisfying itself that Ithala's risk philosophy, strategies and policies are appropriate to the business, and that there is due compliance with all risk-related policies, procedures and standards; internal controls, both operational and financial, are effectively maintained and, where necessary reviewed; that there is an effective risk-based internal audit; and
  - The technology and systems used in the company are appropriate to its business needs;
  - The levels of risk tolerance are determined;
  - That management considers and implements appropriate risk responses by annually reviewing the business continuity plan; and
  - Continual risk monitoring by management takes place and the board receives assurance regarding the effectiveness of the risk management process from the risk and capital management committee;
- With the guidance of the human resources, social and ethics committee, the board ensures that:
  - The ethical standards guiding relationships with internal and external stakeholders are clearly identified;
  - The company's ethics performance is assessed, monitored, reported and disclosed;
  - The company's ethics risks and opportunities are assessed and that an ethics risk profile is compiled; and
  - The company's ethics standards are integrated into all company strategies and operations; and
- The board is responsible for IT and has delegated the responsibility for the implementation of an IT governance framework to the IT governance committee.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year the board:

- Oversaw the establishment of an insurance advisory committee;
- Oversaw the launch of the Student debit card product and Ithala Student Fund;
- Submitted its application for a strategic equity partner;
- Approved the board continuity plan (BCP);
- Oversaw the completion of a comprehensive corporate strategy;
- Approved the budget, annual performance plan and corporate plan; and
- Provided on-going monitoring of the implementation of the strategy and plans, and supported management in the prioritisation of key projects.

THE YEAR AHEAD

- The board will oversee the launch of the hosted banking system and insurance management system;
- Submit a banking licence application to the SARB;
- On-going basis monitoring and assessing the effectiveness of the processes relating to corporate governance, internal controls, risk management, compliance, capital management and capital adequacy;
- Ensure that the business is a going concern;
- Continue to provide effective leadership;
- Monitor stakeholder relations and engagements; and
- Secure an equity partner.

DIRECTORS' AFFAIRS COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:

- Reviewing and monitoring compliance with all corporate governance practices;
- Assisting the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures and practices of the company;
- Assisting the board in maintaining the BCP;
- Conducting an annual assessment of the board as a whole and of the contribution of each individual director, as well as reviewing the performance and effectiveness of board committees; and
- Assisting the board in the nomination and appointment of board members.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year, the committee:

- Proposed the nomination of Ms P Radebe and Mrs T Nyoka to the board;
- Oversaw the implementation of the BCP to ensure the company has the leadership in place to deliver against its mandate and its strategic objectives;
- Oversaw the appointment of the CEO; and
- Monitored the expenditure of the directors.

THE YEAR AHEAD

The committee will:

- Ensure stability at Ithala at board level and build effective leadership and capability within the board;
- Ensure that the board is fit and proper and that the composition of sub-committees is adequate; and
- Ensure training and directors' development.

AUDIT AND COMPLIANCE COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:
- Introducing measures to enhance the credibility and objectivity of the financial statements and reports prepared with reference to the affairs of the company; and
- Performing functions determined by the board, including reviewing policies and procedures designed to improve the effectiveness of risk management, control, and governance processes within the company.

Financial reporting
- The committee reviews the annual financial statements, the accompanying reports to the shareholder and any other announcements regarding the company's results or other financial information to be made public, prior to submission and approval by the board. Particular attention is focused on:
  - The impact of significant or new financial systems;
  - Litigation matters;
  - The appropriateness of accounting policies adopted and any changes in the accounting policies and compliance practices
  - Significant financial estimates based on judgement which are included in the financial statements;
  - The impact and disclosure of significant, complex and/or unusual transactions, especially where the accounting treatment is open to different interpretations; and
  - The appropriateness of major adjustments processed at year-end.

Compliance
- Reviews the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance;
- Obtains reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory requirements; and
- Reviews reports submitted by the compliance officer on the level of compliance with laws, regulations and supervisory requirements by the company at every meeting of the audit and compliance committee, a copy of which was submitted to the Registrar of Banks.

Internal audit
- Monitors and evaluates the performance of the internal audit function in terms of agreed goals and objectives;
- Ensures that the internal audit objectives and goals, staffing, budgets and plans provide adequate support for the goals and objectives of the committee, as well as for the fulfillment of the internal audit charter; and
- Ensures that the internal audit function has the necessary resources and access to information to enable it to fulfil its plan and to perform its duties in accordance with the appropriate professional standards for internal auditors.

External auditors
- Satisfies itself that the audit plan makes provision for effectively addressing the critical risk areas in the business;
- Provides an open avenue of communication between the external auditor, internal auditor and the board;
- Reviews any representation letters requested by the auditor before they are signed by management;
- Reviews the overall audit role to ensure the minimisation of duplication, discusses the implementation of new auditing standards and ensures that the external audit fee will sustain a proper audit and provide value for money; and
- Assesses the independence and effectiveness of the external auditors and audit partner on an annual basis.

AUDIT AND COMPLIANCE COMMITTEE

SUMMARY OF KEY FOCUS AREAS IN 2015/16

Financial reporting
- The committee monitored the implementation of the turn-around strategy in order to meet the performance obligations as documented in the MoA signed with the Minister of Finance on 29 August 2014;
- Continuously monitored the capital adequacy ratio ensuring that it is above the minimum required by the SARB;
- Assisted management in exploring options to source additional capital for the company to be fully capitalised, as required by the SARB;
- Monitored and reviewed reports of the adequacy of the provisions for non-performing loans, impairments of other assets and focused on enhancing the collection strategy to improve collections; and
- Approved the combined assurance model.

Compliance
- The committee reviewed and approved the mandate and compliance plan;
- Monitored compliance with the companies Act, the Banks Act, PFMA and all other applicable legislation and governance codes;
- Monitored the progress made in the implementation of the road-maps approved by the committee in the combined assurance departments (internal audit, risk management, compliance and governance), including the process followed by the respective departments to deliver desired targets;
- Reviewed the compliance officer's reports regarding the effectiveness of the implemented compliance framework with the applicable laws and regulations, findings of any examinations by the regulatory agencies and updates on new legislative/ regulatory requirements; and
- Approved the implementation of an integrated governance, risk management, compliance and audit software to ensure that the company uses the best practice methodologies and frameworks.

Internal audit
- The committee assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources. The committee satisfied itself that the company will have a fully functioning and capacitated internal audit function by 31 March 2016;
- It reviewed and approved an annual internal audit plan to ensure proper coverage of the matters laid out in the terms of reference and critical matters are all attended to while other matters are dealt with on a rotation basis;
- It reviewed significant issues raised by internal audit processes and the adequacy of corrective action in response to such findings; and
- The committee worked with management to address and substantially reduce the number of internal and external audit findings and ensured that internal controls, processes and procedures are implemented to avoid re-occurrence.

External auditors
- The committee approved the re-appointment of the A-G as external auditors for the financial year ended 31 March 2016;
- Approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- Considered the nature and extent of all non-audit services provided by the external auditors; and
- Confirmed that no reportable irregularities were identified and reported by the external auditors.

THE YEAR AHEAD

The committee will:
- Monitor the capital adequacy ratio and cost-to-income ratio;
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance;
- Monitor and evaluate the performance of the internal audit function in terms of agreed goals and objectives;
- Review policies and procedures designed to improve the effectiveness of risk management, control, and governance processes within the company;
- Assesses the independence and effectiveness of the external auditors and audit partner on an annual basis; and
- Monitor compliance with relevant legislation.

RISK AND CAPITAL MANAGEMENT COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:

- Overseeing the development and annual review of the ERMF and recommend it for board approval;
- Ensuring the implementation of the risk management policy and plan that will enhance the company's ability to achieve its strategic objectives;
- Ensuring that reporting regarding risk and risk management is comprehensive, timely, and relevant;
- Making recommendations to the board concerning the company's risk appetite and tolerance levels, and monitoring that risks are managed within the risk appetite and tolerance levels as approved by the board;
- Assisting the board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the company in the day-to-day management of its business;
- Assisting the board in identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Assisting the board to establish policies and procedures designed to ensure that the company identifies, measures, and reports all material risks; and
- Assisting the board to establish a process that relates capital to the level of risk and establishing a process that states capital adequacy goals with respect to risk, taking into account Ithala's strategic focus and business plan.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year, the committee:

- Conducted the annual risk management review and approval of the ICAAP, which forms part of the Basel III Pillar 2 assessment, whereby the level of capital that adequately supports all relevant current and future risks in the business is assessed;
- Reviewed and approved the risk appetite framework;
- Developed and monitored the strategic risk and divisional risk registers;
- Approved the risk management plan;
- Monitored management's activities and assessed management's capabilities relating to the company's risk management, including, through regular discussion with and reports from management concerning the systems and procedures, that management has developed and maintains procedures to identify, monitor and mitigate risks;
- Provided oversight regarding management's efforts to identify, categorise and manage the company's risks, including credit risk, market risk, operational risk, liquidity risk, and capital risk, as well as business continuity and IT risk;
- Identified risk issues that should be escalated to the board for final action; and
- Reviewed and recommended to board the recovery plan.

THE YEAR AHEAD

The committee will:

- Continue to evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the company in the day-to-day management of the business;
- Oversee the annual review of the ERMF, strategic risk register and risk profiles;
- Make recommendations to the board concerning the company's risk appetite and tolerance levels, and monitor risk management within the risk appetite and tolerance levels as approved by the board; and
- Ensure that reporting, regarding risk and risk management, is comprehensive, timely, and relevant.

INFORMATION TECHNOLOGY GOVERNANCE COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:
- Assisting the board in discharging its responsibilities to ensuring that IT governance, as part of enterprise governance, is adequately addressed;
- Advising on the information and communications technology (ICT) strategic direction, and reviewing major ICT investments, as well as exercising oversight over project implementation, and identifying and monitoring associated risks on behalf of the board;
- Prioritising project proposals to determine which projects will return most value to the company;
- Setting overall standards to ensure the nature and type of ICT systems deployed will result in overall compatibility and integration of systems where required;
- Assessing and monitoring the materiality and relevance of system failures and ensuring action plans to rectify and prevent re-occurrence are in place; and
- Reviewing ICT audit reports and recommending appropriate remedial actions.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year, the committee:
- Approved the IT strategy;
- Reviewed the ICT strategy and initiatives supporting the business;
- Reviewed the ICT policy, governance framework and budget;
- Reviewed the internal audit issues that were unresolved, and ensured that management set clear action plans within the agreed timelines to resolve such issues;
- Monitored the implementation of the hosted banking and insurance management systems;
- Appointed a qualified IT-skilled and co-opted member; and
- Appointed a head of IT.

THE YEAR AHEAD

The committee will:
- Enhance it architecture through the effective establishment and efficient delivery of IT programmes, projects and systems;
- Focus on approving and testing the disaster recovery plan;
- Oversee process ownership, clear responsibility and accountability for ICT activities;
- Oversee the alignment of ICT objectives with business objectives, set priorities and allocate resources;
- Ensure return on ICT investments and minimise costs;
- Monitor significant ICT risks that have been identified to ensure that these are being addressed;
- Monitor ICT risk management and obtain assurance on the effectiveness of controls put in place;
- Oversee the promotion of an ethical ICT governance culture and awareness within the company; and
- Continue to monitor ICT investment and expenditure.

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:
- Monitoring the implementation of HR policies and evaluating whether they promote the achievement of strategic objectives and encourage individual performance;
- Reviewing general conditions of employment;
- Ensuring that just and equitable processes are followed on implementation of disciplinary action against executive management;
- Ensuring that the HR department is appropriately led, and has adequate human and other resources;
- Reviewing the criteria and process used to measure staff performance;
- Assisting the CEO with the recruitment, selection and appointment of executives;
- Through its oversight, providing assurance to internal stakeholders that our human resources policies are in the best interests of the company; and
- Evaluating its performance against its duties and responsibilities, as set out in its terms of reference.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year, the committee:
- Oversaw the development of the HR strategy for the company, including talent retention and attraction, career progression, training and employee wellness;
- Provided oversight of the development of the automated performance management system and the enhancement of our performance management policy;
- Developed a sales academy programme;
- Focused on filling key executive and senior vacancies, including the establishment of an adequately resourced IT department;
- Strengthened stakeholder relationships; and
- Oversaw the establishment of an ideal HR model for the company.

THE YEAR AHEAD

The committee will:
- Focus on organisational transformation to establish a culture of accountability and ethics, which is fundamental to the sustainability of its operations;
- Continue to oversee the development of a proactive approach towards matters relating to making Ithala a preferred employer;
- Ensure the effectiveness of the performance management system; and
- Assist the CEO with the recruitment, selection and appointment of key positions.

REMUNERATION COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:
- Recommending remuneration packages for each of the executive directors and senior management for board approval;
- Promoting a culture of performance through the remuneration policy;
- Determining remuneration packages needed to attract, retain and motivate high-performing executive directors and executive management;
- Reviewing performance-related incentive schemes, performance criteria and measurements;
- Ensuring consistency and fairness in the remuneration and conditions of employment throughout management levels including internal equity between remuneration of executive directors and executive management; and
- Ensuring that remuneration levels are comparable with other organisations, and are based on consideration of performance.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

During the past year, the committee:
- Oversaw the development of an incentive performance scheme to reward performance across the company;
- Undertook an exercise to benchmark executive remuneration;
- Recommended salary increases for Ithala staff; and
- Reviewed remuneration levels to ensure that they were comparable with other organisations.

THE YEAR AHEAD

The committee will:
- Monitor succession planning for board members, the CEO, finance director and executive committee;
- Promote a culture of performance through its remuneration policy; and
- Review performance-related incentive schemes, performance criteria and measurements.

INSURANCE ADVISORY COMMITTEE

MAIN RESPONSIBILITIES

The main responsibilities of the committee include:

- Considering and ensuring implementation of the insurance strategy and business plan that will enhance the ability to achieve its strategic objectives;
- Monitoring developments relating to the insurance department's improvement as a strategic business unit, including emerging risks and their potential impact;
- Considering capital and liquidity in relation to such capital adequacy and liquidity requirements and practices as shall apply from time to time; and
- Reviewing regular reports from internal audit, external audit, compliance and risk and others on the operational effectiveness of measures relating to risks.

SUMMARY OF KEY FOCUS AREAS IN 2015/16

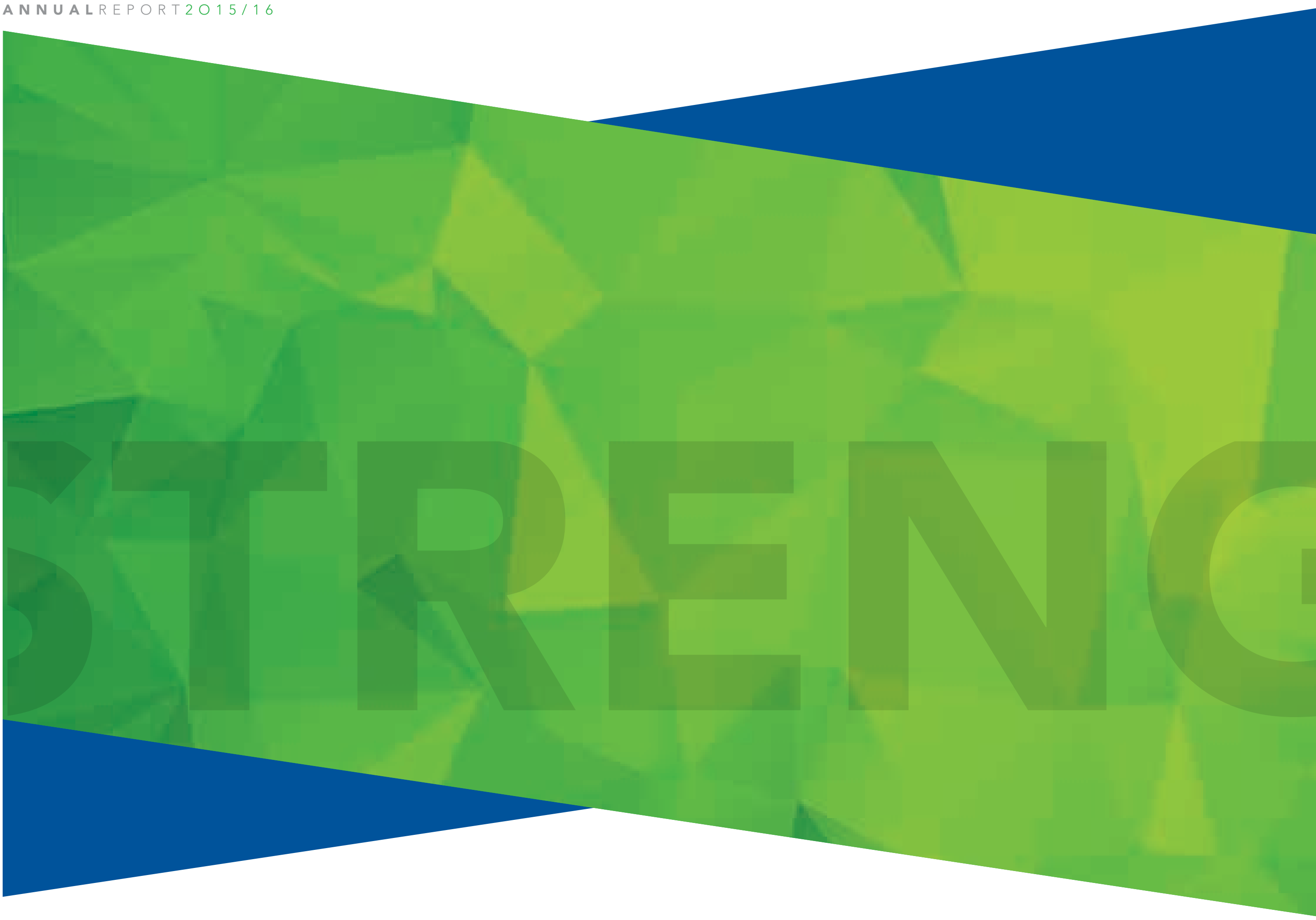
During the past year, the committee:

- Oversaw the development and implementation of the insurance strategy;
- Monitored the appointment of key positions;
- Reviewed regular reports from internal audit, compliance and risk departments to ensure compliance; and
- Monitored the capital and liquidity of the insurance department.

THE YEAR AHEAD

The committee will:

- Oversee the launch of the insurance management system;
- Deliver the successful implementation of affinity products and the development of new insurance products;
- Appoint a head of insurance; and
- Review regular reports from internal audit, external audit, compliance and risk and others on the operational effectiveness of measures relating to risks.



STRENGTH IN NUMBERS

ANNUAL FINANCIAL STATEMENTS 2015/16

ANNUAL FINANCIAL STATEMENTS

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DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors (Board or Directors) are responsible for the preparation and fair presentation of the Annual Financial Statements of Ithala SOC Limited, comprising the statement of financial position as at 31 March 2016, the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, and the notes to the Annual Financial Statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) as prescribed by the Accounting Standards Board.

To enable the Directors to meet these responsibilities:

- The Board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Audit and Compliance Committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The Audit and Compliance Committee, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the Directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The Company consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in accordance with SA GAAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance.

The Directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management. All employees are required to maintain the highest ethical standards in ensuring that the Company's practices are concluded in a manner, which in all reasonable circumstances is above reproach.

The Directors have made an assessment of the Company's ability to continue as a going concern and have included appropriate disclosure in the Directors' Report. The basis of accounting has been adopted by the Board after having made enquires 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 Company will not continue as a going concern in the year ahead. The Auditor-General of South Africa (A-G) 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 Company's Annual Financial Statements. Their report is presented on pages 65 to 66.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements of Ithala SOC Limited, were approved by the Board of Directors on 25 July 2016 and are signed on their behalf by:

Malose Kekana
Chairman
25 July 2016

Peter Ireland
Chief Executive Officer
25 July 2016

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm, in my capacity as Company Secretary of Ithala SOC Limited, that for the year ended 31 March 2016, the Company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up-to-date.

Thabisile Mungwe
Company Secretary
25 July 2016

REPORT OF THE AUDITOR-GENERAL
TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the financial statements of Ithala SOC Limited set out on pages 70 to 129, which comprise the statement of financial position as at 31 March 2016, the 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 board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these 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), Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and the Banks Act of South Africa, 1990 (Act No.94 of 1990) (Banks Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of 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 financial statements based on my audit. I conducted my audit in accordance with the 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Ithala SOC Limited 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, Companies Act and the Banks Act.

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 note 1 to the 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 UNCERTAINTY

9. As disclosed in note 26 to the financial statements, the entity is the defendant in various claims at 31 March 2016. The outcome of these matters cannot currently be determined and therefore no provision for any liability was made in the financial statements.

MATERIAL LOSSES

10. As disclosed in note 27.2 to the financial statements, material losses of R39,77 million were reported by the entity as a result of the write-off of previously impaired loans and advances. The entity incurred further losses of R3,5 million due to thefts and break-ins at branches.

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

REPORT OF THE AUDITOR-GENERAL

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. The entity has not made any accounting policy ammendments since 1 December 2012.

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 programmes 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 objective 1: financial and shareholder perspective on pages 28 to 30 and objective 2: customer perspective on pages 31 to 32 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.

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 selected 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 28 to 34 includes information on the achievement of the 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 material instances of 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 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 have an impact on the financial statements, 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 Audit and Risk Assurance Services (IGARAS) conduct ongoing investigations into allegations of teller shortages, theft at branches and disputed withdrawals.

AUDIT-RELATED SERVICE AND SPECIAL AUDITS

25. Agreed upon procedures reports were issued to the South African Reserve Bank relating to returns issued in terms of the Banks Act.

26. 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).

27. A report was issued to the National Department of Human Settlements relating to the annual return submitted in accordance with the Home Loans and Mortgage Disclosures Act of South Africa, 2000 (Act No. 63 of 2000).

Auditor-General

Pietermaritzburg
21 October 2016

AUDITOR-GENERAL
SOUTH AFRICA

DIRECTORS' REPORT

The Directors of Ithala SOC Limited have pleasure in presenting their report, for the year ended 31 March 2016.

INTRODUCTION

Ithala SOC Limited is wholly-owned by Ithala Development Finance Corporation Limited which, in turn, is wholly-owned by the KwaZulu-Natal Provincial Government.

Formally established in 2001 in order to enhance the Group's capital position through its deposit-taking capability, the Company's purpose is to provide financial services to the people of KwaZulu-Natal in areas where such services have not been readily available in the past, thereby contributing to the Province's socio-economic development.

TAXATION

The South African Revenue Service has granted Ithala SOC Limited an income tax exemption in accordance with section 10(1)(cA)(ii) of the Income Tax Act.

CHANGES IN DIRECTORS

A full list of Directors is included in the Corporate Governance Report. The following changes to the Board were made during the period under review:

- Appointments:
  - P Radebe - 11 August 2015
  - T Nyoka - 24 March 2016

- Resignations:
  - GNJ White (Acting Chief Executive Officer) - 30 November 2015

Mr PA Ireland, an existing Executive Director, was appointed as Chief Executive Officer from 1 April 2016.

The Board thanks the outgoing Acting Chief Executive Officer, Mr GNJ White, for his dedicated service.

GOING CONCERN

The Company earned a net profit for the period ending 31 March 2016 of R0,02 million (31 March 2015 net profit: R0,5 million).

As at 31 March 2016 the Company's total assets exceeded total liabilities by R266,9 million (31 March 2015: R237,0 million) and total cash resources were R974,2 million (31 March 2015: R756,9 million).

As at 31 March 2016 the capital adequacy ratio of the Company was 17,73% (31 March 2015: 16,80%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank (SARB) of 10,875%.

In keeping with the financial support provided in previous years, Ithala Development Finance Corporation Limited injected additional share capital amounting to R29,9 million in the 2016 financial year to ensure that the SARB regulatory prescribed minimum ratios were met, as well as to ensure the future growth of the Company, based on the Board-approved strategy.

The Company has incurred an operating profit for the second consecutive year and as such, the Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

The Minister of Finance has signed a Memorandum of Agreement with the Company which specifies specific performance obligations that the Company must achieve for the renewal of the banking licence exemption for the year commencing 1 July 2016.

The Minister of Finance has assessed the performance obligations for the year ending 31 March 2016 and has granted the Company a banking licence exemption until 30 September 2017.

FINANCIAL RESULTS

The results of Ithala SOC Limited for the year ended 31 March 2016 are disclosed in the Annual Financial Statements, as set out on pages 70 to 130.

DIVIDENDS

No dividends were declared or paid during the review period.

DIRECTORS AND COMPANY SECRETARY

Information relating to the Directors is included on pages 49 to 51. Information relating to the Company Secretary is included on page 64 of the integrated report. The Directors' interest in share capital and contracts and Directors' remuneration are disclosed in the notes to the Annual Financial Statements.

MATERIAL EVENTS AFTER BALANCE SHEET DATE

The Directors are not aware of any event which is material to the financial position of the Company that has occurred between the Statement of Financial Position date and the date of approval of the Annual Financial Statements.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee presents its report for the financial year ended 31 March 2016 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [In terms of section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act of 1999 as amended], section 94(7)(f) of the Companies Act, the Banks Act 94 of 1990, and the Code of Corporate Practices and Conduct set-out in the King Report on Corporate Governance for South Africa 2009.

The Audit and Compliance Committee has been constituted in accordance with applicable legislation and regulations.

PURPOSE OF THE AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is a committee of the Board and in addition to having specific statutory responsibilities in terms of the Companies Act, 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 Company.

TERMS OF REFERENCE

The Audit and Compliance 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.

MEMBERSHIP AND ATTENDANCE

The Audit and Compliance Committee consists of three members all of whom are Independent Non-Executive Directors.

The Committee meets at least four times per year.

The names of the members and attendance at meetings are recorded in the corporate governance section of the integrated report.

The Chief Executive Officer, the Finance Director, Senior Executives of the Company and representatives from the external and internal auditors attend the Committee meetings by invitation only.

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

STATUTORY DUTIES

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

- Believes that the appointment of the A-G as auditor complies with the relevant provisions of the Companies Act and the Public Finance Management Act;
- Determined the fees to be paid to the A-G as disclosed in Note 20 of the Annual Financial Statements;
- Determined the terms of engagement of the A-G;
- 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 Company, the content or auditing of its financial statements, the internal financial controls of the Company, and any other related matters;
- Made submission to the Board on matters concerning the Company's accounting policies, financial control, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the Annual Financial Statements is appropriate.

OVERSIGHT OF RISK MANAGEMENT

The Audit and Compliance Committee has:

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

INTERNAL FINANCIAL CONTROLS

The Audit and Compliance Committee has:

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

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

REGULATORY COMPLIANCE

The Audit and Compliance Committee has:

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

EXTERNAL AUDIT

The Audit and Compliance 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.

The external auditors have, furthermore, provided written assurance to the Audit and Compliance Committee that they have remained independent of the Company.

Details of the external auditor's fees are set out in Note 20 of the Annual Financial Statements.

INTERNAL AUDIT

The Audit and Compliance Committee has:

- Reviewed and recommended the internal audit charter for approval;

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

COMBINED ASSURANCE MODEL

In addition to its normal activities, the Committee dealt with the implementation of a combined assurance model for the Company.

The Committee has determined that a process of coordinating all assurance activities is appropriate to address the significant risks facing the Company for each principal risk and business area.

The model will be owned and managed by Internal Audit with Risk and Compliance, being an integral part of the process.

The Committee recognises that there will be continuous enhancement of both the process and its activities as it matures the approach to full integrated reporting, particularly on non-financial issues.

FINANCE FUNCTION

The Audit and Compliance Committee believes that the Finance Director, Mr PA Ireland, possesses the appropriate expertise and experience to meet his responsibilities in that position.

Mr PA Ireland acted as the Chief Executive Officer from 1 December 2015 and was appointed to the position with effect from 1 April 2016.

The Committee is furthermore satisfied with the expertise and adequacy of resources within the finance function.

Based on the processes and assurances obtained, the Audit and Compliance Committee believes that the accounting practices are effective.

INTEGRATED ANNUAL REPORT

Based on processes and assurances obtained, we recommend the Integrated Annual Report to the Board for approval.

On behalf of the Audit and Compliance Committee:

Mrs Babalwa Ngonyama
Chairperson
25 July 2016

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016	2015
		R'000	R'000
Interest earned on loans and advances to customers	17	159 058	165 354
Interest expenditure	18	(80 812)	(71 472)
Net margin		78 246	93 882
Interest on held to maturity investments	17	69 856	46 633
Net interest income		148 102	140 515
Fees and other income	19	121 642	162 998
Net income		269 744	303 513
Credit impairment reversals/(charges)		9 401	(19 451)
Loans and advances to customers	6	11 285	(18 736)
Properties in possession	8	560	429
Trade and other receivables	7	(2 444)	(1 144)
Operating income		279 145	284 062
Operating expenditure	20	(279 122)	(283 525)
Impairment of intangible assets		-	-
Profit/(loss) and total comprehensive income/(expense) for the year		23	537
Attributable to:			
Equity holders of the shareholder		23	537

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015

	Note	2016	2015
		R'000	R'000
Assets			
Cash	3	79 244	53 840
Statutory investments	4	129 882	152 493
Investments and deposits with banks	5	895 537	703 095
Loans and advances to customers	6	1 392 805	1 454 578
Trade and other receivables	7	11 409	4 658
Properties in possession	8	8 342	7 667
Equipment	9	32 174	32 775
Intangible assets	10	15 094	8 262
Total assets		2 564 487	2 417 368
Liabilities			
Customer deposits	11	2 193 805	2 072 979
Trade and other payables	12	45 966	53 459
Provisions	13	18 762	17 587
Loan account with holding company	14	7 946	8 181
Retirement benefit obligations	15.1	31 159	28 236
Defined benefit provident fund shortfall	15.2.2	-	-
Total liabilities		2 297 638	2 180 442
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	16	190	190
Issued share premium		374 710	344 810
Accumulated loss		(108 051)	(108 074)
Total equity		266 849	236 926
Total liabilities and equity		2 564 487	2 417 368

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

		Attributable to equity holders of the shareholder			
	Note	Issued share capital R'000	Issued share premium R'000	Accumulated loss R'000	Total equity R'000
2015					
Balance as at 31 March 2014	16	295 000	-	(108 611)	186 389
Conversion of shares to no par value		(294 810)	294 810	-	-
Share issue		-	50 000	-	50 000
Profit and total comprehensive expense for the year		-	-	537	537
Balance as at 31 March 2015	16	190	344 810	(108 074)	236 926
2016					
Balance as at 31 March 2015		190	344 810	(108 074)	236 926
Conversion of shares to no par value		-	-	-	-
Share issue		-	29 900	-	29 900
Profit and total comprehensive income for the year		-	-	23	23
Balance as at 31 March 2016		190	374 710	(108 051)	266 849

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016	2015
		R'000	R'000
Profit/(loss) and total comprehensive income/(expense) for the year		23	537
Operating activities			
Adjustments for:			
Non-cash items included in profit	22	(36 444)	35 261
Increase in operating liabilities	23	117 196	115 862
Decrease in operating assets	23	101 844	34 945
Proceeds from sale of properties in possession		1 335	1 264
Net cash flow generated/(utilised) in operating activities		183 954	187 869
Investing activities			
Acquisition of equipment	9	(10 360)	(3 343)
Acquisition of intangible assets	10	(8 276)	(2 551)
Proceeds from sale of equipment		17	80
Net cash flow utilised in investing activities		(18 619)	(5 814)
Financing activities			
Proceeds from shares issued	16	29 900	50 000
Net cash flow utilised in financing activities		29 900	50 000
Net movement in cash for the year		195 235	232 055
Cash and cash equivalents at the beginning of the year	3	909 428	677 373
Cash and cash equivalents at the end of the year	3	1 104 663	909 428

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

CORPORATE INFORMATION
The Company provides key retail banking services including savings and home loan products primarily to the previously unbanked citizens of the KwaZulu-Natal Province.

The Company is wholly-owned by the Ithala Development Finance Corporation Limited which is in turn wholly-owned by the KwaZulu-Natal Provincial Government as a finance development agency. The Company is a limited liability Company incorporated and domiciled in South Africa. The address of its registered office and principal place of business is Delta Towers Building, 303 Dr Pixley KaSeme Street (formerly West Street), Durban, South Africa.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated. At the start of the year, the company abolished the corridor method of accounting for actuarial gains/losses from defined benefit pension funds. This had no impact on the prior year closing statement of financial position as the surpluses in the funds had not yet been awarded to the employer.

Statement Of Compliance
The Annual 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 Annual Financial Statements for the year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Board on 25 July 2016.

Basis Of Preparation
The Annual Financial Statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

Financial Sustainability:
The Company posted a net profit for the year ended 31 March 2016 of R0,02 million (2015 net profit: R0,5 million).

As at 31 March 2016 the Company's total assets exceeded total liabilities by R266,8 million (2015: R236,9 million) and total cash resources were R974,8 million (2015: R756,9 million). As at statement of financial position date the capital adequacy ratio of the Company was 17,73% (2015:16,80%). This level is above the minimum capital adequacy ratio required by the SARB of 10,875% (2015:10,00%). In keeping with the financial support provided in previous years, Ithala Development Finance Corporation Limited provided additional share capital amounting to R29,9 million during the 2015/16 financial year to support the growth of the company.

Although the Company is reliant on the continued support of its holding company and other government entities for the implementation of its turnaround plan, the Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

Banking Licence Exemption:
The Minister of Finance has signed a Memorandum of Agreement with the Company which records specific performance obligations that the Company 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 the Company a banking licence exemption until 30 September 2017, subject to the Company fulfilling certain conditions set out by the Minister. The Directors have implemented processes to ensure that these conditions are met before 31 March 2017.

Functional And Presentation Currency
The Annual Financial Statements are presented in South African Rands, which is the Company's operational currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated. The preparation of the Annual Financial Statements in conformity with SA GAAP requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant Accounting Policies
Except as described otherwise, the accounting policies set out below have been applied consistently to all periods presented in these financial statements:

a. Business combinations
Acquisitions of businesses are accounted for using the acquisition method.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Company, the liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for the combination of entities or businesses under common control which are accounted for in terms of the consideration paid.

Business combination involving entities or businesses under common control is defined in IFRS3: Business Combinations as a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory.

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity.

If the Company's interest in the net fair value of the acquiree's assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

b. Financial instruments
A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

The Company classifies its financial assets as loans and receivables or held-to-maturity financial assets. The Company does not hold financial assets at fair value through comprehensive income or expense or available-for-sale assets.

The Company's financial liabilities include trade and other payables, provisions and the inter-company loan. They are not entered into with the intention of immediate or short-term resale. All financial liabilities are held at amortised cost.

Initial Recognition
Financial instruments are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial instruments are recognised on the date that the Company commits to purchase or sell the instruments (trade date).

Initial Measurement
All financial instruments are initially recognised at fair value plus transaction costs.

Subsequent Measurement
Financial assets that are classified as loans and receivables for measurement purposes are held at amortised cost. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

SARB debentures are classified as held-to-maturity financial assets as the debentures are non-derivative financial assets with fixed or determinable payments and fixed maturity.

The Company has the positive intention and ability to hold these assets to maturity. Held to maturity assets are carried at amortised cost using the effective interest rate method, less any impairments. All financial liabilities are classified as non-trading financial liabilities and are measured at amortised cost.

Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. They are not entered into with the intention of immediate or short term resale.

Fair value of financial assets and liabilities is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. On initial recognition, the best evidence of the fair value of a financial instrument is the asset's transaction price carried at amortised cost. The Company does not hold any derivative instruments.

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

Amortised Cost
Amortised cost is calculated by taking into account any discount or premium on acquisition or issue including fees and costs that are an integral part of the effective interest rate.

The amortisation is accounted for as 'Interest and similar income or Interest expenditure and similar charges' in the statement of comprehensive income.

The losses arising from impairment are recognised in the statement of comprehensive income as 'Credit impairment charges'.

Effective Interest Rate Method
The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument.

The effective interest rate method takes into account all contractual terms of the financial instrument and includes any fees or incremental costs which are directly attributable to the instrument and is an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial instrument is adjusted if the Company revises its estimate of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Impairment Of Financial Assets
Loans and advances are assessed at each reporting date to determine whether there is objective evidence of impairment.

Impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition but before the reporting date that indicates that it is probable that the Company will be unable to collect all amounts due.

Losses expected as a result of future events, no matter how likely, are not recognised. The impairment of non-performing advances is based on periodic objective evaluations of advances and takes into account past loss experiences adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Company's criteria in the determination of impairment of a financial asset or group of assets include observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the customer or borrower;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over-indebted; and
- Observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets that may have arisen from global economic conditions that correlate with defaults on the assets as a result of adverse changes in the financial services sector which has impacted on borrowers.

The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount through the provision of an allowance.

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

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

When a loan carried at amortised cost has been identified as impaired, the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of the security, discounted at the financial asset's effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as credit impairment in the statement of comprehensive income.

In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created based on historic loss patterns and estimated emergence periods.

Loans are also impaired when adverse economic conditions develop after initial recognition which may impact on future cash flows.

Once all reasonable attempts have been made at collection and there is no realistic prospect of recovering outstanding amounts, the advance is written off against the related allowance account.

When the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in previous years.

A reversal of an impairment loss is immediately recognised in the statement of comprehensive income. Impairment provisions raised during the year, less recovery of advances previously written off, are charged to the statement of comprehensive income. Subsequent to impairment, the effects of discounting unwind over time as interest income.

Derecognition Of Financial Instruments
The Company derecognises a financial asset or group of financial assets when:

- The contractual rights to the receipt of cash flows arising from the financial assets have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement;
- The Company has transferred its rights to receive cash flows from the asset and either:
  - Has transferred substantially all of the risks and rewards of the asset; and
  - Has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the assets, the asset is recognised to the extent of the Company's continuing involvement in the asset.

A financial liability or group of financial liabilities is derecognised when and only when the liability is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including non-cash assets transferred or liabilities assumed is recognised in comprehensive income for the year.

Offsetting Of Financial Instruments
Financial assets and liabilities are offset and the net amount reported on the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are offset only to the extent that their related instruments have been offset in the statement of financial position.

Cash And Cash Equivalents
For the purposes of the statement of cash flows, cash comprises cash on hand net of bank overdrafts, statutory liquid assets, highly liquid investments and deposits with other banks.

Borrowed Funds
Borrowed funds arise from contractual arrangements which result in the Company having an obligation either to deliver cash or another financial asset to the holder. Borrowed funds are recognised initially at fair value of proceeds, net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings as interest.

c. Financial guarantees
In the ordinary course of business, the bank issues guarantees consisting of letters of credit, letters of guarantees and confirmations. These are disclosed at fair value.

d. Properties in possession
Properties in possession comprise of assets that are expected to be recovered primarily through a sale transaction rather than through continuing use.

Properties in possession are recognised at the lower of fair value less costs to sell and the carrying amount of the asset with which they are associated.

The Company is firmly committed to the sale of these assets with various initiatives implemented to ensure transfer of these properties. No depreciation is charged on these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the statement of comprehensive income, as 'Operating expenditure'.

Any subsequent increase in the fair value less costs to sell, to the extent that this does not exceed the cumulative write-down is also recognised as 'Credit impairment charge', and any realised gains and losses on disposal recognised in 'Fees and other income'.

e. Trade and other receivables
Trade receivables comprise of amounts due to the Company as a result of advances given to clients for which an outstanding balance in terms of the lending agreement exists at reporting date, less any allowance for credit impairment that has been identified in instances of default by the said clients.

Other receivables are deferred assets which arise as a result of the Company having paid an amount in advance, for which the benefit of the corresponding goods and/or

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

services will only be received within the course of the next 12 months from reporting date.

f. Equipment
Equipment consists of tangible items that are held for administrative purposes and are expected to be used during more than one period.

Equipment, furniture, vehicles, other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses whilst capital work in progress is not subject to depreciation.

Cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Equipment, furniture, vehicles and other tangible assets are depreciated on the straight line basis, from the date that they are available for use which may be earlier than the date that they are actually in use, over the estimated useful lives of the assets to the current values of their expected residual values.

The Company's 'Leasehold Improvements' are depreciated over the expected useful life of assets based on Management's best estimate.

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date and the depreciation method is reviewed annually.

Additions include fixed assets purchased but not yet in use. Work in progress (WIP) includes equipment not yet brought into use and as such are not depreciated.

The estimated useful lives of tangible assets that have been reassessed in terms of IAS 16 for the current financial year have been detailed, as follows:

Computer Equipment	3-10 years
Furniture and Fittings	Maximum of 15 years
Leasehold improvements	Maximum of 10 years
Office Equipment	2-5 years

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate and are treated as changes in accounting estimates.

The carrying value of assets are reviewed at each statement of financial position date to assess whether there is any indication of impairment and in instances where the carrying amounts are greater than their estimated recoverable amounts; the assets are written down immediately to these recoverable amounts.

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repair and maintenance costs are charged to operating expenses during the financial period in which they are incurred.

An item of equipment is derecognised when the contractual right to receive the cash flows have been transferred or expired or when substantially all the risks and rewards of ownership have passed on disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised as 'Other Income' or 'Operating Expenditure' in the statement of comprehensive income in the year in which the asset is derecognised. Gains shall not be classified as revenue.

g. Intangible assets
Intangible assets are recognised if it is probable that future economic benefits will flow to the entity from intangible assets and the costs of the intangible assets can be reliably measured.

Intangible assets comprise of computer software licenses and other intangible assets. Intangible assets are recognised at cost.

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 statement of financial position, intangible assets are reviewed for indications of impairments 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 as follows:
• Computer software 2 - 5 Years

(b) System development costs
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 are clearly associated with an identifiable and unique software system, which will be controlled by the Company and has a probable benefit exceeding one year, are recognised as intangible assets.

These costs are initially capitalised as work-in-progress up to the date of completion of project after which the asset is transferred to computer software and accounted for as per the computer software and licenses policy.

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

Development costs are recognised as intangible assets when the following criteria are met:
(a) it is technically feasible to complete the software product so that it will be available for use;
(b) management intends to complete the software product and use or sell it;
(c) there is an ability to use or sell the software product;
(d) it can be demonstrated how the software product will generate probable future economic benefits;
(e) adequate technical, financial and other resources to complete the development and to use or sell software product are available; and
(f) the expenditure attributable to the software product during its development can be reliably measured.

h. Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets in order to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of individual assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount; the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i. Provisions and Contingent Liabilities
A provision is a liability of uncertain timing or amount which will be recognised when:
• The Company has a present obligation (legal or constructive) as a result of a past event; and
• It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision will be recognised. The Company recognises no provisions for future operating losses.

Onerous contracts
Present obligations arising under onerous contacts are recognised and measured as provisions.

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An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received from the contract.

Contingent Liabilities
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 Company's control.

Contingent liabilities are not recognised in the Annual Financial Statements but are disclosed in the notes to the Annual Financial Statements unless they are remote.

j. Retirement benefit obligations
The Ithala Group provides for retirement benefits of employees by means of a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds.

All employees of the Company are entitled to membership of one of these plans which are governed by the Pensions Fund Act of 1956.

Pension Obligations
Defined benefit plans
The plans are funded by contributions to a separately administered fund, taking into account recommendations of independent actuaries. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. 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 liability.

Under this method, the cost of providing pensions is charged to the statement of comprehensive income spread on a monthly basis over the service lives of employees in accordance with the advice of independent actuaries who carry out a valuation of the plan every three years.

The liability recognised in the statement of financial position in respect of a defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Surpluses in the fund will only be recognised on the statement of financial position to the extent that surplus amounts are apportioned to the Employer by the Trustees, and have thus been allocated to an Employer Surplus Account. Past service costs are recognised immediately in administration expenses.

Defined contribution plans
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund.

The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the 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 as a charge to the statement of comprehensive income in the period to which they relate.

Post Retirement Medical Obligations
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.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

The liability recognised in the statement of financial position in respect of the post-retirement medical obligation is the present value of the post-retirement medical obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Long Service Award Benefits
Employees are entitled to a long term benefit based on various periods of long service to the Company.

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.

k Share capital
Ordinary shares and share premium are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

l. Interest income and interest expense
Interest income is considered the most appropriate equivalent of revenue.

Interest income and expenses are recognised in the statement of comprehensive income on the accrual basis using the effective interest rate method for all interest bearing financial instruments.

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.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

m. Fee and commission income
Fee and commission income are recognised on an accrual basis when the service has been rendered.

Other income includes amounts recognised for dormant accounts which are greater than five years and efforts have been exhausted to contact the customer to refund the balances. The method of recognition is consistent with the proposed treatment as recommended by the Banking Association of South Africa.

The Company maintains records of dormant accounts recognised as income in line with the Banking Association of South Africa's guidelines.

Amounts disclosed are net of amounts refunded to customers who were able to validate their dormant accounts.

n. Government grants
Government grants are recognised when there is reasonable assurance that the Company has complied with the conditions attached to the grant and that the grant has been received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Company with no future related cost are recognised in profit or loss in the period in which they are received.

o. Operating leases
Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership.

Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:
- Fulfilment of the arrangement is dependent on the use of a specific asset or assets; and/or
- The arrangement conveys a right to use the asset.

p. Taxation
The Company is not subject to normal tax as a result of an exemption granted in terms of Section 10(1)(cA)(ii) of the Income Tax Act.

The Company is however, subject to indirect taxes which comprise non-recoverable value added taxation (VAT) and skills development levies (SDL).

q. Related parties
A party is related to the Company if any of the following are met:
- Directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the Company;
- It is a joint venture or an associate;
- The party is a member of the key management personnel and/or Non-Executive Directors of the Company or its parent; and
- The party is a close member of the family of any individual referred to above.

Close family member of the family of an individual includes:
- The individual's domestic partner and children;
- Children of the individual's domestic partner; and
- Dependents of the individual or the individual's domestic partner.

r. Financial assets that are subject to renegotiated terms
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position.

These loans are not considered to be past due after renegotiations but are treated as current loans after the loan has performed for a specified period.

These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Restructuring activities include extended payment arrangements, and deferral of payments.

Following restructuring, a previously overdue advance is managed together with other similar accounts once the

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customer demonstrates the ability to make contractual payments for a specific period.

Restructuring policies and procedures are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue.

Loans where terms have been renegotiated are subject to ongoing review to determine whether they are considered impaired or past due.

s. 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 Annual Financial Statements as these updates do not apply to the Company due to us following SA GAAP, effective as at 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 Company will apply IFRS 1 in the 2017/18 Annual Financial Statements since 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:	1 July 2014 1 January 2018

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Standard	Description	Annual periods beginning on or after
IFRS 9 (AC 146) (amendment not adopted into SA GAAP) (continued)	• 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 Company's operations, this standard is expected to have a significant impact on the Company's annual financial statements when applied.	
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 categorized in level 3.	1 July 2014 1 July 2014

Standard	Description	Annual periods beginning on or after
IFRS 15 (not adopted into SA GAAP)	**Revenue from Contracts from Customers** New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. • The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. • The new standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and (f) SIC-31 Revenue-Barter Transactions Involving Advertising Services	1 January 2018
IFRS 16 (AC 105)	**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 Annual 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 Company's operations, this standard is expected to have a significant impact on the Company's Annual Financial Statements when applied.	1 January 2019

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Standard	Description	Annual periods beginning on or after
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
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 recognizing actuarial gains and losses is expected to have an impact on the Ithala Group as the group currently utilizes the corridor method to account for such gains and losses. Should the amended IAS 19 be adopted, unrecognized actuarial losses in the statement of financial position of R13.3m for the Corporation and R5.0m for a subsidiary would have to be released to the statement of comprehensive income. The net impact to the Ithala Group would be a reduction of R18.3m net profit. • Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended.	1 January 2013 1 July 2014

Standard	Description	Annual periods beginning on or after
IAS 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 interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014

Amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28, IAS 34 and IFRIC 20 are not applicable to the business of the Company and will therefore have no impact on future Annual Financial Statements.

All standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Company).

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing the Company's Annual Financial Statements, management is required to exercise its judgment in the process of applying the Company's accounting policies, making estimates and assumptions that affect reported income, expenses, assets and liabilities and disclosure of contingent liabilities.

The Company makes estimates and assumptions concerning the future that 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.

Estimates and assumptions made predominantly relate to going concern, impairment of loans and advances, disclosed in Note 6 and determination of the useful lives, residual values as well as depreciation methods for equipment as disclosed in Note 9.

Other judgments made relate to classifying financial assets and liabilities into their relevant categories.

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Management's consideration for preparing the Annual Financial Statements on the going concern basis is disclosed in Note 1.

A change in accounting estimate is defined as an adjustment to the carrying value of an asset, liability or the amount of the periodic consumption of an asset that results from new information or new developments.

In certain instances, changes in accounting estimates are recognised in the statement of comprehensive income during the period in which the change is made.

Assumptions are used in the calculation of fair values in properties in possession, which is disclosed in Note 8 including "permission to occupy" and "bond boycott" loans.

Historical realisation values are used as part of a back-testing exercise to estimate the recoverable amount of properties in possession.

For permission to occupy and bond boycott properties, the subsidy value received from the Department of Human Settlements is used to estimate the fair value.

The estimates and assumptions which may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of loans and advances and properties in possession
The credit impairment allowance represents management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.

Management is required to exercise judgment in making assumptions and estimations when calculating such allowances on both specific and portfolio loans and advances.

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The Company arrives at the credit impairment allowance using the following factors:
- Default rates;
- Ratio of accounts that remained non–performing over the back-testing period;
- Estimated cash flows; and
- Time taken to realise security.

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.

This key area of judgment is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, loan product features, economic conditions such as property prices, the level of interest rates, the rate of inflation, account management policies and practices, and other factors that can affect customer payment patterns.

These judgment areas and their underlying assumptions are reviewed at the statement of financial position date.

The Company assesses its loans and advances as well as the properties in possession for impairment at each reporting date. In particular, judgment by management is required in the estimation of the timing of the recoverable amount.

Impairment of assets
The impairment of assets is based on the estimated remaining useful lives and original costs or market values. Furniture and fittings in 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.

Defined benefit pension plan
The cost of the defined benefit pension plan is determined using an actuarial valuation.

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

Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 15 for the assumptions used.

Asset lives and their residual values
Equipment is depreciated over its estimated useful lives taking into account residual values, where appropriate.

The remaining useful lives of assets and residual values are assessed annually. The effect of the change in estimate during the current year is disclosed in Note 30.1.

	Note	2016	2015
		R'000	R'000

3. CASH AND CASH EQUIVALENTS

	Note	2016 R'000	2015 R'000
Cash		79 244	53 840
Statutory investments	4	129 882	152 493
Investments and deposits with banks	5	895 537	703 095
Total		1 104 663	909 428

Included in cash is an amount of R12,8 million (2015: R7,6 million) relating to cash in transit at year-end.

4. STATUTORY INVESTMENTS

	2016 R'000	2015 R'000
Treasury bill	129 882	152 493
Total	129 882	152 493

The treasury bill yields interest at 6,70%. This instrument matures on 06 April 2016 and its maturity value is R130 million.

The Company invests in statutory investments to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2016 exceed the minimum reserve requirements by R26,4 million, and are invested in terms of the Company's capital management strategy.

5. INVESTMENTS AND DEPOSITS WITH BANKS

	2016 R'000	2015 R'000
Investments and deposits with banks	895 537	703 095
Investments and deposits with banks are analysed, as follows:		
Fixed-term funds	350 879	430 141
Investments in State-Owned Companies	138 539	-
Call funds	406 119	272 954
Maturity analysis of fixed-term funds		
Maturing up to 1 month	95 358	315 937
Maturing after 1 month but within 3 months	254 138	73 649
Maturing after 3 months but within 6 months	31 067	32 160
Maturing after 6 months but not exceeding 1 year	48 036	8 395
Maturing after 1 year	60 819	-
Total	489 418	430 141

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5. INVESTMENTS AND DEPOSITS WITH BANKS (continued)

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

Funds on fixed deposit at ABSA Bank Limited are subject to a general cession in its favour up to an amount of R20 million for electronic banking facilities granted to the Company and R3 million for a guarantee issued on behalf of the Company in favour of the South African Insurance Association and R25 million for day light overdraft facility granted to the Company. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R48,1 million (2015: R161,1 million).

	2016	2015
	R'000	R'000
6. LOANS AND ADVANCES TO CUSTOMERS		
Housing loans	1 387 146	1 457 119
Micro-finance – secured loans	61 718	66 479
Commercial property loans	1 767	12 434
Micro-finance – unsecured loans	29 955	57 382
	1 480 586	1 593 414
Credit impairments for loans and advances	(87 780)	(138 836)
Loans and advances net of impairment	1 392 805	1 454 578
Maturity analysis		
On demand	6 782	-
Maturing from 1 month to 6 months	32 607	45 698
Maturing from 6 months to 1 year	38 395	45 459
Maturing from 1 year to 5 years	306 051	337 535
Maturing after 5 years	1 096 751	1 164 722
Total	1 480 586	1 593 414

The general terms and conditions for the granting of loans relate to serviceability of the loan by the applicant and adequacy of security provided. The loan pricing is linked to the prevailing prime interest rate.

The maturity analysis is based on the remaining periods to contractual maturity from year-end based on the contractual instalments to be received.

	2016	2015
Credit impairments for loans and advances		
Balance at beginning of the year	138 836	123 858
Amounts written-off against specific credit impairment	(39 771)	(3 758)
Impairments (reversed)/raised	(11 285)	18 736
Balance at end of the year	87 780	138 836

	2016	2015
	R'000	R'000
Comprising:		
Impairments for performing loans	28 686	38 578
Impairments for non-performing loans	59 094	100 258
Total credit impairments for loans and advances	87 780	138 836
Credit impairment analysis in respect of performing and non-performing loans		
Non-performing loans		
Balance at beginning of the year	100 258	78 561
Impaired accounts written-off	(39 771)	(3 758)
Net impairments (reversed)/raised	(1 393)	25 455
Balance at end of the year	59 094	100 258
Performing loans		
Balance at beginning of the year	38 578	45 297
Net impairments (reversed)/raised	(9 892)	(6 719)
Balance at end of the year	28 686	38 578
Total	87 780	138 836
Segmental analysis by industry of impairments in respect of non-performing loans		
Real estate	43	7 848
Construction	4 561	4 400
Retail - Mortgage	31 415	51 238
Retail - Other	23 075	36 772
Total	59 094	100 258
Concentration of credit risk		
Loans granted within the boundaries of KwaZulu-Natal	1 480 586	1 593 414
Total	1 480 586	1 593 414

Non-performing loans and advances

A non-performing loan is an exposure where a specific credit impairment is raised, where the credit quality has declined significantly, or an obligation is past due for more than 90 days. An obligation is past due when the borrower has failed to honour it at the point when it fell due.

Impaired loans and advances, and specific credit impairments

Impaired loans and advances are defined as loans and advances in respect of which the Company has raised specific credit impairments. A specific credit impairment is raised in respect of an asset that has triggered a loss event where the security held against the advance is insufficient to cover the total expected losses. Such a loss event may be, for example, significant financial difficulty of the borrower, a breach of contract such as a default, or delinquency in interest or principal payments.

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6. LOANS AND ADVANCES TO CUSTOMERS (continued)

Portfolio credit impairment

Portfolio credit impairment represents the impairment on loans and advances that have not been specifically impaired. These loans and advances have not yet individually evidenced a loss event. A period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident. This period is generally known as the "emergence period".

The following table is an analysis of financial assets that are past due but not impaired. The credit granting process on these loans should mitigate any potential risk around the credit quality of these assets. The security provided is considered to be sufficient to mitigate potential risk around default in the event that the credit quality is compromised.

Age analysis of assets past due but not impaired	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total	Net realisable amount of security
2016	R'000	R'000	R'000	R'000	R'000	R'000
Housing loans	13 643	12 627	11 433	46 955	84 658	82 358
Micro-finance - unsecured loans	128	123	422	1 560	2 233	-
Commercial property loans	-	-	-	-	-	-
Vehicle and taxi finance	59	163	354	3 351	3 927	1 251
Total	13 830	12 913	12 209	51 866	90 818	83 609
2015						
Housing loans	9 658	10 487	11 836	41 405	73 386	67 624
Micro-finance - unsecured loans	159	228	47	1 792	2 226	-
Commercial property loans	-	-	-	-	-	-
Vehicle and taxi finance	-	-	-	2 511	2 511	1 054
Total	9 817	10 715	11 883	45 708	78 123	68 678

At statement of financial position date, the value of non-performing loans was R102 million (2015: R157 million) against which credit impairments of R58 million (2015: R100 million) are held. There is no individual loan or advance included above that exceeds 10% of the Company's qualifying capital and reserves as at 31 March 2016. The net realisable amount refers to the fair value of the security and expected cash flows discounted to its present value.

The security held by the Company, represented by the net realisable amount which has been disclosed above, comprises properties, as well as financial guarantees that are taken into the Company's possession only in the event of default. In respect of security for home improvement loans, the borrowers' rights to their pension and provident fund assets are ceded to the Company. The assets held as security which are not readily convertible into cash are disposed of in accordance with the Company's policy by employing the following methods:

- Outsourcing the marketing and sale of properties in possession; and
- Interviewing occupants by encouraging them to purchase the properties utilising any applicable Government housing subsidy.

	2016	2015
	R'000	R'000
7. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	9 944	6 837
Less: provision for trade and other receivables	(7 238)	(4 793)
Sub-total	2 706	2 044
Prepayments	8 704	2 614
Total	11 409	4 658
Credit impairments movement		
Balance at beginning of the year	4 793	3 650
Additional provisions made during the year	3 065	1 784
Unused amounts reversed during the period	(620)	(641)
Balance at end of the year	7 238	4 793
Amounts released during the financial year	(61)	(61)
Amounts expected to be recovered after more than 12 months from reporting date	4 545	1 256

The amount of R4,5 million (2015: R1,3 million) represents the amount expected to be received after more than 12 months from reporting date whilst the aging of trade and other receivables, as disclosed in Note 28.1 represents the contractual maturity.

	2016	2015
Analysis of trade and other receivables		
Properties in possession debtors	171	171
Service deposits	220	194
Service fees	967	1 050
Net refunds due from insurance underwriters	747	-
Outstanding deposits	230	351
VAT apportionment	173	-
Other	198	278
Total	2 706	2 044

Service deposits are deposits held at the Municipalities for the payment of utilities, which are available on demand. Funds due from properties in possession will only be available to the Company once the Department of Human Settlements has made payment for the transfer of properties to be effected and estate agents have affected the transfer on registration of properties in possession. A provision has been raised for these amounts. Other debt encompasses short delivery of cash, unpaid cheques and stained notes which are also receivable on demand.

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	2016 R'000	2015 R'000
8. PROPERTIES IN POSSESSION		
Gross amount at beginning of the year	12 732	13 449
Additions	1 788	1 254
Disposals	(1 673)	(1 971)
Gross amount at end of the year	12 847	12 732
Fair value decrease	(4 505)	(5 065)
Carrying amount	8 342	7 667
Fair value decrease		
Balance at beginning of the year	5 065	5 494
Increase/(decrease) for the year	(560)	(429)
Balance at end of the year	4 505	5 065

Properties in possession relate to immovable properties that have been repossessed by the Company and comprise mainly private residential dwellings. These assets are valued in terms of AC 142: Non-Current Assets Held for Sale.

The manner and timing of the expected disposals of properties situated in rural areas are ascertained based on a back-testing exercise performed on prior disposals and an expected net realisable value being the Government housing subsidy receivable on disposal.

	2016 R'000	2015 R'000
9. EQUIPMENT		
Cost		
Computer equipment	48 205	46 809
Furniture and fittings	21 255	21 550
Office equipment	20 061	19 275
Leasehold improvements	45 904	43 986
Work in progress	38	-
Total	135 463	131 620
Accumulated depreciation		
Computer equipment	36 021	33 506
Furniture and fittings	16 608	16 263
Office equipment	13 327	12 606
Leasehold improvements	37 333	36 470
Total	103 289	98 845
Net book value	32 174	32 775

Movement in equipment	Computer equipment	Furniture & fittings	Office equipment	Leasehold improve-ments	Work in progress	Total
2016	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Net carrying value at beginning of the year	**13 281**	**2 828**	**6 641**	**10 025**	**-**	**32 775**
Additions	**3 190**	**205**	**2 254**	**4 673**	**-**	**10 322**
Disposals	**(1)**	**(73)**	**(234)**	**(83)**	**-**	**(391)**
Net WIP movement transfers	**-**	**-**	**-**	**-**	**38**	**38**
Depreciation	**(4 308)**	**(772)**	**(1 955)**	**(3 534)**	**-**	**(10 569)**
Net carrying value at end of the year	**12 162**	**2 188**	**6 706**	**11 081**	**38**	**32 174**
2015						
Net carrying value at beginning of the year	15 542	4 026	8 142	18 389	680	46 779
Additions	2 298	-	992	53	-	3 343
Disposals	(75)	(48)	(502)	(3 311)	-	(3 936)
Net WIP movement transfers	678	-	2	-	(680)	-
Depreciation	(5 162)	(1 150)	(1 993)	(5 106)	-	(13 411)
Net carrying value at end of the year	13 281	2 828	6 641	10 025	-	32 775

The aggregate gross carrying amount of fully depreciated property, plant and equipment still in use amounts to R32,2 million (2015: R27,1 million).

	2016	2015
	R'000	R'000
10. INTANGIBLE ASSETS		
Cost		
Computer software	**14 936**	12 307
Work in progress	**41 868**	36 221
Total	**56 804**	48 528
Accumulated amortisation		
Computer software	**9 306**	7 862
Accumulated impairment		
Work in progress	**32 404**	32 404
Net book value	**15 094**	8 262

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10. INTANGIBLE ASSETS (continued)

Movement in intangible assets	Computer software	Work in progress	Total
2016	**R'000**	**R'000**	**R'000**
Net carrying value at beginning of the year	**4 445**	**3 817**	**8 262**
Additions	**2 016**	**6 260**	**8 276**
Transfers	**613**	**(613)**	**-**
Amortisation	**(1 444)**	**-**	**(1 444)**
Net carrying value at end of the year	**5 630**	**9 464**	**15 094**
2015			
Net carrying value at beginning of the year	6 040	1 266	7 306
Additions	-	2 551	2 551
Transfers	-	-	-
Amortisation	(1 595)	-	(1 595)
Net carrying value at end of the year	4 445	3 817	8 262

An amount of R32,4 million had been recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010. Testing conducted by the Company revealed significant deficiencies which led to the Board of Directors delaying the "go live" decision. The impairment was recognised due to rectification efforts by the vendor failing to produce the desired result and significant uncertainty as to the implementation of the system.

Subsequent negotiations with the vendor relating to the rectification of the deficiencies and the continuation of the project on amended terms and conditions were not successful.

The long-term strategy of the Company includes the implementation of a bespoke banking system, and as such certain intrinsic value may exist within the capitalised amount from the previous project which may be realised on the implementation of the new system.

The recoverable amount from the asset will be re-assessed during the development and final implementation of the new banking system. Should the assessment of the intangiblae asset prove that there is no value in the asset the Company will follow the policy based on the delegated powers of authority for the asset to be written-off against the impairment provision.

	2016 R'000	2015 R'000
11. CUSTOMER DEPOSITS		
Call deposit accounts	121 136	71 939
Savings accounts	798 799	838 164
Term deposits	1 273 870	1 162 876
Total deposits	2 193 805	2 072 979
Maturity analysis		
On demand	1 004 561	977 366
Maturing up to 1 month	175 689	177 454
Maturing after 1 month but within 6 months	633 607	526 656
Maturing after 6 months but within 1 year	337 539	351 532
Maturing after 1 year but within 5 years	42 409	39 971
	2 193 805	2 072 979

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.

	2016 R'000	2015 R'000
Savings accounts are further analysed as follows:		
Pass book*	565 852	589 451
Trust	59 478	83 494
Debit card	136 162	116 324
Corporate	37 307	48 895
Total savings	798 799	838 164
Term deposits are further analysed as follows:-		
Retail accounts	882 389	886 112
Corporate accounts	391 481	276 764
Total term deposits	1 273 870	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.

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	2016	2015
	R'000	R'000
12. TRADE AND OTHER PAYABLES		
Trade creditors	3 210	3 129
Accruals	8 923	8 513
Operating leases - accrued expenditure	468	454
South African Revenue Service - VAT	323	3 350
Loans and advances reflecting credit balances	1 863	1 813
Stale cheques	242	602
VAT apportionment	-	592
Accrual for leave pay	11 923	11 322
Outstanding cheques	7 586	6 131
Sundry payables	11 428	17 553
Total	45 966	53 459
Amounts expected to be settled more than 12 months from reporting date	10 903	14 004

The amount of R10,9 million (2015: R14,0 million) represents the amount expected to be settled more than 12 months from the reporting date while the ageing of trade and other payables, as disclosed in Note 28.3 represents the contractual maturity.

13. PROVISIONS

	2016	2015
Provisions comprise:		
Provision for audit fees	3 760	3 570
Provision for bonuses	1 667	1 644
Provision for long service awards	13 335	12 373
Total	18 762	17 587
Provision for audit fees		
Carrying amount at the beginning of the year	3 570	3 384
Additional provisions during the year	3 998	3 924
Amounts utilised during the year	(3 808)	(3 738)
Carrying amount at the end of the year	3 760	3 570

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

	2016	2015
	R'000	R'000
Provision for bonuses		
Carrying amount at the beginning of the year	1 644	1 764
Additional provisions during the year	4 772	4 544
Amounts utilised during the year	(4 748)	(4 664)
Carrying amount at the end of the year	1 668	1 644

The provision for bonuses is paid out annually in November. These bonuses relate to a "13th cheque" paid only to "A - C band" employees that are employed by the Company at the time of payment.

	2016	2015
Provision for long service awards		
Balance at beginning of the year	12 373	9 941
Expensed during the year	1 577	3 561
Benefits vesting during the year	(615)	(1 129)
Balance at end of the year	13 335	12 373
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	13 335	12 373
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	1 406	1 010
Interest costs	899	883
Net actuarial (gain)/loss recognised during the year	(728)	1 668
Total included in staff costs	1 577	3 561

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	Change	2016 R'000	2015 R'000
13. PROVISIONS (continued)			
Sensitivity analysis			
Assumption			
Present value of obligations		**13 335**	12 373
Average salary inflation	+1%	**14 385**	13 422
	-1%	**11 558**	11 441
Withdrawal rates	-50%	**N/A**	N/A
Average retirement age	-2 years	**11 946**	11 140
	+2 years	**14 494**	13 442

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 at 31 March 2016 quantified the present value of obligations at R13,3 million (2015: R12,4 million). These actuarial valuations are conducted annually at statement of financial position date.

The most recent actuarial valuation of the long service awards was carried out for the current financial years 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.

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%).

14. LOAN ACCOUNT WITH HOLDING COMPANY

	2016 R'000	2015 R'000
Loan account with holding company	**7 946**	8 181

The loan account with the holding company is unsecured, bears interest based on the ABSA Bank Limited call rate and has no fixed terms of repayment.

	2016 R'000	2015 R'000

15. RETIREMENT BENEFIT OBLIGATIONS

15.1 Post-retirement medical benefits

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date. 103 current and retired employees (2015: 109) are currently covered under the scheme.

The most recent actuarial valuation of the present value of defined benefit obligations were carried out for the current financial years 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.

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%). The movement in the liability annualised in the statement of financial position is as follows:

	2016 R'000	2015 R'000
Post-retirement medical benefits		
Movement in the defined benefit obligation, is as follows:		
Balance at beginning of the year	28 236	25 510
Expensed during the year	3 843	3 357
Contributions paid	(920)	(631)
Balance at end of the year	31 159	28 236
Amounts recognised in the statement of financial position, are as follows:		
Present value of unfunded obligations	37 443	33 208
Unrecognised actuarial (loss)/gain	(6 284)	(4 972)
Net liability in the statement of financial position	31 159	28 236
Post-retirement medical benefits		
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	887	901
Interest costs	2 814	2 456
Net actuarial (gain)/loss recognised during the year	142	-
Total included in staff costs	3 843	3 357

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	2016	2015
	R'000	R'000
15. RETIREMENT BENEFIT OBLIGATIONS (continued)		
15.1 Post-retirement medical benefits (continued)		
Unrecognised actuarial (loss)/gain		
Movement in the unrecognised actuarial (loss)/gain, is as follows:		
Opening unrecognised actuarial (loss)/gain	(4 972)	(1 805)
Actuarial (loss) arising	(1 454)	(3 167)
Actuarial (loss) recognised	142	-
Closing unrecognised actuarial (loss)	(6 284)	(4 972)
Corridor	3 744	3 321
Cumulative unrecognised actuarial loss in excess of corridor	(2 540)	(1 651)
Expected average remaining working lives of eligible in-service members	11,5	11,6
Actuarial loss to be recognised in the following year	(221)	(142)

Sensitivity analysis - unfunded accrued liability	Change	2016	2015
		R'000	R'000
Assumption			
Present value of obligation		37 443	33 209
Health-care cost inflation	+1%	44 298	33 228
	+1,5%	37 466	33 328
	+1,75%	37 463	33 235
	-1%	31 992	33 182
Post-retirement mortality	+1 year	35 827	31 645
Expected retirement age	-1 year	39 106	34 854

15.2 Pension and provident fund schemes

The Company provides retirement benefits to all employees by contributing to pension and provident funds. Membership of either the pension or provident fund is compulsory. The defined benefit pension fund and the defined benefit provident fund are governed by the Pension Funds Act, 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 both the Defined Benefit Pension Fund and the Defined Benefit Provident Fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

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

	2016	2015
	R'000	R'000
15.2.1 Defined benefit pension fund		
Defined benefit pension fund		
Present value of funded obligations	717	589
Fair value of plan assets	(7 834)	(6 536)
	(7 117)	(5 947)
Surplus funds recognised	5 930	-
Unrecognised actuarial gain	1 187	5 947
Liability at end of the year	-	-

The surplus on the defined benefit pension fund of R5,9 million was recognised during the year, based on the approval and allocation by the Trustees of the fund of the allocation of the surplus to the employer in October 2015.

The Trustees of the Ithala Defined Benefit Pension Fund resolved to close the fund and transfer the members to the Defined Contribution Pension Fund with effect from 1 January 2012. The approval required to close the fund in terms of section 14 of the Pension Funds Act of 1956 was obtained and the assets were transferred to the Old Mutual Superfund Pension Fund.

The Trustees and the employer await the Financial Services Board to approve the Section 15E application to transfer the employer surplus portion to the Old Mutual Superfund Pension Fund, where it will be applied to fund future Company contributions.

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	2016	2015
	R'000	R'000
15. RETIREMENT BENEFIT OBLIGATIONS (continued)		
15.2.1 Defined benefit pension fund (continued)		
The movement in the defined benefit obligation over the year, is as follows :		
Balance at beginning of the year	589	15 371
Interest cost	43	722
Current service cost	-	-
Benefits paid	-	(14 036)
Contributions by plan participants (employees)	-	-
Actuarial loss/(gain) on obligation	85	(1 468)
Balance at end of the year	717	589
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	6 536	18 130
Expected return on assets	477	957
Contributions received	-	-
Benefits paid	-	(14 036)
Investment gain on assets	821	1 485
Balance at end of the year	7 834	6 536
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	-	-
Interest cost	43	722
Expected return on plan assets	(477)	(957)
Recognised actuarial loss	434	235
Total included in staff costs	-	-

	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	**717**	589	15 371	24 272	22 124
Fair value of fund assets	**(7 835)**	(6 536)	(18 130)	(24 556)	(23 763)
Surplus	**(7 117)**	(5 947)	(2 759)	(284)	1 639
Experience loss/(gain) on fund liabilities	**85**	(1 468)	(1 524)	16 663	(542)
Experience loss/(gain) on fund assets	**822**	1 485	945	14 776	61

	2016	2015
	R'000	R'000
Plan asset portfolio		
Investment assets	**10 685**	19 575
Current assets/(liabilities)	**(2 851)**	(13 039)
Total	**7 834**	6 536
Effective rate of return on plan assets (actual)	**10,69%**	16,10%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 10,0%.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages):	%	%
Discount rate (annualised yield on R208)	**10,0%**	7,3%
Expected rate of return on plan assets	**10,0%**	7,3%
Future salary increases (inflation plus 1%)	**9,0%**	6,9%
Inflation	**8,0%**	5,9%

Sensitivity analysis - fund liability	**R'000**	**R'000**
At valuation assumptions:	**717**	589

* No sensitivity analysis has been disclosed during the current or prior year due to the closure of the fund as disclosed above.

The Company expects to make no contributions to the Ithala Defined Benefit Pension Fund due to the closure of the fund as disclosed above.

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15. RETIREMENT BENEFIT OBLIGATIONS (continued)

15.2.2 Defined benefit provident fund

	2016 R'000	2015 R'000
Defined Benefit Provident Fund		
Amounts recognised in the statement of financial position, are as follows:		
Present value of funded obligations	15 837	16 964
Fair value of plan assets	(22 078)	(24 269)
	(6 241)	(7 305)
Unrecognised actuarial gain	6 241	7 305
Liability at end of the year	-	-
The movement in the defined benefit obligation over the year, is as follows:		
Balance at beginning of the year	16 962	22 303
Interest cost	1 088	1 135
Current service cost	502	612
Benefits paid	(2 956)	(3 067)
Contributions by plan participants (employees)	196	276
Actuarial (gain)/loss on obligation	44	(4 297)
Balance at end of the year	15 836	16 962
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	24 269	27 919
Expected return on assets	1 581	1 431
Contributions received	414	675
Benefits paid	(2 956)	(3 067)
Investment gain/(loss) on assets	(1 230)	(2 689)
Balance at end of the year	22 078	24 269
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	502	612
Interest cost	1 088	1 135
Expected return on plan assets	(1 581)	(1 431)
Recognised actuarial (gain)/loss	90	(88)
Total included in staff costs	99	228

	2016	2015	2014	2013	2012
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	**15 836**	16 962	22 303	25 628	17 866
Fair value of fund assets	**(22 078)**	(24 268)	(27 919)	(24 522)	(20 773)
Surplus	**(6 242)**	(7 306)	5 616	(1 106)	2 907
Experience loss/(gain) on fund liabilities	**44**	(4 297)	(3 415)	7 216	(734)
Experience gain/(loss) on fund assets	**(1 230)**	(2 689)	3 623	2 825	1 197

	2016	2015
	R'000	R'000
Plan asset portfolio		
Investment assets	**22 694**	25 368
Current assets/(liabilities)	**(616)**	(1 099)
Total	**22 078**	24 269
Effective rate of return on plan assets (actual)	**10,69%**	16,10%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 10,0%.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages)	%	%
Discount rate (annualised yield on R208)	**10,0%**	7,3%
Expected rate of return on plan assets	**10,0%**	7,3%
Future salary increases (inflation plus 1%)	**9,0%**	6,9%
Inflation	**8,0%**	5,9%

Sensitivity analysis - fund liability	Change		
		R'000	R'000
At valuation assumptions:		**15 837**	16 814
Discount rate	+1%	**15 386**	16 291
	-1%	**16 330**	17 388
Expected rate of salary increases	+1%	**16 171**	17 202
	-1%	**15 530**	16 468
No salary increases		**13 981**	15 068

The Company expects to make no contribution to the Ithala Defined Benefit Provident Fund and R666 071 (2015: R527 359) to the Old Mutual Superfund Defined Benefit Provident Fund during the next financial year.

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	2016	2015
	R'000	R'000
16. SHARE CAPITAL AND SHARE PREMIUM		
Authorised share capital		
191 million ordinary shares of 0,1 cent each	191	191
Issued share capital and premium		
190 015 500 ordinary shares of 0,1 cent each issued and fully paid for	190	190
Share premium	344 810	294 810
2 990 ordinary shares of 0,1 cent par value each issued and fully paid for in the current year	-	-
Share premium	29 900	50 000
Total	374 900	345 000

During the financial year the Company issued 2 990 ordinary par value shares of 0,1 cent each for a consideration of R29 900 000 which amounted to R2.90 share capital and R29 899 997 share premium.

	2016	2015
17. INTEREST ON LOANS AND ADVANCES TO CUSTOMERS AND SURPLUS FUNDS		
Revenue arising from held to maturity investments		
Interest received on call accounts	13 003	3 902
Interest received on fixed deposit accounts	48 455	34 309
Interest income on treasury bills and debentures	8 398	8 422
Total interest received from deposits with banks and from statutory investments	69 856	46 633
Revenue arising from loans and advances to customers		
Home improvement loans	8 651	9 673
"Cash backed" loans	3 249	2 962
Interest on rural property loans	7 050	7 615
Interest on personal loans	5 432	8 717
Housing loans	126 292	125 974
Property development loans	547	803
Commercial loans	913	1 566
Debt consolidation	2 566	3 326
Vehicle finance	1 914	2 021
Taxi finance	2 444	2 697
Total interest earned on loans and advances to customers	159 058	165 354
Total interest on loans and advances and surplus funds	228 914	211 987

	2016 R'000	2015 R'000
18. INTEREST EXPENDITURE		
Interest paid on customer deposits	(80 702)	(71 403)
Loan account with holding company	(110)	(69)
Total	(80 812)	(71 472)
19. FEES AND OTHER INCOME		
Commission and fee income comprises the following significant categories of revenue:		
Revenue generated by Insurance Division	16 595	16 795
Rebates received	83	92
Commission income	13 863	14 044
Administration fee	1 299	1 187
Development fee	5	8
Funeral cover commission and other fees	1 345	1 464
Commission and fee income	95 359	85 497
Investigation and initiation fees from "cash backed" loans	1 652	1 778
Investigation and initiation fees from housing loans	2 921	3 373
Other investigation and initiation fees income	3 612	4 095
Service fees received from business accounts	2 635	3 653
Service fees received from pass book-based accounts	29 558	25 480
Service fees received from club accounts	3 963	3 857
Service fees received from debit card-based savings accounts	39 942	35 627
Service fees received from target save accounts	5 734	1 662
Other service fee income	4 920	5 511
Electronic fund transfer fee income	405	413
Valuation fee income	17	48
Government grants	-	52 096
Turn-around grant funding	-	52 096
Other income	9 688	8 610
Dormant account balances recognised in income	5 857	5 133
Bad debts recovered	87	107
Recovery of operating expenses from holding company	2 603	2 696
Sundry income	1 141	674
Total fees and other income	121 642	162 998

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	2016 R'000	2015 R'000
20. OPERATING EXPENDITURE		
Operating expenditure is stated after the following items:		
Auditors' remuneration	3 998	3 924
Audit fees	3 926	3 967
Prior year (over)/under provision	72	(43)
Amortisation of intangible assets	1 444	1 595
Depreciation of equipment	10 569	13 411
Loss on disposal of properties in possession	341	705
Loss on disposal of equipment	374	3 857
Proceeds on insurance claims	(11)	(433)
Professional fees	4 355	5 209
Operating leases	18 419	20 053
Personnel costs (excluding Director's and key management remuneration)	120 292	126 335
Included in personnel costs above are contributions to retirement benefit schemes:	9 597	9 281
Defined benefit plans	478	603
Defined contribution plans	9 119	8 678
Non-Executive Directors' emoluments	2 743	3 130
MF Kekana	880	921
M Mia	619	520
B Ngonyama	517	425
SC Ngidi	330	335
L Van Lelyveld (resigned 31 March 2014)	-	2
G White (resigned 31 August 2014)	-	804
VJ Klein (resigned 01 August 2015)	134	123
P Radebe (appointed 11 August 2015)	263	-
The Non-Executive Directors do not have service contracts.		
Executive Directors' remuneration	4 943	5 707
PA Ireland – Finance Director	1 883	1 716
SV Khoza – Chief Executive Officer (resigned 31 August 2014)	-	2 799
G White (appointed 01 September 2014, resigned 01 December 2015)	3 060	1 192

	2016 R'000	2015 R'000
20. OPERATING EXPENDITURE (continued)		
Key management remuneration	12 315	10 001
ZK Beshe - Divisional Manager: Insurance (resigned 30 November 2014)	-	865
NM Dlamini - Divisional Manager: Business Risk (resigned 30 April 2015)	207	1 154
M Sajiwan - Compliance Officer (resigned 31 May 2015)	875	1 066
PN Salanje - Compliance Officer	1 266	1 102
M Mfeka - Manager: Capacity Building (appointed 01 February 2014)	967	945
S Gwala - HR Manager	1 047	862
S Xolo - Marketing and Sales Manager	800	682
B Hadebe - Acting Head Credit (appointed 01 March 2014, ceased to act 31 July 2015)	233	703
M Mtshali - Manger Public Sector (appointed 12 January 2014)*	173	670
Z Mthiyane - Head Ithala Connect (appointed 06 January 2014)	718	672
R Hill - Group Divisional Manager: IT Services Delivery Manager (appointed 01 July 2014, resigned 30 June 2015)	143	817
T Mungwe - Company Secretary (appointed 01 September 2014)	802	336
R Aniff - Insurance Operation Specialist (appointed 20 January 2015)**	130	145
F Dikgale - Chief Risk Officer (appointed 01 July 2015)	1 050	-
VT Ndlovu - Head: Insurance (appointed 01 June 2015, resigned 31 March 2016)	1 026	-
D Pillay - Chief Audit Executive (appointed 01 November 2015)	926	-
MC Zikalala - Head IT (appointed 01 September 2015)	533	-
S Moodley - Head Segments (appointed 08 July 2015)	599	-
S Johnson - Acting Head: Distribution Channels (appointed 01 October 2015)	630	-
TE Nemadzhilili - Head Credit Risk (appointed 08 August 2015, resigned 30 September 2015)	190	-

*M Mtshali ceased to be part of key management when the Head: Segments was appointed on 08 July 2015

**R Aniff ceased to be part of key management when the Head: Insurance was appointed on 01 June 2015.

21. TAXATION

There is no provision for normal taxation as the Company has been granted an income tax exemption in accordance with Section 10(1)(cA)(ii) of the Income Tax Act.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

	2016	2015
	R'000	R'000
22. OPERATING ACTIVITIES		
Non-cash items included in comprehensive expense		
Depreciation of equipment	10 569	13 411
Amortisation of intangible assets	1 444	1 595
Fair value increase on properties in possession	(560)	(429)
Loss on disposal of equipment	374	3 857
Loss on disposal of properties in possession	341	705
Credit impairment in loans and advances	(51 056)	14 978
Credit impairment in trade and other receivables	2 444	1 144
Total	(36 444)	35 261
23. CHANGES IN OPERATING FUNDS		
Increase in operating liabilities		
Increase in deposits	120 826	99 550
(Decrease)/increase in trade and other payables and provisions	(6 318)	15 558
Increase in retirement benefit obligations and defined benefit provident fund shortfall	2 923	2 726
Decrease in loan account with holding company	(235)	(1 972)
Total	117 196	115 862
Decrease in operating assets		
Decrease in loans and advances	112 828	36 319
Increase in properties in possession	(1 788)	(1 254)
Increase in trade and other receivables	(9 196)	(120)
Total	101 844	34 945

	2016 R'000	2015 R'000
24. COMMITMENTS		
Capital expenditure		
Authorised and contracted for	**15 607**	20 092
Comprising:		
Acquisition of equipment	-	1 016
Development of intangible assets	**15 607**	19 076
Capital expenditure will be financed from internal resources.		
Operating lease commitments		
Non-cancellable operating lease commitments are as follows:		
Not later than one year	**12 393**	11 812
Later than one year and not later than five years	**9 164**	5 268
Total	**21 557**	17 080

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).

25. RELATED PARTIES

The holding company is Ithala Development Finance Corporation Limited and the ultimate controlling shareholder is the KwaZulu-Natal Provincial Government through the MEC of the Department of Economic Development, Tourism and Environmental Affairs.

The following are identified as related parties of the Company:

25.1 Ithala Development Finance Corporation Limited

The nature of the relationship between Ithala Development Finance Corporation Limited and the Company is that of holding company and subsidiary.

The outstanding balance of the current loan accounts is disclosed in Note 14.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

	2016	2015
	R'000	R'000
25. RELATED PARTIES (continued)		
25.1 Ithala Development Finance Corporation Limited (continued)		
Outstanding balances with the holding company		
Outstanding balance on savings and fixed deposits	(45 308)	(3 705)
Loan account with holding company	(7 946)	(8 181)

Savings and fixed deposit agreements entered into with the holding company are done so in the ordinary course of business and under terms no more favourable to those entered into with third parties at arm's length.

The transactions with the holding company during the financial year have been analysed below:

	2016	2015
Transactions with the holding company		
Bank charges received	(106)	(94)
Interest paid on customer deposits and loan account	2 807	2 335
Shared services	14 789	16 385
Rental paid	4 996	4 600
Recovery of operating expenses	(2 603)	(2 696)
Insurance recovery	(2 496)	(2 496)
Total	17 387	18 034

25.2 KwaZulu-Natal Provincial Government

The KwaZulu-Natal Provincial Government is the ultimate shareholder of the Company.

The Company received deposit funds from various departments of the KwaZulu-Natal Provincial Government.

Deposit funds from the KwaZulu Natal Provincial Government	2016 Deposits due	2016 Interest expense	2015 Deposits due	2015 Interest expense
	R'000	R'000	R'000	R'000
KwaZulu-Natal Local Government	28 023	1 659	26 134	1 478
Department of Agriculture and Environmental Affairs	1 160	24	1 138	23
Department of Human Settlements	-	94	12 694	264
KwaZulu-Natal Health	1 843	6	3 260	12
KwaZulu-Natal Growth Fund Trust	47 879	2 602	57 926	2789
Ezemvelo KZN Wildlife	31 780	1 780	-	-
KwaZulu-Natal Municipalities	67 525	2 072	-	-

25.3 The related party transactions detailed below refer to housing loans which were granted to key management personnel. Key management personnel compensation is disclosed in Note 20.

25.3.1 Key management personnel - Directors of the Company and/or holding company
Directors of the Company and holding company are the individuals responsible for planning, directing and controlling the activities of the Company.

Loans granted to Executive Management and Directors of the holding company	Outstanding balance	Net realisable amount of security	Interest received
	R'000	R'000	R'000
2016	**4 454**	**4 680**	**198**
2015	4 867	5 280	388
Loans granted to Executive Management and Directors of the Company			
2016	**6 017**	**6 548**	**415**
2015	4 599	5 119	314

Impairment and terms of business relating to related party loans
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 for housing loans and the market value of the asset for vehicle and asset finance. The Company, in the ordinary course of business, entered into various transactions with related parties.

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% and vehicle and asset finance where all full-time employees qualify for the prime overdraft rate less 1,00%. No amount has been expensed during this financial year in respect of bad or doubtful debts due from these related parties.

	2016	2015
	R'000	R'000
26. CONTINGENT LIABILITIES		
The Company is a defendant in the following matters or has provided guarantees which may result in possible loss to the Company		
KZN Security Services	**2 843**	2 843
Eskom guarantees	**81**	81
Mr PR Bele	**325**	325
Mpikwana Co-operative	**900**	900
Mist of Gold Investment 23 CC	**-**	4 296
South African Insurance Association	**3 000**	3 000
Nkosini Investments	**309**	-
Thandazile Khoza	**69**	-

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26.1 KZN Security Services
A claim was instituted against the Company by KZN Security Services during the 2009/10 financial year based on early termination of a written service level agreement between both parties which was due to expire on 31 March 2009. KZN Security Services has further alleged that the agreement was to have been extended based on a verbal agreement between the holding company and KZN Security Services for a further three years until 31 March 2012. The claim has been quantified by the applicant at an amount of R2,8 million. The matter has been in court before but was adjourned sine die with an adverse order of costs on an attorney and client scale because the claimant was not ready. The claimant will have to re-instate the matter in court. At year-end the outcome of this legal matter is still uncertain.

26.2 Eskom guarantees
The Company has issued guarantees totalling R0,08 million (2015: R0,08 million) in favour of Eskom.

26.3 Mr PR Bele
A claim was instituted against the Company by Mr PR Bele. The claim is for damages allegedly resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R0,3 million. The claim is disputed and defended by the Company, on the basis that no such advice was provided. Pleadings have closed and the claimant must set the matter down for hearing. At year-end the outcome of this legal matter is still uncertain.

26.4 Mpikwana Co-operative
A claim was instituted against the Company by Mpikwana Co-operative for monies attached from its bank account and returned to the KZN Department of Health, which according to the latter were fraudulently obtained. The Company is defending the claim and has joined the Department of Health which has also instituted criminal charges against the members of the Co-operative. The claim has been quantified by the applicant to an amount of R0,9million. The matter is still at pleading stage. At year-end the outcome of this legal matter is uncertain.

26.5 Mist of Gold Investment 23 CC
A claim was instituted against the Company by Mist of Gold Investment 23 CC for damages in respect of a failed development project on the grounds that the Company did not advance the loan applied for. The Company defended the matter on the basis that the claimant failed to meet the conditions of the loan including presales. The claim was quantified by the applicant to an amount of R4,2 million. The outcome of the matter was that the Company reached a full and final settlement agreement with the claimant in the amount of R2,1 million.

26.6 South African Insurance Association Guarantee
The Company has issued a guarantee of R3 million (2015: R3 million) in favour of the South African Insurance Association.

26.7 Nkosini Investments
A claim was instituted against the Company by Nkosini Investments. The claim is for a property in possession that was sold to the claimant, but the prospect was not transferred to the claimant's name. The claim has been quantified by the claimant at an amount of R0,3 million. At year-end the outcome of this matter is uncertain.

26.8 Thandazile Khoza
A claim was instituted against the Company by Thandazile Khoza. The claim is for a misappropriation of funds from the applicant's savings account. The claim has been quantified at an amount of R0,07 million. At year-end the outcome of this matter is uncertain.

27. FRUITLESS AND WASTEFUL EXPENDITURE, MATERIAL LOSSES AND IRREGULAR EXPENDITURE

27.1 Fruitless and wasteful expenditure
There was no fruitless and wasteful expenditure incurred during the year (2015: Nil)

27.2 Material losses incurred
As disclosed in Note 6, loans and advances to the amount of R39,8 million (2015: R3,8 million) was written-off during the financial year. The Company has suffered losses from theft due to break-ins at branches during the year amounting to R3,5 million. R567 404 was recovered from insurance. The Company has also suffered losses due to staff fraud of R40 443. No funds were recovered.

27.3 Irregular expenditure
An amount of R622 706 (2015: R1 641 275) which relates to irregular expenditure was incurred in the current financial year as a result of not complying with the Company's Supply Chain Management Policy. The table overleaf reflects a summary of expenditure incurred and condoned by the Accounting Authority:

	2016	2015
	R'000	R'000

27. FRUITLESS AND WASTEFUL EXPENDITURE, MATERIAL LOSSES AND IRREGULAR EXPENDITURE (continued)

27.3 Irregular expenditure (continued)

	2016 R'000	2015 R'000
Opening balance	3 672	421
Add: irregular expenditure - current year	623	1 641
Add: prior year amounts identified in the current year	-	2 031
Less: amount condoned	(3 672)	(421)
Less: amount recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	623	3 672
Analysis of expenditure awaiting condonation per age classification		
Current year	623	1 641
Prior years	-	2 031
Total	623	3 672

Details of irregular expenditure - current year

Incident	Disciplinary steps taken/ criminal proceedings	2016 R'000	2015 R'000
Non-compliance with supply chain management policies	None: Employee resigned	-	38
Non-compliance with supply chain management policies	Employee received a verbal warning	623	45
Non-compliance with supply chain management policies	Employee reprimanded	-	42
Non-compliance with supply chain management policies	Employee suspended pending hearing finalisation	-	3 547
Total		623	3 672

Incident	Condoned by (condoning authority)	2016 R'000	2015 R'000
Non-compliance with supply chain management policies	Accounting Authority	3 672	421
Total		3 672	421

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28. FINANCIAL RISK MANAGEMENT
The core function of the Company's risk management department is to identify all key risks impacting the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

The Company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Company's primary financial risks are:

- Credit risk
- Liquidity risk
- Market risk

The Board takes overall responsibility for risk management and approves risk management strategies and policies. Senior management is responsible for its implementation and creating a risk management culture within the Company through communication, education and training.

The risk management policies are designed to set appropriate limits and controls. These are reviewed at least annually.

The table below displays an explanation of the classes of financial intruments held and their related measurement categories.

	Note	Financial asset and liabilities at amortised cost	Non-financial instruments at fair value	Total	Fair value
		R'000	R'000	R'000	R'000
2016					
Cash	3	79 244	-	79 244	79 244
Statutory investments	4	129 882	-	129 882	129 882
Deposits with banks	5	895 537	-	895 537	895 537
Loans and advances to customers	6	1 480 586	-	1 480 586	1 480 586
Trade and other receivables	7	9 944	8 704	18 647	18 647
Customer deposits and trade and other payables	11 & 12	(2 239 528)	(242)	(2 239 770)	(2 239 770)
Loan account with holding company	14	(7 946)	-	(7 946)	(7 946)
2015					
Cash	3	53 840	-	53 840	53 840
Statutory investments	4	152 493	-	152 493	152 493
Deposits with banks	5	703 095	-	703 095	703 095
Loans and advances to customers	6	1 593 414	-	1 593 414	1 593 414
Trade and other receivables	7	6 837	2 614	9 451	9 451
Customer deposits and trade and other payables	11 & 12	(2 125 836)	(602)	(2 126 438)	(2 126 438)
Loan account with holding company	14	(8 181)	-	(8 181)	(8 181)

28.1. Credit risk

Credit risk is the risk of suffering financial loss, should any customers or market counterparties fail to fulfill their contractual obligations to the Company. Credit risk arises mainly from commercial and consumer loans and advances.

Credit risk is a significant risk resulting in management carefully managing its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

In terms of Basel III, the Standardised Approach has been adopted in the management of credit risk. It is well suited to the Company's size and level of complexity. Capital requirements for credit risk are determined based on the total risk weighted assets. The assets are assigned different weightings based on their level of risk.

28.1.1 Credit portfolio analysis

The credit quality of the Company's advances is presented in the table below:

Category of assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Assets that are impaired	Total
	R'000	R'000	R'000	R'000
As at 31 March 2016				
Housing loans	**1 222 745**	**84 658**	**79 743**	**1 387 146**
Cash loans	**26 538**	**-**	**-**	**26 538**
Commercial property loans	**1 373**	**-**	**393**	**1 766**
Micro-finance - unsecured loans	**15 297**	**2 233**	**12 426**	**29 956**
Vehicles	**30 880**	**3 927**	**373**	**35 180**
Trade and other receivables	**11 409**	**-**	**7 238**	**18 647**
Total	**1 308 242**	**90 818**	**100 173**	**1 499 233**
As at 31 March 2015				
Housing loans	1 292 963	73 385	90 771	1 457 119
Cash loans	24 758	-	-	24 758
Commercial property loans	2 743	-	9 691	12 434
Micro-finance - unsecured loans	29 483	2 227	25 672	57 382
Vehicles	38 233	2 511	977	41 721
Trade and other receivables	4 658	-	4 793	9 451
Total	1 392 838	78 123	131 904	1 602 865

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IAS 39 Financial instruments: recognition and measurement
The Company regularly undertakes a back-testing exercise to analyse customer behaviour during a specified period. This information is then collated and used to project the future performance of loans and advances.

The time period selected 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.

The data used in the credit impairment model draws from the following factors, determined through backtesting:
- Defaults rates;
- Ratio of accounts that remained non–performing over the backtesting period;
- Cash flows; and
- Time to realise security.

For the purposes of determining the credit impairment, the security value is reduced by the estimated selling costs and in the event that the net realisable security value is lower than the carrying amount, a further credit impairment based on the difference is raised.

The credit impairment for non-performing loans is determined based on the present value of projected cash flows and net realisable security.

28.1.2 Credit risk measurement
Maximum exposure to credit risk
The maximum exposure is the full amount exposed to credit risk without taking into account any form of security. The table below shows the maximum exposure to credit risk for the relevant component, as disclosed in the statement of financial position.

Credit risk exposures relating to statement of financial position assets:	**Note**	**2016**	**2015**
		R'000	**R'000**
Statutory investments	4	**129 882**	152 493
Deposits with banks	5	**756 944**	703 095
Deposits with State-Owned Companies	5	**138 593**	-
Loans and advances to customers	6	**1 480 586**	1 593 414
Trade and other receivables	7	**18 647**	9 451
Total assets subject to credit risk		**2 524 651**	2 458 453
Letters of undertaking issued		**2 122**	9 669

Maturity analysis of credit risk exposures
Residual contractual maturity analysis for credit risk exposures is as follows:

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2016							
Statutory investments	4	129 882	-	-	-	-	129 882
Deposits with banks	5	461 572	247 335	48 036	-	-	756 943
Deposits with State-Owned Companies	5	39 904	37 870	-	60 819	-	138 593
Loans and advances to customers	6	6 782	32 607	38 395	306 051	1 096 751	1 480 586
Trade and other receivables	7	18 254	393	-	-	-	18 647
Total assets subject to credit risk		656 394	318 205	86 431	366 870	1 096 751	2 524 652
Letters of undertaking issued		2 122	-	-	-	-	2 122

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2015							
Statutory investments	4	-	152 493	-	-	-	152 493
Deposits with banks	5	588 890	105 810	8 395	-	-	703 095
Loans and advances to customers	6	7 861	37 837	45 459	337 535	1 164 722	1 593 414
Trade and other receivables	7	9 257	194	-	-	-	9 451
Total assets subject to credit risk		606 008	296 334	53 854	337 535	1 164 722	2 458 453
Letters of undertaking issued		9 669	-	-	-	-	9 669

Individually assessed exposures
The Company considers certain exposures to be individually significant warranting an assessment of impairment individually. Large exposures are the commercial property loans, property development loans and housing loans exceeding R500 000.

The following tables reflect the total gross and average loans and advances exposed to credit risk.

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28. FINANCIAL RISK MANAGEMENT (continued)
28.1.2 Credit risk measurement (continued)

Total gross exposures

Major types of credit exposures: total gross exposure	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
	2016	2016	2016	2016	2015	2015	2015	2015
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Commercial loans	1 766	61	1 705	7 187	12 434	7 876	4 558	16 714
Property development loans	6 428	4 561	1 866	3 448	5 859	4 401	1 458	3 680
Housing loans > R500 000	474 664	21 975	452 689	398 602	495 339	38 205	457 134	406 356
Sub-total	482 858	26 597	456 260	409 237	513 632	50 482	463 150	426 750
Other loans	997 728	61 183	936 545	1 217 740	1 079 782	88 354	991 428	896 296
Total	1 480 586	87 780	1 392 805	1 626 977	1 593 414	138 836	1 454 578	1 323 046

Net realisable amount relates to security provided for these exposures.

Average gross exposures

Major types of credit exposures: average gross exposure	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
	2016	2016	2016	2016	2015	2015	2015	2015
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Commercial loans	353	12	341	1 437	1 554	984	570	2 089
Property development loans	3 214	2 280	934	1 724	2 930	2 201	729	1 840
Housing loans > R500 000	710	33	677	597	708	54	654	581
Sub-total	4 277	2 325	1 952	3 758	5 192	3 239	1 953	4 510
Other loans	193	10	183	231	181	12	169	212
Total	4 470	2 335	2 135	3 989	5 373	3 251	2 122	4 722

The average amount of gross exposure is determined as the year-end balance over the number of loan exposures outstanding as at the end of the reporting period.

The nature of security that is held by the Company in respect of loans and advances to customers is set out below:

Product	Type of security
Housing loans	Mortgage bond
Home improvement loans	Pledge of pension and provident fund assets
Micro-finance - secured loans	Cession of term deposit
Vehicle and taxi finance	Cession of movable asset
Commercial loans and property development loans	Mortgage bonds, cession of income, suretyships and, where appropriate, key man insurance policies

28.2.1 Valuation of security

The amount of the loan is dependent on the value of the security. Therefore prior to a mortgage agreement being concluded, a valuation is done to ascertain the appropriateness of the security. The valuation is done according to the guidelines of the Valuers' Institute of South Africa. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant.

In respect of home improvement loans granted to customers, the pension/provident proceeds are ceded to the Company and the loan is dependent on the pension/provident amount accumulated at a particular time.

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which has been ceded to the Company. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant.

28.2.2 Enforcement of security

In the event of a defaulter failing to rehabilitate an overdue loan, the Company will follow due legal process to attach and perfect the security. Properties are repossessed and made available for sale.

28.2.3 Credit risk concentration

Credit risk concentration occurs when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market conditions.

The Company operates solely in the province of KwaZulu-Natal and lends mainly to individuals in the housing mortgage sector. The Company has set a limit of 10% of the qualifying capital and reserves as the maximum exposure to an individual client or group of related clients. This limit is closely monitored by the Risk and Capital Management Committee.

The majority of the housing loan customers are employees of KwaZulu-Natal Provincial Government.

Funds are placed with banks meeting the criteria set by the Risk and Capital Management Committee.

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Sectoral analysis of loans and advances	2016	2016	2015	2015
	R'000	%	R'000	%
Sectoral analysis				
Real estate	1 766	0	12 434	1
Construction	6 429	0	5 859	0
Retail - mortgage	1 223 039	83	1 288 746	81
Retail - other	249 352	17	286 375	18
Total	1 480 586	100	1 593 414	100

Category of assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
As at 31 March 2016					
Real estate	1 373	-	393	1 766	61
Construction	-	-	6 428	6 428	4 561
Retail - mortgage	1 082 730	76 419	63 890	1 223 039	52 833
Retail - other	212 730	14 399	22 224	249 353	30 325
Total	1 296 833	90 818	92 935	1 480 586	87 780

Category of assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
As at 31 March 2015					
Real estate	2 743	-	9 691	12 434	7 876
Construction	-	-	5 859	5 859	4 401
Retail - mortgage	1 145 044	66 830	76 872	1 288 746	78 884
Retail - other	240 393	11 293	34 689	286 375	47 675
Total	1 388 180	78 123	127 111	1 593 414	138 836

28. FINANCIAL RISK MANAGEMENT (continued)

28.2.3 Credit risk concentration (continued)

Credit Impairment Reconciliation	31 March 2015	Impaired accounts written-off	Net impairments raised/(released)	31 March 2016
	R'000	R'000	R'000	**R'000**
Category of assets				
Real estate	7 876	(5 389)	(2 426)	61
Construction	4 401	-	160	4 561
Retail - mortgage	78 884	(15 440)	(10 611)	52 833
Retail - other	47 675	(18 939)	1 589	30 325
Total	138 836	(39 768)	(11 288)	87 780

Credit Impairment Reconciliation	31 March 2014	Impaired accounts written-off	Net impairments raised/(released)	31 March 2015
	R'000	R'000	R'000	R'000
Category of assets				
Real estate	6 804	-	1 072	7 876
Construction	5 804	(2 200)	797	4 401
Retail - mortgage	71 909	(228)	7 203	78 884
Retail - other	39 341	(1 330)	9 664	47 675
Total	123 858	(3 758)	18 736	138 836

28.3 Liquidity risk

Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayment structures of assets and liabilities resulting in the Company not being able to meet its financial obligations.

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework.

The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. The tables overleaf represent the contractual and expected maturities of financial liabilities as at the reporting date:

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

Contractual maturity analysis of financial liabilities as at 31 March 2016

	Note	On demand	Up to one month	1-6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Deposits from customers	11	1 004 561	175 689	633 607	337 539	42 409	2 193 805
Trade creditors	12	-	3 210	-	-	-	3 210
Accruals and accrual for leave pay	12	-	20 846	-	-	-	20 846
Loans and advances with credit balances	12	1 863	-	-	-	-	1 863
Other payables and sundry payables	12	19 723	323	-	-	-	20 046
Provision for audit fees	13	-	600	3 160	-	-	3 760
Provision for bonuses	13	-	-	-	1 668	-	1 668
Provision for long service awards	13	-	51	255	306	12 723	13 335
Loan account with holding company	14	7 946	-	-	-	-	7 946
Retirement benefit obligations	15.1	-	77	385	462	30 235	31 159
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	-	-
Total		1 034 093	200 796	637 407	339 975	85 367	2 297 638
% of weighting		45%	9%	28%	15%	4%	100%

Contractual maturity analysis of financial liabilities as at 31 March 2015

	Note	On demand	Up to one month	1-6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Deposits from customers	11	977 366	177 454	526 656	351 532	39 971	2 072 979
Trade creditors	12	-	3 129	-	-	-	3 129
Accruals and accrual for leave pay	12	-	19 835	-	-	-	19 835
Loans and advances with credit balances	12	1 813	-	-	-	-	1 813
Other payables and sundry payables	12	25 332	3 350	-	-	-	28 682
Provision for audit fees	13	-	153	3 417	-	-	3 570
Provision for bonuses	13	-	-	-	1 644	-	1 644
Provision for long service awards	13	-	51	255	306	11 761	12 373
Loan account with holding company	14	8 181	-	-	-	-	8 181
Retirement benefit obligations	15.1	-	77	385	462	27 312	28 236
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	-	-
Total		1 012 692	204 049	530 713	353 944	79 044	2 180 442
% of weighting		46%	9%	24%	16%	4%	100%

The maturity analysis is based on the contractual amounts payable (including interest) over the remaining periods to contractual maturity from year-end.

28.4 Market risk

28.4.1 Interest rate risk

The Company is exposed to interest rate risk on loans and advances to customers, deposits with banks, customer deposits (savings and term) and the Company's loan account balance with the holding company.

Key assumptions applied in projections and forecast cash flows are that:

- Levels of repayments (including prepayments) from existing clients will continue at a similar rate; and
- As a result of clients regularly depositing their incomes and renewing investments, net deposits (based on historical behaviour) continue growing except over the annual festive season during which higher than usual withdrawals are made. Provision for this reduction is made.

The table below demonstrates the re-pricing gap between the Company's assets and liabilities upon the application of a change in market interest rates. The table shows the impact of a 2% (2015: 2%) increase/decrease in interest rates on the interest income of the Company. The scenario analysis is limited to the impact on interest income and expenditure over the period of 12 months. The application of the change in interest rates is applied to a static statement of financial position and is in accordance with Regulation 30 of the Banks Act, 1990.

The sensitivity analysis below has been presented on a net interest income basis to reflect the operations of the Company.

Projected impact on statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates	**2016**	**2015**
	R'000	R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	**46 375**	46 353
Increased net interest income percentage	**31%**	56%
Impact of increase in cost of funds on comprehensive income	**(30 413)**	(28 382)
Decreased net interest income percentage	**(21%)**	(23%)
Decrease:		
Impact of decrease in yield on assets on comprehensive income	**(46 402)**	(46 461)
Decreased net interest income percentage	**(31%)**	(38%)
Impact of decrease in cost of funds on comprehensive income	**21 345**	17 699
Increased net interest income percentage	**14%**	15%

As the Company has no assets or liabilities subject to adjustments resultant from market rate fluctuations, equity change is limited to the above changes.

Changes from the previous year to this forecast are mainly due to changes in interest rates and the related strategy in application, changes to volume, differing maturities and, hence, terms of re-pricing.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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29. CAPITAL MANAGEMENT

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 healthy capital adequacy ratio 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 17,73% (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 Risk and Capital Management Committee has been tasked with assisting the Board in discharging its capital management responsibility and, as such, should there be a need for additional capital this Committee will drive the necessary processes in line with contingency capital planning.

Capital adequacy ratio	Regulatory limit	Actual 2016	Actual 2015
Capital adequacy ratio	≥10%	-	16,80%
Capital adequacy ratio	≥10,875%	17,73%	-
Primary share capital and reserve funds adequacy ratio	≥7%	-	16,00%
Primary share capital and reserve funds adequacy ratio	≥7,125%	17,55%	-
Total risk weighted assets (R'000)		1 486 496	1 429 336

Risk weighted assets	2016 R'000	2015 R'000
Credit risk weighted assets	942 234	921 700
Other risk weighted assets	76 870	62 477
Operational risk	467 392	445 159
Total	1 486 496	1 429 336

Capital structure	Notes	2016	2015
		R'000	R'000
Share capital	16	190	190
Share premium	16	374 710	344 810
Reserves		(108 051)	(108 074)
Prescribed deductions against capital and reserve funds		(15 094)	(8 262)
Total tier I 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

30. CHANGE IN ESTIMATES

30.1 Asset lives

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

Decrease in depreciation	533	702
Increase in net book value of fixed assets	533	702

31. SUBSEQUENT EVENTS

No events have occurred between the statement of financial position date and the date of this report that materially affect the reported results and financial position of the Company.

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MAKING IT HAPPEN TOGETHER

We would welcome your feedback and comments on this report.
Please contact us at: **nnaidoo@ithala.co.za**

THEME OF OUR REPORT

"Ithala embarked on a turn-around strategy that is aimed at returning the organisation to sustainable profitability. The turn-around strategy has three phases: Recover, Build and Grow. The true measure of the success of the strategy implementation will be the positive growth of the key performance indicators, being our numbers. The strategy implementation is well underway and the organisation has seen a strengthening of its key numbers, such that we reversed the loss of R69,9 million during the 2013/14 financial year to a marginal profit in the past two years.

Our theme for this year's integrated annual report is, therefore strength in numbers. This is a reflection of the road we have travelled thus far in returning our business to profitability and the road that lies ahead to realise our vision of becoming 'an innovative and responsive banking and insurance institution owned by and serving the state and people of South Africa."

ithala
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