WELCOME TO THE FUTURE...

WHERE PEOPLE MEET INNOVATION

CONTENTS

Ithala SOC Limited Integrated Annual Report 2016/17

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

ABOUT ITHALA

We are a licenced financial services provider and registered credit provider

We conduct our business through a banking exemption notice. Ithala SOC Limited (Ithala) is the subsidiary of the Ithala Development Finance Corporation (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 a recommendation from the South African Reserve Bank (SARB), our purpose is to provide financial services to the State and people of South Africa, thereby contributing-to the country's socio-economic development.

We provide financial services in areas where such services have not been readily available in the past.

We deliver on this mandate by providing:
- Transactional banking services;
- Savings and investment products;
- Housing and loan products; and
- Insurance products and services.

We use a multi-channel distribution network 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 with specific short-term deliverables.

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.

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

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

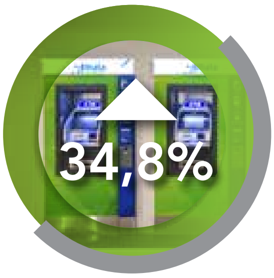
CUSTOMER SATISFACTION
We will always put ourselves in the customer's shoes and deliver exceptional service all the time.

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.

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.

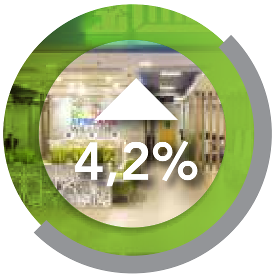
KEY PERFORMANCE INDICATORS

NUMBER OF DEBIT CARDS



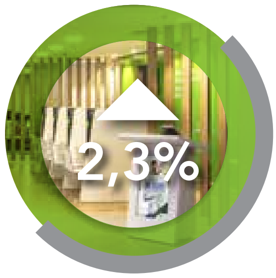
2017: 210 821
2016: 156 424
2015: 122 217

CUSTOMER DEPOSITS



2017: 2,3 Rb
2016: 2,2 Rb
2015: 2,1 Rb

TOTAL ASSETS



2017: 2,6 Rb
2016: 2,6 Rb
2015: 2,4 Rb

NET PROFIT/(LOSS)

-201 517,4%

2017: (46,33) Rm
2016: 0,02 Rm
2015: *(41,47) Rm

COST-TO-INCOME RATIO

4,6%

2017: 111,6%
2016: 106,7%
2015: *112,8%

JAWS

-172,5%

2017: (16,6)%
2016: *22,9%
2015: *10,0%

NON-PERFORMING LOANS

-5,8%

2017: 7,3%
2016: 6,9%
2015: 9,8%

CAPITAL ADEQUACY RATIO

-32,7%

2017: ^11,9%
2016: 17,7%
2015: 16,8%

LIQUIDITY RATIO

2,7%

2017: 10,7%
2016: 11,0%
2015: 12,0%

LEVERAGE RATIO

-22,5%

2017: 7,7%
2016: 9,9%
2015: 9,3%

RETURN ON EQUITY

-190 205,3%

2017: (19,01)%
2016: 0,01%
2015: (19,59)%

RETURN ON ASSETS

-178 654,1%

2017: (1,786)%
2016: *0,001%
2015: *(1,777)%

* 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.

^ Ithala identified and queried with the SARB relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited. The SARB advised Ithala that the investment should be risk weighted at 100% instead of 20%. This had a technical implication on the calculation of the capital adequacy ratio such that it reduced to 11,93%.

The capital adequacy ratio would have been 13,98% if not for this technical issue.

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 our basis for integrated thinking and integrated reporting.

This report covers Ithala's strategy, material issues and performance for the period 1 April 2016 to 31 March 2017 as well as our prospects for the future to our material stakeholders, notably our holding company, IDFC; our ultimate shareholder, the KwaZulu-Natal Provincial Government, the National Treasury, the SARB, our regulators, and large investors, with regard to our ongoing sustainability.

This report may be read in conjunction with the IDFC's integrated annual report 2016/17 (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-SA) to convey our performance against our annual performance plan (see page 32 to 35). 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 No. 71 of 2008 (Companies Act), the Banks Act, Act No. 94 of 1990 (Banks Act), and the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

LOOKING AHEAD

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 report, a combined financial and non-financial assurance team from Ernst & Young Inc. and A-G-SA, supported by the 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 integrated annual report, and in the Board's opinion, it addresses all material issues and fairly represents the company's integrated performance.

Malose Kekana
Chairman
20 September 2017

Danny Zandamela
Chief Executive Officer

01

OUR BUSINESS

The financial results underscore the need to implement our five-year strategy

MALOSE KEKANA
CHAIRMAN

DANNY ZANDAMELA
CHIEF EXECUTIVE

"The year under review proved to be difficult for most businesses in South Africa.

With GDP growth being low, there has been a downward pressure on revenue across the business spectrum.

The dominant customer segment of Ithala at the moment is people in the townships and rural areas of KwaZulu-Natal.

Unfortunately, these areas are characterised by high levels of unemployment and low business activity.

The results of Ithala partly reflect this reality.

The Board of Directors working together with management employed the services of external consultants to review the business model of Ithala as part of the process of applying for a full banking licence. Ithala has a constrained business model that dates back many years.

A business plan is being developed that will ensure that Ithala develops the necessary capital base, systems, processes and human capacity.

Through the tireless support of the Honourable MEC, Mr Sihle Zikalala, (MPL), and the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs senior management, Ithala secured an extension to the banking licence exemption to November 2019.

The two-year horizon gives Ithala sufficient time to make improvements in order to resubmit to the South African Reserve Bank the section 12 application, being the authorisation to establish a bank.

We believe that, with the management team that we have brought onboard and which we will continue to strengthen, Ithala is well-placed to achieve its goal of becoming a licenced State Bank.

A significant development post our March 17 year-end is that Mr Danny Zandamela has joined Ithala.

Danny has over 30 years of banking experience. We are looking forward to working with Danny to strengthen Ithala's operations and achieve sustainable profits.

Businesses and people are highly affected by the political environment.

With the sovereign credit rating downgrade and low economic growth, primarily driven by an unstable political environment, we hope that calm will return to the political situation in South Africa.

On behalf of the Board of Directors, I would like to encourage the Ithala team to support the new leadership and perform at their best to reposition Ithala.

We thank the Ithala staff and management, MEC, Mr Sihle Zikalala and the rest of KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs family and Provincial Treasury for the support we have received.

During 2017, we lost Ms Yvonne Zwane who was the Chief Executive Officer of Ithala Development Finance Corporation. We will miss her sterling contribution.

A new Board of Directors was appointed at Ithala Development Finance Corporation and we wish to welcome these colleagues and thank the previous Board, under the leadership of Dr Mandla Gantsho, for their support and co-operation.

I also wish to place on record appreciation to my fellow Directors for their unstinting support."

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 by way of our use and enhancement of the value of resources (also known as capitals: financial, manufactured, human, natural, and social and relationship capital) upon which we rely in the running of our business.

In our context, our dependence on the availability of some of these capitals - for example, financial and human capital - is material in 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 deliver 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.

01 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

02 CUSTOMER PERSPECTIVE

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

03 BUSINESS PROCESS PERSPECTIVE

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

04 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
R2,62 BILLION
of total assets (2016: R2,56 billion).

HUMAN CAPITAL
374 EMPLOYEES
2016: 373

INTELLECTUAL CAPITAL
BRAND, IT SYSTEMS, PROCESSES,PROCEDURES AND INNOVATIVE PRODUCTS.

SOCIAL AND RELATIONSHIP CAPITAL -
OUR RELATIONSHIPS WITH:

- Clients
- Shareholder
- Employees
- Regulators
- National and Provincial Government
- Communities

MANUFACTURED CAPITAL
R55,6 MILLION
(2015:R58,3 million) of properties in possession, equipment and intangible assets at cost.

BUSINESS UNITS

FOCUS ON TARGET MARKETS, INCLUDING STOKVELS, PUBLIC SECTOR ENTITIES, AND THE YOUTH

BUSINESS ACTIVITIES

As well as serving the general public we create an opportunity for the unbanked of KwaZulu-Natal. 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

OUTPUTS

- Interest income
- Interest expense
- Net fee and commission revenue
- Other revenue

SUPPORT SERVICES

PROVIDES SUPPORT FUNCTIONS AND PARTNERS WITH REVENUE-GENERATING BUSINESS UNITS

BUSINESS ACTIVITIES

These support functions include:

- Risk
- Internal audit
- Compliance
- Company secretariat
- Finance and administration
- Credit granting and collections
- Human resources
- Information technology
- Marketing

OUTPUTS

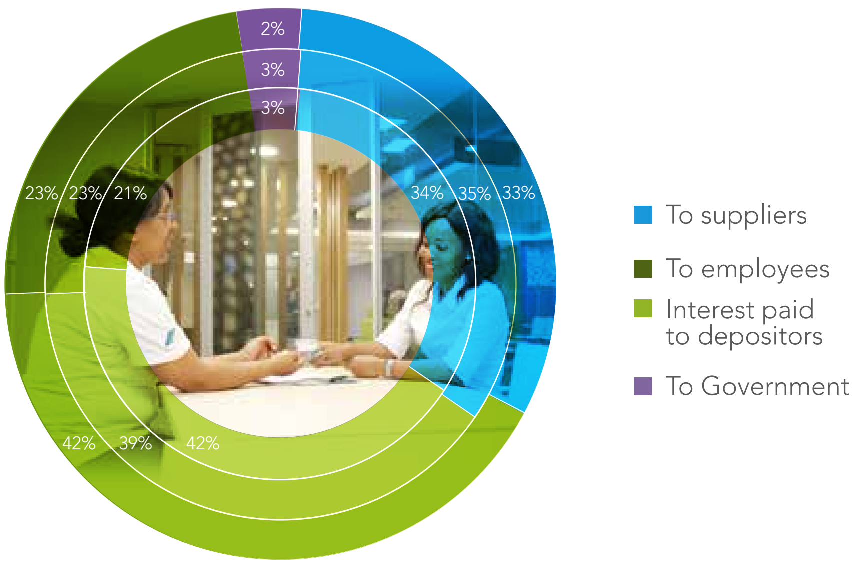
- Robust enterprise risk management
- Internal audit assurance
- Regulatory compliance and reporting
- Meaningful and informed internal and external reporting for decision-making
- Maintaining low credit losses
- People management
- Fit-for-purpose IT platform and services
- Brand development

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. Through our governance and compliance practices, we instil a sense of confidence in the stakeholders as well as the markets we serve. 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	2017 R'000	2016 R'000	2015 R'000
Value created			
Interest income	256 369	228 914	211 987
Commission and fee income	109 682	111 954	102 292
Other income	8 825	9 688	8 610
Net impairment charge on loans and advances to customers	(17 250)	11 285	(18 736)
	357 626	361 841	304 153
Value distributed			
To suppliers	128 560	121 498	116 352
To employees	164 388	137 550	142 203
Interest paid to depositors	90 093	80 812	71 472
To Government	9 437	9 945	10 603
To the community	22	-	76
	392 501	349 805	340 706
Retained value			
Accumulated profit/(loss)	(46 326)	23	537
Turn-around grant funding	-	-	52 096
Depreciation and amortisation	11 452	12 013	15 006

% OF VALUE DISTRIBUTED YEAR-ON-YEAR



Outer ring: 2017
Middle ring: 2016
Inner ring: 2015

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 to determine those that 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 in varying degrees based on the level of their interest in us and the impact on them by our actions. External governance structures also affect the degree of engagement. Our continuous engagement with the IDFC (shareholder), the KwaZulu-Natal Provincial Government, regulatory authorities, and the Minister of Finance ensures they are appraised of developments in Ithala.

STAKEHOLDER ENGAGEMENT

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 National 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 the IDFC 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 the IDFC. • Execution of strategic plans to return to profitability.

STAKEHOLDER ENGAGEMENT

STAKEHOLDERS	EXPECTATIONS/KEY ISSUES	OUR RESPONSE
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). • We maintain a fully functional Board and sub-committee structure in line with the provisions of all applicable regulations and legislation.
Suppliers	• On-time payment against invoices. • Fairness and transparency.	• Effective Ithala supply chain management process. • 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. • Honest and prompt communication. • Learning and development opportunities. • Opportunities for career advancement. • Consultation on changes to working conditions.	• Human Resources (HR) manages employee relations on an ongoing basis.
Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, co-operatives, stokvels)	• Customer service. • Affordable products. • Honest and understandable communication. • Being treated fairly. • Trained and competent Ithala people.	• We conduct quarterly customer satisfaction surveys. • We ensure that we communicate efficiently with our customers and invite their commentary on our value offering so that we can 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

We have a dedicated and independent compliance function, as prescribed by the Banks Act.

ECONOMIC CONDITIONS

South Africa's economy faced another challenging year during the 2016/17 financial year, as soft commodity prices, slow domestic demand and an uncertain political outlook combined to limit growth, with prospects for the coming year expected to be similar. Adding to the current challenges faced, South Africa's sovereign credit rating was downgraded to "junk" status in April 2017 by two of the international rating agencies.

The economy advanced a meager 0,3% in 2016, below a 1,3% expansion in 2015, mainly due to contraction in the mining and agricultural sectors. Unemployment fell to 26,5% in the fourth quarter of 2016, after reaching a twelve and a half year high of 27,1% in the third quarter of 2016.

Slow employment growth has negatively affected household consumption. Growth in household spending decelerated to 0,8% in 2016 from 1,7% in 2015.

Despite higher spending on services, a fall in spending on durable goods and a sharp deceleration in food purchases weighed on overall household expenditure.

With low levels of consumer confidence, households are reluctant to take on new debt. The number of credit applications has fallen and credit extension growth has been slow. The ratio of household debt to disposable income declined to 74% in 2016 from 78% in 2015.

The challenging economic conditions experienced in South Africa during the 2016/17 financial year has negatively impacted Ithala's operating environment and made the achievement of targets very difficult. Management continues to monitor risks facing the business.

REGULATORY ENVIRONMENT

The environment we operate in is highly regulated. The regulatory framework 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 the King Code of Corporate Governance, 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 function, as prescribed by the Banks Act. The compliance function assists the Board in managing the risk of non-compliance with applicable legislation and supervisory requirements, and operates under a policy approved by the Board. It assists in mitigating risks through the identification, assessment, management, monitoring and reporting on compliance.

During the past financial year the compliance function 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. Training has been used as a mechanism to drive a compliance culture within the company. In addition a concerted effort went into the review and update of compliance-related policies.

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

FINANCIAL INTELIGENCE CENTRE ACT (FICA)

Following the implementation of the reporting system and going live on the Financial Intelligence Centre (FIC) goAML system, the quality of the reports has improved due to the internal validation of information before input to the goAML platform. The focus for this year and going into the new financial year is proactively increasing awareness through training of all employees on the updated FICA internal rules which is in line with the FIC Amendment Bill of 2016, now the FIC Amendment Act.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT (FAIS)

The compliance function annually develops a risk management plan incorporating the Code of Conduct for authorised financial services providers as a measure for compliance. Monitoring of FAIS 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 compliance function has ensured that monitoring remains appropriately focused as FAIS requirements relating to the debarment of representatives and Professional Indemnity Insurance have been amended.

As part of managing conflicts of interest, a gift register is maintained. The compliance function 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 function 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 function has also assisted in unpacking various new legislative components affecting the insurance department. This included, inter-alia, various amendments to existing legislation and 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 function developed a compliance 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 function developed a compliance risk management plan for the purpose of measuring adherence to the Act and continues to monitor and keep abreast of legislative developments.

We provide secured and unsecured lending products and therefore monitor adherence to the requirements of the NCA on an on-going basis. We prepare regulatory reports for the National Credit Regulator (NCR), and all statutory returns and assurance reports were duly submitted.

We ensure that all documentation and other best practices are utilised in ensuring compliance with the NCA. The recent revision of the NCA, which offered clients credit amnesty, is expected to have an impact on the lending side of our products. These will also require time for credit providers to adjust and stabilise lending levels.

PENDING LEGISLATION

Over the last 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 Ithala, the compliance department also ensured the understanding of the following pending legislation:

RETAIL DISTRIBUTION REVIEW (RDR)

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 categorsation 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 (likely to be later next year), the compliance department is preparing 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 full impact of which will only become known when the subordinate legislation and standards 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.


Ithala

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 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 ISSUES AND RISKS

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	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 November 2019. • A formal submission for the consideration of a banking licence will require further interaction with the SARB.	• Operational risk.
Securing capital	Inability to grow our business to the projected levels and meet the performance obligations associated with our agreement with the National Minister of Finance, due to insufficient capital to meet the minimum prudential requirements.	• 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 continue to engage with the ultimate shareholder to recapitalise Ithala.	• Capital risk.

MATERIAL ISSUES AND RISKS

MATERIAL ISSUE	WHY IS THIS A MATERIAL ISSUE?	HOW ARE WE POSITIONED TO DEAL WITH THIS?	WHAT RISKS ARISE FROM THIS ISSUE?
IT systems implementation and cyber risk	The implementation of the hosted banking and insurance management systems and renewal of Information 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 and fraud.	• We are currently finalising-the implementation of 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. • Following an assessment of the cyber security risk facing Ithala, appropriate mitigations are being implemented.	• Operational risk.
Staff capability and skills development	Our employees are 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 among-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 programmes designed for emerging and middle management in collaboration with the University of KwaZulu-Natal (U KwaZulu-Natal), serves to "home-grow" our skills base and create our own talent pool. • Introduced the "Free to Grow" sales and customer service programme for our frontline roles with a total of 136 employees having benefited from the programme as at March 2017. • We plan to introduce the Investors in People Standards (IIP) during-the new financial year.	• 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 ISSUES AND RISKS

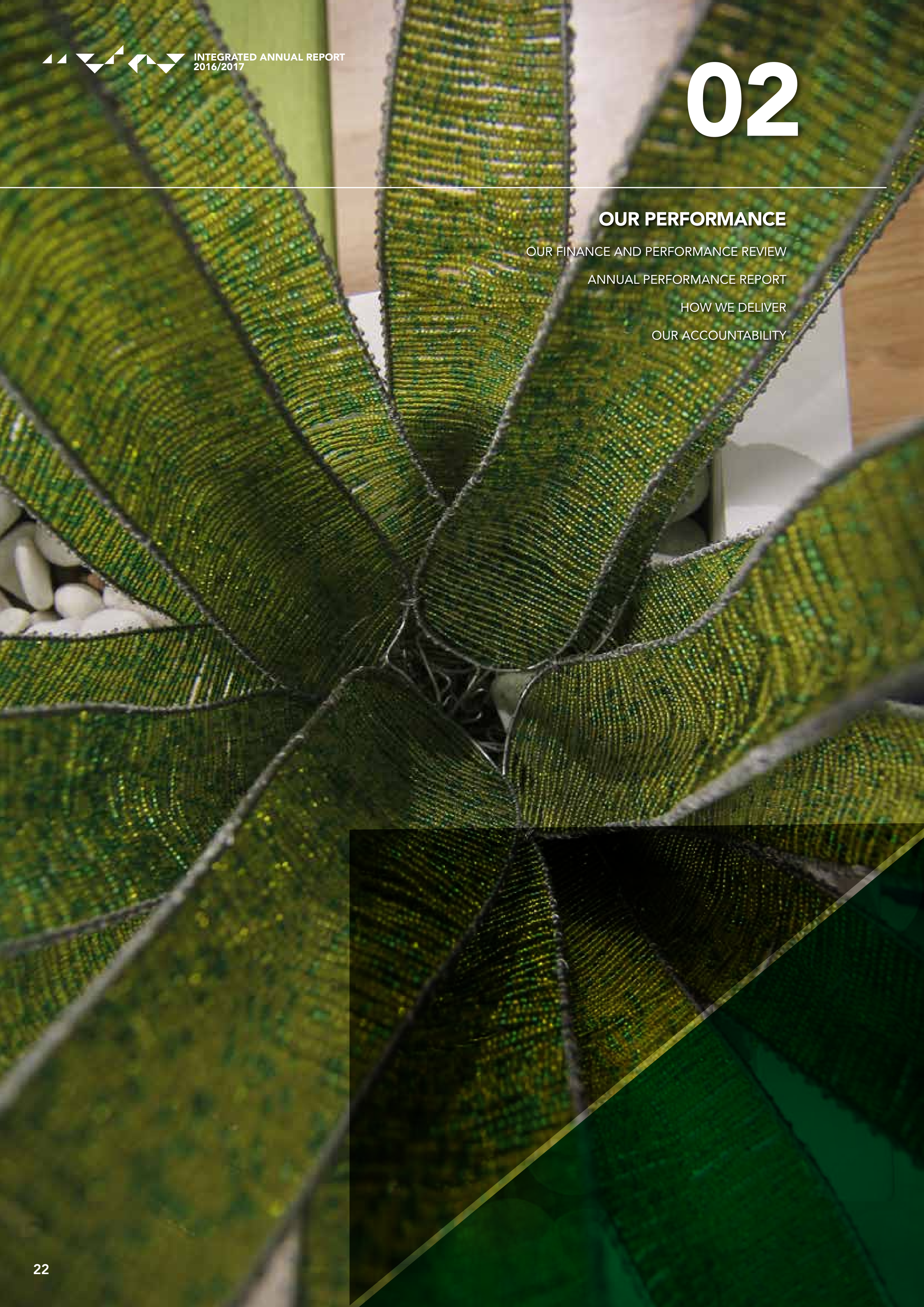
MATERIAL ISSUE	WHY IS THIS A MATERIAL ISSUE?	HOW ARE WE POSITIONED TO DEAL WITH THIS?	WHAT RISKS ARISE FROM THIS ISSUE?
Tough economic conditions	The South African economy continues to face headwinds - from sustained weakness in the global economy, pressure on theRand, escalating imported inflation, continued labour unrest, 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 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 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 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 and qualified Board which is well equipped to handle the changing regulatory landscape. • During-the year we embarked on the IFRS 9 project involving all affected divisions to ensure compliance in time for its implementation date of 1 April 2018.	• Credit risk. • Liquidity risk. • Operational risk.

Effective management of risk is at the centre of our business

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.

KEY RISKS AND 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, proactively, throughout the process of granting and monitoring the loans to our clients.
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 liabilities 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.
CAPITAL Not maintaining sufficient capital to cover unforeseen losses	To engage in the business of banking, we are required to 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.
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 across 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 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.



02

OUR PERFORMANCE

The financial year closed with a disappointing net loss

A DISAPPOINTING SET OF RESULTS

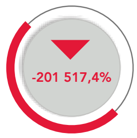
The financial year closed with a disappointing net loss of R46,3 million (2016: R0,02 million), while total assets and customer deposits grew by 2,3% and 4,2% to R2,62 billion (2016: R2,56 billion) and R2,29 billion (2016: R2,19 billion) respectively.

Return on equity was 19,01% (2016: 0,01%) and return on assets was 1,786% (2016: 0,001%). Ithala delivered a less than impressive credit performance, with our non-performing loans percentage up 0,4% to 7,3% (2016: 6,9%) and the impaired advances ratio at an acceptable 6,2% (2016: 8,3%).

System limitations delayed the launch of the MyCash loan and rollout of automatic teller machines, money transfer and self-service devices coupled with the lower than forecast sales of the group affinity product, enhanced funeral plans, and salaried and debit order debit card accounts have resulted in the forecast fee income targets for the period ended 31 March 2017 not being achieved.

Included in the prior year's profit is the surplus recognised on the defined benefit pension fund, the reversal of impairments emanating from the change in the debt review provisioning methodology and the release of the provision due to a write-off of commercial loans, and lower staff cost.

NET PROFIT/ (LOSS)



2017: (46,33) Rm
2016: 0,02 Rm
2015: (41,47) Rm

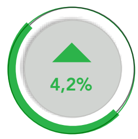
COST-TO-INCOME RATIO

2017: 111,6%
2016: 106,7%
2015: 112,8%

JAWS

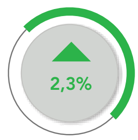
2017: (16,6)%
2016: 22,9%
2015: 10,0%

CUSTOMER DEPOSITS



2017: 2,3 Rb
2016: 2,2 Rb
2015: 2,1 Rb

TOTAL ASSETS



2017: 2,6 Rb
2016: 2,6 Rb
2015: 2,4 Rb

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 %	2017	2016
		R'000	R'000
Interest earned on loans and advances to customers	3,1%	163 960	159 058
Interest expenditure	-11,5%	(90 093)	(80 812)
Net margin	-5,6%	73 867	78 246
Interest on held to maturity investments	32,3%	92 409	69 856
Net interest income	12,3%	166 276	148 102
Fees and other income	-2,6%	118 507	121 642
Net income	5,6%	284 783	269 744
Credit impairment charges	-292,3%	(18 081)	9 401
Loans and advances to customers	-252,9%	(17 250)	11 285
Properties in possession	-246,4%	(820)	560
Trade and other receivables	-99,5%	(11)	(2 444)
Operating income	-4,5%	266 702	279 145
Operating expenditure	-12,1%	(313 028)	(279 122)
Profit/(loss) and total comprehensive income/(expense) for the year	-201 517,4%	(46 326)	23

NET INTEREST INCOME

Net interest income increased 12,3% to R166,3 million (2016: R148,1 million) mainly as a result of a 4,4% increase in surplus funds held during the year to R1,15 billion (2016: R1,10 billion), and new investment instruments, which are linked to higher yielding interest rates, are also contributing to the higher return on surplus funds. The growth in surplus funds is attributable to the increase in customer deposits during-the year. 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 2,6% to R118,5 million (2016: R121,6 million), largely as a result of a decrease in revenue generated from the insurance division and service fees received from savings and investments.

This decrease was partially offset by the increase in service fees received from debit cards and valuation and initiation fees on housing loans.

Insurance income remained static despite intensified efforts from the insurance advisory committee, established to oversee the growth and development of the business. This is primarily attributable to the lower than targeted sale volumes of the affinity products, enhanced funeral policies and credit life policies.

CREDIT IMPAIRMENT CHARGES ON LOANS AND ADVANCES

During-the previous financial year 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 increased by 252,9% from a positive R1,3 million to a negative R17,3 million.

This is due to the change in the debt review provisioning methodology which was implemented in February 2016 and the reclassification of non-performing loans to performing loans in March 2016, as a result of the back-testing exercise.

OPERATING EXPENDITURE

The ratio of total operating expenditure to total operating income was 117,4% (2016: 100,0%). Total operating expenditure increased by 12,1% to R313,0 million (2016: R279,1 million).

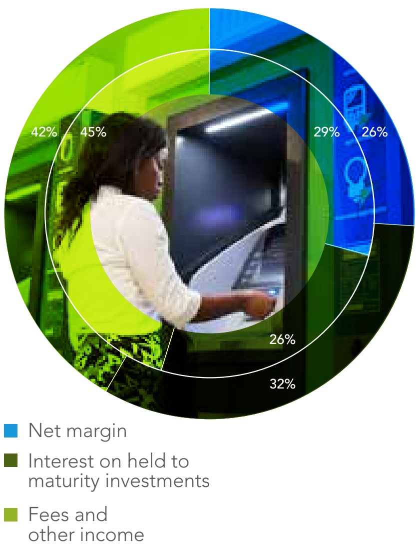
Staff costs have increased by 19,5% to R164,4 million (2016: R137,6 million), as a result of senior appointments, particularly in the support functions, being made in the second half of the financial year, the 6,4% annual salary increase, higher costs incurred for temporary staff and the decrease in the surplus recognised on the defined benefit pension and provident fund.

The above highlights the need to contain cost growth, as there was an increase in the cost to income ratio at 111,6% (2016: 106,7%), and a negative JAWS ratio.

BUSINESS UNIT OVERVIEW

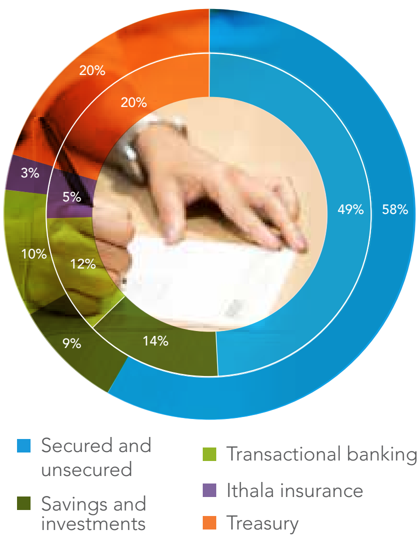
It is pleasing that each business unit has made progress in positioning itself for improved

% OF TOTAL OPERATING INCOME BEFORE IMPAIRMENTS



Outer rings: 2017
Inner rings: 2016

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



STATUTORY BALANCE SHEET ANALYSIS

Since 31 March 2016:

- Total shareholders' equity decreased by 17,4% to R220,5 million (2016: R266,8 million);
- We continue to build a robust, solvent and liquid balance sheet, with asset growth of 2,3% to R2,62 billion (2016: R2,56 billion);
- The return on shareholders' equity decreased from 0,01% to -19,01%; and
- The return on assets decreased from 0,001% to -1,786%.

Ithala's comparative balance sheet position at 31 March 2017 is as follows:

		2017	2016
	Change %	R'000	R'000
Assets			
Cash	4,5%	46 500	44 502
Statutory investments	36,9%	177 769	129 882
Investments and deposits with banks	-0,2%	928 453	930 279
Loans and advances to customers	0,4%	1 398 875	1 392 805
Trade and other receivables	15,4%	13 162	11 409
Properties in possession	4,3%	8 702	8 342
Equipment	-8,4%	29 457	32 174
Intangible assets	33,7%	20 177	15 094
Inventory	100,0%	1 433	-
Total assets	**2,3%**	**2 624 528**	2 564 487
Liabilities			
Customer deposits	4,2%	2 285 509	2 193 805
Trade and other payables	26,2%	58 032	45 966
Provisions	7,6%	20 179	18 762
Loan account with holding company	-32,1%	5 397	7 946
Retirement benefit obligations	12,0%	34 888	31 159
Total liabilities	**4,6%**	**2 404 005**	**2 297 638**
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	0,0%	190	190
Issued share premium	0,0%	374 710	374 710
Accumulated loss	42,9%	(154 377)	(108 051)
Total equity	**-17,4%**	**220 523**	266 849
Total liabilities and equity	**2,3%**	**2 624 528**	2 564 487


4
TELLERS
5
6
7

GROSS LOANS AND ADVANCES

Gross loans and advances increased by 0,5% to R1,49 billion (2015: R1,48 billion). The review of the affordability criteria, which was approved at the management credit committee (MCC) in March 2016, and the introduction of the pricing policy resulted in an increase in the number of loans being approved.

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, and not 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 2017, being 7,3% (2016: 6,9%) or R100,3 million (2016: R92,9 million) of total advances.

In response to requests from the market, a revolving credit facility called MyCash was launched on 25 February 2017.

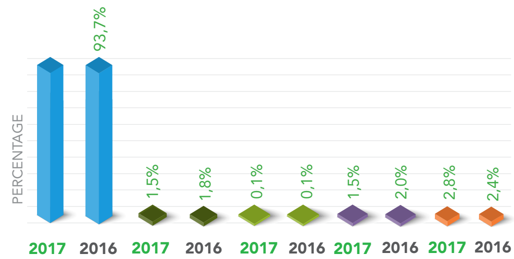
This facility is initially being offered only to existing Ithala clients and public sector employees with the condition that their salary must be paid into an Ithala transactional account.

The take-up of this loan has been slower than expected and remedial plans are being developed to address this.

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.

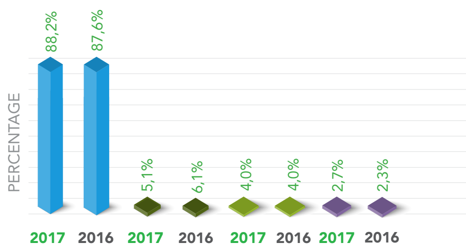
We expect that all of these factors, either individually or in combination, will continue to present challenges to growth in retail credit demand over the next 18 months.

LOANS AND ADVANCES BY PRODUCT



	2017	2016
Housing loans	94,1%	93,7%
Cash loans	1,5%	1,8%
Commercial property loans	0,1%	0,1%
Unsecured loans	1,5%	2,0%
Vehicle and Taxi finance	2,8%	2,4%

LOANS AND ADVANCES CHARACTERISTICS AND METRICS



	2017	2016
Assets that are neither past due nor impaired	88,2%	87,6%
Assets that are neither past due, but not yet impaired	5,1%	6,1%
Specifically impaired loans	4,0%	4,0%
Non-performing, but not specifically impaired loans	2,7%	2,3%


WE LISTENED TO YOU...
WE UNDERSTAND YOU
SIKULALELILE...
SAKUZWA

CUSTOMER DEPOSITS

Despite the constrained economic conditions, our customer deposits balance grew by 4,2% to R2,29 billion (2016: R2,19 billion).

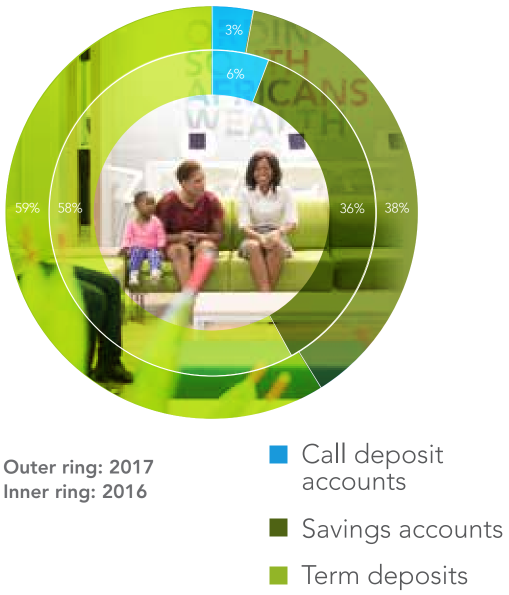
Consistent with trends seen over previous periods, growth in customer deposits continues to be driven by retail deposits.

In order to offer customers a lower cost savings product, the MySave account was launched in November 2016 with the aim of retaining customers and bringing back lost customers. The desired up-take has, however, been slower than expected.

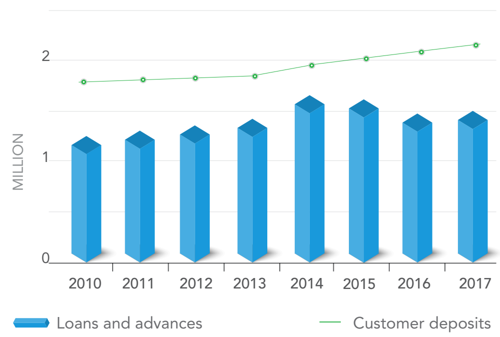
The rate of growth in customer deposits has been greater than that of loans and advances.

The ratio of advances to deposits was 65,1% (2016: 67,5%) at year end, well below the 85% contingency funding plan trigger rate and there was no negative business as usual mismatch between assets and liabilities on a cumulative basis.

CUSTOMER DEPOSITS BY PRODUCT



LOANS AND ADVANCES VS CUSTOMER DEPOSITS



LIQUIDITY AND CAPITAL MANAGEMENT

The capital adequacy ratio as at 31 March 2017 was 11,93% which is below the minimum required per the Memorandum of Agreement with the Minister of Finance.

Ithala identified and queried with the SARB relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited.

The SARB advised Ithala that the investment should be risk weighted at 100% instead of 20%.

This had a technical implication on the calculation of the capital adequacy ratio such that it reduced to 11,93%.

The capital adequacy ratio would have been 13,98% if not for this technical issue.

The capital adequacy ratio did, however, normalise from April 2017.

Our liquidity position remains strong with appropriate liquidity risk hurdle rates and policies in place. Surplus funds increased by 4,4% to R1,15 billion (2016: R1,10 billion).

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 2017, we held R177,8 million (2016: R129,9 million), or 10,7% (2016: 11,0%) in liquid assets.

Our liquidity coverage ratio (LCR) was 774,3% (2016: 371,0%), while our net stable funding ratio (NFSR) was 141,1% (2016: 129,0%), 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

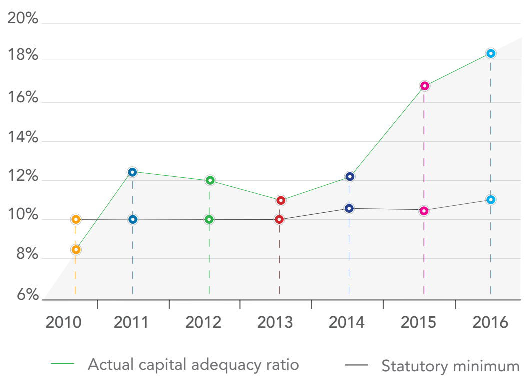
Against the backdrop of subdued economic growth prospects in the forthcoming year, as with all financial institutions, Ithala will continue to face difficult trading conditions.

Total new advances will be limited to R500 million for the year. The main driver of income growth will continue to come from non-interest revenue, namely fees on the new and innovative electronic banking and insurance products.

Distribution channels will be expanded to include self-service devices and additional ATMs. Our 'branch of the future' project will continue into the next year.

Ithala is forecasting a moderate loss in the next financial year.

CAPITAL ADEQUACY HISTORY



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.

FINANCIAL AND SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Increase & Enhance Capital Base & Assets	Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2017	17,73%	16,58%	11,93%	Target not achieved Ithala identified and queried an issue with the South African Reserve Bank (SARB) relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited. The SARB subsequently informed Ithala that the investment should be risk weighted at 100% instead of 20%. The new weighting was applied in March 2017 resulting in the capital adequacy ratio falling below the target. This was, however, temporary as the investments were restructured accordingly in the new financial year. The capital adequacy ratio would have been 13,98% if not for this technical issue.
	Achieve the budgeted return on equity (ROE) by 31 March 2017	0,01%	0,40%	-19,01%	Target not achieved The failure to achieve these targets is attributable to: The negative variance in new advances which resulted in interest and fee income from advances being below budget. The customer deposit target was not achieved, resulting in the return on surplus funds being below budget. The growth in active debit cards was not achieved, resulting in debit card fee income being below budget. The negative variance in insurance income, due to certain insurance products performing below expectations.
	Achieve the budgeted return on assets (ROE) by 31 March 2017	0,001%	0,04%	-1,79%	
Sustainable Profitability	Achieve the budgeted annual net profit (R'000)	23	4362	(46 326)	
	Achieve the budgeted cost to income ratio (CTIR) by 31 March 2017	106,74%	96,02%	111,57%	

FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%) CONT.

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Sound Governance & Stakeholder Management	Resolution of the outstanding internal and external audit issues within the agreed upon timeframes	New KPI not in 2015/16	100% completed within the stipulated timeframe	80,11% completed within the stipulated timeframe	Target not achieved Management failed to achieve this target due to the focus on other urgent deliverables required by the business e.g. banking licence application project and revenue-generating initiatives.

CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Increase Market Share	Achieve the budgeted total number of active^ debit cards by 31 March 2017	New KPI not in 2015/16	146 870	87 558	Target not achieved. The failure to achieve the target is attributable to the lower than budgeted sales volumes and account activation.
	Achieve the budgeted total number of active insurance policies sold by 31 March 2017	6 005	51 325	7 134	Target not achieved. Over-reliance on a single affinity, and failure to conduct proper due diligence prior to the product launch resulted in this target not being achieved.
	Achieve the budgeted customer deposits amount by 31 March 2017 (R'000)	New KPI not in 2015/16	2 846 913	2 285 509	Target not achieved. The growth in customer deposits was linked to the growth in transactional accounts (book-based savings and debit card) customers.
	Achieve the budgeted new advances amount by 31 March 2017 (R'000)	New KPI not in 2015/16	418 904	276 132	Target not achieved. The effect of the changes to the pricing and affordability matrix has increased our loans paid out, however, not to the extent that the budget could be achieved.
Establish Public Sector Banking Services	Achieve the budgeted total value of deposits from public sector clients (R'000)	331 693	413 750	328 174	Target not achieved. There has been reduced liquidity in the market from the public sector, due to the number of community upliftment projects being instituted by Government.
Sound Customer Relationship Management	Achieve the targeted score per the customer satisfaction measure by 31 March 2017	100%	95%	87,00%	Target not achieved. Negative perceptions by customers regarding customer service levels due to long queues and waiting-time have had an adverse effect on the customer satisfaction survey.

^ An active debit card is defined as an account which has a deposit balance greater than zero (0)

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
Effective Distribution Channels	Deploy the budgeted number of new self-service devices (SSDs) by 31 March 2017	New KPI not in 2015/16	100	0	Target not achieved. Delays were experienced on implementing core banking capability to settle SSD merchants due to capacity constraints within our hosted banking system service provider.
	Deploy the budgeted number of new automatic teller machines (ATMs) by 31 March 2017	0	50	9	Target not achieved. Poor planning and an inadequate deployment strategy resulted in a failure to acquire ATM sites that would achieve the minimum number of required transactions needed to recover the capital investment made, therefore delaying any further rollout.
Enhanced Business Effectiveness through Technology	Achieve the core banking system centralisation milestones by March 2017	New KPI not in 2015/16	100% adherence to the implementation milestones	42,50% adherence to the implementation milestones	Target not achieved. Delays were experienced due to changes in business priorities and the reassignment of resources.
	Achieve the insurance management system (IMS) implementation milestones by 31 March 2017	39,68% adherence to the implementation milestones	100% adherence to the implementation milestones	86,05% adherence to the implementation milestones	Target not achieved Delays were experienced due to changes in the project scope as well as resource constraints.

PEOPLE LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 25%)

OBJECTIVES	KEY PERFORMANCE INDICATORS	ACTUAL VALIDATED ANNUAL OUTPUT 2015/16	TARGET 2016/17	ACTUAL 2016/17	MANAGEMENT COMMENT
An Organisational Culture that Promotes Excellence	Implementation of the Board-approved employee incentive scheme by 31 March 2017	100% adherence to the implementation milestones	100% adherence to the implementation milestones	71,43% adherence to the implementation milestones	Target not achieved. The principles of the scheme have been finalised and approved by the remuneration committee (REMCO) with the support of human resources, social and ethics committee (HRSEC). REMCO requested that an external service provider review the principles of the scheme prior to it being presented to the Board of Directors for final approval.

HOW WE DELIVER

INFORMATION TECHNOLOGY (IT)

IT is an integral part of the business of banking and is fundamental to the support, sustainability and growth of Ithala.

The upgradation of our banking platforms 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 enable 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. This will better facilitate cross-selling and risk management capabilities.

Our banking, business systems and applications are a hybrid of old and the new systems and technology. The outdated technology creates maintenance and service delivery challenges, as it is unsupported and has no upgrade path. A long-term project has been approved to transform the legacy decentralised systems and infrastructure into a new centralised architecture which will allow us to control and operate our own in-house banking platform that will be scalable, flexible and designed to be more robust.

In the new financial year we will focus on implementing mobile banking-technologies and providing our customers with alternative banking channels, improving our information management, and beginning the implementation of the centralisation project.

The availability of the legacy system and the hosted banking system in 2017 has been 99,1%, which is within service level agreement tolerances and consistent with the prior year's performance of 99,1%.

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 66 ATMs was 92,3% (2016: 92,2%). During-the year, we processed 1,58 million (2016: 1,46 million) ATM transactions with the total Rand value of transactions reflecting an increase of 3% to R609,98 million (2016: R592,80 million). The average withdrawal is steady at approximately R428.

Our estimated average internet banking uptime for the year was 99,90% (2016: 99,90%) and our 2 513 (2016: 1300) registered user's processed 6 558 (2016: 6,161) transactions through this channel. Our estimated average unstructured supplementary service data (USSD) mobile banking uptime for the year was 99,95% (2016: 99,50%) and the USSD mobile banking channel generated 528 987 electronic payments of R14,2 million (2016: 322 435 transactions of R5,0 million).

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 2017 is 98,3%. This is a net improvement of 2,5% from the prior year (2016: 100,8%). The overall trend continues downwards.

Of nine unprofitable branches, five have returned to profitability and the remaining four are trending positively.

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 branches may have little chance of becoming profitable, and to close these branches would be contrary to our developmental mandate and would deprive these communities of access to mainstream financial services.

The branch of the future project was launched with the re-design and refurbishment of the Mega City and KwaMnyandu Mall branches. The design and décor has been completely revised providing a hi-tech customer engagement platform for customers to transact. Customer, staff and industry feedback is extremely positive.

The physical re-design is only one element of a complete overhaul of branch processes, systems, roles and people skills planned for the next 24 months. Existing branch sales remained steady in the financial year.

LOOKING AHEAD

To deliver growth, the branch network will be expanded in the new financial year with the testing of three to six satellite branch sites. Outsourced sales partners which complement the branch network are being-tested to add sales reach, including opportunities from outside KwaZulu-Natal.

CUSTOMER SERVICE

Our customers remain loyal and are satisfied with the overall service received from Ithala at 87%. What is pleasing is that this customer satisfaction score is above the financial services industry average score of 76,3%. One of the key customer service points that negatively impact our service level is long queues, and this is particularly prevalent around pay-days and 'stokvel' season.

A number of key initiatives are being implemented that are aimed at enhancing our customer experience and improving our service levels. These include staff training, IT systems, new concept branch and repositioning-the brand.

Adding meaningful value to our customers' lives is one of the key differentiators that will set us apart from our competitors and will embed loyalty to our brand. The new brand position addresses the key need for financial literacy. This is a need that, if left unmet, becomes a barrier to wealth creation. With the new positioning, we will take our customers on a journey that will move them from financial indebtedness to creating wealth. The new branch of the future will be a platform for delivering on our new positioning and is designed specifically as a customer engagement platform.

OUR ACCOUNTABILITY

Ithala was established to provide essential financial services to under-banked people

SOCIO-ECONOMIC DEVELOPMENT

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

AFFORDABLE HOUSING

We finance quality affordable housing units for households with monthly income levels of between R5 500 and R18 000. We were initially the only financial institution that provided home loans in the so-called "red-lined" township areas and still continue to do so today.

In KwaZulu-Natal we are the pioneers in providing housing loans to rural communities on land under tribal tenure. During-the year, we issued rural home loans to the value of R3,8 million (2016:R3,9 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 R28,4 million (2016: R27,0 million).

A high level of customer indebtedness is a particular challenge when providing housing finance to low-income earners. We consider factors such as combined household income and the contributions other family members make towards expenses. We are constantly investigating innovative ways to ensure that our customers in the low-income segment are able to access home loans.

EMPOWERING THE YOUTH AND PROMOTING FINANCIAL LITERACY

Working in partnership with the IDFC and utilising our rural branch network, Ithala conducts ongoing campaigns to support the empowerment of the youth. Campaigns include competitions for young entrepreneurs, as well as the development of banking products designed to serve the needs of learners, students and their families.

Ithala and IDFC regularly participate in initiatives implemented by the KwaZulu-Natal Provincial Treasury to promote financial literacy and the development of a savings culture amongst our youth.

Ithala's student debit card provides clients with affordable transactional banking services, mobile telephony and access, Wi-Fi access and exclusive discounts with retailers.

Twenty cents of every R1 transactional fee income earned from our student debit card product is being donated to this Ithala Education Fund.

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

For the 2017 academic year, a total of 294 applications where received and processed, from which 46 were eligible for funding in accordance with the set criteria, with the top six candidates being funded through the Ithala Education Fund #LeaveNoStudentBehind.

SUPPORT FOR EMERGING ENTREPRENEURS

Ithala works with the IDFC to support entrepreneurial development and emerging enterprises. IDFC has a primary mandate to provide finance and working capital in this space, whilst Ithala provides support, inclusive of transactional banking facilities and insurance products, and is currently rolling-out a number of innovative electronic payment solutions.

The Ithala-IDFC collaboration includes ongoing support for the strategically important National School Nutrition Programme (NSNP), with IDFC providing working capital and Ithala offering payment solutions and banking services to service providers. Through partnerships with taxi associations and IDFC, Ithala has developed an affordable taxi finance product that utilises taxi associations' savings as part-collateral for loans.

ALIGNMENT WITH KEY DEVELOPMENT STRATEGIES AND PROGRAMMES OF GOVERNMENT

Ithala's overall goals and strategies are aligned with the socio-economic policies and strategies of Government, without detracting from the governance requirements and the independence required of a regulated financial institution. This alignment is secured through governance processes, inclusive of the compilation of Annual Performance Plans and five-year Corporate Plans, which are required to, amongst other things, demonstrate how Ithala's objectives are aligned to provincial and national development plans and priorities.

OUR PEOPLE AND CAPACITY

Employees are integral to any 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. Despite legacy systems and manual processes, our employees persevere with providing great service to all levels of our clients. Our culture is one of commitment, passion, continuous development, diversity and ethical practice.

EMPLOYEE PROFILE

As at 31 March 2017, our headcount was 374 (2016: 373), comprising 145 males and 229 females (2016: 134:236), of which 94,3% (216) are African women. Our female headcount decreased by 3,0%, and the female representation of total headcount decreased by 2,1% to 61,2% (2016: 63,3%).

INVESTMENT IN HUMAN CAPITAL

For our employees to perform at optimal levels, 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 R0,97 million (2016: R2,21 million) in learning initiatives across the business, which benefited all employees.

We are committed to promoting a learning culture which enables employees to develop and grow until they reach their full potential. Through our relationship with the University of KwaZulu-Natal, customised programmes designed for emerging and middle management were introduced during the year. All 19 staff members who participated in the programmes were certified in March 2017. This was further supplemented by 16 employees who participated in the Certificate in Management Development (CMD) through the Milpark Business School.

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

Sales and customer service training: We introduced the "Free to Grow" sales and customer service programme for our frontline roles, with a total of 136 employees benefitting from the programme during-the year.

Compliance training: This covered statutory and regulatory requirements, with a particular focus on the Financial Intelligence Centre (FIC) and anti-money laundering training.

Learnerships: We sustained an intensive internship programme in 2017 with 81 (2016: 106) learners and graduates from Technical Vocational Education and Training (TVET) entities. Beyond absorbing some of the best-performing learners into the business, we maintain our commitment of allowing-the students to pursue experiential training.

Our determination to improve our performance is signified by the decision to introduce the Investors in People Standards (IIP) into Ithala. This ongoing project began during-the year, with the next assessment scheduled for mid-October 2017.

EMPLOYEE ENGAGEMENT

We have sustained the engagement of our staff through different engagement themes across the business.

The biggest focus has been to maintain stability in our industrial relations especially in the latter part of the financial year, when the organisational rights of the union were withdrawn.

03

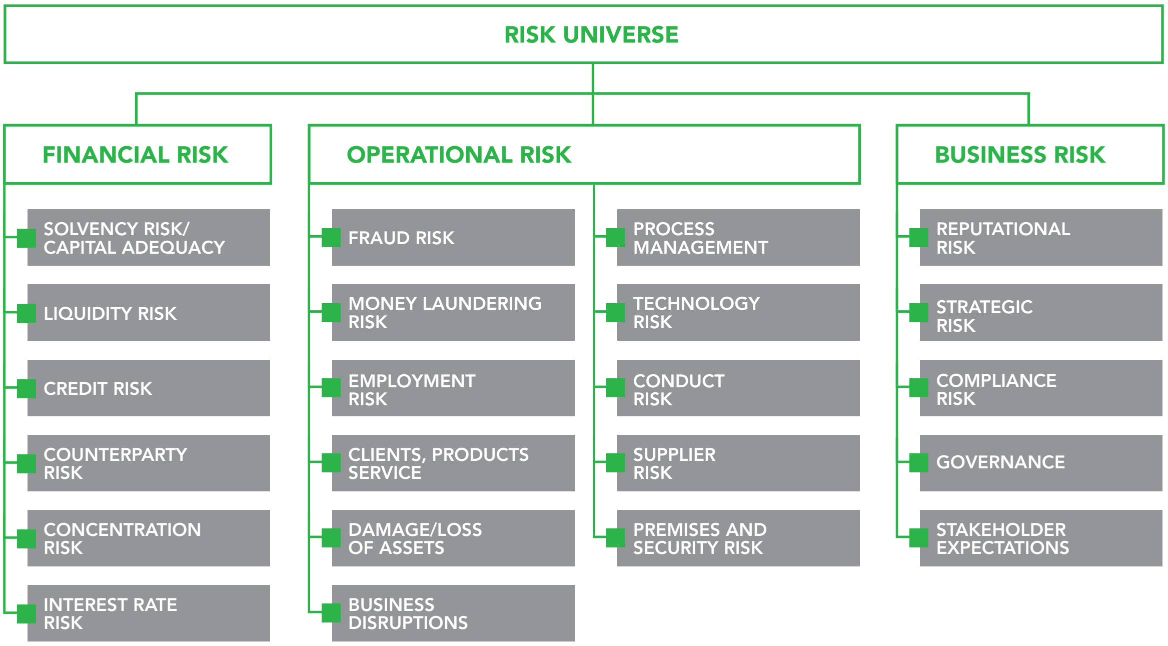
RISK AND CAPITAL MANAGEMENT

MANAGING RISK

Effective risk and capital management lays the foundation upon which every business decision and the development of winning strategies is based.

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 acceptable level in line with the Board's approved risk appetite, and in doing so 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.



To determine whether a risk is material 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 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 (RCMC), audit and compliance (ACC), IT governance, and human resources, social and ethics committees (HRSEC).

Operational risks are managed by the executive (EXCO), management credit (MCC), asset and liability (ALCO) committees. The roles and responsibilities of the various committees in managing risks within Ithala are set out overleaf:

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 the oversight of system development.

EXECUTIVE COMMITTEE

As part of its overall responsibility for the day-to-day 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 ensuring balance sheet 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 as 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 11,93% which is above the regulatory minimum of 11,25%.

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. Management is therefore able to invest in less risky assets for which we are required to hold less capital and this decreases our overall capital risk.

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 management credit committee is also responsible for considering and monitoring-the performance of the loans portfolio, including large exposures, monitoring-the performance of properties in possession, 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 across the group, 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 for accounts in 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. Home improvement 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-SA. 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 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

A 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.

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.

Our 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.

The liquidity risk is managed in accordance with the approved liquidity risk policy. The policy is designed to ensure proper management of liquidity risks and that regulatory, 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.

Cash flow forecasts and maturity gap analyses are used to assess and monitor 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 liquidity coverage ratio (LCR), in accordance with Basel III. LCR sets out minimum requirements to ensure a short-term resilience of liquidity risk profile i.e. maintenance of adequate level of unencumbered level one and level two high-quality liquid assets that can be converted into cash to meet the bank's liquidity needs over a 30-calendar day time horizon under a significantly severe liquidity stress scenario.

An additional requirement in respect of liquidity risk management to be introduced is the Basel III net stable funding ratio (NFSR). 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 ensure 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 2017, Ithala meets 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 and the major part falls within the greater than one-year maturity category.

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 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 replacing withdrawn deposits resulting in it not being able to meet its financial obligations.

Stress testing and scenario analyses 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, as part of the Resolution Plan by the KwaZulu-Natal Provincial Government, we have immediate access to a R300 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

HOW WE MANAGE INTEREST RATE RISK

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

Assume 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 R14,0 million (2016: R16,0 million) and a decrease in interest rates would result in a reduction in projected 12-month NII of R30,0 million (2016: R25,1 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 risks (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. 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 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 which assists 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 risks 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 who are urged to implement robust operational risk management programmes:

CYBER SECURITY RISK

Cyber security risk has remained the main threat for many organisations due to the expansion of digital services channels along with an increase in the sophistication of cyber attacks, which indicate a significant increase in vulnerability to cyber risk exposure. 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. 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 the control implementation regardless of the applicability or necessity to keep abreast with the growing-trends and threats which might impact 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.

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 principle 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 our values in the business.

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

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 where limited company resources are 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.

OUTSOURCING OF SERVICES AND INFORMATION TECHNOLOGY'S INABILITY TO SUPPORT BUSINESS RISKS

Outsourcing core business services and technology to third parties has it benefits as well disadvantages that present operational risks.

When the business outsources services, the risks are meant to be transferred to the service organisation. However, without adequately designed policies and service level agreements (SLA) in place the company is 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 is avoiding risks by implementing contracts and SLAs that favour the service organisation instead of the company.

IT's inability to support business operations may result in wasteful expenditure on technological investments that do not fulfil the organisation's strategic direction.

RISK MANAGEMENT TOOLS

BarnOwl software has been implemented to promote a matured 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 to ensure that it will assist risk management to efficiently maintain risk registers of the organisation, monitor risk exposure levels, manage and monitor management action items relating-to risks in their control environment as well as to provide supporting information that management will need to prioritise according to their level of importance and urgency.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04

GOVERNANCE AND TRANSPARENCY

HOW OUR BUSINESS IS GOVERNED

BOARD, DIRECTORS AND COMMITTEES

HOW OUR BUSINESS IS GOVERNED

Governance is an ongoing commitment shared by Ithala's Board, management team and employees. The imperative to continue to develop and implement best practices throughout the corporate governance structure is fundamental to the strategy to enhance performance by creating an environment that increases operational efficiency and ensures long-term growth.

The Board, in line with its objective to continuously improve corporate governance practices, has completed an assessment of its practices against the principles of the King IV Code and a governance improvement plan was established to ensure Ithala's ability to meet all its application requirements by the end of 2017.

Ithala operates in a highly regulated environment that is constantly evolving. The Board continues with effective leadership to ensure compliance with the provisions and regulations of applicable laws. The Board endeavours to maintain a healthy relationship with regulators and reiterates its commitment to sound corporate governance structures, policies and practices as fundamental to ensuring Ithala acts in a responsible and transparent manner.

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 to relevant Board committees and the Chief Executive Officer (CEO) clearly defined terms of reference and authority, 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 once a year.

The day-to-day management of the company vests in 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. The company secretary monitors effective implementation of the authority delegated to management and has confirmed that in the year under review, other than with one exception, management acted within the authority.

BOARD, DIRECTORS AND COMMITTEES

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

BOARD OF DIRECTORS

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

Its detailed roles and responsibilities are set out in the Board charter. The Board charter incorporates principles of corporate governance and complies with the provisions of the Companies Act, Banks Act and the Memorandum of Incorporation. The charter, which also specifies matters reserved for Board decisions, is reviewed at least annually.

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 its responsibilities and objectives. This includes finance, audit, 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 authority, with company policy determined by consensus.

The structure consists of one Executive and seven Non-executive Directors, five 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 the Memorandum of Incorporation, taking into account, among other considerations, the need to have sufficient Directors to structure Board committees appropriately, as well as succession planning.

Non-executive Directors bring diverse perspectives to Board deliberations, and constructive challenging of the views of the Executive Director and management is encouraged.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

- Following-the nomination from the Board, the appointment of the Directors is confirmed at the annual general meeting;
- 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

- Mr Peter Ireland was appointed as the CEO on 1 April 2016 and resigned on 30 May 2017. Mr Mahmood Mia was appointed as the Acting CEO on 1 June 2017. Mr Danny Zandamela was appointed as the permanent CEO on 1 September 2017.
- Mrs Tantaswa Nyoka resigned as an Independent Non-executive Director on 30 May 2017; and
- Ms YEN Zwane passed away on 30 June 2017.

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 (47)

CHAIRMAN OF ITHALA SOC LIMITED

B.Comm (Finance)

Appointed 2013

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee (Chairperson)
- Remuneration committee

MAHMOOD MIA (70)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Matriculation Exemption

Appointed 2010

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Audit and compliance committee
- Risk and capital management committee (Chairperson)
- Information technology governance committee
- Human resources, social and ethics committee
- Remuneration committee
- Insurance advisory committee

SIPHO NGIDI (62)

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Appointed 2011

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Human resources, social and ethics committee (Chairperson)
- Remuneration committee (Chairperson)

BABALWA NGONYAMA (43)

INDEPENDENT NON-EXECUTIVE DIRECTOR

CA(SA)

Appointed 2012

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Audit and compliance committee (Chairperson)
- Risk and capital management committee
- Information technology governance committee
- Remuneration committee
- Insurance advisory committee

TANTASWA NYOKA (45)
INDEPENDENT NON-EXECUTIVE DIRECTOR

CA(SA)

Appointed 2016

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Audit and compliance committee
- Risk and capital management committee
- Human resources, social and ethics committee
- Remuneration committee
- Information technology governance committee (Chairperson)

POLO RADEBE (42)
INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Appointed 2015

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Audit and compliance committee
- Risk and capital management committee
- Insurance advisory committee (Chairperson)
- Information technology governance committee

YVONNE ZWANE (57)
NON-EXECUTIVE DIRECTOR

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

Appointed 2012

BOARD COMMITTEE MEMBERSHIPS

- Directors' affairs committee
- Risk and capital management committee
- Information technology governance committee
- Human resources, social and ethics committee
- Remuneration committee
- Insurance advisory committee

PETER IRELAND (52)
CHIEF EXECUTIVE OFFICER (RESIGNED 30 MAY 2017)

CA(SA)

Appointed 2012

BOARD COMMITTEE MEMBERSHIPS

- Risk and capital management committee
- Information technology governance committee
- Remuneration committee

BOARD AND BOARD COMMITTEE ATTENDANCE

	Board of Directors	Directors' Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committee	Human Resources, Social and Ethics Committee	Remuneration Committee	Insurance Advisory Committee
NUMBER OF MEETINGS	8	2	8	3	4	5	2	4
BOARD MEMBER	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED	ATTENDED
MALOSE KEKANA	8	2	n/a	n/a	n/a	n/a	2	n/a
MAHMOOD MIA	8	2	8	3	4	5	2	4
SIPHO NGIDI	8	2	n/a	n/a	n/a	5	2	n/a
BABALWA NGONYAMA	8	2	8	3	4	n/a	2	4
YVONNE ZWANE	6	2	n/a	3	4	5	2	4
POLO RADEBE	6	1	7	2	4	n/a	n/a	3
TANTASWA NYOKA	5	1	5	1	3	3	2	3
PETER IRELAND	8	2	8	3	4	5	n/a	4

DIRECTORS' APPOINTMENT, ROTATION AND INDUCTION

In terms of the Shareholder Compact, all Non-executive Directors retire every year and are, if available, considered for reappointment by the shareholder 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 the business and the operational and legislative context within which it operates.

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 at each meeting. There have been no matters of conflict in the reporting period.

THE BOARD OF DIRECTORS

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
The main responsibilities of the Board include: • 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 the business plan and 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.	During-the past year, the Board: • Approved the 2016/17 budget, annual performance plan and corporate plan. • Approved the annual financial statements for the year ending 31 March 2017. • Submitted the section 12 banking licence application to the SARB on 18 November 2016. • Held a strategy session with management to review and update the strategy. Monitored the implementation of the strategy. • Reviewed the report from KPMG (Seasoned banking strategist) on the business model and monitoring of the action plan by management. • Reviewed quarterly financial performance reports against the agreed budget. • In line with the Companies Act, reviewed the company's solvency, liquidity and going concern status. • Received quarterly feedback from Board committee chairpersons. • Engaged with the supervisory team of the SARB in line with the SARB's annual supervisory programme. • Launched the first branch of the future with the MEC for Economic Development, Tourism and Environmental Affairs, Mr Sihle Zikalala.

DIRECTORS AFFAIRS COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
The main responsibilities of the committee include: • Reviewing, monitoring and advising on, and making recommendations regarding the nomination of Directors for consideration and final approval by the Board. • Assisting-the Board in maintaining the business continuity plan (BCP). • Conducting an annual assessment of the Board as a whole and of the contribution of each individual Director, as well as reviewing the Board committees' performance and effectiveness. • Ensuring compliance with all applicable laws, regulations and codes of conduct and practices.	During-the past year, the committee: • Reviewed the composition of the Board and the Board sub-committees. • Recommended the appointment to the Board of the Chief Finance Officer in line with Board requirements (the candidate subsequently withdrew). • Reviewed the independence of Non-executive Directors. • Considered the Board's composition related to skills, experience, background, gender and racial diversity. • Monitored the expenditure of the Directors.

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.
- 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 statements

- 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
  - the appropriateness of major adjustments processed at year end

Compliance

- Obtains reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory requirements.
- Reviews reports submitted by the compliance officer on the level of compliance with laws, regulations and supervisory requirements by the company at every meeting, a copy of which is submitted to the Registrar of Banks.

Internal audit

- The committee 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.
- 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

- The committee 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.

SUMMARY OF KEY FOCUS AREAS IN 2016/17

External audit

- Approved the re-appointment of the A-G-SA as external auditors for the financial year ended 31 March 2017.
- 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.
- Confirmed that no reportable irregularities were identified and reported by the external auditors.

Internal audit

- Reviewed and recommended to the Board for approval the internal audit terms of reference and annual work plan for 2017.
- Considered and approved the annual review of the internal audit's charter as well as the internal audit plan.
- Reviewed a quarterly report from internal audit which covered progress with delivery of the audit plan, an analysis of the cumulative results of audit outcomes for the year, a summary of audits that were completed during-the reporting period, as well as the outcomes of reviews.
- 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 reoccurrence

Compliance

- 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 roadmaps 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.
- Approved the implementation of integrated governance, risk management, compliance and audit software to ensure that the company uses the best-practice methodologies and frameworks.

Financial reporting

- Considered and recommended to the Board for approval the annual financial statements and results for the year ended 31 March 2017.
- Monitored the implementation of the turn-around strategy in order to meet the performance obligations as documented in the Memorandum of Agreement 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.
- Reviewed the combined assurance model and effectiveness of the process for identifying, assessing and reporting on significant internal financial control.

RISK AND CAPITAL MANAGEMENT COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
The main responsibilities of the Committee include: • Overseeing the development and annual review of the risk management framework 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. • 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 account of Ithala's strategic focus and business plan.	During-the past year, the committee: • Reviewed and approved the risk appetite framework, policy, risk appetite and risk tolerance limits. • Developed and monitored the strategic risk and divisional risk registers. • Approved the risk management plan for the 2017/18 financial year. • 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 to identify, monitor and mitigate risks. • Reviewed and assessed the divisional risks associated with the environment in which the business operates and the appropriateness of the mitigation strategies implemented. • Reviewed internal audit's assessment on the effectiveness of the risk management process. • 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. • Reviewed and recommended to the Board the recovery plan. • Reviewed and recommended the risk and capital management committee terms of reference and annual work plan 2017.

INFORMATION TECHNOLOGY GOVERNANCE COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
The main responsibilities of the committee include: • Assisting the Board in discharging its responsibilities to ensure that IT governance, as part of enterprise governance, is adequately addressed. • Advising on the information and communications technology (ICT) strategic direction, and review 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 project 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 reoccurrence are in place. • Reviewing ICT audit reports and recommending appropriate remedial actions.	During-the past year, the committee: • Monitored the implemented the IT strategy. • Reviewed and recommended the ICT policy, governance framework and budget to the Board for approval. • Reviewed the internal audit issues that were unresolved, and ensured that management set clear action plans within the agreed timelines to resolve these. • Monitored the implementation of the hosted banking and insurance management systems. • Monitored the appointment of skilled IT staff. • Monitored the ICT risks identified by business and ensured these were being addressed. • Monitored ICT risk management and obtained assurance on the effectiveness of controls. • Continued to monitor ICT investment and expenditures. • Oversaw the alignment of ICT objectives with business objectives, setting priorities and allocating resources.

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
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 the 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 interest of the company. • Evaluating its performance against its duties and responsibilities as set out in its terms of reference.	During-the past year, the committee: • Focused on organisational transformation to establish a culture of accountability and ethics which is fundamental to the sustainability of its operations. • Reviewed and monitored Ithala's HR strategies, systems and policy, employee relations, skills development and retention, performance management and the company's status in terms of safety, health and employee wellness. • Reviewed the role ascribed to the social and ethics committee as outlined in King IV. • Reviewed and recommended to the Board the human resources, social and ethics committee terms of reference and annual work plan 2017. • Filled key executive and senior vacancies, including the establishment of an adequately resourced IT department. • Strengthened stakeholder relationships.

REMUNERATION COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
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. • Ensuring that remuneration levels are comparable to other organisations, and commensurate with performance.	During-the past year, the committee: • Promoted a culture of performance through the remuneration policy. • Monitored the succession planning for Board members, the CEO, CFO and executive committee. • Approved the annual salary increases for the 2016/17 financial year. • Monitored Ithala's remuneration policy and advised the Board on the remuneration of executive directors. • Reviewed and approved the remuneration packages for executive directors.

INSURANCE ADVISORY COMMITTEE

MAIN RESPONSIBILITIES	SUMMARY OF KEY FOCUS AREAS IN 2016/17
The main responsibilities of the committee include: • Considering and ensuring the 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. • Reviewing regular reports from internal audit, external audit, compliance, risk and others on the operational effectiveness of measures relating to risks.	During-the past year, the committee: • Oversaw the on-going implementation of the insurance management system. • Reviewed regular reports from internal audit, external audit, compliance, risk and others on the operational effectiveness of measures relating to risks. • Monitored the implementation of the insurance strategy. • Monitored the appointment of key individual (KI) positions. • Reviewed the regular reports from internal audit, compliance and risk departments to ensure compliance. • Monitored the capital and liquidity of the insurance department.


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ANNUAL FINANCIAL STATEMENTS

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DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the Annual Financial Statements of Ithala SOC Limited, comprising-the statement of financial position at 31 March 2017, 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 which 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 of 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 of Directors 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 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 68 to 71.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements of Ithala SOC Limited were approved by the Board of Directors on **20 September 2017** and are signed on their behalf by:

Malose Kekana
Chairman

Danny Zandamela
Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Company Secretary of Ithala SOC Limited, that for the year ended 31 March 2017, 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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

1. I have audited the financial statements of Ithala SOC Limited set out on pages 76 to 137, which comprise the statement of financial position as at 31 March 2017, and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

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

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

EMPHASIS OF MATTERS

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

SIGNIFICANT UNCERTAINTIES

7. As disclosed in note 26 to the financial statements, the entity is the defendant in various claims at 31 March 2017. The outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the financial statements

MATERIAL LOSSES

8. As disclosed in note 27.2 to the financial statements, material losses of R15,30 million (2015/16: R39,77 million) were reported by the entity as a result of the write-off of previously impaired loans and advances.

RESPONSIBILITIES OF ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

9. The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with SA Statements of GAAP, the requirements of the PFMA, Companies Act, 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.

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

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

11. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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

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

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

PROGRAMMES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Programme 1: Financial and shareholder perspective	32 – 33
Programme 2: Customer perspective	33

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

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the financial and shareholder perspective and the customer perspective programmes.

OTHER MATTER

18. I draw attention to the matter below.

ACHIEVEMENT OF PLANNED TARGETS

19. The annual performance report on pages 32 to 35 includes information on the achievement of planned targets for the year and explanations provided for the under-achievement of a significant number of targets.

REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

21. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual Financial Statements

22. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(a) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of loans and advances and the the disclosure of the loans maturity analysis, identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

23. Bid documentation for procurement of

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1).

OTHER INFORMATION

24. The accounting authority of the entity is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.

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

26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

27. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
    - Management did not perform a proper review of the impairment calculations and the loans maturity analysis to ensure that they were correctly recorded on the financial statements.
    - Management has not implemented adequate controls to ensure that request for proposals comply with the requirements of Preferential Procurement Policy Regulations.

OTHER REPORTS

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

AUDIT RELATED SERVICES

29. Agreed upon procedures reports were issued to the SARB relating to returns issued in terms of the Banks Act.

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

31. 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
15 September 2017

AUDITOR-GENERAL
SOUTH AFRICA

ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

FINANCIAL STATEMENTS

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

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

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

   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority.

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

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit

.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

DIRECTORS' REPORT

The Directors of Ithala SOC Limited have pleasure in presenting-their report, for the year ended 31 March 2017.

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. There were no new appointments or resignations during the period under review.

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

GOING CONCERN

The Company posted a net loss for the period ending 31 March 2017 of R46,3 million (31 March 2016: net profit: R0,02 million). As at 31 March 2017 the Company's total assets exceeded total liabilities by R220,5 million (2016: R266,8 million) and total cash resources were R975,0 million (2016: R974,8 million). Current cash flow projections for the next 12 months reflect no cash flow shortages. As at statement of financial position date the capital adequacy ratio of the Company was 11,93% (2016: 17,73%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 11,25% (2016: 10,875%). Ithala identified and queried with the SARB relating-to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited. The SARB advised Ithala that the investment should be risk weighted at 100% instead of 20%. This had a technical implication on the calculation of the capital adequacy ratio such that it reduced to 11,93%. The capital adequacy ratio would have been 13,98% if not for this technical issue.

Although the Company incurred an operating loss for the financial year under review and is reliant on the continued support of its holding company to ensure future growth of the Company, based on the Board-approved strategy, 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 therefore agreed to extend the banking licence exemption until 30 November 2019, subject to the Company together with its stakeholders, fulfilling the following conditions:

1. Ithala submitting a revised business plan to National Treasury and the Registrar by 30 September 2017 which clearly spells out how it is going to return itself to profitability;
2. Ithala determining adequate capital levels which will ensure that it can successfully implement the turn-around strategy contained in its business plan;
3. The KwaZulu-Natal Government and Ithala Development Finance Corporation committing to adequately recapitalising Ithala through fiscal transfers and/or capital injections from equity partners; and
4. The updating of the Memorandum of Agreeement (preferably through an addendum) with revised dates and timelines and a commitment by Ithala to re-apply for authorisation to establish a bank.

FINANCIAL RESULTS

The results of Ithala SOC Limited for the year ended 31 March 2017 are disclosed in the Annual Financial Statements, as set out on pages 76 to 137.

DIVIDENDS

No dividends were declared or paid during-the review period.

DIRECTORS AND COMPANY SECRETARY

Information relating to the Directors is included on pages 52 to 61. Information relating to the Company Secretary is included on page 67 of the integrated annual 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

Correspondence was received in May 2017 that the Company's application for authorisation to establish a bank in terms of section 12 of the Banks Act was unsuccessful.

The Minister of Finance has extended the Company's banking licence exemption for a further two (2) years until 30 November 2019 subject to the Company fulfilling certain conditions.

The Directors are not aware of any other events which are material to the financial position of the Company that have 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 2017 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.

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 of Directors 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 Chief Financial Officer, 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 Auditor-General (South Africa ("A-G (SA)"), 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 (SA) as disclosed in Note 20 of the Annual Financial Statements;
- Determined the terms of engagement of the A-G (SA);
- Reviewed the quality of financial information;
- Reviewed the integrated 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 the 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 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 co-ordinating 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 Acting Chief Financial Officer, Mr PA Ireland, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The position of Chief Financial Officer remained vacant for the full financial year. However, the former Chief Executive Officer, Mr PA Ireland, performed this role in addition to his role of Chief Executive Officer. 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

Babalwa Ngonyama
Chairperson

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 R'000	2016 R'000
Interest earned on loans and advances to customers	17	163 960	159 058
Interest expenditure	18	(90 093)	(80 812)
Net margin		73 867	78 246
Interest on held to maturity investments	17	92 409	69 856
Net interest income		166 276	148 102
Fees and other income	19	118 507	121 642
Net income		284 783	269 744
Credit impairment (charges)/reversals		(18 081)	9 401
Loans and advances to customers	6	(17 250)	11 285
Properties in possession	8	(820)	560
Trade and other receivables	7	(11)	(2 444)
Operating income		266 702	279 145
Operating expenditure	20	(313 028)	(279 122)
Impairment of intangible assets			-
(Loss)/profit and total comprehensive (expense)/income for the year		(46 326)	23
Attributable to:			
Equity holders of the shareholder		(46 326)	23

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Note	2017 R'000	2016 R'000 Restated	2015 R'000 Restated
Assets				
Cash	3.1	46 500	44 502	38 796
Statutory investments	4	177 769	129 882	152 493
Investments and deposits with banks	5	928 453	930 279	718 139
Loans and advances to customers	6	1 398 875	1 392 805	1 454 578
Receivables	7	13 162	11 409	4 658
Properties in possession	8	8 702	8 342	7 667
Equipment	9	29 457	32 174	32 775
Intangible assets	10	20 177	15 094	8 262
Stock	21	1 433	-	-
Total assets		2 624 528	2 564 487	2 417 368
Liabilities				
Customer deposits	11	2 285 509	2 193 805	2 072 979
Trade and other payables	12	58 032	45 966	53 459
Provisions	13	20 179	18 762	17 587
Loan account with holding company	14	5 397	7 946	8 181
Retirement benefit obligations	15.1	34 888	31 159	28 236
Total liabilities		2 404 005	2 297 638	2 180 442
Equity				
Capital and reserves attributable to the equity holders of the shareholder				
Issued share capital	16	190	190	190
Issued share premium		374 710	374 710	344 810
Accumulated loss		(154 377)	(108 051)	(108 074)
Total equity		220 523	266 849	236 926
Total liabilities and equity		2 624 528	2 564 487	2 417 368

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

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
2016					
Balance as at 31 March 2015	16	190	344 810	(108 074)	236 926
Share issue		-	29 900	-	29 900
Profit and total comprehensive expense for the year		-	-	23	23
Balance as at 31 March 2016	16	190	374 710	(108 051)	266 849
2017					
Balance as at 31 March 2016		190	374 710	(108 051)	266 849
Share issue		-	-	-	-
Loss and total comprehensive expenses for the year		-	-	(46 326)	(46 326)
Balance as at 31 March 2017		190	374 710	(154 377)	220 523

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 R'000	2016 R'000 Restated
(Loss)/profit and total comprehensive (expense)/income for the year		(46 326)	23
Operating activities			
Adjustments for:			
Non-cash items included in comprehensive expenses	22	13 955	(36 444)
Increase in operating liabilities	23	106 367	117 196
(Increase)/decrease in operating assets	23	(14 720)	101 844
Proceeds from sale of properties in possession		2 695	1 335
Net cash flow generated/(utilised) in operating activities		61 971	183 954
Investing activities			
Acquisition of equipment	9	(7 359)	(10 360)
Acquisition of intangible assets	10	(7 125)	(8 276)
Proceeds from sale of equipment		572	17
(Increase)/decrease in statutory investments		(47 886)	22 611
(Increase)/decrease in other investments		(28 178)	(231 187)
Net cash flow utilised in investing activities		(89 976)	(227 195)
Financing activities			
Proceeds from shares issued	16	-	29 900
Net cash flow utilised in financing activities			29 900
Net movement in cash for the year		(28 005)	(13 341)
Cash and cash equivalents at the beginning of the year	3.2	624 436	637 777
Cash and cash equivalents at the end of the year	3.2	596 431	624 436

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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, a finance development agency which is, in turn, wholly-owned by the KwaZulu-Natal Provincial Government.

The Company is a State-Owned 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.

Statement of Compliance

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), as prescribed by the Accounting Standards Board. Statements of GAAP are based on the International Financial Reporting Standards (IFRS) with the exception of seven new IFRSs (IFRS 10, 11, 12, 13, 14, 15 and 16), amendments to IFRSs, including amendments made under the annual improvements process (namely amendments to IFRS 1, 3, 5, 7, 9, 10, 11, 12 and 13 and amendments to IAS 1, 16, 19, 27, 28, 32, 34, 38 and 40 and 2 IFRCs (IFRC 20 and 21), which have not been included in the 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 2017 were authorised for issue in accordance with a resolution of the Board of Directors (Board) on 20 September 2017.

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 loss for the year ended 31 March 2017 of R46,3 million (2016 net profit: R0,02 million). As at 31 March 2017 the Company's total assets exceeded total liabilities by R220,5 million (2016: R266,8 million) and total cash resources were R975,0 million (2016: R974,8 million). As at statement of financial position date the capital adequacy ratio of the Company was 11,93% (2016: 17,73%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 11,250% (2016: 10,875%). Although the Company incurred a loss and is reliant on the continued support of its holding company and other Government entities for the implementation of its turn-around 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.

The Minister has assessed the specific performance obligations for the year ended 31 March 2016 and has extended the banking licence exemption until 30 September 2017, subject to the Company fulfilling certain conditions set out by the Minister. One of the conditions was that the Company is required to make an application to the South African Reserve Bank to establish a bank in order to obtain a full banking licence. As at 31 March 2017, the Company did not meet some of these requirements and the banking licence application was declined. However, the Minister of Finance has extended the banking licence exemption until 30 November 2019 subject to the Company, together with its stakeholders, fulfilling certain conditions. The banking licence exemption is conditional on:

1. Ithala submitting a revised business plan to National Treasury and the Registrar by 30 September 2017 which clearly spells out how

it is going-to return itself to profitability;

2. Ithala determining adequate capital levels which will ensure that it can successfully implement the turn-around strategy contained in its business plan;
3. The KwaZulu-Natal Government and IDFC committing-to adequately recapitalising Ithala through fiscal transfers and/or capital injections from equity partners; and
4. The updating of the MoA (preferably through an addendum) with revised dates and timelines and a commitment by Ithala to re-apply for authorisation to establish a bank.

The Directors have implemented processes to ensure that these conditions are met by the agreed dates.

Functional and Presentation Currency

The 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 financial statements in conformity with SA GAAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement 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.

South African Reserve Bank 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 intends 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.

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; and
- 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 and cash equivalents comprises cash on hand net of bank overdrafts, short-term highly liquid investments and short-term deposits with 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 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 are recognised in 'Fees and other income'.

e. Trade and other receivables

Trade receivables comprise 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 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 and 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 they are available for use, which may be earlier than the date 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 assets' 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 computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a finite 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 impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

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

(a) Computer software and licences
Acquired computer software and licences are capitalised as assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Computer software is tested annually for impairment or changes in estimated future benefits.

Amortisation is calculated using-the straight-line method to write-down the cost of intangible assets to their residual values over their estimated useful lives from the date it is available.

(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 the project after which the asset is transferred to computer software and accounted for as per the computer software and licences policy.

Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment. 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 the 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 contracts are recognised and measured as provisions. 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 financial statements but are disclosed in the notes to the 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 Balance Sheet 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. Inventory

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring, converting and bringing-them to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business,
less the estimated completion costs and selling expenses.

r. 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 or Non-Executive Director of the Company or its parent company; 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.

s. 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 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 judgement 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.

t. New standards and interpretations not yet adopted

Herewith are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2017.

These have not been applied in preparing these financial statements as these updates do not apply to the Company due to the Company 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 AFS 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

STANDARD	DESCRIPTION	ANNUAL PERIODS BEGINNING ON OR AFTER

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 final version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition:
	
	  • IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cashflow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.
	  • The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets.
	  • IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity. In addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.
	  • IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.
	
	• Given the nature of the Company's operations, this standard is expected to have a significant impact on the Company's Annual Financial Statements when applied.
		1 July 2014
		
		1 January 2018

IFRS 13 (not adopted into SA GAAP)	**Fair value measurements** IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. • Annual Improvements 2010–2012 Cycle: Amendments to clarify the measurement requirements for those short-term receivables and payables • Annual Improvements 2011–2013 Cycle: Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9. • Although many of the IFRS13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in level 3.	 1 July 2014 1 July 2014

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

STANDARD	DESCRIPTION	ANNUAL PERIOD BEGINNING ON OR AFTER
IFRS 16 (AC105)	**Leases** • New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. • IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases-Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. • Given the nature of the company's operations, this standard is expected to have a significant impact on the Company's Annual Financial Statements when applied.	1 January 2019
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	**Presentation of Financial Statements** • Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make it 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

STANDARD	DESCRIPTION	ANNUAL PERIODS BEGINNING ON OR AFTER
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 2018
IAS 16 (AC 123)	Property, Plant and Equipment • Annual Improvements 2010–2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. • Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. • Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, Plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	1 July 2014 1 January 2016
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	Employee Benefits • IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. • For defined benefit plans, removal of the accounting policy for recognising actuarial gains and losses is expected to have an impact on the Company as the Company currently utilises the corridor method to account for such gains and losses. Should the amended IAS 19 be adopted, unrecognised actuarial losses in the balance sheet of R4,3 million for the Company would have to be released to the income statement. • Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended.	1 January 2013 1 July 2014
IAS 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 January 2016
IAS 40 (AC 135)	Investment Property • Annual Improvements 2011–2013 Cycle: Amendments to clarify the inter-relationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014

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 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).

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing-the Company's financial statements, management is required to exercise its judgement 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 judgements 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 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 judgement in making assumptions and estimations when calculating such allowances on both specific and portfolio loans and advances.

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 judgement 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 judgement 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, judgement 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	2017 R'000	2016 R'000 Restated

3. CASH AND CASH EQUIVALENTS

3.1 Cash

	Note	2017 R'000	2016 R'000 Restated
Coins and bank notes		46 500	44 502

Included in cash is an amount of R8,0 million (2016: R12,8 million) relating to cash in transit at year-end.

3.2 Cash and cash equivalents

	Note	2017 R'000	2016 R'000 Restated
Cash	3.1	46 500	44 502
Short-term investments and deposits with banks		549 931	579 934
Total		596 431	624 436

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, short-term investments and amounts due from banks on demand or with an original maturity of three months or less from the date of acquisition.

Refer to details of the comparative information reclassification in note 29.

4. STATUTORY INVESTMENTS

	Note	2017 R'000	2016 R'000 Restated
Treasury bill		177 769	129 882
Total		177 769	129 882

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 2017 exceed the minimum reserve requirements by R34,1 million, and are invested in terms of the Company's capital management strategy.

5. INVESTMENTS AND DEPOSITS WITH BANKS

	Note	2017 R'000	2016 R'000 Restated
Investments and deposits with banks		928 453	930 279
Investments and deposits with banks are analysed, as follows:			
Fixed-term funds		269 343	350 879
Investments in State-Owned Companies		165 968	138 539
Other investments		85 134	-
Call funds		408 008	440 861
Maturity analysis of investments and deposits with banks			
Maturing up to 1 month		464 540	536 219
Maturing after 1 month but within 3 months		187 442	254 138
Maturing after 3 months but within 6 months		86 472	31 067
Maturing after 6 months but not exceeding 1 year		18 898	48 036
Maturing after 1 year		171 101	60 819
Total		928 453	930 279

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings with a minimum long-term rating of A and also invests surplus funds in other 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 a day light overdraft facility granted to the Company. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R48,1 million (2016: R48,1 million).

6. LOANS AND ADVANCES TO CUSTOMERS

	2017 R'000	2016 R'000
Housing loans	1 400 523	1 387 146
Micro-finance – secured loans	63 914	61 718
Commercial property loans	1 137	1 767
Micro-finance – unsecured loans	23 059	29 954
	1 488 633	1 480 585
Credit impairments for loans and advances	(89 758)	(87 780)
Loans and advances net of impairment	1 398 875	1 392 805
Maturity analysis		Restated
On demand	57 838	58 241
Maturing from 1 month to 6 months	47 468	48 877
Maturing from 6 months to 1 year	46 848	47 042
Maturing from 1 year to 5 years	299 319	303 220
Maturing after 5 years	1 037 160	1 023 205
Total	1 488 633	1 480 585

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.

Refer to details of the comparative information reclassification in note 29.

	2017 R'000	2016 R'000
Credit impairments for loans and advances		
Balance at beginning of the year	87 780	138 836
Amounts written-off against specific credit impairment	(15 272)	(39 771)
Impairments raised/(reversed)	17 250	(11 285)
Balance at end of the year	89 758	87 780

	2017 R'000	2016 R'000
Comprising:		
Impairments for performing loans	21 913	28 686
Impairments for non-performing loans	67 845	59 094
Total credit impairments for loans and advances	89 758	87 780
Credit impairment analysis in respect of performing and non-performing loans		
Non-performing loans		
Balance at beginning of the year	59 094	100 258
Impaired accounts written-off	(15 272)	(39 771)
Net impairments raised/(reversed)	24 023	(1 393)
Balance at end of the year	67 845	59 094
Performing loans		
Balance at beginning of the year	28 686	38 578
Net impairments raised/(reversed)	(6 773)	(9 892)
Balance at end of the year	21 913	28 686
Total	89 758	87 780
Segmental analysis by industry of impairments in respect of non-performing loans		
Real estate	-	43
Construction	-	4 561
Retail - mortgage	33 042	31 415
Retail - other	34 803	23 075
Total	67 845	59 094
Concentration of credit risk		
Loans granted within the boundaries of KwaZulu-Natal	1 488 633	1 480 585
Total	1 488 633	1 480 585

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.

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 R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total R'000	Net realisable amount of security R'000
2017						
Housing loans	**39 958**	**22 154**	**8 671**	**-**	**70 783**	**62 559**
Micro-finance - unsecured loans	**745**	**418**	**309**	**-**	**1 472**	**-**
Commercial property loans	**876**	**-**	**-**	**-**	**876**	**2 761**
Vehicle and taxi finance	**1 485**	**826**	**102**	**-**	**2 413**	**1 935**
Total	**43 064**	**23 398**	**9 082**	**-**	**75 544**	**67 255**
2016						
Housing loans	44 103	23 712	16 842	-	84 657	82 358
Micro-finance - unsecured loans	1 078	757	398	-	2 233	-
Commercial property loans	-	-	-	-	-	-
Vehicle and taxi finance	2 786	1 142	-	-	3 928	1 251
Total	47 967	25 611	17 240	-	90 818	83 609

At statement of financial position date, the value of non-performing loans was R107 million (2016: R102 million) against which credit impairments of R67 million (2016: R58 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 2017.

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
- Engaging occupants by encouraging them to purchase the properties by utilising any applicable Government housing subsidy.

7. RECEIVABLES

	2017 R'000	2016 R'000
Receivables	8 699	9 944
Less: provision for receivables	(6 906)	(7 238)
Sub-total	1 793	2 706
Prepayments	11 369	8 703
Total	13 162	11 409
Credit impairments movement		
Balance at beginning of the year	7 238	4 793
Additional provisions made during the year	268	3 065
Unused amounts reversed during the period	(600)	(620)
Balance at end of the year	6 906	7 238
Amounts released during the financial year	(84)	(61)
Analysis of receivables		
Properties in possession debtors	-	171
Service deposits	230	220
Service fees	1 314	967
Net refunds due from insurance underwriters	10	747
Outstanding deposits	135	230
VAT apportionment	-	173
Other	104	198
Total	1 793	2 706

Service deposits are deposits held at the Municipalities for the payment of utilities, which are available on demand. Other debt encompasses short delivery of cash, unpaid cheques and stained notes which are also receivable on demand.

	2017 R'000	2016 R'000
8. PROPERTIES IN POSSESSION		
Gross amount at beginning of the year	12 847	12 732
Additions	3 817	1 788
Disposals	(2 637)	(1 673)
Gross amount at end of the year	14 027	12 847
Fair value decrease	(5 325)	(4 505)
Fair value	8 702	8 342
Fair value decrease		
Balance at beginning of the year	4 505	5 065
Increase/(decrease) for the year	820	(560)
Balance at end of the year	5 325	4 505

Properties in possession relate to immovable properties that have been repossessed by the Company and comprise mainly private residential dwellings.

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.

9. EQUIPMENT

	2017 R'000	2016 R'000
Cost		
Computer equipment	47 910	48 205
Furniture and fittings	22 671	21 255
Office equipment	21 387	20 061
Leasehold improvements	48 913	45 904
Work in progress	57	38
Total	140 938	135 463
Accumulated depreciation		
Computer equipment	39 346	36 021
Furniture and fittings	17 703	16 608
Office equipment	14 828	13 327
Leasehold improvements	39 604	37 333
Total	111 481	103 289
Net book value	29 457	32 174

Movement in equipment	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improve-ments R'000	Work in progress R'000	Total R'000
2017						
Net carrying value at beginning of the year	**12 162**	**2 187**	**6 706**	**11 081**	**38**	**32 174**
Additions	**1 205**	**1 567**	**1 548**	**3 009**	**-**	**7 329**
Disposals	**(554)**	**(56)**	**(56)**	**-**	**-**	**(666)**
Net WIP movement transfers	**-**	**-**	**-**	**-**	**19**	**19**
Adjustments	**(104)**	**33**	**82**	**-**	**-**	**11**
Depreciation	**(4 167)**	**(1 223)**	**(1 749)**	**(2 271)**	**-**	**(9 410)**
Net carrying value at end of the year	**8 542**	**2 508**	**6 531**	**11 819**	**57**	**29 457**
2016						
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)	(74)	(234)	(83)	-	(392)
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	2 187	6 706	11 081	38	32 174

10. INTANGIBLE ASSETS

	2017 R'000	2016 R'000
Cost		
Computer software	**16 157**	14 936
Work in progress	**47 114**	41 868
Total	**63 271**	56 804
Accumulated amortisation		
Computer software	**10 690**	9 306
Accumulated impairment		
Work in progress	**32 404**	32 404
Net book value	**20 177**	15 094

10. INTANGIBLE ASSETS (continued)

Movement in intangible assets	Computer software R'000	Work in progress R'000	Total R'000
2017			
Net carrying value at beginning of the year	5 630	9 464	15 094
Additions	531	6 594	7 125
Transfers	1 348	(1 348)	-
Amortisation	(2 042)	-	(2 042)
Net carrying value at end of the year	5 467	14 710	20 177
2016			
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

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 possible 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 reassessed during the development and final implementation of the new banking system. Should the assessment of the intangible 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.

11. CUSTOMER DEPOSITS

	2017 R'000	2016 R'000
Call deposit accounts	72 602	121 136
Savings accounts	871 759	798 799
Term deposits	1 341 148	1 273 870
Total deposits	2 285 509	2 193 805
Maturity analysis		
On demand	1 026 676	1 004 561
Maturing up to 1 month	185 357	175 689
Maturing after 1 month but within 6 months	676 242	633 607
Maturing after 6 months but within 1 year	359 623	337 539
Maturing after 1 year but within 5 years	37 611	42 409
	2 285 509	2 193 805

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2017, the balance of funds deposited by various trusts for land restoration compensation exceeded 5% of total deposits. The Department of Land Affairs disburses these funds to community trusts for land restitution. The current condition of this disbursement is that the funds are placed with the Company.

	2017 R'000	2016 R'000
Savings accounts are further analysed as follows:		
Savings book*	622 554	565 852
Trust	56 660	59 478
Debit card	168 105	136 162
Corporate	24 440	37 307
Total savings	871 759	798 799
Term deposits are further analysed as follows:		
Retail accounts	892 513	882 389
Corporate accounts	448 635	391 481
Total term deposits	1 341 148	1 273 870

*A savings 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.

	2017 R'000	2016 R'000
12. TRADE AND OTHER PAYABLES		
Trade creditors	2 190	3 210
Accruals	14 325	8 923
Operating leases - accrued expenditure	681	468
South African Revenue Service - VAT	201	323
Loans and advances reflecting credit balances	2 260	1 863
Stale cheques	290	242
VAT apportionment	541	-
Accrual for leave pay	14 193	11 923
Outstanding cheques	4 640	7 586
Sundry payables	18 711	11 428
Total	58 032	45 966

13. PROVISIONS

	2017 R'000	2016 R'000
Provisions comprise:		
Provision for audit fees	3 639	3 760
Provision for bonuses	1 783	1 667
Provision for long service awards	14 757	13 335
Total	20 179	18 762
Provision for audit fees		
Carrying amount at the beginning of the year	3 760	3 570
Additional provisions during the year	3 907	3 998
Amounts utilised during the year	(4 028)	(3 808)
Carrying amount at the end of the year	3 639	3 760

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.

13. PROVISIONS (continued)

	2017 R'000	2016 R'000
Provision for bonuses		
Carrying amount at the beginning of the year	1 668	1 644
Additional provisions during the year	5 449	4 772
Amounts utilised during the year	(5 334)	(4 748)
Carrying amount at the end of the year	1 783	1 668

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

	2017 R'000	2016 R'000
Provision for long service awards		
Balance at beginning of the year	13 335	12 373
Expensed during the year	2 590	1 577
Benefits vesting during the year	(1 168)	(615)
Balance at end of the year	14 757	13 335
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	14 757	13 335
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	1 556	1 406
Interest costs	1 210	899
Net actuarial loss/(gain) recognised during the year	(176)	(728)
Total included in staff costs	2 590	1 577

	Change	2017 R'000	2016 R'000
13. PROVISIONS (continued)			
Sensitivity analysis			
Assumption			
Present value of obligations		14 757	13 335
Average salary inflation	+1%	15 895	14 385
	-1%	13 739	11 558
Withdrawal rates	-50%	N/A	N/A
Average retirement age	-2 years	13 091	11 946
	+2 years	16 189	14 494

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 2017 quantified the present value of obligations at R14,8 million (2016: R13,3 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 year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using-the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 8,8% (2016: 9,5%) and an average salary inflation of 7,2% (2016: 8.1%).

14. LOAN ACCOUNT WITH HOLDING COMPANY

Loan account with holding company	5 397	7 946

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.

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. 92 current and retired employees (2016: 103) are currently covered under the scheme.

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

The principal actuarial assumptions used included a discount rate of 9,80% (2016: 10,40%) and a health-care cost inflation rate of 9,20% (2016: 9,90%). The movement in the liability annualised in the statement of financial position is as follows:

	2017 R'000	2016 R'000
Post-retirement medical benefits		
Movement in the defined benefit obligation, is as follows:		
Balance at beginning of the year	31 159	28 236
Expensed during the year	4 921	3 843
Contributions paid	(1 192)	(920)
Balance at end of the year	34 888	31 159
Amounts recognised in the statement of financial position, are as follows:		
Present value of unfunded obligations	39 125	37 443
Unrecognised actuarial (loss)/gain	(4 237)	(6 284)
Net liability in the statement of financial position	34 888	31 159
Post-retirement medical benefits		
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	871	887
Interest costs	3 829	2 814
Net actuarial loss/(gain) recognised during the year	221	142
Total included in staff costs	4 921	3 843

	2017 R'000	2016 R'000
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	(6 284)	(4 972)
Actuarial gain/(loss) arising	1 826	(1 454)
Actuarial gain recognised	221	142
Closing unrecognised actuarial (loss)	(4 237)	(6 284)
Corridor	3 913	3 744
Cumulative unrecognised actuarial loss in excess of corridor	(324)	(2 540)
Expected average remaining working lives of eligible in-service members	10,7	11,5
Actuarial loss to be recognised in the following year	(30)	(221)

Sensitivity analysis - unfunded accrued liability	**Change**	2017 R'000	2016 R'000
Assumption			
Present value of obligation		39 125	37 443
Health-care cost inflation	+1%	46 079	44 298
	+1,5%	50 210	37 466
	+1,75%	52 467	37 463
	-1%	33 565	31 992
Post-retirement mortality	+1 year	37 661	35 827
Expected retirement age	-1 year	40 710	39 106

15. RETIREMENT BENEFIT OBLIGATIONS (continued)

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 2017 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.

	2017 R'000	2016 R'000
15.2.1 Defined benefit pension fund		
Defined benefit pension fund		
Present value of funded obligations	808	717
Fair value of plan assets	(9 516)	(7 834)
	(8 708)	(7 117)
Made up as follows:		
Recognised actuarial gain	6 796	5 930
Unrecognised actuarial gain	1 912	1 187
Liability at end of the year	-	-

It was resolved during the 2012 financial year to close the defined benefit pension fund. All active members of the fund have been transferred to a defined contribution fund of the Company as at 31 December 2011. The approval for closure of the fund in terms of section 14 of the Pensions Fund Act of 1956 is still outstanding from the Financial Services Board. The trustees have agreed to utilise the surplus in the pension fund to fund the employer contributions towards the Old Mutual Superfund.

	2017 R'000	2016 R'000
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	717	589
Interest cost	72	43
Current service cost	-	-
Benefits paid	-	-
Contributions by plan participants (employees)	-	-
Actuarial loss/(gain) on obligation	19	85
Balance at end of the year	808	717
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	7 834	6 536
Expected return on assets	783	477
Contributions received	-	-
Benefits paid	-	-
Investment gain on assets	899	821
Balance at end of the year	9 516	7 834
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	-	-
Interest cost	72	43
Expected return on plan assets	(783)	(477)
Recognised actuarial loss	(711)	(434)
Total included in staff costs	(866)	-

	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000
Present value of obligation	808	717	589	15 371	24 272
Fair value of fund assets	(9 516)	(7 834)	(6 536)	(18 130)	(24 556)
Surplus	(8 708)	(7 117)	(5 947)	(2 759)	(284)
Experience loss/(gain) on fund liabilities	19	85	(1 468)	(1 524)	(16 663)
Experience loss/(gain) on fund assets	899	821	1 485	945	14 776

15. RETIREMENT BENEFIT OBLIGATIONS (continued)

	2017 R'000	2016 R'000
Plan asset portfolio		
Investment assets	13 160	19 575
Current assets/(liabilities)	(3 644)	(13 039)
Total	9 516	6 536
Effective rate of return on plan assets (actual)	13,16%	16,10%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 9,0%.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages):	%	%
Discount rate (annualised yield on R202)		10,0%
Discount rate (annualised yield on R186)	9,0%	
Expected rate of return on plan assets	9,0%	10,0%
Future salary increases (inflation plus 1%)	7,5%	9,0%
Inflation	6,5%	8,0%

Sensitivity analysis - fund liability	R'000	R'000
At valuation assumptions:	808	717

*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.

	2017 R'000	2016 R'000
15.2.2 Defined benefit provident fund		
Defined Benefit Provident Fund		
Amounts recognised in the statement of financial position, are as follows:		
Present value of funded obligations	18 161	15 837
Fair value of plan assets	(29 028)	(22 078)
	(10 867)	(6 241)
Unrecognised actuarial gain	10 867	6 241
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	15 837	16 962
Interest cost	2 096	1 088
Current service cost	655	502
Benefits paid	(11 340)	(2 956)
Contributions by plan participants (employees)	346	196
Actuarial loss/(gain) on obligation	10 567	45
Balance at end of the year	18 161	15 837
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	22 078	24 269
Expected return on assets	3 105	1 581
Contributions received	675	414
Benefits paid	(11 340)	(2 956)
Investment gain/(loss) on assets	14 510	(1 230)
Balance at end of the year	29 028	22 078
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	655	502
Interest cost	2 096	1 088
Expected return on plan assets	(3 105)	(1 581)
Recognised actuarial loss/(gain)	256	90
Total included in staff costs	(98)	99

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	2017	2016	2015	2014	2013
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	18 161	15 836	16 962	22 303	25 628
Fair value of fund assets	(29 028)	(22 078)	(24 268)	(27 919)	(24 522)
Surplus	(10 867)	(6 242)	(7 306)	(5 616)	1 106
Experience loss/(gain) on fund liabilities	10 567	44	(4 297)	(3 415)	7 216
Experience gain/(loss) on fund assets	14 510	(1 230)	(2 689)	3 623	2 825

	2017	2016
	R'000	R'000
Plan asset portfolio		
Investment assets	28 790	22 694
Current assets/(liabilities)	237	(616)
Total	29 027	22 078
Effective rate of return on plan assets (actual)	13,16%	10,69%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 9,0%.

	2017	2016
The principal actuarial assumptions at the reporting date were (expressed as weighted averages):	%	%
Discount rate (annualised yield on R202)		10,0%
Discount rate (annualised yield on R186)	9,0%	
Expected rate of return on plan assets	9,0%	10,0%
Future salary increases (inflation plus 1%)	7,5%	9,0%
Inflation	6,5%	8,0%

Sensitivity analysis - fund liability	Change	2017	2016
		R'000	R'000
At valuation assumptions:		15 940	15 837
Discount rate	+1%	15 287	15 386
	-1%	16 650	16 330
Expected rate of salary increases	+1%	16 484	16 171
	-1%	15 434	15 530
No salary increases		12 979	13 981

The Company expects to make no contribution (2016: Nil) to the Ithala Defined Benefit Pension Fund and R632 559 (2016: R664 071) to the Old Mutual Superfund Defined Benefit Provident Fund during the next financial year.

	2017 R'000	2016 R'000
16. SHARE CAPITAL AND SHARE PREMIUM		
Authorised share capital		
191 000 000 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	374 710	344 810
2 990 ordinary shares of 0,1 cent par value each issued and fully paid for in the prior year	-	-
Share premium	-	29 900
Total	374 900	374 900

17. INTEREST ON LOANS AND ADVANCES TO CUSTOMERS AND SURPLUS FUNDS

	2017 R'000	2016 R'000
Revenue arising from held to maturity investments		
Interest received on call accounts	29 931	13 003
Interest received on fixed deposit accounts	52 402	48 455
Interest income on treasury bills and debentures	10 076	8 398
Total interest received from deposits with banks and from statutory investments	92 409	69 856
Revenue arising from loans and advances to customers		
Home improvement loans	10 340	8 651
"Cash backed" loans	3 422	3 249
Interest on rural property loans	6 795	7 050
Interest on personal loans	3 548	5 432
Housing loans	133 299	126 292
Property development loans	9	547
Commercial loans	142	913
Debt consolidation	1 962	2 566
Vehicle finance	2 238	1 914
Taxi finance	2 205	2 444
Total interest earned on loans and advances to customers	163 960	159 058
Total interest on loans and advances and surplus funds	256 369	228 914

18. INTEREST EXPENDITURE

	2017 R'000	2016 R'000
Interest paid on customer deposits	(89 941)	(80 702)
Loan account with holding company	(152)	(110)
Total	(90 093)	(80 812)

19. FEES AND OTHER INCOME

Commission and fee income comprises the following significant categories of revenue:

	2017 R'000	2016 R'000
Revenue generated by Insurance Division	13 352	16 595
Rebates received	78	83
Commission income	11 172	13 863
Administration fee	933	1 299
Development fee	4	5
Funeral cover commission and other fees	1 165	1 345
Commission and fee income	96 330	95 359
Investigation and initiation fees from "cash backed" loans	1 640	1 652
Investigation and initiation fees from housing loans	3 768	2 921
Other investigation and initiation fees income	3 834	3 612
Service fees received from business accounts	1 945	2 635
Service fees received from pass book-based accounts	25 511	29 558
Service fees received from club accounts	4 232	3 963
Service fees received from debit card-based savings accounts	45 605	39 942
Service fees received from target save accounts	5 230	5 734
Other service fee income	4 143	4 920
Electronic fund transfer fee income	411	405
Valuation fee income	11	17
Other income	8 825	9 688
Dormant account balances recognised in income	5 752	5 857
Bad debts recovered	87	87
Recovery of operating expenses from holding company	2 095	2 603
Sundry income	891	1 141
Total fees and other income	118 507	121 642

	2017 R'000	2016 R'000
20. OPERATING EXPENDITURE		
Operating expenditure is stated after the following items:		
Auditors' remuneration	3 507	3 998
Audit fees	3 907	3 926
Prior year (over)/under provision	(400)	72
Amortisation of intangible assets	2 042	1 444
Depreciation of equipment	9 410	10 569
(Profit)/loss on disposal of properties in possession	(58)	341
Loss on disposal of equipment	94	374
Proceeds on insurance claims	(23)	(11)
Loss on disposal of investment	18	-
Professional fees	6 358	4 355
Operating leases	18 734	18 419
Personnel costs (excluding Directors' and key management remuneration)	148 500	120 292
Included in personnel costs above are contributions to retirement benefit schemes:	11 410	9 597
Defined benefit plans	538	478
Defined contribution plans	10 872	9 119
Non-Executive Directors' emoluments	3 558	2 743
MF Kekana	934	880
M Mia	624	619
B Ngonyama	579	517
SC Ngidi	340	330
VJ Klein (resigned 1 August 2015)	-	134
T Nyoka (appointed 24 March 2016)	571	-
P Radebe (appointed 11 August 2015)	510	263
The Non-Executive Directors do not have service contracts.		
Executive Directors' remuneration	2 617	4 943
PA Ireland - Chief Executive Officer	2 617	1 883
G White (appointed 1 September 2014, resigned 1 December 2015)	-	3 060

20. OPERATING EXPENDITURE (continued)

	2017 R'000	2016 R'000
Executive management remuneration	13 271	12 315
NM Dlamini - Divisional Manager: Business Risk (resigned 30 April 2015)	-	207
M Sajiwan - Compliance Officer (resigned 31 May 2015)	-	875
PN Salanje - Compliance Officer	1 504	1 266
M Mfeka - Manager: Capacity-Building (appointed 1 February 2014, ceased to be executive management on 1 April 2016)	-	967
S Gwala - HR Manager	1 185	1 047
S Xolo - Marketing and Sales Manager	894	800
B Hadebe - Acting Head Credit (appointed 1 March 2014, ceased to act 31 July 2015)	-	233
M Mtshali - Manager Public Sector (appointed 12 January 2014)*	-	173
Z Mthiyane - Head Ithala Connect (appointed 6 January 2014)	850	718
R Hill - Group Divisional Manager: IT Services Delivery Manager (appointed 1 July 2014, resigned 30 June 2015)	-	143
T Mungwe - Company Secretary	934	802
R Aniff - Insurance Operation Specialist (appointed 20 January 2015)**	-	130
F Dikgale - Chief Risk Officer (appointed 1 July 2015)	1 527	1 050
VT Ndlovu - Head: Insurance (appointed 1 June 2015, resigned 31 March 2016)	-	1 026
D Pillay - Chief Audit Executive (appointed 1 November 2015)	1 597	926
MC Zikalala - Head IT (appointed 1 September 2015)	985	533
S Moodley - Head Segments (appointed 8 July 2015)	883	599
S Johnson - Acting Head: Distribution Channels (appointed 1 October 2015)	1 403	630
A Ndlovu - Head: Insurance (appointed 15 September 2016)	593	-
M Tloubatla - Head: Credit (appointed 1 April 2016)	916	-
TE Nemadzhilili - Head Credit Risk (appointed 8 August 2015, resigned 30 September 2015)	-	190

* M Mtshali ceased to be part of key management when the Head: Segments was appointed on 8 July 2015

** R Aniff ceased to be part of key management when the Head: Insurance was appointed on 1 June 2015.

21. INVENTORY

	2017 R'000	2016 R'000
Debit cards on hand	1 433	-
Total	1 433	-

	2017 R'000	2016 R'000
22. OPERATING ACTIVITIES		
Non-cash items included in comprehensive expense		
Depreciation of equipment	9 410	10 569
Amortisation of intangible assets	2 042	1 444
Fair value increase/(decrease) on properties in possession	820	(560)
Loss on disposal of equipment	94	374
(Profit)/loss on disposal of properties in possession	(58)	341
Credit impairment in loans and advances	1 979	(51 056)
Credit impairment in trade and other receivables	(332)	2 444
Total	13 955	(36 444)
23. CHANGES IN OPERATING FUNDS		
Increase in operating liabilities		
Increase in deposits	91 704	120 826
Increase/(decrease) in trade and other payables and provisions	13 483	(6 318)
Increase in retirement benefit obligations and defined benefit provident fund shortfall	3 729	2 923
Decrease in loan account with holding company	(2 549)	(235)
Total	106 367	117 196
Decrease in operating assets		
(Increase)/decrease in loans and advances	(8 048)	112 828
Increase in properties in possession	(3 817)	(1 788)
Increase in trade and other receivables	(1 422)	(9 196)
Increase in stock	(1 433)	-
Total	(14 720)	101 844

24. COMMITMENTS

	2017 R'000	2016 R'000
Capital expenditure		
Authorised and contracted for	15 729	15 607
Comprising:		
Acquisition of equipment	15	-
Development of intangible assets	15 714	15 607
Capital expenditure will be financed from internal resources.		
Operating lease commitments		
Non-cancellable operating lease commitments are as follows:		
Not later than one year	12 827	12 393
Later than one year and not later than five years	8 029	9 164
Total	20 856	21 557

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

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

Unutilised facilities on advances at statement of financial position date was R4,0 million (2016: R2,1 million).

All commitment figures are VAT-inclusive.

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.

	2017 R'000	2016 R'000
25.1 Ithala Development Finance Corporation Limited (continued)		
Outstanding balances with the holding company		
Outstanding balance on savings and fixed deposits	(67 668)	(45 308)
Loan account with holding company	(5 397)	(7 946)

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:

	2017 R'000	2016 R'000
Transactions with the holding company		
Bank charges received	(5)	(106)
Interest paid on customer deposits and loan account	4 660	2 807
Shared services	12 682	14 789
Rental paid	5 201	4 996
Recovery of operating expenses	(1 812)	(2 603)
Insurance recovery	-	(2 496)
Vodacom WAN and other costs	10 605	10 958
Total	31 331	28 345

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	2017 Deposits due R'000	2017 Interest expense R'000	2016 Deposits due R'000	2016 Interest expense R'000
KwaZulu-Natal Local Government	27 416	1 857	28 023	1 659
Department of Agriculture and Environmental Affairs	1 183	24	1 160	24
Department of Human Settlements	-	-	-	94
KwaZulu-Natal Health	3 096	13	1 843	6
KwaZulu-Natal Growth Fund Trust	27 800	2 347	47 879	2 602
Ezemvelo KwaZulu-Natal Wildlife	-	1 970	31 780	1 780
KwaZulu-Natal Municipalities	134 156	8 233	67 525	2 072

25.3 The related party transactions detailed below refer to 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.

	Outstanding balance	Net realisable amount of security	Interest received
Loans granted to Executive Management and Directors of the holding company	R'000	R'000	R'000
2017	**4 942**	**4 766**	**433**
2016	4 454	4 680	198
Loans granted to Executive Management and Directors of the Company			
2017	**7 494**	**8 238**	**578**
2016	6 017	6 548	415

Impairment and terms of business relating-to related party loans
No specific credit impairments (2016: Nil) have been recognised in respect of loans to Executive and Non-Executive Directors. These loans are secured by mortgage bonds over properties 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.

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:

	2017 R'000	2016 R'000
KwaZulu-Natal Security Services	-	2 843
Eskom guarantees	**81**	81
Mr PR Bele	**325**	325
Mpikwana Co-operative	**900**	900
South African Insurance Association	**3 000**	3 000
Nkosini Investments	**309**	309
Thandazile Khoza	-	69
Pinespring Properties	**644**	-
Ithunzi Protection Services	**50**	-

26.1 KwaZulu-Natal Security Services

A claim was instituted against the Company by KwaZulu-Natal 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. During-the year KwaZulu-Natal Security Services withdrew the claim.

26.2 Eskom guarantees

The Company has issued guarantees totalling R0,08 million (2016: 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. At year end there are good prospects of success.

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 KwaZulu-Natal 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. At year end there are good prospects of success.

26.5 South African Insurance Association Guarantee

The Company has issued a guarantee of R3 million (2016: R3 million) in favour of the South African Insurance Association.

26.6 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 applicant, but the property was not transferred to the applicant's name. The claim has been quantified by the applicant at an amount of R0,3 million. At year end the plaintiff withdrew the action against the Company and tendered costs. The Company's attorneys have drawn up a bill of costs and are currently setting it down for taxation after which they will present it to the other side for payment.

26.7 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 was quantified at an amount of R0, 07 million. During the year the Company settled this amount.

26.8 Pinespring properties

The plaintiff, a former landlord, is suing Ithala for arrear rentals and damages for failure to put the premises in good order. The matter is to go to trial. At year end the outcome is uncertain.

26.9 Ithunzi Protection Services

The plaintiff, a former service provider, is suing for professional services rendered. The claim has been quantified at an amount of R0,05 million. This matter is still under investigation. At year end the outcome 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 (2016: Nil).

27.2 Material losses incurred

As disclosed in Note 6, loans and advances to the amount of R15,3 million (2016: R39,8 million) were written-off during the financial year.

The Company did not suffer any losses from theft in the current year.

27.3 Irregular expenditure

An amount of R2 562 795 (2016: R622 706) which relates to irregular expenditure was incurred in the current financial year or identified in the current financial year that related to prior years 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:

27. FRUITLESS AND WASTEFUL EXPENDITURE, MATERIAL LOSSES AND IRREGULAR EXPENDITURE (continued)

27.3 Irregular expenditure (continued)

	2017 R'000	2016 R'000
Opening balance	623	3 672
Add: irregular expenditure - current year	1 616	623
Add: prior year amounts identified in the current year	946	-
Less: amount condoned	(623)	(3 672)
Irregular expenditure awaiting condonation	2 562	623
Analysis of expenditure awaiting condonation per age classification		
Current year	1 616	623
Prior years	946	-
Total	2 562	623

Details of irregular expenditure - current year

Incident	Disciplinary steps taken/ criminal proceedings	2017 R'000	2016 R'000
Non-compliance with supply chain management policies	Employee dismissed	179	-
Non-compliance with supply chain management policies	Employee received a verbal warning	1 039	623
Non-compliance with supply chain management policies	Matter is under investigation	80	
Non-compliance with supply chain management policies	No action could be taken as the officials are no longer in the employ of the Group.	896	-
Non-compliance with supply chain management policies	No action could be taken as the officials are no longer in the employ of the Company.	368	-
Total		2 562	623

Incident	Condoned by (condoning authority)	2017 R'000	2016 R'000
Non-compliance with supply chain management policies	Accounting Authority	623	3 672
Total		623	3 672

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 instruments held and their related measurement categories.

	Note	Financial asset and liabilities at amortised cost	Non-financial instruments at fair value	Total
		R'000	R'000	R'000
2017				
Cash	3	**46 500**	**-**	**46 500**
Statutory investments	4	**177 769**	**-**	**177 769**
Investments and deposits with banks	5	**928 453**	**-**	**928 458**
Loans and advances to customers	6	**1 488 633**	**-**	**1 488 633**
Receivables	7	**8 699**	**11 369**	**20 068**
Customer deposits	11	**(2 285 509)**	**-**	**(2 285 509)**
Trade and other payables	12	**(57 742)**	**(290)**	**(58 032)**
Loan account with holding company	14	**(5 397)**	**-**	**(5 397)**
2016 Restated				
Cash	3	44 502	-	44 502
Statutory investments	4	129 882	-	129 882
Investments and deposits with banks	5	930 279	-	930 279
Loans and advances to customers	6	1 480 585	-	1 480 585
Receivables	7	9 944	8 704	18 648
Customer deposits	11	(2 193 805)	-	(2 193 805)
Trade and other payables	12	(45 724)	(242)	(45 966)
Loan account with holding company	14	(7 946)	-	(7 946)

The values above are considered to approximate the fair values of the related financial instruments.

28. FINANCIAL RISK MANAGEMENT (continued)

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 R'000	Assets that are past due but not yet impaired R'000	Assets that are impaired R'000	Total R'000
As at 31 March 2017				
Housing loans	1 246 487	70 783	83 253	1 400 523
Cash loans	22 452	-	-	22 452
Commercial property loans	237	876	24	1 137
Micro-finance - unsecured loans	7 325	1 472	14 262	23 059
Vehicles	36 334	2 413	2 715	41 462
Receivables	13 162	-	6 906	20 068
Total	1 325 997	75 544	107 160	1 508 701
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

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	2017 R'000	2016 R'000 Restated
Statutory investments	4	177 769	129 882
Deposits with banks	5	762 485	791 686
Deposits with State-Owned companies	5	165 968	138 593
Loans and advances to customers	6	1 488 633	1 480 585
Receivables	7	20 068	18 647
Total assets subject to credit risk		2 614 923	2 559 393
Letters of undertaking issued		4 014	2 122

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 R'000	From 1 to 6 months R'000	From 6 months to 1 year R'000	From 1 year to 5 years R'000	After 5 years R'000	Total R'000
31 March 2017							
Statutory investments	4	177 769	-	-	-	-	177 769
Investments and deposits with banks	5	464 540	273 914	18 898	171 101	-	928 453
Loans and advances to customers	6	57 838	47 468	46 848	299 319	1 037 160	1 488 633
Total assets subject to credit risk		700 147	321 382	65 746	470 420	1 037 160	2 594 855
Letters of undertaking issued		4 014	-	-	-	-	4 014

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month R'000	From 1 to 6 months R'000	From 6 months to 1 year R'000	From 1 year to 5 years R'000	After 5 years R'000	Total R'000
31 March 2017 (Restated)							
Statutory investments	4	129 882	-	-	-	-	129 882
Investments and deposits with banks	5	536 219	285 205	48 036	60 819	-	930 279
Loans and advances to customers	6	58 241	48 877	47 042	303 220	1 023 201	1 480 585
Total assets subject to credit risk		724 342	334 082	95 078	364 039	1 023 205	2 540 745
Letters of undertaking issued		2 122	-	-	-	-	2 122

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.

28. FINANCIAL RISK MANAGEMENT (continued)

28.1.2 Credit risk measurement (continued)

Total gross exposures	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
Major types of credit exposures: total gross exposure	2017 R'000	2017 R'000	2017 R'000	2017 R'000	2016 R'000	2016 R'000	2016 R'000	2016 R'000
Commercial loans	1 137	11	1 126	4 732	1 766	61	1 705	7 187
Property development loans	-	-	-	-	6 427	4 561	1 866	3 448
Housing loans > R500 000	538 507	26 066	512 441	415 705	474 664	21 975	452 689	398 602
Sub-total	539 644	26 077	513 567	420 437	482 857	26 597	456 260	409 237
Other loans	948 989	63 681	885 308	1 083 572	997 728	61 183	936 545	1 217 740
Total	1 488 633	89 758	1 398 875	1 504 009	1 480 585	87 780	1 392 805	1 626 977

Net realisable amount relates to security provided for these exposures.

Average gross exposures	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
Major types of credit exposures: average gross exposure	2017 R'000	2017 R'000	2017 R'000	2017 R'000	2016 R'000	2016 R'000	2016 R'000	2016 R'000
Commercial loans	284	3	281	1 183	353	12	341	1 437
Property development loans	-	-	-	-	3 214	2 280	934	1 724
Housing loans > R500 000	720	34	686	558	710	33	677	597
Sub-total	1 004	37	967	1 741	4 277	2 325	1 952	3 758
Other loans	206	11	195	229	193	10	183	231
Total	1 210	48	1 162	1 970	4 470	2 335	2 135	3 989

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 moveable 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 amount 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. The properties will first be put on auction by the sheriff of the court and failure to receive an offer equal to or greater than the reserve price at the auction will result in the properties being 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 the KwaZulu-Natal Provincial Government.

Funds are placed with banks meeting the criteria set by the Risk and Capital Management Committee.

28. FINANCIAL RISK MANAGEMENT (continued)

28.2.3 Credit risk concentration (continued)

	2017	2017	2016	2016
Sectoral analysis of loans and advances	R'000	%	R'000	%
Sectoral analysis				
Real estate	1 137	0	1 766	0
Construction	-	0	6 427	0
Retail - mortgage	1 242 193	83	1 223 040	83
Retail - other	245 303	17	249 352	17
Total	1 488 633	100	1 480 585	100

	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
Category of assets	R'000	R'000	R'000	R'000	R'000
As at 31 March 2017					
Real estate	237	876	24	1 137	11
Construction	-	-	-	-	-
Retail - mortgage	1 101 512	67 250	73 430	1 242 192	56 358
Retail - other	211 088	7 418	26 799	245 305	33 389
Total	1 312 837	75 544	100 253	1 488 634	89 758

	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
Category of assets	R'000	R'000	R'000	R'000	R'000
As at 31 March 2016					
Real estate	1 373	-	393	1 766	61
Construction	-	-	6 427	6 427	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	92 934	1 480 585	87 780

Credit impairment reconciliation	31 March 2016	Impaired accounts written-off	Net impairments raised/(released)	31 March 2017
	R'000	R'000	R'000	R'000
Category of assets				
Real estate	61	-	(50)	11
Construction	4 561	(6 458)	1 897	-
Retail - mortgage	52 833	(3 328)	6 853	56 358
Retail - other	30 325	(5 486)	8 550	33 389
Total	87 780	(15 272)	17 250	89 758

Credit impairment reconciliation	31 March 2015	Impaired accounts written-off	Net impairments raised	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

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 forecasts 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:

Contractual maturity analysis of financial liabilities as at 31 March 2017	Note	On demand R'000	Up to one month R'000	1-6 months R'000	6-12 months R'000	More than 1 year R'000	Total R'000
Deposits from customers	11	1 026 676	185 357	676 242	359 623	37 611	2 285 509
Trade creditors	12	-	2 190	-	-	-	2 190
Accruals and accrual for leave pay	12	-	28 518	-	-	-	28 518
Loans and advances with credit balances	12	2 260	-	-	-	-	2 260
Other payables and sundry payables	12	24 863	201	-	-	-	25 064
Provision for audit fees	13	-	600	3 039	-	-	3 639
Loan account with holding company	14	5 397	-	-	-	-	5 397
Total		1 059 196	216 866	679 281	359 623	37 611	2 352 577
% of weighting		45%	9%	29%	15%	2%	100%

Contractual maturity analysis of financial liabilities as at 31 March 2016	Note	On demand R'000	Up to one month R'000	1-6 months R'000	6-12 months R'000	More than 1 year R'000	Total 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	19 724	323	-	-	-	20 047
Provision for audit fees	13	-	600	3 160	-	-	3 760
Loan account with holding company	14	7 946	-	-	-	-	7 946
Total		1 034 094	200 668	636 767	337 539	42 409	2 251 477
% of weighting		46%	9%	28%	15%	2%	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% (2016: 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.

	2017	2016
Projected impact on statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates	R'000	R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	45 369	46 375
Increased net interest income percentage	27%	31%
Impact of increase in cost of funds on comprehensive income	(31 410)	(30 413)
Decreased net interest income percentage	(19%)	(21%)
Decrease:		
Impact of decrease in yield on assets on comprehensive income	(45 369)	(46 402)
Decreased net interest income percentage	(27%)	(31%)
Impact of decrease in cost of funds on comprehensive income	15 351	21 345
Increased net interest income percentage	9%	14%

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.

29. COMPARATIVES

29.1. Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement, comprises cash on hand, short-term investments and amounts due from banks on demand or with an original maturity of three months or less.

29.2. Comparatives

The following comparative information has been reclassified to conform to the current year's presentation:

a. Cash and cash equivalents

Bank deposits with an original maturity of more than 3 months have been excluded from cash and cash equivalents. Accordingly the comparative information for the statement of cash flows has been restated as follows:

	Restated	Previously Reported
Statement of cash flows	R'000	R'000
Cash and cash equivalents	**624 436**	1 104 663

b. Cash and investments and deposits with banks

Bank deposits have been excluded from cash on hand. Accordingly the comparative information for the statement of financial position has been restated as follows:

	Restated	Previously Reported
Statement of financial position	R'000	R'000
Cash	**44 502**	79 244
Investments and deposits with bank	**930 279**	895 537

c. Loans and advances to customers – maturity analysis

Changes to the maturity calculation for loans and advances have been implemented in the current year. Accordingly the comparative information for the notes to the Annual Financial Statements has been restated as follows:

	Restated	Previously Reported
Notes to the Annual Financial Statements	R'000	R'000
On demand	**58 241**	6 782
Maturing from 1 month to 6 months	**48 877**	32 607
Maturing from 6 months to 1 year	**47 042**	38 395
Maturing from 1 year to 5 years	**303 220**	306 051
Maturing after 5 years	**1 023 205**	1 096 751
Total	**1 480 585**	1 480 586

The above items did not affect previously reported total assets, total liabilities, equity and profit or comprehensive income.

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:

	2017 R'000	2016 R'000
Decrease in depreciation	1 931	533
Increase in net book value of fixed assets	1 931	533

31. SUBSEQUENT EVENTS

The Minister of Finance has extended the Company's banking licence exemption until 30 November 2019 subject to the Company fulfilling certain conditions.

32. 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.

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 11,93% (2016: 17,73%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB). However the capital adequacy ratio has fallen below the Memorandum of Agreement (MoA) requirement of 15%. On 7 April 2017 the Company received correspondence from the SARB that its large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Ltd should be risk weighted at 100% instead of 20% per regulation 23(8)(a) of the Regulations relating to Banks. The new weighting was applied in March 2017 resulting in the ratio falling below the MoA requirement. Based on the 20% weighting, as historically applied, the capital adequacy ratio would have been 13,98% as at statement of financial position date. The amount invested with Nedgroup Investments has subsequently been reduced.

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.

	Regulatory limit		Actual	
	2017	2016	2017	2016
Capital adequacy	%	%	%	%
Capital adequacy ratio	≥11,250%	≥10,875%	11,93%	1,73%
Primary share capital and reserve funds adequacy ratio	≥7,500%	≥7,125%	11,04%	17,55%
Total risk weighted assets (R'000)			1 814 370	1 486 469

	2017	2016
Risk weighted assets	R'000	R'000
Credit risk weighted assets	1 289 603	942 234
Other risk weighted assets	57 375	76 870
Operational risk	467 392	467 392
Total	1 814 370	1 486 496

Capital structure	Note	2017 R'000	2016 R'000
Share capital	16	190	190
Share premium	16	374 710	374 710
Reserves		(154 378)	(108 051)
Prescribed deductions against capital and reserve funds		(20 177)	(15 094)
Total tier I capital		200 345	251 755
General provisions		16 120	11 124
Total tier II capital		16 120	11 124
Total qualifying capital		216 465	262 879

NOTES

NOTES

SOC LIMITED

Ithala SOC Limited is an Authorised Financial Services and Credit Provider
FSP Licence No. 17139 NCRCP No. 1559 Reg No. 2001/007/427/30
Ithala SOC Limited is a wholly-owned subsidiary of Ithala Development Finance Corporation Limited

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