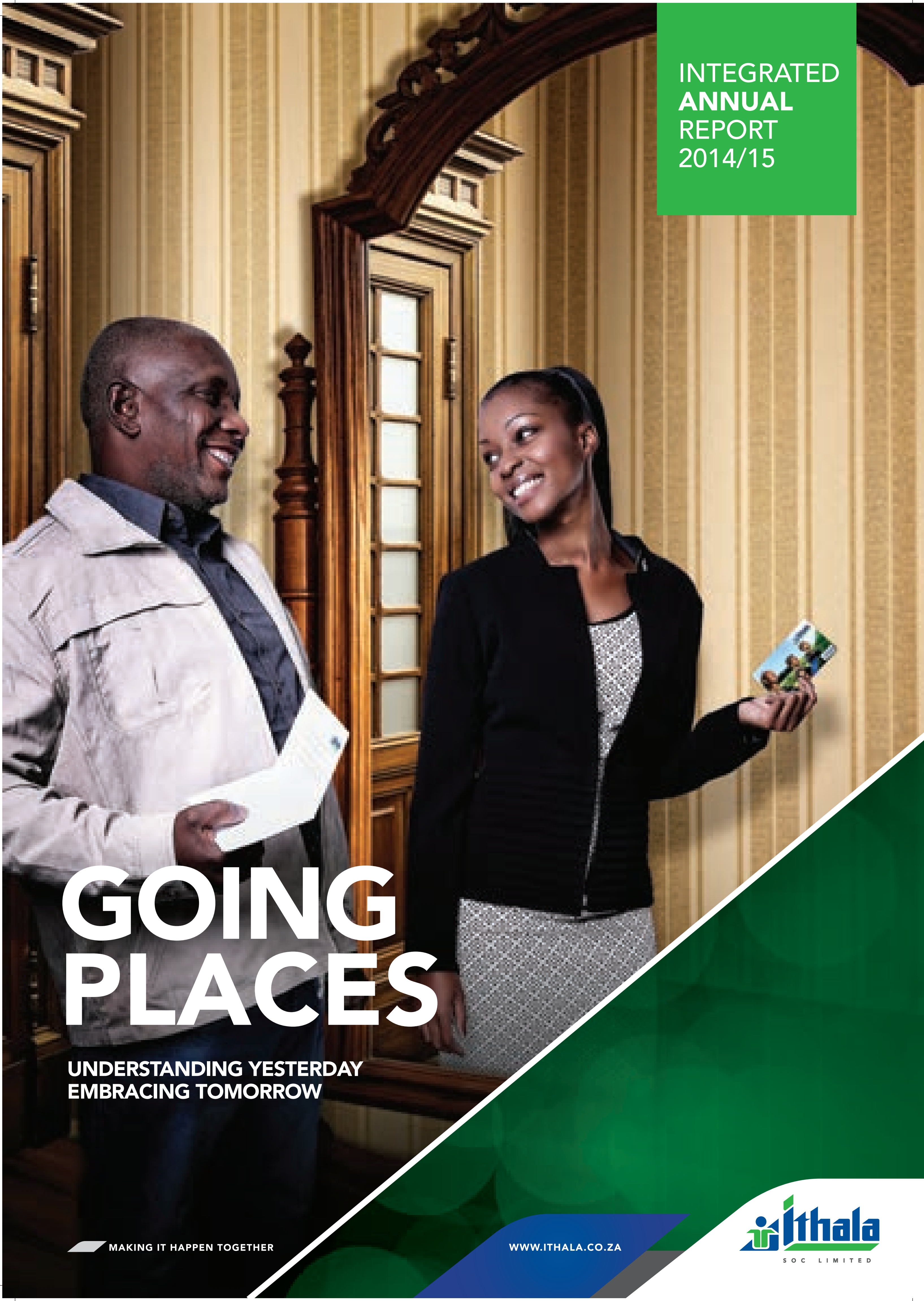


INTEGRATED **ANNUAL** REPORT 2014/15

GOING PLACES

UNDERSTANDING YESTERDAY EMBRACING TOMORROW

MAKING IT HAPPEN TOGETHER

WWW.ITHALA.CO.ZA

Ithala SOC LIMITED

MISSION

Ithala SOC Limited is committed to providing financial solutions to our customers through excellent customer service, a team of dedicated staff and technologically-driven products, whilst adhering to sound governance practices and caring for the communities and their environment.

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.

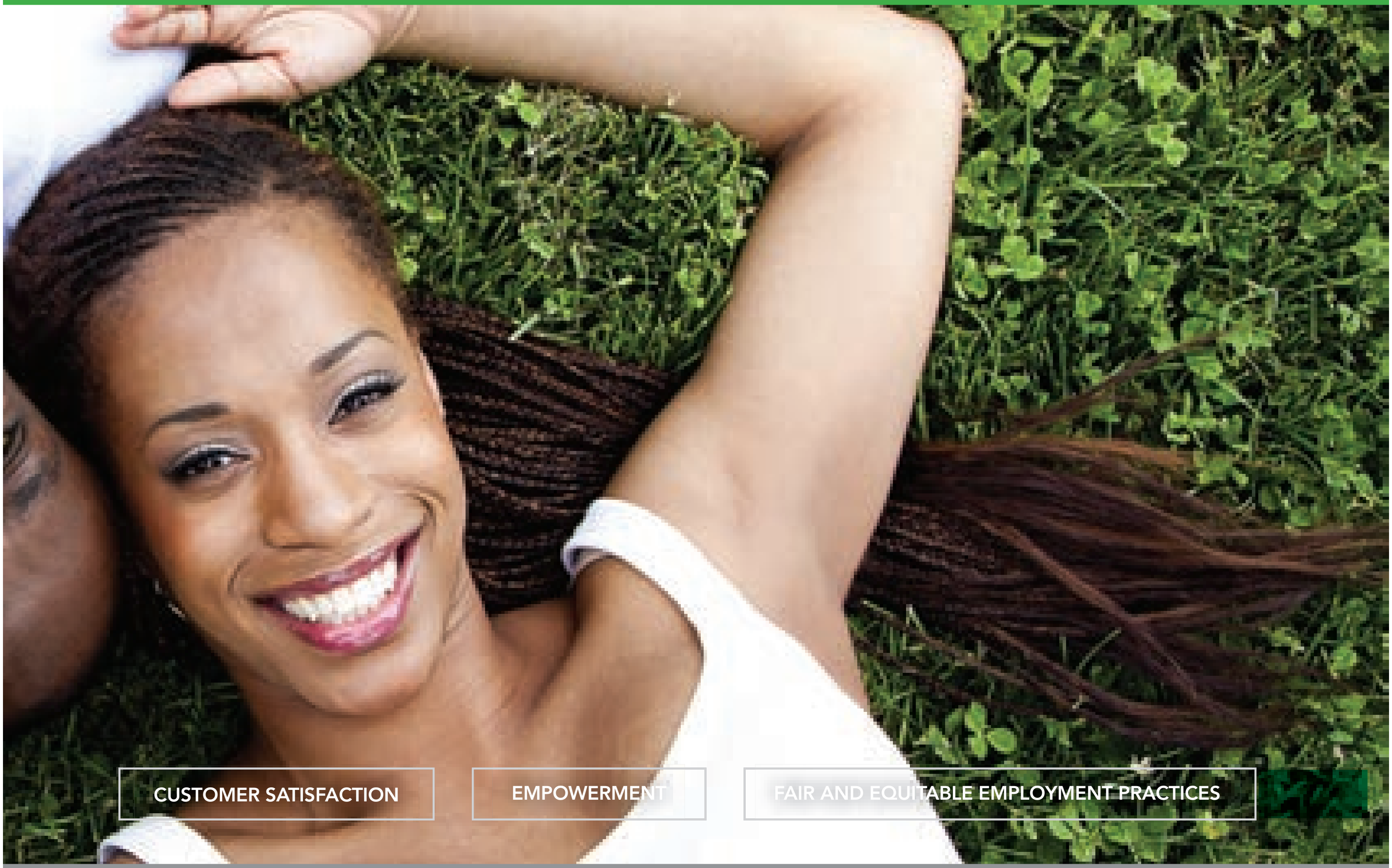
Integrity
We will always do what's right, no matter what.

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.

Our cover photograph features two members of the Ithala Family who won a competition to appear in our 2014/15 Integrated Annual Report. They are Mr Petros Mbambo, who joined Ithala Development Finance Corporation as a security guard, later being appointed as mail clerk, and Ms Nomfundo Mdladla, who joined Ithala SOC Limited as a learner and was later appointed full-time as a teller before being promoted to her current position as an adviser at our Pinewalk Branch.


CUSTOMER SATISFACTION
EMPOWERMENT
FAIR AND EQUITABLE EMPLOYMENT PRACTICES

CONTENTS

REFERENCE OVERVIEW

INTRODUCTION

In addition to this report, Ithala SOC Limited produces reporting publications tailored to readers with specific information requirements.

ITHALA SOC LIMITED ANNUAL INTEGRATED REPORT (THIS REPORT)

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

ITHALA SOC LIMITED RISK AND CAPITAL MANAGEMENT REPORT

This provides a detailed discussion of the management of strategic risks related to Ithala SOC Limited's banking and insurance operations, including capital and liquidity management and regulatory developments.
Visit www.ithala.co.za

ITHALA SOC LIMITED ANNUAL FINANCIAL STATEMENTS

These set-out the full audited financial statements for Ithala SOC Limited, including the report of the audit and compliance committee.
Visit www.ithala.co.za

Denotes text in the risk and capital management report that forms part of the audited annual financial statements.

BUSINESS TURN-AROUND

THIS WAS A DEFINING YEAR FOR ITHALA; WE ARE TURNING OUR BUSINESS AROUND

PROFIT
(2013/14: -R70 million)
R0,5 MILLION

COST TO INCOME RATIO
93,41%
2013/14: 116,30%

TIER 1 CAPITAL ADEQUACY RATIO
16,00%
2013/14: 11,40%

RETURN ON EQUITY
0,25%
2013/14: -34,30%

RETURN ON ASSETS
0,02%
2013/14: -3,30%

TOTAL ASSETS
2013/14: R2,25 billion
R2,41 BILLION

LEVERAGE RATIO
9,31%
2013/14: 7,68%

LIQUIDITY RATIO
12,02%
2013/14: 11,56%

LOAN-TO-DEPOSIT RATIO
76,9%
2013/14: 82,6%

ATM AVAILABILITY
94,0%
2013/14: 94,0%

CUSTOMER SATISFACTION
survey result
7,6 out of 10
(2013/14: 9,7 out of 10)

TOTAL LOANS GRANTED
R261 MILLION
(2013/14: R498 million)

426 TRAINING HOURS
Total training spend R294 756
(2013/14: R1,8 million)

6 957 **NEW INSURANCE** POLICIES ISSUED
(2013/14: 8 446)

HIGHLIGHTS OF THE YEAR

- Launch of new products with value-added services
- We are turning around our business
- The board's leadership and stability
- Successful cost rationalisation process
- Clean audit
- Launch and significant growth in public sector financial services offerings

ABOUT THIS REPORT

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

The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long-term. This forms the basis for integrated thinking and integrated reporting for us.

This report covers Ithala SOC Limited's (Ithala) strategy, material issues and performance for the period 1 April 2014 to 31 March 2015, as well as our prospects for the future.

Our aim is to address our material stakeholders, notably our holding company, the Ithala Development Finance Corporation Limited (IDFC), our ultimate shareholder, the KwaZulu-Natal Provincial Government, the National Treasury, the South African Reserve Bank (SARB), other relevant regulators, customers and potential investors, with regard to our ongoing viability.

This report may be read in conjunction with the IDFC's integrated annual report 2014/15 (www.ithala.co.za). In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General (A-G) in regard to conveying our performance against our annual performance plan (see pages 39-43).

Materiality is determined by the board, in line with Ithala's mandate and the information requirements of its shareowners and regulators, as well as other key stakeholder groups.

We have been guided by the International Integrated Reporting Council (IIRC) Integrated Reporting Framework, released in December 2013, and the King Code of Governance for South Africa (2009) (King III).

Further standards applied in defining the contents of the report include the South African Generally Accepted Accounting Principles (SA GAAP), the Companies Act, Act No. 71 of 2008 (Companies Act), the Banks Act, Act No. 94 of 1990 (Banks Act) and the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

FORWARD-LOOKING STATEMENTS

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

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 report and the annual financial statements to the board for approval.

The board has applied its mind to the integrated report and believes that it addresses all material issues and fairly presents our performance.

Internal and external audit provide additional assurance on the effectiveness of our risk management of material issues.

Similar to our previous report, a combined financial and non-financial assurance team from Deloitte and the A-G, supported by Ithala's internal audit team, again adopted a combined assurance approach to the information in this report.

In addition to the annual financial statements and opinion included here, selected information contained within the annual performance report has been assured by the external auditors.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives.

The usefulness of information further relates to whether indicators and targets are measurable (i.e. well-defined, verifiable, specific, measurable and time-bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

STATEMENT OF THE BOARD OF DIRECTORS OF ITHALA SOC LIMITED

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

Malose Kekana
Chairman
28 July 2015

Gregory White
Acting chief executive
28 July 2015

ABOUT ITHALA

WE ARE ON-TRACK TO ACQUIRE OUR FULL BANKING LICENCE BY 2017.

We are a licenced financial services provider and registered credit provider and conduct our business through a banking licence exemption notice.

Ithala is the subsidiary of the IDFC, a state-owned entity, and listed as a public entity in terms of Schedule 3 of the PFMA.

Formally established in 2001 in order to enhance the IDFC's capital position through its deposit-taking capability and in line with the recommendation from the SARB, our purpose is to provide financial services to the people of KwaZulu-Natal, thereby contributing to the province'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
- retail financial services
- savings and investment products
- housing and loan products and
- insurance products and services,

via a multi-channel distribution network, to individuals, groups, business and other public sector entities.

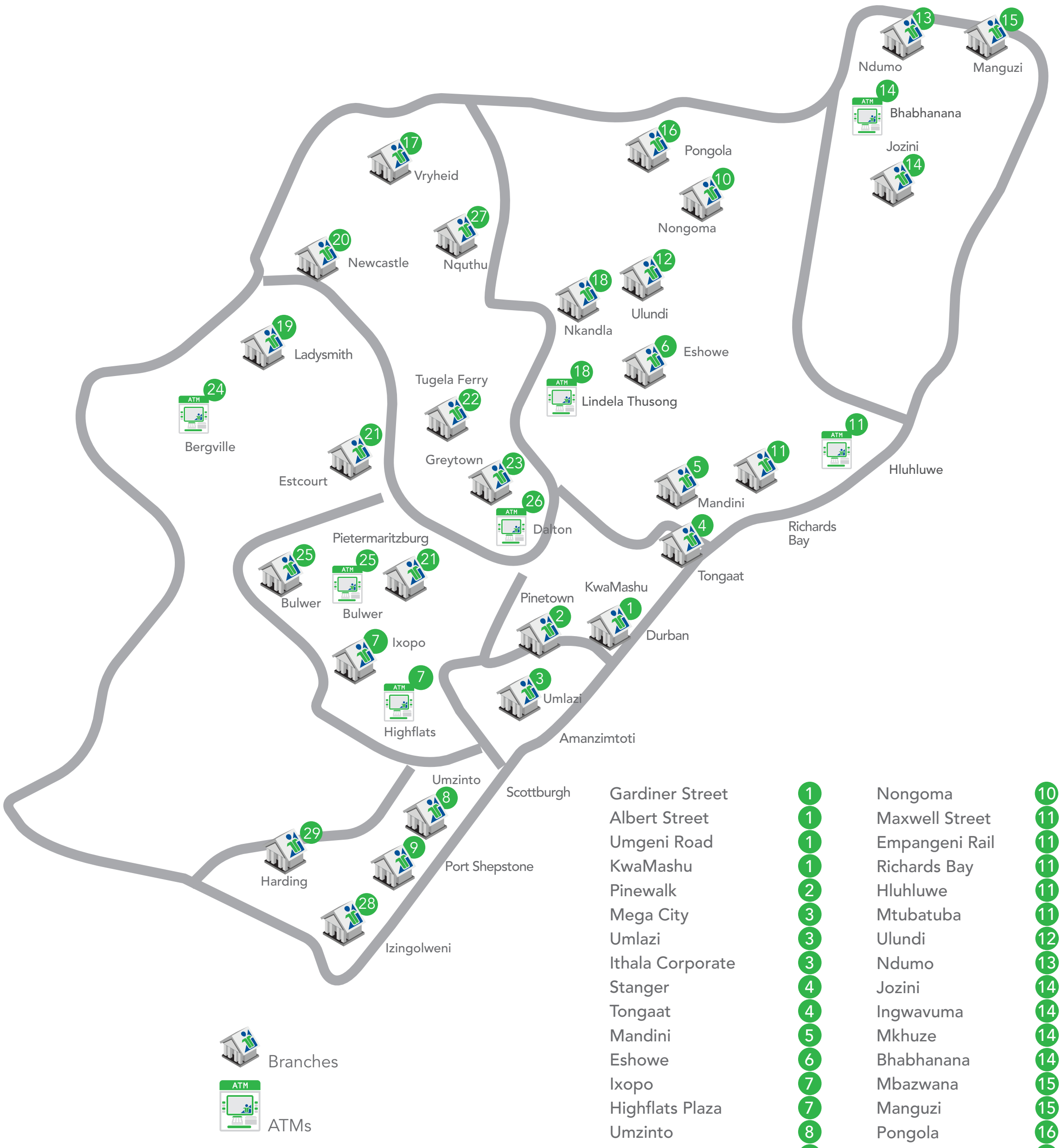
Our compact with our shareholder incorporates our corporate (strategic) and annual performance plans, strategic objectives and aligned performance targets and specific short-term deliverables which our board contracts with our shareholder.

OUR FOOTPRINT

Historically, banks with the best branch footprint have dominated their markets, gaining outsized share. According to PricewaterhouseCooper's Retail Banking 2020, by 2020 banks will more likely be direct banks, and branch banking will be changing fast. Industry leaders will offer an anytime-anywhere service, fully utilising all banking channels in an integrated fashion.

They will be re-imagining their physical footprints, introducing new branch formats, expanding physical points of presence through third-party partnerships, driving sales and cutting costs. As transactions and sales shift to digital channels, branches that cannot create incremental value will need to close, or be transformed. Our business architecture has been restructured to place us at the forefront to meet the anywhere-anytime requirements of our target market. Our multi-channel distribution network is grouped according to direct and indirect sales teams. Direct sales are channels that we own. They include our branch network, e-commerce website, mobile banking, customer contact centre, ATMs and public sector banking unit. Indirect sales are channels that we do not own and are segmented according to retail and emerging distribution channels.

- Retail channel: utilises established distribution channels such as Shoprite Checkers, Spar and the Post Office to take products and services to market.
- Emerging distribution channels: here we partner with developing channels, such as community-based business (stokvels), street vendors and entrepreneurs to take products to market.



ATMs are provided at each branch

Gardiner Street	1	Nongoma	10	Lindela Thusong	18
Albert Street	1	Maxwell Street	11	Nkandla	18
Umgeni Road	1	Empangeni Rail	11	Ladysmith	19
KwaMashu	1	Richards Bay	11	Madadeni	20
Pinewalk	2	Hluhluwe	11	Newcastle	20
Mega City	3	Mtubatuba	11	Estcourt	21
Umlazi	3	Ulundi	12	Long Market	21
Ithala Corporate	3	Ndumo	13	Church Street	21
Stanger	4	Jozini	14	Tugela Ferry	22
Tongaat	4	Ingwavuma	14	Greytown	23
Mandini	5	Mkhuze	14	Bergville	24
Eshowe	6	Bhabhanana	14	Bulwer	25
Ixopo	7	Mbazwana	15	Dalton	26
Highflats Plaza	7	Manguzi	15	Nquthu	27
Umzinto	8	Pongola	16	Izingolweni	28
Port Shepstone	9	Vryheid	17	Harding	29

OUR LEADERSHIP

Ithala is led by a skilled and committed board. Day-to-day management of Ithala vests with our executive management team (EXCO). The board is focusing on building the sustainable capacity within our EXCO, in view of recent changes in leadership.

4 - Malose Kekana (46) - Chairman of Ithala SOC Limited

B.Comm (Finance) - Appointed 2013

Board committee memberships

Directors' affairs committee (Chairperson)

External appointments

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

8 - Mahmood Mia (67) - 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 (Chairperson)
Human resources, social and ethics committee

External appointments

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

1 - Sipho Ngidi (59) - 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)

External appointments

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

2 - Babalwa Ngonyama (40) - Independent non-executive director

CA(SA) - Appointed 2012

Board committee memberships

Directors' affairs committee

Audit and compliance committee (Chairperson)
Risk and capital management committee

External appointments

* Chief executive officer: Sinayowetu Trading Enterprises
^ Chief financial officer: Safika Holdings (Pty) Limited
^ Founding chairperson: African Women Chartered Accountants
* Barloworld Limited
* Group Five Limited
* Clover Industries Limited
* Vanadium Limited
* Impala Platinum Limited

7 - Venete Klein (56) - Independent non-executive director

International certifications from Harvard Business School, INSEAD, IMD, IDI and certifications from GIBS and Wits, CD(SA) - Appointed 2014

Board committee memberships

Directors' affairs committee

Audit and compliance committee

Risk and capital management committee

Information technology governance committee

External appointments

* Chief executive officer: Klein Inc
* Chairperson: IoDSA
* Eskom Holdings Limited
* PG Group
* Old Mutual Wealth (Pty) Limited
* ACSIS
* South African Bureau of Standards

5 - Yvonne Zwane (54) - 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

External appointments

* Group chief executive officer: Ithala Development Finance Corporation Limited
* University of KwaZulu-Natal
* Durban Chamber of Commerce and Industry

6 - Gregory White (55) - Acting chief executive officer

BA (Economics), B.Admin (Hons) (Development Studies) - Appointed 2012#

Board committee memberships

Risk and capital management committee
Information technology governance committee

Human resources, social and ethics committee

External appointments

^ TransCaledon Tunnel Authority
^ Deputy chairperson: Ithala Development Finance Corporation Limited
^ Commonwealth Africa Investments Limited
^ Laurentina Cervejas Sarl

3 - Peter Ireland (50) - Finance director

CA(SA) - Appointed 2012

Board committee memberships
Risk and capital management committee

Information technology governance committee

External appointments

^ Group chief financial officer: Ithala Development Finance Corporation Limited
^ Finance director: BioScience Brands Limited
^ Finance director: The Unlimited
^ Finance director: Research International (Pty) Limited

* Present directorships
^ Past directorships
# Gregory White appointed as acting chief executive officer, effective 1 September 2014

"WE EFFECTED A FUNDAMENTAL BUSINESS TURN-AROUND DURING THE PAST FINANCIAL YEAR. ITHALA IS GOING PLACES!"

MALOSE KEKANA
CHAIRMAN

Ithala's core reason for existence remains the promotion of financial inclusion.

From its inception, it has provided basic financial services, such as book-based savings accounts and housing finance to communities that had hitherto been denied access to these services.

Ithala has promoted a savings culture by supporting stokvels, savings clubs and burial societies in peri-urban and rural communities over more than 50 years.

We currently have a client base of some 700 000 customers across KwaZulu-Natal.

The banking landscape in South Africa has evolved dramatically over the past decade.

The technology revolution in the financial services sector has brought sophisticated services within reach of the masses through mobile and internet banking.

Since its establishment, Ithala has built a branch network that spans the KwaZulu-Natal province, from Ndumo in the north, to Harding in the south, to Newcastle in the west.

The single channel distribution network upon which Ithala's business model was built has been surpassed by new innovations in the banking industry.

We have not kept pace with these developments. In the recent past, we have also been subjected to extraneous shocks that have impacted significantly on our sustainability as a community service-based business.

Most notably, the decision by the South African Social Security Agency (SASSA) in 2012 to award a contract to a single entity for the payment of social grants, resulted in the loss of some 80 000 customers and loss of revenues in the order of R40 million per annum.

Ithala is going places! In 2014 Ithala, its shareholder and the Provincial Government of KwaZulu-Natal entered into an agreement with the National Minister of Finance which makes provision for Ithala's ongoing banking licence exemption to be extended until 2017, during which time we will be readying ourselves to meet all the requirements for a permanent banking licence.

We have a proud heritage as a pioneer in the financial services field.

Having already established ourselves as the leading state-owned financial services institution in South Africa, our sights are now firmly set on the future and cementing our role as a leading State Bank, based in KwaZulu-Natal.

With the support of our shareholder, the IDFC and the ultimate shareholder, the Provincial Government of KwaZulu-Natal, we have been enabled to effect a fundamental business turn-around during the past financial year.

We have recovered from the major financial losses resulting from the SASSA decision by pursuing our revitalised business strategy.

Our insurance business, which offers a wide range of long and short-term products, has made solid progress in the past year and is poised to grow significantly in the year ahead.

Ithala is well advanced in the implementation of our core banking systems that has enabled us to launch competitive new transactional products.

As a unique public sector institution, we have also embarked on a strategy to cement our role as a financial services provider to public entities within the province.

This also provides the opportunity to deliver affordable services to public sector employees.

Strengthening our human capacity is key to our sustainable recovery. As part of our turn-around strategy, we have prioritised investment in people as a key pillar.

During 2015, Ithala will implement a dedicated capacity-building and training function. The board is committed to strengthening an internal environment that promotes innovation, efficiency, customer care and sound employee relations.

The year in review has been exceptionally challenging. Business realities have necessitated difficult decisions regarding cost rationalisation at all levels of our business.

These have included merging branches to ensure sustainability of our operations and other cost-saving interventions.

We are now better placed to face the future.

On a positive note, during the year ahead, we will be seeking to refresh our brand through upgrades to our branch network, the implementation of new technologies, such as self-service devices, innovative new products to support emerging businesses and an increased emphasis on growing our insurance business.

We have already achieved a major reversal of our fortunes; Ithala is no longer in retreat, but on the march.

Our strategy, going forward, is predicated upon returning Ithala to sustainable profitability. The ongoing support from our ultimate shareholder, the KwaZulu-Natal Provincial Government, has been instrumental in ensuring that our iconic institution continues to play its developmental role.

I would like to express my gratitude to the Honourable Mr Michael Mabuyakhulu, MPL, MEC for Economic Development, Tourism and Environmental Affairs and the Honourable Ms Belinda Scott, MPL, MEC for Finance, for their support.

My board colleagues have gone the extra mile in fulfilling their fiduciary responsibilities during the year. Indeed, within the context of our "business unusual" stance, members of the board have devoted extensive time and energy to supporting our management team during the past year.

This has been of enormous value to the business and I wish to thank my colleagues for their support.

Both Dr Mandla Gantsho, chairman of the board of IDFC, and the board have been a pillar of support to Ithala.

Their wise counsel has been greatly appreciated by myself and my board.

The confidence expressed by our shareholder, through an additional capital injection of R50 million in 2014/15, is acknowledged with our deepest gratitude.

Ithala is a progressive institution. We have a formal relationship with organised labour and seek to cement a strategic relationship with all stakeholders in building our common future.

Very difficult business decisions were necessitated during the year and the understanding and pragmatism demonstrated by our organised labour partners is greatly appreciated.

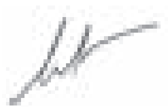
I would like to thank the management and staff of Ithala for heeding the call of the board to place Ithala on a new trajectory.

I am deeply appreciative of the commitment demonstrated by colleagues and look forward to their ongoing hard work. During the year, the chief executive officer, Mr Simphiwe Khoza, decided to pursue new career challenges. I thank him for his contribution.

Our former deputy chairman, Mr Gregory White, has temporarily taken over the reins and the appointment of a permanent chief executive officer will be made by mid-2015.

In conclusion, I would like to acknowledge and thank our customers. It is in your interest that we continue to exist.

We strive to offer you the very best products and services and look forward to building and maintaining long-standing relationships.



Malose Kekana
Chairman

CREATING SHARED VALUE

WE REMAIN FOCUSED ON BECOMING THE LEADING STATE-OWNED PROVIDER OF RETAIL FINANCIAL AND INSURANCE SERVICES WHICH ADVANCE THE SOCIO-ECONOMIC IMPERATIVES AND PRIORITIES OF OUR DEMOCRACY

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 - are core strategic themes of this report (see page 22 where we describe these in detail). 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.

The Basel Capital Accord (Basel) requires banks to allocate financial capital to meet capital requirements, limiting the capital available for other activities. Our transition to Basel III in 2013/14 and through 2014/15 has been successful and we are well-positioned to continue lending responsibly into the future.

We manage our business strategy implementation by way of a balanced scorecard approach that was developed by the board during the year.

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

Financial and shareholder perspective

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

Customer perspective

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

Business process perspective

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

People, learning and growth perspective

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

HOW WE CREATE VALUE

Inputs from our value perspective		Business activity	Annual financial statement impact	Material risks emanating from our business activities
		For more detail refer to our products and services on pages 16 and 17	See our AFS from page 87	See our risk and capital management report on page 61
Value creation is guided by our balanced scorecard perspectives focusing on: • A financial and shareholder perspective • Our customers	Income after credit impairment	We lend money to our customers and clients within the constraints of available capital and within our risk appetite and the prescribed regulatory environment. This creates assets for the group from which we derive interest income over time	Interest income and credit impairment charges	Credit risk; Interest rate risk; Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
		We source funding from deposits placed by customers and other funders to enable lending. This creates liabilities, which generate future expenses	Interest expense	Interest rate risk; Liquidity risk; Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
		We provide transactional banking facilities and knowledge-based services to our customers and clients	We earn net fee and commission revenue	Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
		We offer long- and short-term insurance, investment products and advisory services	We earn net fee and commission revenue	Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
		We earn revenue from other sources linked to our core business, such as gains on property disposals	Other revenue	Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
	–			
• Business processes • People learning and growth	Expenses	We invest in developing and retaining our people in order to execute our strategy and deliver to our customers and clients	Staff costs	Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
		We invest in our operations, which includes information technology systems and infrastructure, to improve efficiency and deliver excellent products and service to our customers and clients	Other operating costs	Operational risk (including compliance, environmental and/or social risk); Business and reputational risk
	=			

Net profit – Dividends to shareholders as our primary providers of capital = Retained equity

OUR BUSINESS STRUCTURE, PRODUCTS AND SERVICES

Our business structure, products and services

	Products and services	Value created
Personal financial Provides financial services to individual customers	**Mortgage lending** Residential accommodation loans to individual customers **Vehicle and taxi finance** Finance of vehicles for personal market customers Lending products offered to both personal and business markets **Card products** Merchant transaction acquiring services (card acquiring)	We facilitate access to financial services, enabling socio-economic development and financial well-being, which are particularly relevant to our markets Our activities facilitate allocation of capital such as credit for economic development Through our governance and compliance practices, we contribute to the stability of South Africa's banking sector
	Transactional and savings products Comprehensive suite of transactional, savings and investment products, including deposit-taking activities, electronic cash management and debit card facilities	We support the long-term financial health of all our clients
	Bank assurance Short-term and long-term insurance comprising: Simple embedded products, including homeowners' insurance, funeral cover, household contents and vehicle insurance, credit life, income booster, tombstone cover, cattle insurance and loan protection plans sold in conjunction with related banking products, as well as complex insurance products, including life, disability and investment policies sold by qualified intermediaries Find more information on our products and services on page 17 and 44	The insurance and risk transfer products and services we offer, help make people and our society more resilient By absorbing and managing the risks of individuals and groups, insurance stimulates other economically productive activities, such as buying a home and starting or expanding a business. In turn, these activities fuel demand, facilitate supply and support trade, thereby levelling consumption patterns and enhancing social stability
Corporate financial services We provide financial services to the public sector and to community-based business	**Transactional products and services** Merchant transaction acquiring services (card acquiring) Electronic cash management and debit card facilities **Investment banking** Structured finance Debt products **Bank assurance** Risk advisory services Corporate and business insurance Find more information on our products and services on page 17 and 44	We focus on understanding the needs of the public sector environment and developing innovative solutions that are relevant to local and municipal government
Central services and other	Includes the results of support functions (back-office), which are either centralised or embedded in the business. The direct costs of support functions are recharged to the business segments, which enables the execution of their business strategies	

CUSTOMER VALUE CREATION

Ithala SOC Limited's intent has been to create opportunity for the unbanked of KwaZulu-Natal, those who were historically excluded from financial inclusion. Its customer value creation is evidenced in the range of mainstream banking and insurance products it offers, bringing hope and property to those in an otherwise hopeless situation.

Nurturing a banking culture

122 217 TRANSACTIONAL BANKING CUSTOMERS

TRANSACTION

Securing the future

6 957 INSURANCE POLICIES ISSUED

INSURANCE

Nurturing a savings culture

R2,0 BILLION

CUSTOMER SAVINGS

SAVINGS

Building a legacy

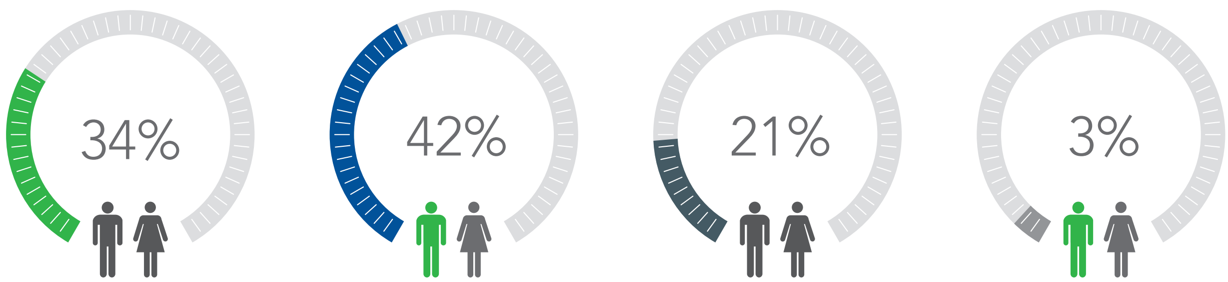
R261,1 MILLION

LOANS ISSUED TO CUSTOMERS

LOANS

HOW WE DISTRIBUTE VALUE

	2015	2014	2013
	R'000	R'000	R'000
Value created			
Interest income	211 987	177 789	162 819
Commission and fee income	102 292	105 349	126 934
Other income	8 610	7 483	9 970
Net impairment charge on loans and advances to customers	(18 736)	(29 671)	(16 709)
	304 153	260 950	283 014
Value distributed			
To suppliers	116 352	125 059	107 297
To employees	142 203	128 866	128 297
Interest paid to depositors	71 472	55 654	54 024
To providers of funds	330 027	309 579	289 618
To Government	10 603	7 476	2 992
To the community	76	158	25
	340 706	317 213	292 635
Retained value			
Accumulated profit/(loss)	537	(69 978)	(24 382)
Turn-around grant funding	52 096	-	-
Depreciation and amortisation	15 006	13 715	14 761



To suppliers **To employees** **Interest paid to depositors** **To Government**

STAKEHOLDER ENGAGEMENT

AT ITHALA, STAKEHOLDER ENGAGEMENT IS DRIVEN BY THE NEED FOR AND BENEFITS OF COLLABORATION, WITH THE AIM OF SHARED VALUE CREATION.

The board is committed to meeting stakeholder information requirements and provides oversight of our stakeholder relationship management. We identify our material stakeholders as those that have a direct or indirect stake in Ithala due to their being in a position to affect or be affected by our actions, objectives and policies.

Stakeholder engagement

Stakeholders	Expectations	Our response
National Government	Fulfilling our mandate as a sustainable and responsive provincially-owned retail deposit taking institution	Strategy formulation and business plans are based on our mandate from Government
	Securing our long-term viability by returning to profitability	Strategy on-track to acquire full banking licence (see core strategic themes on page 22 for a more detailed description of our progress). We maintain ongoing engagement with National Treasury
Provincial Government	The Ithala Act, 5 of 2013 of the KwaZulu-Natal Legislature, defines our mandate	Promote financial inclusion and support our parent in delivering on its developmental mandate (see our detailed performance against our annual performance plan on pages 39 to 43)
	Deliver on our corporate plan and the targets contained within our annual performance plan	Reposition Ithala as the leading state-owned financial institution based in KwaZulu-Natal
Our shareholder, the IDFC	Good governance	Our strategic vision complements the development agenda of our parent
	Our long-term viability	By returning to profitability we are creating shareholder value and contributing to group sustainability
Regulatory bodies	The SARB is responsible for bank regulation and supervision, including the issuing of banking licences, to achieve a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole	We maintain strong relationships with regulators including the SARB, the Banking Association of South Africa, the Financial Services Board (FSB), the Financial Intelligence Centre (FIC), the National Credit Regulator (NCR) and the Payments Association of South Africa (PASA)
	Compliance	We ensure compliance with legal and regulatory requirements, thereby retaining our various operating licences and minimising our operational risk (see page 73)
	Good governance	Good governance (see pages 74 to 85)
	Board leadership and effectiveness	Ithala maintains a fully functional board and sub-committee structure in line with the provisions of the Companies Act, King III, Banks Act and PFMA

Stakeholder engagement (continued)

Stakeholders	Expectations	Our response
Suppliers	On-time payment against invoices	Ensuring compliance with regulatory requirements and the Ithala supply chain management process
The company requires goods and services, on time and to specification, from reputable, quality suppliers	Fairness	Prioritisation of Broad-Based Black Economic Empowerment (B-BBEE) suppliers (see our discussion on how we drive transformation on page 56) A centralised procurement unit has implemented an automated 'procure-to-pay' system during the past financial year
Strategic partners	Fulfilling our contractual obligations	Ithala enters into Memorandums of Understanding (MoU) with strategic partners
	Quality of relationships	We are focusing on building partnerships with fellow public sector institutions
Public entity customers	Tailored products and services The PFMA and Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) regulations require public sector entities to only enter into relationships with financial institutions that have a credit rating	Increase in our public entity customers and deposit balance We are currently engaging with National Treasury regarding obtaining a credit rating or an exemption from this requirement The treasury function will be launched during 2015/16 and will be a key enabler of the public sector strategy We have successfully implemented our corporate banking solution with Nkumbuleni Community Trust, on a pilot basis
Employees	Our long-term viability Reward Labour relations Honest and prompt communication Learning and development opportunities Opportunities for career advancement Consultation on changes to working conditions	Human Resources (HR) manages labour relations with the South African Municipal Workers' Union, to which 362 employees belong, on an ongoing basis Our joint engagement committee consisting of representatives from management, including the CEO and human resources, as well as shop stewards, engage on labour issues. Negotiations regarding staff exits occurred via this platform
Customers, individuals, youth and entrepreneurs Community-based business (taxi associations, co-operatives, stokvels)	Customer service Affordable products Honest and understandable communication Being treated fairly Trained and competent Ithala people	We are striving to be customer-centric We conduct quarterly customer satisfaction surveys (see page 51) We have implemented a customer service campaign focused on inspiring staff to deliver optimal customer service and on providing staff with the necessary tools and resources We have successfully implemented an in-house customer contact centre

OUR STRATEGY

OUR VISION IS TO BE THE LEADING PUBLIC SECTOR FINANCIAL INSTITUTION IN SOUTH AFRICA, BASED IN KWAZULU-NATAL BY 2017.

We remain committed to re-asserting our role as a people's bank by making affordable and appropriate financial services available to the people of KwaZulu-Natal, while building the foundations for Ithala to become a State Bank which advances the socio-economic imperatives and priorities of our democracy.

This year has been a watershed in the turn-around of our business. We experienced five successive years of losses culminating in a loss of R69 million for 2013/14.

The key challenges we faced included a historically flawed business model, under-capitalisation, a costly overhead structure, dependence on interest income, concentration on long-term home loans, over reliance on a single distribution channel and an outdated banking and insurance system and processes.

Our new business plan was developed by management in consultation with the board and was implemented on 1 August 2014.

During October 2014, the board approved an enhanced medium-term strategy framework which utilises the balanced scorecard methodology as a tool to articulate, measure and monitor strategy implementation.

We are poised to yield rewards from these current opportunities identified, including the provision of relevant products for the under-banked, a loyal customer base, the potential in our insurance business, public sector business opportunities, business-to-business and public sector employees, as well as strategic partnerships with the public sector.

Our strategic imperatives are to:
- Meet all the material requirements for a banking licence by 2017;
- Meet all the performance obligations contained in the Memorandum of Agreement (MoA) with the Minister of Finance, on an annual basis; and
- To grow our market share, asset quality and capital base.

The achievement of these is dependent on our ability to:
- Successfully capitalise our business (read our risk and capital management report on page 61);
- Reduce our overhead cost structure. We have successfully undergone an extensive cost-containment exercise. (our acting CEO discusses this in greater detail on page 30);
- Diversify our multi-channel distribution network. (read about our multi-channel distribution network on page 52); and
- Development of relevant and competitive products. Since last year, we have successfully launched a number of products and services, including our Youth Reseller and Iciko accounts, which are aligned to the objectives of Government in terms of growing entrepreneurs and creating meaningful opportunities for income generation. (read our business unit review on page 44).

The Honourable Mr Michael Mabuyakhulu, MPL, (second left) MEC for Economic Development, Tourism and Environmental Affairs, is presented with his own Iciko Plus transactional account.

CORE STRATEGIC THEMES

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 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 (see our risk management strategy on page 61).

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.

Performance

- Renewal of banking licence exemption until 30 June 2016
- Implementation of our turn-around strategy to return our business to profitability
- Implementation of key business systems to support business growth and the development of new products

Achieving a full banking licence by 2017

- In the past year, the Minister of Finance extended the company's exemption for a period of one year ending 31 December 2014 and provided the SARB with certain requirements that we should meet in order to ensure a further renewal, which we successfully met
- We were able to successfully motivate for an extension of the exemption beyond 31 December 2014 until 30 June 2015, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by Ithala. Annual exemptions will be granted for the years commencing 1 July 2015 and 1 July 2016
- All the substantive performance targets as at 31 March 2015 have been met or exceeded
- Risk and capital management report on pages 61 to 73

Credit management

- We have a comprehensive credit risk management strategy
- We are focusing on diversifying our customer base to mitigate against the risk of potential default
- We are identifying new non-interest income revenue streams
- Our cost containment strategy is on-track. (see more detail in our finance review on page 32)
- Our focus is on revenue enhancement
- Read about our new products and services in our business unit review on page 44 and our risk and capital management report pages 61 to 73

Securing capital

- We have identified potential capital partners
- The implications of Basel III, adopted by South Africa on 1 January 2013, required that we adjust our business model to remain capital-efficient and competitive in a more stringent regulatory environment
- Progress in acquiring an equity partner has been made
- Operationally, we continue to focus on diversifying our funding sources and customer base, to mitigate against the risk of potential default
- We continue to identify non-interest income revenue streams, as well as developing our distribution network and cross-selling opportunities
- We received a capital injection of R50 million from the parent company the IDFC, this year (R105,0 million received during the 2013/14 financial year) in order to meet the performance obligations assocaited with our agreement with the National Minister of Finance

IT systems implementation and cyber risk

- We have begun to invest significantly in technologies that promote access to financial services
- Our hosted banking system is live
- We are currently implementing our insurance management system
- We are focusing on the effective implementation of ancillary information technology (IT) systems, such as client relationship management, in line with our IT strategy
- 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
- See page 50 in our IT report

Capacity and skills

- To resource the organisation with the skills necessary for a productive workforce to implement our strategy
- After a year of cost reductions, the board has approved our human resources strategy which contains specific staff engagement, motivation and retention elements (see page 58)

Competitive effectiveness

- We are developing a robust customer and product strategy (see pages 17 and 51)

OUR OPERATING ENVIRONMENT

OUR STRATEGY IS SHAPED BY THE CONTEXT IN WHICH WE OPERATE, WHICH INCLUDES THE COMPETITIVE MARKET, MACRO-ECONOMIC FORCES AND THE REGULATORY ENVIRONMENT, WHILST CONSIDERING THE EXPECTATIONS OF OUR STAKEHOLDERS.

GLOBAL ECONOMY

The volatility in global financial markets since 2008 has generally led to more difficult earning conditions for the financial sector and remains challenging. The recessions experienced by many European countries, many of whom are major trading partners of South Africa, remain deep and prolonged. Doubts in respect of the Eurozone's ability to claw its way out of the financial crisis linger and have adversely impacted South Africa's balance of trade as exports have been slower.

It is anticipated that the Eurozone will be buoyed by low oil prices, a weak Euro and the European Central Bank's (ECB) expanded quantitative easing programme. However, any recovery in the Eurozone is certain to be slow. The IMF revised global growth forecasts, down by 0,3%, to 3,5%, due to a weaker medium-term growth outlook for China, Russia, the Eurozone, Japan and the major oil-exporting countries. The Sub-Saharan Africa growth forecast, although revised down by 0,9%, remained higher at 4,9%, due largely to lower oil and commodity prices (IMF World Economic Outlook Report, January 2015).

EFFECT ON THE SOUTH AFRICAN ECONOMY

Pressure on exchange rates driven, inter alia, by the intention of the United States Federal Reserve to scale back its stimulus for the United States economy has been experienced by many emerging markets. This translates to less purchasing power for South African companies and citizens. Rand depreciation results in a loss in purchasing power through imported inflation.

The impact is felt in the cost of imported consumer goods and fuel, more directly in the short-term, but also has the potential to feed into the general cost of goods and services over the medium- to longer-term, fuelling inflation. Consumers have less to spend each month due to rising basic costs.

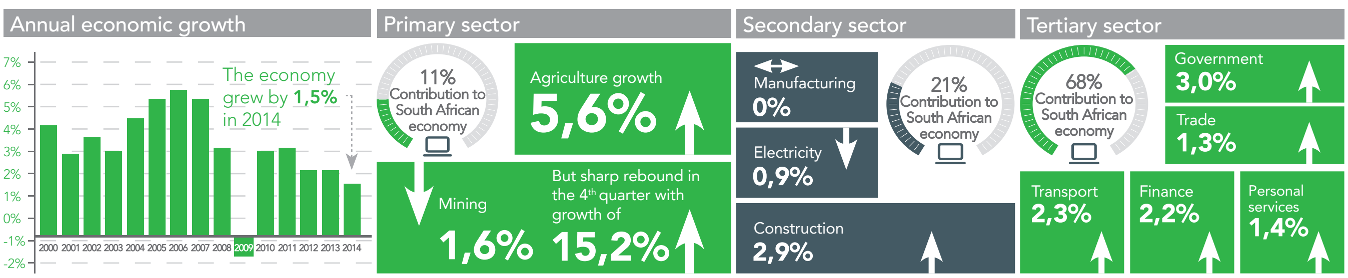
IMPLEMENTATION OF THE NATIONAL DEVELOPMENT PLAN

Notwithstanding external pressures, countries can offset the negative global conditions by actively providing enabling conditions for business to thrive. South Africa has a National Development Plan (NDP) that, if implemented correctly, can provide the environment needed to achieve the necessary levels of economic growth and job creation. The key primary and secondary sectors of the economy must stabilise and begin to grow in real terms to ensure a strong basis for sustained growth.

ECONOMIC CONDITIONS IN SOUTH AFRICA

The year was characterised by significant energy supply concerns and periods of protracted labour unrest in key output sectors of the economy. Despite a relatively positive fourth quarter of the calendar year, with quarterly GDP growth recorded at 4,1% following a lacklustre 1,4% in the third quarter, broad concerns about the domestic economy performing significantly below its potential persist. These obstacles are reflected in the actual GDP growth rates in the following charts:

HOW DID SOUTH AFRICA'S ECONOMY PERFORM IN 2014? *



* Preliminary results
Source: Gross Domestic Product, 4th quarter 2014 http://www.statssa.gov.za

South Africa's economy grew by 1,5% in 2014, down from 2,2% in 2013, according to preliminary estimates of real Gross Domestic Product (GDP) released by StatsSA.

The South African National Treasury's economic growth expectation for 2015 remains low at 2,0%, increasing to 2,4% by 2016.

UNEMPLOYMENT REMAINS A CHALLENGE

According to the StatsSA labour force survey May 2015, 26,4% of South Africans of working age are unemployed. Unemployment remains an impediment to growth.

Additionally, many sectors are impacted by labour cost pressures, low productivity and inertia as extended strikes and prolonged wage bargaining erode the ability of companies to operate sustainably.

TIGHTENING OF CONSUMERS' SAVING ABILITY

There are now more financial pressures on consumers.

Although annual CPI inflation dropped to 4,4% in January 2015 from 5,3% in December 2014, the lowest since April 2011 when the CPI stood at 4,2% (StatsSA: Consumer Price Index January 2015), the impact of the stagnant economy over the past year has resulted in increased pressure on the disposable income of households and led to high levels of indebtedness, with only 24% of the population saying they have enough money for savings after covering all their spending needs (FinScope South Africa 2014 Consumer Survey).

The SARB repo rate increased by 50 basis points to 5,5% during January 2014 and a further 25 basis points to 5,75% during July 2014 on concerns about the potential for a deterioration in the inflation forecast.

CREDIT RATINGS

South Africa's sovereign rating affects the South African banking sector as a whole.

Current South African foreign currency credit ratings and long-term outlook are shown below:

Rating agency	Rating	Outlook
Fitch	BBB	Stable
Moody's	Baa2	Negative
Standard & Poor's	BBB-	Stable

Source: Ieconomics (2 June 2015)

COMPETITION AND MARKET SHARE

The banking industry market conditions are increasingly competitive.

Competition at the entry level, defined by the Living Standards Measure (LSM) as levels 1- 6 of the market, which represent 65% of the total South African banking market, is the strongest.

The increase of competition at the entry level has been driven, to an extent, by Government pressure to address accessibility and affordability of banking products and services.

The four largest banks all have a dedicated product aimed at this segment, while one competitor specifically targets the entry level market successfully.

As a consequence, the proportion of unbanked people is reducing at a fairly rapid rate, although there is estimated to still be 14 million unbanked people in the country. Our enhanced entry level transactional account offering - Iciko Plus - has seen us increase the number of new banking clients.

The entry level banking market remains a low margin segment and key drivers are volume, overhead cost reduction and pursuing non-traditional distribution and sales channels.

Channel initiatives include cell phone banking, partnerships with retailers and independent community consultants. Customers are not looking for complex product solutions. They want accessible, basic products at low fees, and access to credit.

All of the big four banks have loyalty programmes which are fee-based and this helps further enhance their perceived value offering.

Our enhanced Iciko Plus transactional account, with value added services including free funeral cover, free WhatsApp and free mobile banking, has played a big role in growing our transactional banking client base by 42% in the 2014/15 financial year.

The introduction of the USSD (Unstructured Supplementary Services Data and essentially a gateway to interconnect two or more separate data networks) mobile banking channel opened up a new fee income revenue stream.

As the market becomes increasingly saturated, the focus will shift towards increasing share of wallet within the existing client base.

The long-term sustainability of Ithala relies heavily on appealing to more customer segments and decreasing over-reliance on the entry level market segment.

To this end, a customer-centric approach has been adopted in targeting our customer segments. This will assist us in achieving a balanced client portfolio with presence in our market.

ACCESS TO BANKING

	2014	2013	2004
LSM 1-5	66%	61%	32%
LSM 6-10	80%	83%	72%
Total Market	75%	75%	45%

Source: FinScope South Africa 2014 Consumer Survey

REGULATORY ENVIRONMENT

We operate in a highly regulated environment. The regulatory framework of the SARB, emanating from the Bank's Act, compels us to operate fully and independently as a financial services institution, subject to all the associated regulatory frameworks, including King III, the PFMA and the Companies Act.

In addition, as do all retail banks, we operate under heightened regulations in the area of risk and capital management with the introduction of Basel III. Compliance to these regulations is critical to securing our ongoing licence to operate. We have a dedicated and independent compliance function, as prescribed by the Banks Act. The compliance function operates under a policy approved by the board. It assists the organisation in mitigating risks through the identification, assessment, management, monitoring and reporting on compliance.

During the past financial year the compliance department played a vital role in ensuring a stronger and more enduring compliance culture in 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.

In addition, the focus has been on ensuring that all existing and new products also meet regulatory requirements. Internal broadcasts have seen the compliance culture grow from strength to strength.

The SARB, through its many requirements, has emphasised the importance of compliance in the renewal of our banking licence exemption and the acquisition of our full banking licence by 2017.

Anti-money laundering and combating the financing of terrorist and related activities		
Objectives	Our response	Targets
To combat money laundering activities	Our responsibility is to report suspicious transactions and cash thresholds, employ Guidance Notes and develop Anti-Money Laundering Internal Rules Ithala operates under the guidance of the following Acts: the Proceeds of Crime Act (POCA), the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA), the Financial Intelligence Centre Act (FICA) and the Prevention and Combating of Corrupt Activities Act (PRECCA) Over the past few months, we continued the process of moving over from our legacy system to our hosted banking system. This move not only had an impact on the business as a whole, but also necessitated that we ensure that regulatory reporting was not interrupted. The automation on the hosted banking system of the cash threshold reporting in terms of FICA is nearing completion Ithala, like all other accountable institutions, is gearing up to 'go live' onto the Financial Intelligence Centre GoAML platform on 28 September 2015. The GoAML system is an integrated software solution developed and maintained by the United Nations Office on Drugs and Crime (UNODC) specifically for use by Financial Intelligence Units (FIUs) around the world The FIC uses GoAML to handle all its reporting, data collection, analysis, case management and secure communications. We conducted a review to align our business with the Anti-Money Laundering (AML) duties and are in the process of using the skills of an independent AML officer to take a pro-active role in awareness-raising	Ithala is on-track in terms of the GoAML live date planned for 2015/16. We purchased a client screening tool to enhance client identification and due diligence processes. The past year has also seen an increase of Suspicious Transaction Reports in 2013 of four to 17 in 2014, due to the awareness campaigns and the informal training during reviews we have conducted

Financial Advisory and Intermediary Services (FAIS) Act		
Objectives	Our response	Targets
To regulate the rendering of certain financial advisory and intermediary services to clients. The Act protects consumers of financial services and imposes certain requirements on financial services providers to ensure that consumers receive sufficient factual information and advice in order to make informed investment decisions	Ithala has taken steps to ensure that all staff providing advice to clients are fit and proper in terms of our code of conduct The past financial year saw Ithala perform a complete review on all qualifications of its staff members in Financial Advisory and Intermediary Services Act (FAIS) roles. All staff who fell short of requirements have been placed under supervision, where applicable. The FAIS FSB register has also been updated to effect these changes	Regional internal training workshops were carried out to increase awareness around the importance of completing the Record of Advice with clients. We reviewed the regulatory requirements for all key individuals and representatives in terms of being fit and proper. A succession plan has been created to ensure that in the event that a key individual leaves the organisation, a competent candidate is available to take over. The recruitment process has been updated to ensure that all FAIS requirements are met, before an appointment is made

The Banks Act		
Objectives	Our response	Targets
The Banks Act provides for the regulation and supervision of the business of companies taking deposits from the public. It also provides for the establishment of principles relating to the maintenance of effective risk management by banks and controlling companies	All Banks Act returns and correspondence were submitted on time to the SARB See our risk and capital management report on page 61	With the new capital and liquidity requirements brought about by Basel III we monitor our capital and liquidity levels regularly to ensure that the phase-in milestones and, ultimately, all the requirements are met on full implementation of Basel III

Code of banking practice		
Objectives	Our response	Targets
The Code of Banking Practice (the Code) is a voluntary code that sets out the minimum standards for the service and conduct our customers and clients can expect from us with regard to the services and products we offer. The Code applies to personal and small business customers. It is based on the principles of fairness, transparency, accountability and reliability	Although the Code is based on self-regulation and exists as a voluntary code of conduct, we embrace its principles, best practices and policies. Other legislation which has an impact on our relationship with our clients includes the Consumer Protection Act (CPA), the National Credit Act (NCA), the FAIS, the FICA and Treating Customers Fairly (TCF) regulations. We accept the jurisdiction of the Ombudsman for Banking Services to mediate, make binding determinations, based on this code and on the law where appropriate, and to make recommendations in other circumstances, including those based on equity We saw a decrease in the number of complaints from the Banking Ombudsman to 4 in 2014/15 (2013/14:5)	There are no outstanding complaints pending

Treating customers fairly		
Objectives	Our response	Targets
The FSB issued regulations to promote fair treatment of consumers throughout the product lifecycle. The primary aim is to ensure customer satisfaction by embedding governing principles from the product conceptualisation stage to the post-sales service stage. This was aimed at addressing the imbalance of knowledge and incentive as the profit drive may outweigh a company's concern for the interests of its customers, and to reduce and mitigate the risk of unfair outcomes to customers	We participated in the FSB's TCF baseline study and the results were released during 2014. Of the six outcomes that are measured, as per the TCF principles, we scored 487 out of 584 (83,4%) The TCF training material was rolled-out by the training division	Training will be continually monitored by our compliance function by reviewing the content, training registers, frequency of training and ensuring training is delivered to the right audience

Market conduct		
Objectives	Our response	Targets
National Treasury has published a revised bill on the twin peaks model of financial regulation, which is intended to protect consumers and make the financial system safer. The second draft of the Financial Sector Regulation Bill includes recommendations to improve its legal enforcement and clarifies the role of regulators. Under the twin peaks model, regulation of the financial sector will be split into prudential and market conduct. Prudential regulation, which monitors the risks affecting the soundness of financial institutions and the whole financial system, will be the responsibility of the SARB Market conduct - including reckless lending practices, excessive fees and unfair product terms - will fall under a new financial sector conduct authority that replaces the FSB	Market conduct regulation represents higher standards than general consumer protection laws, as consumers often do not understand complicated financial products and the fees charged. The treasury has also released a draft market conduct policy framework discussion document that was open for comment until 8 April 2014. This was a first attempt to draft a comprehensive framework as to how the market conduct regulator will operate, with its mandate to make sure financial institutions treat customers fairly We have carried out an intensive study which has paved the way forward in terms of meeting the requirements of market conduct within Ithala	In 2015 we will conduct workshops and create awareness, both internally and externally, of the market conduct framework, under the guidance of the SARB and the FSB

Fraud prevention		
Objectives	Our response	Targets
We are implacably committed to eradicating fraud and to be pro-active and focused on preventing fraud	We promote a zero tolerance culture with regard to fraud and theft. To this end, we provide fraud awareness training, ensure effective management and implementation of policies aimed at governing staff behaviour and operate an independent whistle-blowing service, enabling staff to report fraud anonymously Our anti-fraud and ethics committee, and that of our parent company, plays a significant role in increasing awareness around unethical behaviour. Quarterly newsletters together with internal competitions are some of the initiatives that are being used	See our risk and capital management report on page 61 Fraud prevention is an activity driven at group level

"WE ARE TURNING THE CORNER AND ARE NOW WELL-POSITIONED TO BECOME A SUSTAINABLE BUSINESS THAT CONTRIBUTES TO THE SOCIO-ECONOMIC EMPOWERMENT OF THE PEOPLE OF THE KWAZULU-NATAL PROVINCE."

GREGORY WHITE
ACTING CHIEF EXECUTIVE

In a number of respects, 2014/15 was a defining year for Ithala.

We faced serious challenges, including the need to place the organisation on a sustainable path, following five successive years of losses, the strengthening of our human capacity in key areas and the retooling of Ithala to deliver its services more effectively, both in terms of technology and providing a suite of products and services geared to rapidly changing market needs.

I am pleased to report that Ithala has made good progress in surmounting these challenges.

The strategic direction and interventions provided by our board and the commitment of my colleagues within Ithala have contributed towards overall business results that indicate that we are turning the corner and are now well-positioned to become a sustainable business that contributes to the socio-economic empowerment of the people of the KwaZulu-Natal province.

Ithala entered into a MoA with the National Minister of Finance during 2014 which makes provision for the extension of Ithala's banking licence exemption until 2017, subject to Ithala meeting certain annual performance targets.

I am pleased to report that Ithala has substantively met these performance obligations.

The initial results of the implementation of our business turn-around strategy are encouraging; our transactional account base has grown by some 42% during the year increasing from 85 389 to 122 217.

Insurance income decreased by R158 000 despite intensified efforts from the insurance advisory committee, established to oversee the growth and development of the business.

Our gross margin remained positive at 56,8%, which underscores the inherent viability of our business.

From a cost perspective, operating costs have been carefully managed, resulting in costs for the year being 7% below budget at R283,5 million.

A strategic decision was made to reduce the level of lending during the year under review. Total new lending amounted to R261,1 million, compared against R498,3 million in 2013/14.

This was deemed an essential intervention as part of the financial restructuring and a review of our end-to-end credit and collections policies, procedures and processes. Sufficient progress has been made for Ithala to increase its lending for 2015/16, albeit cautiously.

We will not immediately reactivate our unsecured lending products and our credit granting criteria for secured lending products has been reviewed, in line with our reviewed risk appetite.

A key driver of our business renewal strategy has been a focus on building partnerships with fellow public sector institutions. This involves accepting deposits from public sector entities, as well as providing a full range of financial services to public sector employees.

Total deposits from public sector entities at 31 March 2015 amounted to R233,5 million. A partnership with the Department of Education is at an advanced stage to support the delivery of the National School Nutrition Programme (NSNP).

For the 2014/15 financial year, Ithala has recorded a profit of R0,5 million. This should be viewed against a loss of R70 million for 2013/14.

It should, however, be noted that this significant change must, in large part, be attributed to a once-off grant of R55 million that was received from the KwaZulu-Natal Provincial Government during the year, which was earmarked to fund essential non-recurring turn-around costs.

Even if this is disregarded, however, the trend indicates a turn-around of the business, which is encouraging.

Getting to this point has been no easy path. It has required difficult decisions to address inherent structural constraints within the business and the implementation of bold new strategies to grow our business and revenues. This can be likened to competing in a race while simultaneously fixing the engine of the vehicle. Business realities necessitated some rationalisation of our branch network, which involved merging a number of branches and rightsizing a further eight branches.

At our head office, some rationalisation was also required to ensure sustainability. We are cognisant that these changes invariably impact on our staff and have worked hard, alongside our union partners, to minimise the negative impacts of these changes.

We have made good progress in implementing our core banking systems. This provides the technology platform for Ithala to introduce competitive products that are geared to the needs of our market.

During the year, we introduced our new and innovative Iciko and Iciko Plus debit card accounts, which provide mobile and internet banking functionality. In addition, funeral cover, at no extra cost, and further benefits, such as mobile phone airtime bonuses, make these products attractive to our target market.

Our long and short-term insurance business, through our partnerships with industry leaders, shows enormous potential for growth. During the year, Ithala diversified its distribution channels through an outsourced call centre arrangement to market its insurance products. I expect good progress in this regard in the year ahead.

Despite the progress that has been achieved, my management colleagues and I will allow no room for complacency until the multi-year business targets to which we have committed have been achieved.

A great deal of work remains ahead. I stepped into my current role, in an acting capacity, in September 2014. It has been most gratifying to work with my executive colleagues and the foot-soldiers from Ndumo in the north, to Harding in the south and Newcastle in the west, who toil so hard to make Ithala a caring and responsive financial institution.

During the forthcoming months, we will cement our management foundations by appointing a permanent chief executive officer and additional colleagues in key leadership positions.

It has been a great privilege for me to fulfil my current role as acting chief executive officer. I am convinced that we have the spirit, commitment and drive to make Ithala a leader in its chosen market niche – and indeed, entrenching its role as a pioneer in bringing financial services within the reach of the people we serve.

I would like to acknowledge the leadership, guidance and support of our chairperson, Mr Malose Kekana, as well as our board. I have been inspired by their wisdom and unbending support.

My colleague, Yvonne Zwane, group chief executive officer of Ithala Development Finance Corporation, has been a pillar of strength. I would also like to acknowledge the Head of Department for Economic Development, Tourism and Environmental Affairs, Mr Desmond Golding, and the Head of Department of Provincial Treasury, Mr S'miso Magagula.

Their assistance and guidance have been invaluable.The members of my executive team have risen to the challenge and have worked with me to help build a new Ithala. I also acknowledge the contribution of the former chief executive officer, Mr Simphiwe Khoza.

Last, but not least, to our foot-soldiers, the people who are at the coalface of Ithala and who represent and define our brand. I am deeply thankful to you for your commitment and support.

It has been a great privilege to travel across our branch network and meet the people that make Ithala a true institution for the people of this wonderful province.

I look forward to a year ahead which brings growth and renewal to Ithala and which further cements our progress towards becoming the leading state-owned retail financial institution in South Africa, based in the KwaZulu-Natal Province.

Gregory White
Acting chief executive

42% YEAR-ON-YEAR GROWTH
IN TRANSACTION ACCOUNT NUMBERS

R235,5 MILLION
IN PUBLIC SECTOR DEPOSITS

87% CORE BANKING
SYSTEM IMPLEMENTATION

CUSTOMER SAVINGS
INCREASED BY 5,0% TO
R2,0 BILLION

"ITHALA HAS MADE MEANINGFUL PROGRESS WITH ITS TURN-AROUND STRATEGY, THANKS TO CONTINUED BOARD AND SHAREHOLDER SUPPORT. THE COMPANY RECORDED A SMALL PROFIT AND MAINTAINED ITS CAPITAL RATIOS IN EXCESS OF THE BASEL III REQUIREMENTS FOR THE YEAR ENDED 31 MARCH 2015."

PETER IRELAND
FINANCE DIRECTOR

This review provides:

- Key financial results and ratios
- Information on the implementation of our new business plan
- An overview of the key features of Ithala's 2014/15 financial results
- An analysis of our financial performance and position

Key financial results and ratios	Change %	2015	2014
		R'000	R'000
Net profit/(loss)	100,8%	0,5	(70,0)
Non-interest revenue to total income	3,4%	57,4	55,5
Cost to income ratio	19,7%	93,4	116,3
Capital adequacy ratio	37,7%	16,8	12,2
Impaired advances	(15,8%)	8,3	7,2

The Minister of Finance agreed to extend Ithala's banking licence exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to Ithala meeting certain performance obligations as contained in the MoA signed in August 2014 between the National Minister of Finance and multiple stakeholders.

One of the conditions of this agreement was that Ithala submits a business plan to the Minister of Finance, the KwaZulu-Natal provincial stakeholders and the shareholder, which would provide the detail as to how the key performance obligations, as specified in the agreement, would be met.

Ithala had initially budgeted to incur a net loss of R30,7 million for the financial year, versus the R70,0 million net loss recorded in the prior year. The submission of the new business plan to the Minister of Finance demanded an acceleration of the company's turn-around plan, which resulted in a revised forecast net profit of R4,5 million. The key initiatives of the new business plan included:

- Reduction of overheads: six unprofitable branches that demonstrated no potential to break even or become profitable were merged with branches in proximity, and a further eight marginal branches were downsized. Head office departments were rationalised to reduce the head office staff cost by 9,5% and early retirement was offered to qualifying employees. The total head count was reduced by 49 as a result of these initiatives;
- Curtailment of lending: lending activities were restricted to selective home loans, fully secured cash loans and lending to staff. All unsecured lending and vehicle and taxi finance activities were suspended. New advances were reduced from the budgeted R803 million to R261 million for the financial year, compared against R498 million in the prior year; and
- Acceleration of systems implementation: the recovery and turn-around of the business hinges upon the successful implementation of the hosted banking and insurance management systems. Immediate interventions to accelerate this process included the recruitment of strong project management resources, the strengthening of project governance and the renegotiation of key deliverables and timeframes with the vendor.

The financial performance for the year was dependent on the continued support received from the shareholder. A total of R50 million Tier 1 capital was received from the shareholder (Ithala Development Finance Corporation), through the Department of Economic Development, Tourism and Environmental Affairs as part of a R155 million commitment made towards the recapitalisation of Ithala in 2013, R105 million of which was received in the prior year.

In addition, a once-off turn-around grant of R55 million was received from the Department of Economic Development, Tourism and Environmental Affairs to place Ithala on a sustainable footing to fund the essential restructuring costs relating to the turn-around process. The receipt of the once-off turn-around grant triggered an output value added taxation (VAT) liability of R2,9 million resulting in R52,1 million being accounted for as revenue in the income statement in terms of the group's grant funding accounting policy.

INCOME STATEMENT ANALYSIS

THE COMPARATIVE INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2015 IS AS FOLLOWS:

R000's	Change %	2015	2014
		R'000	R'000
Interest earned on loans and advances to customers	14,3%	165 354	144 701
Interest expenditure	(28,4%)	(71 472)	(55 654)
Net margin	5,4%	93 882	89 047
Interest on held to maturity investments	40,9%	46 633	33 088
Net interest income	15,0%	140 515	122 135
Fees and other income	(1,7%)	110 902	112 832
Grant received	100,0%	52 096	0
Net income	29,2%	303 513	234 967
Credit impairment charges	38,4%	(19 451)	(31 595)
Loans and advances to customers	36,9%	(18 736)	(29 671)
Properties in possession	128,4%	429	(1 511)
Trade and other receivables	(177,0%)	(1 144)	(413)
Operating income	39,7%	284 062	203 372
Operating expenditure	(3,7%)	(283 525)	(273 350)
Profit/(loss) for the year	100,8%	537	(69 978)

NET INTEREST INCOME

Net interest income increased by 15,0%, mainly as a result of a 30% increase in average surplus funds held during the year and the effect of a 75 basis point increase in the repo rate.

The growth in surplus funds is attributable to the increase in customer deposits during the year and the receipt of the additional capital and grant from the shareholder.

NON-INTEREST REVENUE

Non-interest revenue decreased by R2 million during the year.

This was due to declines in fee and insurance income of 3,3% and 0,9% respectively, offset by a 15,1% increase in other income.

Fee income decreased, primarily due to lower fees earned on advances, resulting from the curtailment of lending and, in particular, the suspension of unsecured lending during the year.

Fee income on transaction accounts remained static during the year despite the number of accounts increasing from 85 389 to 122 217.

This is primarily due to the loss of revenue from grant recipient transaction accounts which were closed due to the South African Social Security Agency (SASSA) issuing their own branded transaction account with proof of life functionality.

Insurance income decreased by R158 000 in spite of intensified efforts from the insurance advisory committee, established to oversee the growth and development of the business.

Improved performance is anticipated in the new year following a change of management.

Other income increased by R1,1 million due primarily to the increase in dormant account balances recognised in income and the recovery of operating expenses from the holding company of 43,4% and 17,8% respectively.

GRANT INCOME

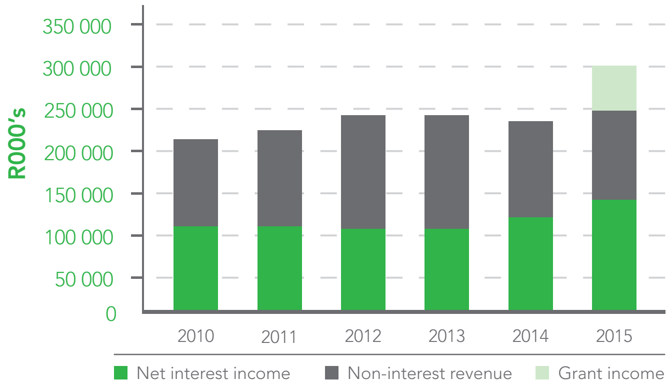
A once off turn-around grant of R55 million was received from the Department of Economic Development, Tourism and Environmental Affairs.

This was to fund the non-recurring restructuring expenditure and to provide immediate financial support that will place Ithala on a sustainable footing in order to achieve the performance obligations outlined in the MoA signed with the Minister of Finance and in terms of the Government grant accounting policy.

Government grants that are received for purposes of giving immediate financial support are recognised as income in the period in which they are received.

The amount recognised as income was R52,1 million net of any VAT liability.

INCOME CONTRIBUTION



CREDIT IMPAIRMENT CHARGES ON LOANS AND ADVANCES TO CUSTOMERS

During the year, credit impairment charges on loans and advances to customers decreased to R18,7 million, a 36,9% decline on the prior year.

The R29,7 million charge in the prior year is attributable to the introduction of unsecured lending in the form of personal loans and debt consolidation loans.

During the current year, all unsecured lending was suspended in terms of the new business plan, which had the effect of reducing the credit impairment charge.

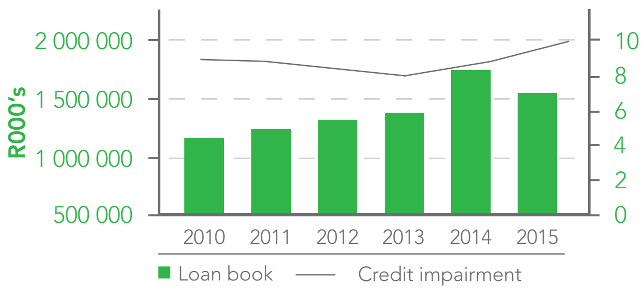
The credit impairment percentage has increased from 7,6% in the prior year to 8,7% in the current year, as a result, to some extent, of the decrease in the size of the total loan book in view of the suspension of unsecured lending.

The graph below reflects the relationship between the size of the loan book and the credit impairment percentage over the past six years.

The credit impairment percentage increased by 2014 year-end due to the introduction of unsecured lending, thereby changing the risk profile of the loan book.

With the suspension of unsecured lending during the 2014/15 financial year, there was no dilution effect on the credit impairment percentage because of the decline in the loan book size.

CREDIT IMPAIRMENT TREND ANALYSIS



OPERATING EXPENSES

Total operating expenses increased by 3,7% when compared to the prior year.

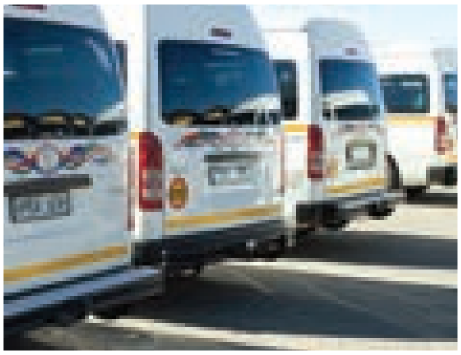
This includes the once-off turn-around costs of R10,1 million, comprising retrenchment costs and lease termination and property reinstatement costs.

When these once-off costs are excluded, total operating expenses for the year have in fact only reflected a fractional increase from the prior year as a result of stringent cost control measures instituted throughout the organisation.

Staff costs increased by 4,4%, which was lower than the annual salary increases of 7% for the year.

The cost to income ratio for the year, after accounting for both the turn-around grant and costs was 93,4%, compared to 116,3% in the prior year. If the effect of the turn-around entries was excluded from the calculation, the cost to income ratio would have been 108,7%, which is still an improvement on the prior year.

R000's	Change %	2015	2014
		R'000	R'000
Staff costs	(4,4%)	**137 071**	131 355
Other operating costs	4,0%	**136 323**	141 995
		273 394	273 350
Once off turn-around costs		**10 125**	0
Total operating expenses	(3,7%)	**283 519**	273 350
Cost to income ratio (%)	19,7%	**93,4**	116,3



BALANCE SHEET ANALYSIS

ITHALA'S COMPARATIVE BALANCE SHEET POSITION AT 31 MARCH 2015 IS AS FOLLOWS:

	Change %	2015	2014
		R'000	R'000
Assets			
Cash	(1,6%)	**53 840**	54 723
Statutory investments	4,3%	**152 493**	146 205
Deposits with banks	47,6%	**703 095**	476 445
Loans and advances to customers	(3,4%)	**1 454 578**	1 505 875
Trade and other receivables	(18,0%)	**4 658**	5 681
Properties in possession	(3,6%)	**7 667**	7 955
Equipment	(29,9%)	**32 775**	46 779
Intangible assets	13,1%	**8 262**	7 306
Total assets	7,4%	**2 417 368**	2 250 969
Liabilities			
Customer deposits	5,0%	**2 072 979**	1 973 429
Trade and other payables	32,3%	**53 459**	40 399
Provisions	16,6%	**17 587**	15 089
Loan account with holding company	(19,4%)	**8 181**	10 153
Retirement benefit obligations	10,7%	**28 236**	25 510
Total liabilities	5,6%	**2 180 442**	2 064 580
Equity			
Capital and reserves			
Issued share capital	(99,9%)	**190**	295 000
Issued share premium	100,0%	**344 810**	0
Accumulated loss	(0,5%)	**(108 074)**	(108 611)
Total equity	27,1%	**236 926**	186 389
Total liabilities and equity	7,4%	**2 417 368**	2 250 969

Total assets increased by 7,4% to R2,4 billion.

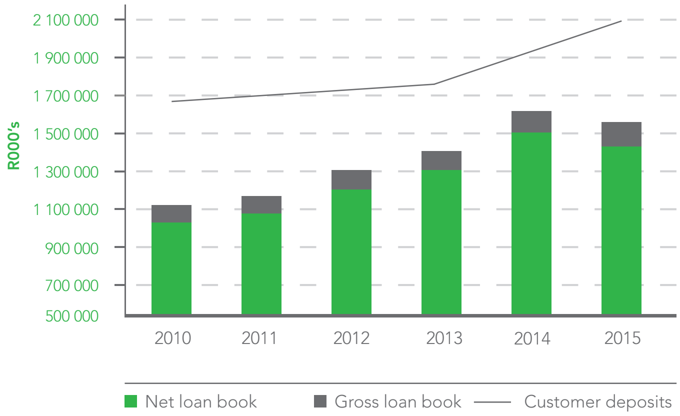
Contributors to this growth included the increase in deposits with banks as a result of the recapitalisation of R50 million by the shareholder and the receipt of the R55 million turn-around grant, together with the 5,0% increase in customer deposits.

Loans and advances to customers decreased by 3,4% in the current year due to the curtailment of lending during the year in terms of the new business plan.

The impaired advances ratio has shown an increasing trend in the past two financial years, as illustrated in the adjacent graph, as a result of the re-entry into unsecured lending, which performed poorly and was subsequently suspended.

The rate of growth in customer deposits has been lower than that of loans and advances. The business failed to meet the customer deposits targets for the current year by 16%, or R389 million.

LOANS AND ADVANCES VS CUSTOMER DEPOSITS



LIQUIDITY AND CAPITAL MANAGEMENT

The company maintained strong Basel III capital ratios during the year, attributable to the R50 million recapitalisation by the shareholder and the R55 million turn-around grant received from the province for immediate financial support.

A reduction in the risk weighted assets as a result of curtailed lending also contributed to the strong capital ratios.

At 31 March 2015 the Tier 1 capital ratio was 16,0% and the total capital ratio was 16,8%.

Ithala's liquidity position remains strong with appropriate liquidity risk hurdle rates and policies in place.

Surplus funds increased from R677 million at the previous year-end to R909 million at 31 March 2015.

The ratio of advances to deposits was 76,9% at year-end, 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.

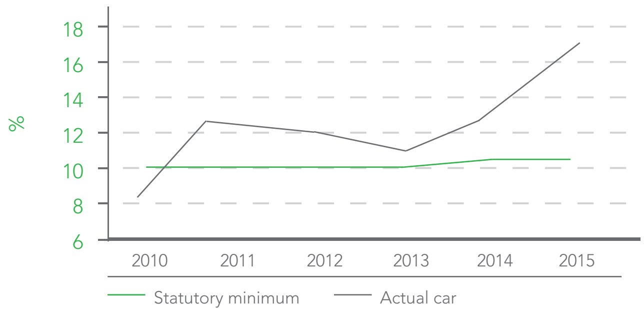
Ithala is obliged to hold an average of 7,5% of its liabilities in liquid assets on a monthly basis in terms of the Banks Act. As at 31 March 2015, Ithala held R152 million in liquid assets, which is 10,3% of the statutory requirement.

Two additional liquidity ratios have been introduced by the Basel Committee on Banking Supervision (BCBS), namely the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The SARB has applied the LCR to the South African banking industry from January 2015 on a 60% compliance basis. Ithala's LCR at 31 March 2015 was 488%.

Ithala's NSFR, which will be implemented in 2018, was 118% at year-end.

CAPITAL ADEQUACY RATIO (CAR)



FUTURE OUTLOOK

Ithala will continue to face difficult trading conditions in the forthcoming year.

Economic growth is predicted to be 2%, or below, during the 2015/16 period while the consumer remains under pressure with the level of household debt remaining above 78% of disposable income.

Unemployment rates are expected to remain high, given the low economic growth rates and extraneous factors, such as the volatile exchange rate and the upward trend in the oil price which will put additional stress on the inflation rate, prompting intervention from the SARB to increase interest rates.

Against the backdrop of these economic headwinds, Ithala has adopted a cautionary approach to lending by restricting advances to secured lending only.

Vehicle finance will be undertaken on a selective basis and no unsecured lending will be provided.

Total new advances will be limited to R500 million for the year.

The thrust of income growth will come from non-interest revenue, namely transaction fees on the new innovative transaction account and the insurance business.

Distribution channels will be expanded to include direct sales and telesales in addition to the branch network.

Operating expenses will be well contained and the benefits of the cost rationalisation exercise will be realised.

Ithala is forecasting to break even in the next financial year.

Peter Ireland
Finance director

ANNUAL PERFORMANCE REPORT

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

Strategic objective 1: Market share and revenue enhancement				
Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Access to Finance	To increase the number of net electronic transactional accounts held by individuals to 145 515 by 31 March 2015	145 515	122 217	Target not achieved The transactional product offering and value added services to support the transactional product offering were not introduced on 1 April 2014 as initially earmarked due to delays relating to the appointment of the value added service providers and the implementation of technology Despite this delay, the number of transactional accounts has grown by 42%, a commendable achievement in a market that is fast approaching saturation Ithala has long been dependent on its single distribution channel, the branch network, as its primary sales and services capability. This dual personality has resulted in a historically weak sales culture at Ithala During 2015/16, Ithala will be introducing a commission-only informal sales channel to increase and focus sales capacity. Further to this, a mobile sales capability will be introduced that will enable the remote opening of bank accounts
	To increase the value of new advances by R256 900 828 by 31 March 2015	R256 900 828	R261 184 904	Target achieved
	To increase the number of insurance policies by 5 599 by 31 March 2015	5 599	6 957	Target achieved

Strategic objective 1: Market share and revenue enhancement (continued)

Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Access to Finance	Improve the Savings/ Investment Control Book to R2 462 379 262 by 31 March 2015	R2 462 379 262	R2 072 979 000	Target not achieved The competitive market conditions, reduced savings appetite due to lower disposable income and the upward interest rate cycle, high withdrawals over the festive period and the lower than budgeted growth in electronic transactional customers contributed to target not being achieved
	To increase the average revenue earned from transactional accounts to R35.44 per customer by 31 March 2015	R35.44	R28.29	Target not achieved Although Ithala's flagship "Iciko Plus" transactional account was launched on schedule on 15 December 2014, a poor response by customers to the registration of the value added services resulted in the target not being achieved
	To secure seven public sector entities to utilise Ithala as their banking partner by 31 March 2015	7	6	Target not achieved Achievement of these targets was dependent on being able to offer prospective public sector clients a Corporate Banking Solution which was unfortunately not available on 1 June 2014 as earmarked. The Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) regulations require public sector entities to only enter into relationships with financial institutions that have a credit rating. Ithala does not have a credit rating. However, we are currently engaging with National Treasury to obtain an exemption from this requirement Despite these challenges, the growth in this business unit, which until 2014/15 did not exist, is very encouraging and has been a stand-out achievement in the Recovery Phase of our turn-around strategy
	To secure total deposits from public sector clients to the value of R268 753 485 by 31 March 2015	R268 753 485	R233 527 415	
Economic Profit	Achieve a net profit of R4 543 966 by 31 March 2015	R4 543 966	R537 000	Target not achieved The failure to achieve the targets is attributable to the negative variance in non-interest income which is attributable to the delayed launch of the transactional account offering and value added services and unavailability of the multi-channel distribution network. In addition there was an unanticipated output VAT charge of R2,9 million which further contributed to the negative variance against the target It should be noted, however, that the net profit (excl. turn-around strategy) is a 40,8% improvement on the prior year

Strategic objective 2: Accessible financial services

Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Customer Experience	To spend an additional amount of R1 460 000 on branch upgrades by 31 March 2015	R1 460 000	R19 129	Target not achieved With the focus of 2014/15 being cost containment, the prudent approach of prioritising branch maintenance over full-scale branch renovations was adopted As the year progressed and the importance of the branch network, as a key component of our turn-around strategy became more apparent, we began the project of identifying what the ideal Ithala branch would look like. This is an ongoing project which will reach fruition during 2015/16
	To increase the number of distribution channels from two to five by 31 March 2015	5	5	Target achieved

Strategic objective 3: Customer-centricity

Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Customer Service	To receive a score of 8 out of 10 on customer satisfaction surveys quarterly	8/10	7,6/10	Target not achieved The key service areas in which we need improvement are: long waiting periods before attending to a customer and long waiting periods before payout on insurance claims Queues are a normal occurrence in the banking industry, However, to ensure that we adhere to the highest standard of customer service, all our branches are in the process of recruiting two interns each; one of whom will fill the role of Client Host while the other will assist clients at the enquiries desk Ithala's insurance claim payout service standard is 48 hours. However, clients expect a 48-hour claim payout regardless of whether all the required claim documents have been supplied or not. This stems from a lack of customer education regarding our process. Accordingly during 2015/16 we will be introducing a claim checklist to ensure clients submit all the required documentation

Strategic objective 4: Operational excellence (human resources, information technology and marketing)

Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
People Management and Leadership	To receive a score of nine out of 10 on staff satisfaction surveys on a quarterly basis	9/10	n/a	Target not achieved A strategic decision was made by the Ithala Executive Committee (EXCO) with the support of the Human Resources and Social Ethics Committee (HRSEC) to postpone the staff satisfaction survey due to the delayed completion of the cost rationalisation process The cost rationalisation process resulted in staff terminations. Therefore, to conduct a staff satisfaction survey during this period may have yielded unconstructive feedback
Technology and Innovation	Adherence to the implementation plan milestones by 31 March 2015	100% adherence to the renegotiated project implementation document milestones	87,30% adherence to the renegotiated project implementation document milestones	Target not achieved On 28 January 2015, the service provider formally notified Ithala of its intention to revise the base-lined project delivery dates for the implementation of the hosted banking system. This was agreed to by the board of directors on the understanding that the reprioritisation of delivery dates will have no impact on Ithala's budgeted revenue earning ability The complexity of the solution required has meant that the delivery time has had to be extended. This delay has been further exacerbated by capacity constraints experienced by both the service provider and the Ithala project team
	To achieve the financial ratios as stated below by 31 March 2015:			
Efficiencies and Effectiveness	Cost to income ratio	92,40%	93,41%	Target not achieved The failure to achieve the target is attributable to the negative variance in non-interest income which is attributable to the delayed launch of the transactional account offering, value added services and unavailability of the multi-channel distribution network. It should be noted, however, that the cost to income ratio is a 19,5% improvement on the prior year

Strategic objective 4: Operational excellence (human resources, information technology and marketing)				
Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Efficiencies and Effectiveness	To achieve the financial ratios as stated below by 31 March 2015:			
	JAWS ratio	Positive	Positive	Target achieved
	Leverage ratio	8,60%	9,31%	
	Liquid assets	9,00%	12,02%	
	Capital adequacy ratio	13,70%	16,80%	
	Impaired advances ratio	6,80%	8,34%	Target not achieved The strategic decision to curtail lending resulted in the gross advances balance not growing at the same rate as the arrears and non-performing loans balances Capacity constraints, the need for training and the lack of a fully-integrated collection system are among the chief reasons that the target was not achieved
	NPL % ≤	9,70%	9,84%	

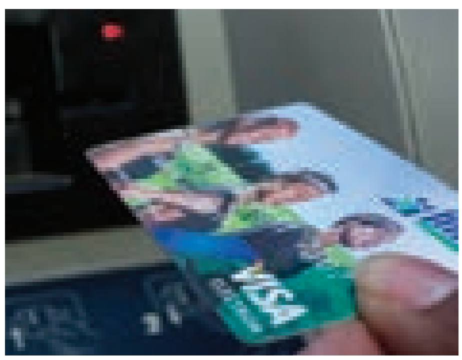
Strategic objective 5: Corporate governance excellence				
Strategic goals	Key performance indicators	2014/15 target	2014/15 actual	Management comment
Compliance	To ensure that there are zero reported breaches with any applicable regulations	0 breaches	0 breaches	Target achieved
Business Risk	Implementing risk management action plans for the risks per the register by 31 March 2015	100% resolved within the stipulated timeframe	85,80% resolved within the stipulated timeframe	Target not achieved Target not achieved as some findings were neither fully nor substantively resolved within the stipulated timeframe due to capacity constraints and delays in meeting the key milestones for the implementation of the hosted banking system. However, there has been an improvement of 7,8% compared to the prior year
Internal Audit	To achieve a 100% resolution of the audit issues log within the stipulated timeframe	100% resolved within the stipulated timeframe	77,53% resolved within the stipulated timeframe	Target not achieved Target not achieved as some findings were neither fully nor substantively resolved within the stipulated timeframe due to certain audit findings needing to be reallocated to the correct business unit and responsible person. However, there has been an improvement of 5,5% compared to the prior year
Governance Framework	To have a functional board and sub-committee structure and attendance thereof that complies with the provisions of the Companies Act, King III, the Banks Act and the PFMA	Maintained a functional board and sub-committees structure which complied with the applicable laws and regulations	Maintained a functional board and sub-committees structure which complied with the applicable laws and regulations	Target achieved

BUSINESS UNIT REVIEW

WE CREATE VALUE FOR INDIVIDUALS AND BUSINESS THROUGH TRANSACTIONAL LENDING AND INVESTMENT PRODUCTS THAT ARE TAKEN TO MARKET THROUGH VARIOUS MULTI-CHANNEL DISTRIBUTION NETWORKS.

This review provides:

- A review of our key business units:
  - Secured and unsecured lending;
  - Savings and investments;
  - Ithala insurance; and
  - Public sector unit
- Information on the implementation of our new business plan
- An overview of the key achievements during the year
- A discussion of future prospects and industry developments



LENDING AND INVESTING RESPONSIBLY

WE ARE A PIONEER IN OFFERING HOME LOANS FOR BUILDING ON LAND UNDER TRIBAL AUTHORITY

We offer home loans, home improvement loans, rural home loans (PTO) and vehicle finance.

INDEBTEDNESS

The supply of credit is critical to economic development and growth and is a fundamental service that banks provide. Our objective is to lend responsibly, in compliance with legislation and based on stringent affordability and credit-granting criteria.

Changing global economic and local socio-economic conditions, such as rising unemployment, continued to put pressure on customers during 2014/15, impacting their ability to repay their debts. People are borrowing more, despite not necessarily saving more.

In the FinScope South Africa 2014 Consumer Survey, it is estimated that around 4,9 million South Africans are showing signs of being over-indebted, an increase from 4,7 million in 2013. Of particular concern is that 1,9 million have applied to have their debt rescheduled, indicating insufficient personal financial management. Both secured and, more worryingly, unsecured loans are on the increase.

A NEW MIDDLE-INCOME MARKET

Growing urbanisation, growth in formal housing and the electrification of houses have also expanded the potential credit market. The decrease in LSM 1-5 indicates improved standards of living. StatsSA reports that 2,6 million additional formal houses were provided between 2002 and 2010.

The FinScope South Africa 2014 Consumer Survey estimates that the majority of these houses are provided with formal services, such as electricity and water. This drives a significant demand for home furnishings, appliances and heating devices.

LOAN ASSESSMENTS

We provide home loans, personal loans and vehicle and asset finance to retail clients. We are also the pioneer in offering home loans for building on land under tribal authority. During the year, loss on bad debts increased by 0,4% compared to 2013/14 and our credit loss ratio decreased to 1,3% (2013/14: 2,1%).

We have made our affordability calculations more conservative across all portfolios to counter the higher levels of debt in the market and to reduce losses. We use information from credit bureaus, our own records and customer-supplied information to determine whether a customer is able to afford a loan.

WHAT HAPPENED DURING THE YEAR?

A strategic decision was made to reduce our level of lending as part of our financial restructuring process and a review of our end-to-end credit and collections policies, procedures and processes (see page 61 of our risk and capital management report).

Close to 50% of applications were declined due to a lack of affordability. Some 46,82% were declined due to the applicant having an unacceptable credit track-record. These are the two main reasons for declining applications.

Home loans remain resilient despite the economic downturn – non-performing loans remain well managed (see our risk and capital management report on pages 66 to 70). As at 31 March 2015, 9,84% (R156,6 million) of total advances (R1,592 million) are non-performing.

HOME AND HOME IMPROVEMENT LOANS

The performance of our housing portfolio remained resilient despite economic pressure and the non-performing loan portion of the portfolio continued to reduce year-on-year.

At 31 March 2015, the total value of our housing loan book was R1 449,3 million (2013/14: R1 472,7 million), of which R156,2 million (2013/14: R328,5 million) was granted during the year, a 52,5% decrease in loans granted compared to 2013/14, as a result of our strategic decision to scale back our lending during the year.

At 31 March 2015, our non-performing loans stood at 7,72% and our impaired advances ratio stood at 6,1%.

VEHICLE AND TAXI FINANCE

The performance of our vehicle and taxi finance portfolio, which includes our taxi finance product, continued to grow. StatsSA National Household Travel Survey (NHTS) in South Africa's Provincial Report KwaZulu-Natal Profile 2014 reported that approximately 78,8% of households in the province used minibus taxis.

At March 2015, the total value of our vehicle and taxi finance book was R41,7 million (2013/14: R28,4 million), of which R24,8 million (2013/14: R31,2 million) was granted during the year, a 20,5% decrease in loans granted compared to 2013/14.

This is a result of our strategic decision to scale back our lending during the year.

At March 2015, our non-performing loans stood at 3,3% and our impaired advances ratio stood at 2,5%.

UNSECURED LENDING

Unsecured loans are used by individuals to furnish their homes, educate their children and provide for unforeseen events and the like.

The growth in unsecured lending was again an area of concern in South Africa during 2014/15 and culminated in the business rescue and curatorship of a leading bank.

Unsecured lending requires no security from a customer for a loan to be granted. We comply fully with all legislation and banking codes of practice that relate to unsecured lending.

We no longer undertake practices such as debt consolidation to extend further credit, which can lead to customer over-indebtedness.

Our customers have been very hard-hit by the increasing cost of living. Having scaled back our unsecured lending to these customers and by revising our risk appetite, a 15,5% decrease in impairment charges was achieved for this market segment.

CUSTOMERS IN FINANCIAL DIFFICULTY

We strive to proactively assist customers who find themselves facing financial hardship, where possible. Customers can request that their loan be restructured to provide them with access to short-term cash flow relief.

The majority of successful outcomes facilitated are derived from home loan restructures. During the year, we assisted 1 855 (2013/14: 1 811) distressed customers totalling R148,7 million (2013/14: R148,3 million) in loans.

We only take the route of legal foreclosure as a last resort.

LOOKING AHEAD

An overdraft facility is due to be launched during 2015/16 as part of our current account offering.

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 12 months.

At the same time and as the minimum regulatory capital ratios continue to increase over the Basel III implementation period to 2019, there will be pressure on our margins, which will have an impact on loan pricing and which may, in turn, influence demand in the interest rate sensitive credit categories, such as vehicle and taxi finance.

CUSTOMER SAVINGS

OUR SAVINGS AND INVESTMENTS BUSINESS UNIT PAID-OUT R71,4 MILLION IN INTEREST TO OUR CUSTOMERS

South Africa traditionally has a low savings culture and current economic conditions have compounded the lack of disposable income. People claim to be feeling the impact of the slow-growing economy over the past year.

As reported in the FinScope South Africa 2014 Consumer Survey, 24% (2013/14: 31%) of people experience difficulties in making ends meet.

We continue to offer an affordable and inclusive alternative to retail savings facilities through our target save and club (stokvel) save accounts.

WHAT HAPPENED DURING THE YEAR?

Despite the constrained economic conditions, our customer savings balance grew by R99,5 million (2013/14: R170 million) to R2,1 billion (2014/13: R1,9 billion).

This 5,0% (2013/14: 9,4%) increase, although a decrease from the prior year, is commendable given that the FinScope South Africa 2014 Consumer Survey reported that the industry average showed 2% year-on-year growth.

Consistent with trends seen over previous periods, growth in deposits continues to be driven by retail deposits. However, strong growth has also been seen in Government deposits. Our public sector banking unit, which was established last year, secured R233,5 million in public sector funds during the year. See more about the achievements of our public sector banking unit on page 48.

Our savings and investment unit paid-out R71,4 million in interest to our customers.

LOOKING AHEAD

A flexi-save account, as well as a business call deposit account, is to be launched as part of phase two of our core banking system implementation.

The flexi-save account will allow our clients to take advantage of flexible investment terms which suit their saving needs, while the business call account is designed for business clients who need their funds to be accessible on demand, whilst offering a favourable interest rate, which is leveraged off our new treasury capability.

TRANSACTIONAL PRODUCTS AND SERVICES

WE ARE THE ONLY DEPOSIT-TAKING INSTITUTION THAT OFFERS A BANK ACCOUNT WITH THE POTENTIAL TO MAKE THE ACCOUNT-HOLDER MONEY

Iciko and Iciko Plus, entry level pay-as-you-transact accounts are linked to VISA and offer electronic payments and value added services, such as airtime and electricity, and up to R8 000 free funeral insurance when recharges are done through mobile banking.

Our Youth Reseller account gives transactional customers a reselling capability with essential access to their money 'anywhere, anytime' and provides a simple way to pay for every-day items, such as petrol and groceries, buy airtime or electricity, make debit order payments or withdraw cash at certain supermarkets.

We offer entrepreneurs airtime and electricity at discounted prices to on sell and generate instant income by earning commission of up to 5% of the value.

WHAT HAPPENED DURING THE YEAR?
We introduced the Iciko bundle transactional account in August 2014.

Our Iciko Plus account was launched in December 2014. Our new Youth Reseller product was launched in March 2015.

We grew our transactional account base by 42% expanding from 85 389 to 122 217 debit card transactional accounts.

Ongoing efforts to migrate customers to electronic and mobile channels continue to positively impact electronic transactional volumes.

However, intense pricing competition in transactional banking continues to counteract the direct increase in revenues that would otherwise have been experienced given the growth in volumes. This is a commendable achievement in a market that is fast-approaching saturation and has perhaps reached its natural peak.

We are the only financial institution that has a product which is specifically linked to the objectives of the NDP with regard to alleviating youth unemployment.

LOOKING AHEAD
In the new year, we will be introducing a money transfer capability, which will enable remittances to both banked and unbanked customers.

We are actively pursuing collaboration with mobile operators and retailers to expand our distribution footprint.

We will also be introducing a business current account with embedded mobile and internet banking. The current account comes with an option to add a corporate banking service that enables controlled loading of and payments to beneficiaries.

Every loaded beneficiary or payment will have up to three levels of authorisation. We will also be launching an assisted payroll facility, enabling managed and outsourced payroll services.

Looking ahead, the revised card interchange rates, which came into effect in mid-March 2015, are expected to present additional pressure on net fee and commission income from this important revenue stream.

ITHALA INSURANCE

DESPITE COMPLEXITY AND AFFORDABILITY ISSUES, INSURANCE HAS SEEN SIGNIFICANT GROWTH IN THE PAST 10 YEARS

Insurance levels have risen significantly over the past decade and conversely to other financial product categories, have sustained this growth in the last calendar year.

Yet, according to the FinScope Consumer Survey 2014, South Africans are at risk of under-insurance, with only 23% of adults working full-time being medically insured, or part of a medical scheme or having a hospital plan in their own name. Only 38% of adults working full-time have life cover or life insurance in their own name.

In a developing country, such as South Africa, financial inclusion remains a key challenge.

Insurers have made significant investments in building capacity to deal with the raft of changing regulations in the South African market.

These include binder and outsourcing arrangements, the new solvency regime, Solvency Assessment and Management (SAM), with the comprehensive parallel-run TCF and the Retail Distribution Review (RDR).

We offer both long- and short-term insurance through cell captive arrangements held by our parent company, the IDFC.

Cell captives allow registered insurance companies to extend their insurance licence to independent third party businesses, such as Ithala.

We benefit through equity participation in a licenced insurer through a shareholding agreement and the cell gives us access to direct insurance and reinsurance markets (local and international) as well as actuarial input and also provides us with a vehicle in which to write our own insurance risks.

By offering value-added insurance products to our banking clients, such as loan protection plans, we are in a more favourable position to attract, insure, service and retain customers.

More importantly, our clients' risks - uninsurable or uneconomical to ensure in the conventional insurance market - are covered and our clients are able to access insurance cover at affordable rates.

WHAT HAPPENED DURING THE YEAR?
Insurance income decreased by R158 000 despite intensified efforts from the insurance advisory board, established to oversee the growth and development of the business.

Key developments include the successful conclusion of the procurement process for an insurance management system. New product development will enhance the current range of product offerings.

Improved performance is anticipated in the new year following a change of management.

We will be placing special focus on groups, such as stokvels, with products that are specifically being developed for this sector.

LOOKING AHEAD
The main challenge experienced is the lack of various insurance-specific skills, competency and experience levels at multiple focus points of the department. The outsourced

insurance call centre will be fully capacitated in the new year to increase the sales of insurance products which are offered.

A key strategic initiative for the new financial year is a focus on the public sector and Government employees.

We aim to leverage off inter-Governmental departments and state-owned entity relationships by, for example, offering insurance advisory services and to extend our reach beyond the KwaZulu-Natal province by way of joint ventures and other special purpose vehicle mechanisms.

Cell captive initiatives for own assets and employee benefits are being investigated.

We also aim to leverage our parent company's properties portfolio and risk management advisory services.

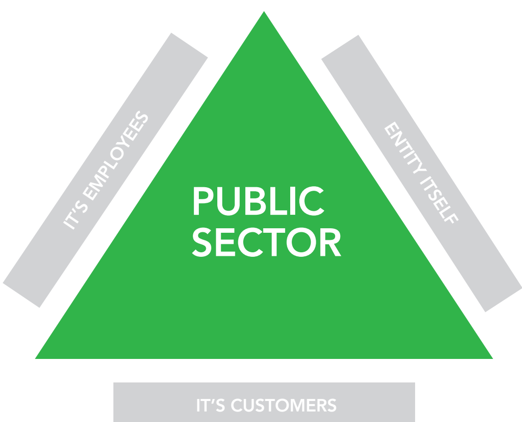
We have well developed relationships with key partners, such as MMI Holdings Limited, our cell captive partner and underwriter to the long-term cell captive.

PUBLIC SECTOR

ITHALA'S PUBLIC SECTOR UNIT OFFERS A UNIQUE CUSTOMER VALUE PROPOSITION TO OTHER PUBLIC SECTOR ENTITIES

We offer public sector clients packaged corporate banking, as well as savings and investment products linked to revenue collection and infrastructure funding that improves service delivery efficiencies and revenue enhancement. In addition, through our insurance division we offer specialised corporate insurance and insurance risk advisory services.

Our primary products and services are:
- Corporate banking services;
- Corporate investments linked to our treasury capability;
- Financial services linked to revenue collection;
- Infrastructure funding linked to revenue collection;
- Corporate and business insurance;
- Insurance risk advisory services; and
- Value added banking and insurance service for the employees of public sector entities, such as preferential rates on rural housing and vehicle finance.



WHAT HAPPENED DURING THE YEAR?

Highlights during the year under review include the retention of existing and the acquisition of new public sector deposits, the acquisition of new public sector customers and the development of our corporate banking solution and capability.

Scan the QR code to learn more about our Public Sector product offering

During the year, we acquired six new public sector clients and achieved deposits of R233,5 million.

One of the key differentiating factors within the public sector market is the ability to provide added value offerings beyond core products and services.

The value added offering must assist the public sector entity deliver on its service delivery mandate and Government priorities.

We currently sponsor two value add flagship programmes for municipalities - our South African Local Government Association (SALGA) partnership and the Co-operative Governance and Traditional Affairs (COGTA) municipal mayor's excellence awards.

Through the SALGA partnership, we assist in hosting the provincial municipal managers' forum, 11 district managers' forums and the SALGA KZN games.

Municipalities use these forums to share best practices and address common challenges.

The SALGA KZN games are aimed at promoting youth development through participation in sport.

Some 11 district municipalities enter teams in various sports to compete in this mini Olympics tournament, with more than 4 500 young people participating.

The COGTA municipal excellence awards are aimed at fostering excellent basic service delivery to communities. Our sponsorship of this programme benefits both municipalities and communities.

These flagship programmes facilitate our access to the public sector market.

Through leveraging the SALGA partnership and COGTA municipal mayors' excellence awards, we acquired sizeable deposits from municipalities and added new municipalities to our books during this financial year.

LOOKING AHEAD

The main opportunities for the public sector offering include capitalising on our position as a state-owned entity to grow our corporate banking services to the benefit of smaller public entities, to acquire transactional accounts from the expanded public works programme and attain deposits from public entities.

Value added services which we are strategically poised to offer to public entities include insurance risk advisory services, as well as debt collection on their behalf.

In order to take full advantage of our unique public entity proposition, we require a credit rating, as specified by the PFMA and MFMA regulations.

A task team led by the board chairman is actively lobbying the National Treasury to obtain an exemption for the company from that requirement.

Through the implementation of readily available electronic bill payment technology, we are well-positioned to offer a universal bill payment service on a national basis, which will enable most of Local Governments' high value customers to conveniently pay municipal bills.

The benefits of this universal service include allowing us to exchange information with other banks, using common formats, and to exchange information on a real-time basis.

This new form of electronic payment utilises "credit push" as opposed to "debit pull", which allows billers such as municipalities to push a thin bill to their customer's electronic payment channels, such as internet and mobile banking.

Customers may then approve or authorise (credit push) the payment of the pre-loaded electronic bill.

This new credit push payment will be beneficial to both client and municipality.

The credit push technique provides the customer with full control over any deductions made from their bank account, e-wallet or credit card, as every payment requires authorisation by the end customer.

By using the thin bill push method, a municipality benefits from bills that are 100% reconciled and allocated correctly to the customer's municipal account.

INFORMATION TECHNOLOGY

IT IS AN INTEGRAL PART OF THE BUSINESS OF BANKING AND IS FUNDAMENTAL TO THE SUPPORT, SUSTAINABILITY AND GROWTH OF ITHALA.

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

To improve the customer experience, our systems are being designed to include an end-to-end customer relationship management capability to provide us with a single view of all the products and services a customer has with us.

As a central enabler, IT will assist us to increase our presence through technology platforms allowing for innovative ways to provide affordable and accessible banking to our customers and will contribute to building our capacity to meet customers' needs. Our IT infrastructure must, therefore, be flexible enough to constantly evolve to meet changing business needs and regulatory requirements.

Our core systems will provide for this. Our investment in this business enabler is critical to improving productivity and maintaining our competitive edge and is, therefore, a significant part of our capital expenditure. In 2014/15, we spent R5,8 million (2013/14: R10,8 million), representing 99,1% (2013/14: 86,7%) of total capital expenditure.

Given the level of reliance that we have on IT, it is imperative that IT is effectively governed to ensure that it supports our strategic objectives. Regulators across the globe are focusing on banks' IT architecture and principles around IT governance, with a focus on ensuring that high-quality risk data is produced to the same degree of reliability as financial reporting data.

Being cognisant of these developments, the board approved the constitution of the IT Governance Committee and approved its terms of reference in October 2014.

Our plans for 2015/16 are to focus on implementing mobile banking technologies and providing our customers with alternative banking channels, improving our information management and utilising the core banking systems, so that we are able to decommission non-essential legacy systems, so simplifying our infrastructure landscape.

We will also focus on enhancing our competencies and skills with a particular focus on growing our IT line management and leadership pipeline.

CYBER CRIME

A recent analysis of major South African banks by PricewaterhouseCoopers (Navigating a volatile landscape, December 2014) found that sophisticated and dangerous developments in cyber crime in the recent past have added to a growing global concern around bank vulnerabilities to potential cyber attacks, such as mass information theft.

There are consequently higher expectations about security of information and privacy among stakeholders, such as clients, employees, suppliers and regulators. Regulators across the globe have begun focusing on banks' IT architecture and the principles around IT governance.

Our VISA and Mastercard-enabled current account product offerings are currently being developed. Being cognisant of our ever-expanding electronic product offering, we are developing cyber security strategies and risk management protocols aligned with our business objectives and most valuable information assets. Our e-channels remained secure throughout 2014/15 with no reported breaches.

IMPLEMENTATIONS

The first phase of the customer relationship management system is being implemented during 2015/16, with the second phase scheduled for 2016/17.

This will assist our employees understand customer behaviour, offer tailored products and identify common queries, complaints and sales leads, while also enabling our customers to use multiple channels, such as telephone, SMS, email and social media to engage with us.

The corporate banking solution, which includes the implementation of our treasury management system, will enable the modernisation of our corporate investment banking offering, which is essential to our public sector banking strategy, supported by the core banking systems.

Cost containment and eventual cost reduction is expected through easier-to-maintain and relatively easily updated systems and processes. During the year, we migrated 80 000 accounts from the legacy system to the hosted banking system and in the second quarter of 2015/16 we will start migrating the balance of savings accounts. We will then be in a position to start unlocking the value of a single customer view, both from a customer and credit risk perspective. The next phase is budgeted at R4,0 million and, to date, we are on-track to deliver within this cost commitment.

SERVICE DELIVERY

Stability and availability (uptime) are key aspects for any IT system. The estimated availability of the legacy system and the hosted banking system in 2014/15 has been an impressive 99,4% (2013/14: 98,3%) and 99,90% (2013/14: 99,90%) respectively, despite the amount of change associated with the core banking system implementation.

CUSTOMER SERVICE

OUR CUSTOMERS REMAIN LOYAL TO THE ITHALA BRAND.

A total of 70% of Ithala customers indicated that they are extremely satisfied with the overall service they are receiving from us.

CUSTOMER SATISFACTION

Ithala clients perform most of their transactions in-branch, resulting in long queues, especially during pay days and the stokvel season.

This negatively impacts customer service levels during busy periods.

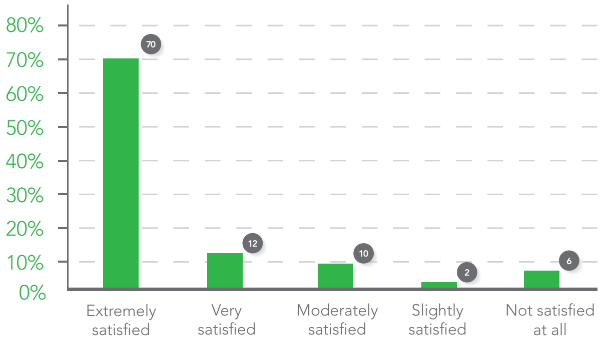
Process re-engineering projects have been implemented to automate most in-branch processes. This has a direct positive impact on the speed of service to our customers. The core banking systems allow for account applications to be captured directly onto the banking system, eliminating the paper-based application system.

The core banking system has also enabled Ithala to introduce self-service channels which allow our clients to transact at their convenience, without the need to visit a branch.
The implementation of the Electronic Content Management System allows our staff to access client information at a click of a button.

In-branch customer experience is a key determinant of customer satisfaction levels. While systems play a key role in service delivery, personnel interactions are critical in delivering great customer service. Customer service refresher campaigns have been rolled-out across the organisation. The branch staffing requirements have also been revised to ensure a greater customer service focus.

Customer service attendants have been introduced at branches to deal with customer enquiries and routine transactions, while sales consultants focus on sales. Our customers remain loyal to the Ithala brand. A customer satisfaction survey conducted this year indicated that 70% of Ithala customers were extremely satisfied with the overall service they are receiving from us.

CUSTOMER SATISFACTION



PRICING

We encourage our customers to transact using convenient and cost-effective self-service channels that enable us to reduce our costs and pass these savings on to our customers.

We offer bundled pricing options which provide greater transparency as customers are made aware of their monthly charges upfront.

Further price reductions are also made possible by improving our processes through the efficiencies offered by our new core banking systems and more streamlined procedures, such as paperless and remote account opening processes.

Our employees are trained to explain our pricing options and are provided with tools to respond to price discussions, to ensure that we sell the most appropriate products to our customers based on affordability and need.

Our new and improved website, which will be launched during 2015/16, will allow our customers to be able to use our online pricing calculators to help them select the best pricing options to suit their needs.

Our physical brochures, located in branches, and our helpful customer contact centre provide advice on how to reduce bank charges, as well as how to manage an account to avoid extra costs, such as overdrawn or penalty fees.

We communicate consistently on price changes in advance through various mechanisms.

For 2014/15, we introduced a fee on our Target Save product, after keeping our fees unchanged since the inception of this product.

The book-based saving account and book-based business account now cost R39.99 and R59.95 a month, respectively.

These price changes were necessary in order to enable us to continue delivering these products to our customers.

Our electronic banking customers can now select from several pricing variations, depending on their requirements and transactional behaviour.

Our Iciko transactional product offers an innovative value added pricing option which gives customers up to R8 000 free funeral insurance cover.

OPERATING INFRASTRUCTURE

THERE IS NO DOUBT THAT 'ANYWHERE, ANYTIME' BANKING IS THE FUTURE OF THE INDUSTRY.

OUR SELF-SERVICE CHANNELS

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

These channels work well for undertaking everyday banking transactions, as is evidenced by the growing customer expectation that we deliver more capable electronic banking at a faster rate.

Technology penetration has increased and with cellphone penetration almost saturated with an estimated 96% of the population having access to a mobile phone, this will indirectly increase internet and email access over time.

Data costs may continue to be a barrier, but there is no doubt that 'anywhere, anytime' banking is the future of the industry.

There remains, however, a need to invest in financial literacy.

In the FinScope South Africa 2014 Consumer Survey, it was estimated that only 11% of the banked population use internet banking and 24% use mobile banking, with 44% of all cellphone users claiming that technology is too complicated to use for financial activities.

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

Our state-of-the-art USSD mobile banking solution, enabling electronic purchase of airtime, electricity and data bundles, was launched in November 2014.

This allows us to offer mobile banking, airtime, electricity and data bundle purchases, balances, mini-statements, inter-account transfers, viewing free funeral insurance benefit, free airtime reward and reseller functionality.

Through our ATM network, we offer our customers prepaid vouchers, balance enquiries and cash withdrawals.

ATM NETWORK

In the new financial year, we will embark on a three-year project to upgrade our ATMs to the latest technology, as well as an initiative to roll-out mini ATMs, cashless ATMs and financial services kiosks 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.

The average ATM uptime for our existing fleet of 57 ATMs was 94,0% (2013/14: 94,0%). During the year, we processed more than 1,8 million (2013/14: 1,5 million) ATM transactions.

Around 47,4% (2013/14: 47,4%) of our ATM network is situated in areas where people generally earn less than R5 000 per month, classified as living standard measures (LSM) 1 – 5 areas.

In addition, clients can make low-cost cash withdrawals at a number of retailers providing cash back at points-of-sale, such as Checkers, Spar and Pick n Pay. This option multiplies the number of cash access points available to clients.

INTERNET AND MOBILE BANKING

Our estimated average internet banking uptime for 2014/15 was 99,90% and our 600 registered users processed 1 800 transactions through this channel.

The Ithala USSD mobile banking platform, launched towards the end of 2014/15, has continued to grow at an encouraging rate.

Our estimated average mobile banking uptime for 2014/15 was 99,73% and our 2 000 registered mobile banking customers processed R650 000 worth of electronic payments through this channel.

As at March 2015, 334 000 of our customers are registered for SMS notification.

During 2014/15 we sent a total of 1,7 million SMSs, the number of monthly SMS notification transactions grew by 46%, up to 156 000 (2013/14: 106 000).

Notifying our customers about transactional activity on their accounts is an important fraud prevention mechanism. Our customers are notified in real-time of any debits and credits occurring on their transactional account. Our internet banking service offers beneficiary payments and electronic statements.

OUR BRANCHES

As with all banks, cost containment has been a focus for Ithala.

The cost rationalisation project during the year resulted in the closure of six loss-making branches, as well as the rightsizing of a further eight branches.

By moving low-value services to electronic platforms, we are able to focus on providing high-value personal services in our branches.

They enable our customers to access advice, guidance and assistance through face-to-face interactions and can facilitate more complex transactions.

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

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

PHYSICAL ACCESS IN UNDERBANKED AREAS

During 2014/15, 42 (2013/14: 48) Ithala branches were situated in underbanked areas classified as LSM 1-5. Our branch distribution channel provides banking services, such as bank statements, PIN resets, card replacements, stop- and debit-orders and mobile banking registrations in these areas.

Customers may withdraw, deposit and transfer money, conduct a balance enquiry and open an investment account, secure in the knowledge that they are being assisted by a trained Ithala advisor, employed from the local community.

The total number of transactions facilitated through our branch distribution channel was 1,5 million (2013/14: 1,6 million) with each teller performing, on average, 1 300 client-assisting transactions during the year.

CUSTOMER CONTACT CENTRE

Our customer contact centre was implemented in October 2014 and provides telephonic customer support, as well as sales and services.

Of the 3 200 client queries received since the inception of the customer contact centre, 1 700 calls were successfully resolved through this facility.

SOCIO-ECONOMIC DEVELOPMENT

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

Ithala was established to provide essential financial services to the people of KwaZulu-Natal.

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

INCLUSIVE FINANCIAL SERVICES

Financial inclusion has increased dramatically over the longer-term, but has now slowed, hampered by constrained economic growth and employment creation.

In the FinScope South Africa 2014 Consumer Survey, it was estimated that 31,4 million (75,0%) adults were financially included, while 5,9 million (14,0%) were not served.

Interestingly, whilst the formal financial inclusion's growth has stagnated since 2013, the informal sector continued to grow from 51,0% in 2013 to 56,0% in 2014.

To effectively reach and engage this market, we must understand the needs and requirements of unbanked customers.

As affordability is a key requirement, we need to implement innovative banking models and find ways to offer these products and services at a low cost for the benefit of both our customers and ourselves.

Our inclusive banking strategy is to make available banking products and services that are simple, transparent, convenient and affordable to financially-active people who typically earn less than R8 000 a month.

Our suite of products includes transactional, savings, loan and insurance products.

In the coming year, we will be focusing on public sector entities and their places of employment as channels to acquire new customers and open accounts.

A clear acquisition plan is in place and we have established a holistic value proposition that is relevant to both employers and employees.

During 2014/15, we acquired an average of 3 000 debit card transactional banking customers per month, bringing the total number of banking customers with a debit card transactional account to 122 217 (2013/14: 85 389), representing 75% (2013/14: 63%) of our personal banking customer base.

Ithala promotes a savings culture through products aimed at stokvels and savings clubs.

We are the only institution (other than Postbank) that provides a book-based savings account, which remains in high demand by rural communities.

In addition to retail banking services, we provide both short and long-term insurance products through two cell captives, each in partnership with well-established insurance companies (see page 48).

SUPPORTING SMMES AND COMMUNITY-BASED BUSINESSES

An active and expanding SMME sector is essential for economic growth and for alleviating poverty through the creation of self-employment opportunities, particularly in emerging markets.

In addition to cyclical factors, SMMEs face a number of specific challenges, including access to affordable credit, business management skills, infrastructure costs, regulatory and labour requirements, crime and access to markets.

Access to affordable business credit, insurance and risk advisory services and accessible business banking is where banking is able to make the greatest contribution to the SMME sector.

A well co-ordinated approach from a wide range of public and private stakeholders is required to cultivate an environment that encourages and sustains the SMME sector.

We work with a number of stakeholders, including Provincial and Local Government departments, the Small Business Development Agency (SBDA), our corporate customers and our parent company, through its business finance department, to address the needs of the SMME sector.

There are over 8 million stokvels in South Africa, with a total membership of 11,4 million people.

The stokvel customer segment has an estimated annual contribution of approximately R44,0 billion. We offer community-based businesses customised group financial services that are linked to their community and cultural needs.

We also focus on linking their businesses to Government programmes that will help them grow and create employment within their communities.

NATIONAL SCHOOLS NUTRITION PROGRAMME (NSNP)

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

Our involvement will be to facilitate direct payments from the credit facility provided by IDFC's business finance department to suppliers/wholesalers and the catering staff's monthly stipend (honoraria).

This will ensure that all members of the NSNP value chain are properly remunerated in a timely manner.

We are also proposing to deploy electronic e-money solutions that will facilitate purchasing and other transactions via a loyalty card linked to a mobile application.

This will be a closed-loop system, allowing us to maintain a measure of oversight and ensure that the funds are being used correctly.

AFFORDABLE HOUSING

We finance quality affordable housing units for households with income levels of between R5 500 and R18 000 a month.

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 remain the only provider of housing loans to rural communities on land under tribal tenure. In 2014/15, we issued rural home loans to the value of R6,7 million (2013/14: R6,2 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. In 2014/15, we issued home improvement loans to the value of R8,3 million (2013/14: R38,2 million).

High levels 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. The implementation of regulatory capital requirements, introduced by Basel III and stressed economic conditions have impacted our affordability calculations.

In response, we are developing innovative ways to ensure that our customers in the low-income segment are able to access home loans.

INSPIRING OUR YOUTH

In KwaZulu-Natal the youth market segment is estimated to be 2,1 million, of which a total of 32,0% are unemployed, whilst 15,0% work full-time, 11,0% work part-time, 41,0% are students and 52,0% are unbanked.

Our unique and revolutionary Youth Reseller Account, which will be launched during the new financial year, will give young people bank accounts that create savings and make them money.

CORPORATE SOCIAL INVESTMENT

We participate in the initiatives of our parent company, the IDFC (for detailed information, please see the IDFC integrated report).

After a rigourous review of our CSI strategy and taking into account our past experience and the South African Government's clearly identified priorities in the NDP, the IDFC agreed that our focus going forward will be exclusively on projects that enhance educational outcomes.

Supporting education provides us with a number of opportunities.

These include the end-goal of an improved economic climate, which will positively impact our business and the possibility of recruiting the scholarship students we support into the bank upon their graduation.

The 'teach a child to save' campaign is the financial literacy and savings initiative of the banking and broader financial sector.

It is designed to highlight the importance of instilling a culture of saving amongst our youth.

To celebrate Mandela Day, Ithala volunteers visited the Jabusizabantu Educare Centre in Umlazi. The centre was founded in 1994 and currently caters for 83 children between the ages of six months to six years. Team Ithala spent the day renovating the centre and playing with the children.

DRIVING ECONOMIC TRANSFORMATION

WE VIEW TRANSFORMATION AS AN ONGOING CHANGE PROCESS.

Through this process, we seek to continue to be relevant in, responsive to and reflective of the environments in which we operate.

As a public entity, we are subject to the PFMA, which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

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

In addition to our role as a taxpayer, investor and employer, we contribute to the upliftment of marginalised communities through our business activities which, in turn, encourage growth and employment creation.

B-BBEE legislation seeks to create an environment in which South Africans who were excluded from full participation in the economy under apartheid can engage fully in economic activity. B-BBEE is imperative to South Africa's long-term socio-economic and commercial success, while promoting sustainable growth and social stability.

An accredited B-BBEE verification agency conducted an independent assessment of the IDFC, with whom we have a central Supply Chain Management (SCM) function with a Bid Adjudication Committee (BAC) that consists of representatives from all the subsidiaries.

Read more about the IDFC's B-BBEE strategy and our SCM process in its integrated report for 2014/15. The group qualified favourably as a level 3 B-BBEE contributor.

The table below illustrates direct employee levels and is reported annually to the Department of Labour.

Of Ithala's total complement of 368 staff, 93% (342) are African and of the 231 women 94% (217) are African women. In the higher occupational categories of employment (i.e. D Band and above), 68% (19) are men from a total of 28 employees.

Employment equity

Occupational Categories	African		Indian		Coloured		White	Total Designated		Non-Designated	Total Employees	Disabled Employees
	Male	Female	Male	Female	Male	Female	Female	Male	Female	Male		
Top management	0	0	0	0	0	0	0	0	0	1	1	
Senior management	3	1	0	1	0	0	0	3	2	0	5	
Professionally qualified and experienced specialists and managers	4	3	0	1	0	0	0	4	4	0	8	
	7	2	4	0	0	0	0	11	2	0	14	1
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	9	12	1	2	0	1	0	10	15	1	26	
	21	25	0	1	1	0	0	22	26	1	49	
	14	37	0	4	0	0	3	14	44	0	59	1
Semi-skilled and discretionary decision-making	61	110	1	1	0	0	0	62	111	0	173	
	5	12	0	0	0	0	0	5	12	0	17	
	1	1	0	0	0	0	0	1	1	0	2	
Unskilled and defined decision-making	0	14	0	0	0	0	0	0	14	0	14	
Total	125	217	6	10	1	1	3	132	231	3	368	2

PUBLIC SECTOR BANKING

We provide Government with a comprehensive offering that includes transactional banking services and investments.

We focus on understanding the needs of the public sector environment and on developing innovative solutions that are relevant to Local and Municipal Government.

Our corporate banking solution will provide us with the technological and financial platforms necessary to enable us to provide administrative efficiencies that meet the large volumes of transactions required by our public sector clients without compromising the quality of our service.

PREFERENTIAL PROCUREMENT

As a public entity, we are subject to the PFMA, which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources.

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

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

The group's procurement spend amounted to approximately R582 million (2013/14: R484 million).

Our weighted procurement spend from B-BBEE suppliers in 2014/15 amounted to R523 million (2013/14: R439 million), an increase of 19,13% compared against 2013/14. Some 78,75% of our total procurement spend is spent with our top 100 suppliers.

Scan the QR code to read our inspiring 20 Years of Hope brochure, which celebrates 20 years of our democracy

PEOPLE AND CAPACITY

HUMAN RESOURCE MANAGEMENT PLAYS A LEADING ROLE IN BUILDING AN ENABLING HIGH-PERFORMANCE CULTURE.

The essential purpose of our human capital management strategy is to facilitate the attraction, retention and development of talent. In this way, we play a leading role in creating a high-performance culture.

OUR PEOPLE

As part of our turn-around strategy, this year's business realities necessitated making difficult decisions regarding the reduction of our staff costs and to migrate, exit and re-deploy some of our employees to other subsidiaries of our parent company, the IDFC.

A total of 49 employees were exited.

This was based on prevailing operational requirements and 29 employees were transferred into vacant positions within better-performing branches or were transferred to other divisions within the organisation.

Given the circumstances, we did not conduct an employee survey this year, but began implementing informal and interactive platforms for communication with staff, including engagement sessions with leadership, using appreciative enquiry as a tool.

We intend to compile a programme of activities emanating from the issues raised and create focus groups to develop solutions to the challenges.

REMUNERATION AND REWARD

With the focus on cost containment during the year, we have been able to better align employees' performance to the achievement of our strategic objectives.

The outcome of bargaining processes:
A band 7%
B band 7%
C band 7%

- Housing allowance increased to R1 225 from R1 175 (0,3% increase on payroll);
- Shift and standby allowances increased to 15% from 13% (0,03% increase on payroll); and
- D, E and F Band will receive 4% cost of living increase, and 2,6% that is based on performance.

TRAINING

This year, eight employees participated in the Certificate Management Development Programme (CMDP) course run by the Milpark Business School.

The programme centers on developing leadership capabilities and building necessary competency skills at junior and middle-management levels of today. We created a sales curriculum for front-line staff, balancing theoretical and practical aspects regarding successful selling. The course is certified by the Mangosuthu University.

LEARNING AND DEVELOPMENT

	2015	2014
Training interventions (face-to-face)	**1 262**	1 468
Training spend	**294 756**	1 778 128
BankSETA funded studies	**360 000**	345 880
Study loans granted	**306 398**	60 690
Training spend as a % of staff costs	**0,2%**	1,4%

FINANCIAL WELLNESS

We have introduced a financial wellness programme that is driven by Old Mutual, as our service partner.

This programme forms part of enhancing our wellness offering to all staff regardless of employment level.

OUR TALENT RESOURCING STRATEGY

Our ability to attract and retain skilled and talented employees is a material issue for the company (see our core strategic themes on pages 21 to 22).

Our human resources division is focused on securing the right people for the right roles and driving key initiatives that are central to the delivery of our people strategy.

These include conducting a talent review throughout the organisation, developing a compelling value proposition for Ithala as the best place to work, driving capacity-building initiatives and introducing a performance-driven incentive programme for all staff.

To further ensure that we resource the company with the skills and expertise needed, we are introducing an in-house training centre for staff training and development.

We will also be adopting a formal promotion policy, while continuing to focus on filling key vacancies.

BURSARIES

With a national unemployment rate of 25% and a figure of more than 50% among young people, bursary opportunities have become a crucial step toward providing vital knowledge for the youth to enter the job market. We understand the enormous challenges facing the youth, and our bursary programme is in line with Ithala's brand essence of enabling dreams and delivering hope.

The purpose of the scheme was to assist previously disadvantaged learners based in KwaZulu-Natal to acquire tertiary qualifications in specified fields of study at certain recognised tertiary educational institutions in South Africa.

The scheme has grown since its inception and has been expanded under the human resources portfolio.

The nine 2014/15 bursary recipients, who have been selected from areas across the province, are furthering their studies in such fields as civil and electrical engineering, accounting and actuarial science.

For further details about the bursary scheme, please refer to the IDFC integrated report.

EMPLOYEE WELLNESS

During the period under review, various employee wellness interventions took place that were aimed at ensuring employee health and the prevention of diseases.

The health and well-being of our staff is important to us, particularly because healthy people are better able to contribute to the success of our business.

The following biometric testing and medical assessments took place during the reporting period.

Biometric testing	Utilisation	High risk
Blood pressure	104	10
Blood sugar	104	26
Blood cholesterol	102	8
Weight	159	8
HIV counselling and testing	74	
HIV management programme	33	
Tested positive during Wellness Day and disclosed their status	3	
Tested positive	6	
Living positive with HIV	33	

INTERNSHIPS

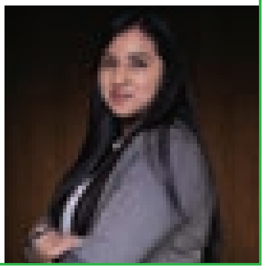
We have placed 61 learners from further education and training (FET) institutions throughout the province through our internship programme and this has significantly reduced our reliance on temporary recruits.

We intend to increase the number of interns in 2015/16 with the hope that suitable talent may be absorbed into the organisation at the end of their programme.

'Excellence in Dispute Resolution Award'

Sandrisha Rajbunsie, Bankseta Letsema learner class of 2012, received a prestigious nomination from the Office of the Ombudsman for the 'Excellence in Dispute Resolution Award' for 2014.

On completion of her learnership with us, she came to work for us as a compliance administrator.



CREATING A SAFE PLACE TO WORK

Our health and safety policy deals with safety at work, as well as the arrangements for putting that policy into practice.

Health and safety across Ithala is managed by the group health, safety and environment department, whose aim is to assist management in achieving our objectives of a safe working environment. Regular inspections of our various operations and branches across the province are carried out to identify potential hazards and appropriate control measures to safeguard our employees and other persons.

The IDFC group occupational health and safety team carried out on-site inspections at 19 branches during the reporting period.

The team's focus was on key operational activities and risk assessments were completed for fire and emergencies, electrical safety, slips and trips, crime-related incidents and contractor management.

Sets of guidelines for performing specific tasks that may not always be undertaken in the same way have been developed to mitigate hazards identified through the risk assessment process.

To raise awareness of staff responsibilities, training programmes for health and safety representatives, first aiders and floor wardens are delivered at regular intervals.

Evacuation drills are conducted on a quarterly basis at branches.

RISK AND CAPITAL MANAGEMENT REPORT

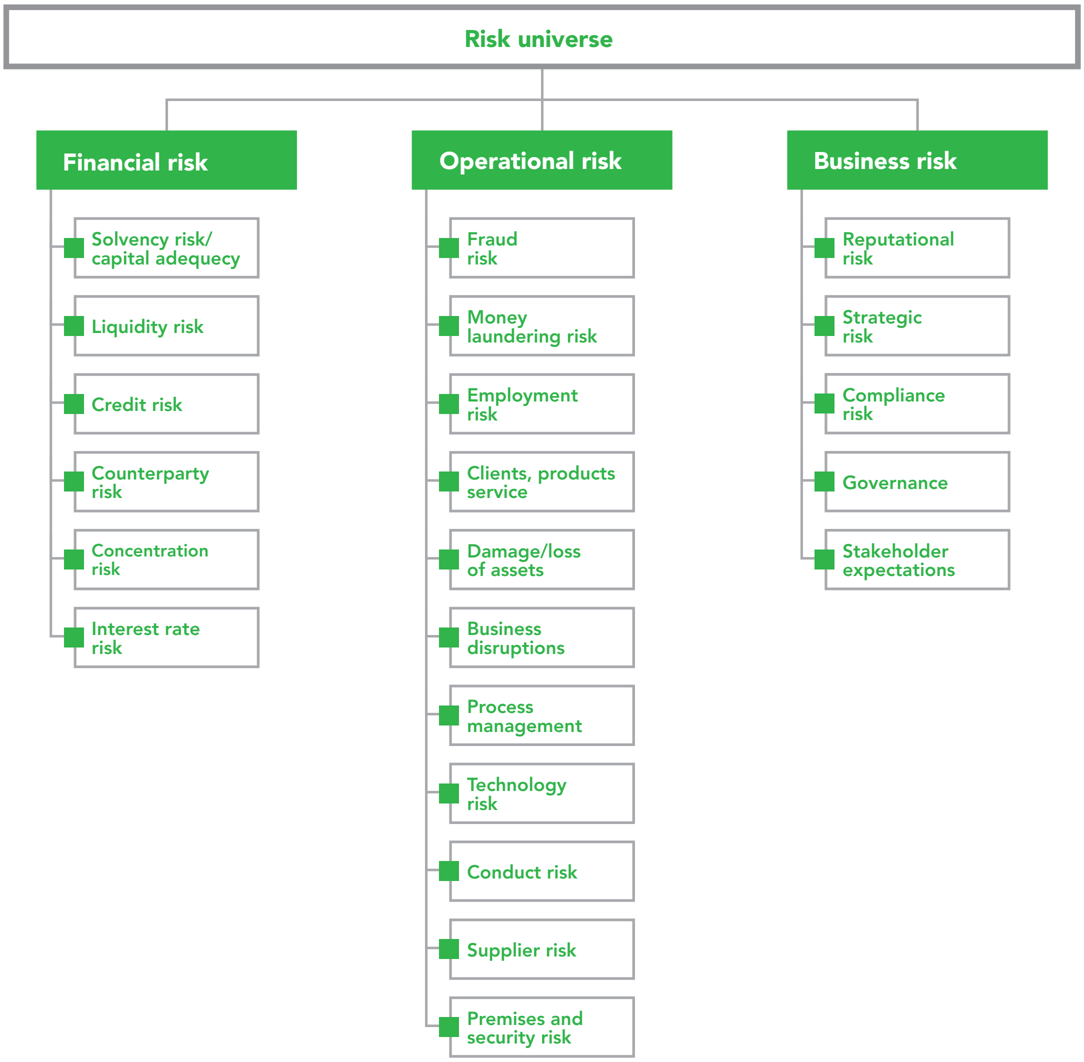
EFFECTIVE RISK AND CAPITAL MANAGEMENT IS FUNDAMENTAL TO OUR GROWTH AND SUSTAINABILITY.

In formulating our strategy and determining our strategic imperatives, we have to consider the full range of issues that impact the viability of our business. During the year under review we conducted our annual strategic risk assessment, the objective of which was to identify risks that would prevent the company from achieving its strategic objectives and any other risks to which it could be exposed and to formulate mitigation strategies.

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

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

The nature of our business in providing financial services and credit means we are exposed to a number of risks forming part of our risk universe. In addition, risks set-out in Regulation 39 of the Banks Act are considered when assessing risks to which we are exposed.



The purpose of risk management is to enable us to evaluate, respond to and monitor risks that arise in the execution of our strategy.

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

Our ERMF defines management of risk within the associated context, namely, strategic, business unit, projects or activity level.

It sets-out our risk governance framework, our risk strategy and risk management process and provides the context in which risks will be identified, analysed, controlled, monitored and reviewed. The framework is applied consistently with processes embedded in everyday management.

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, IT governance and human resources, social and ethics committees (HRSEC).

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

THE BOARD

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

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.

The board determines the strategic approach to risk and sets risk appetite and tolerance levels. It also establishes the structure for risk management. The board oversees implementation of corporate governance activities in all relevant operations and is ultimately responsible to all stakeholders for the development and execution of a business strategy that successfully delivers value.

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 a risk mitigation strategy to ensure that the company manages the risk in an optimal manner. It ensures that a formal risk assessment is undertaken at least annually and supports 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. See page 81 for detail concerning the committee's responsibilities.

AUDIT AND COMPLIANCE COMMITTEE

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

IT GOVERNANCE COMMITTEE

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

EXECUTIVE COMMITTEE

As part of its overall responsibility for the day-today business of the company, the executive 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 risk and capital management committee.

The committee is also responsible for considering and monitoring the performance of the loans portfolio, including large exposures, monitoring the performance of Properties In Possession (PIPs), including losses from sales thereof, and recommends credit granting and control policies and procedures for new products. In addition, it reviews re-scheduled loans, monitors the effectiveness of credit risk controls and monitors our exposure to credit and counterparty risk.

ASSET AND LIABILITY COMMITTEE

The asset and liability committee ensures that all strategies conform to the risk appetite and levels of exposure as approved by the board, and focuses on protecting our equity base and ensures growth over time.

It is also responsible for managing interest rate and liquidity risks that occur in the business and ensures adequate pricing methodology across the business units, as well as developing a contingency funding plan.

MANAGEMENT RISK AND OPERATIONS COMMITTEE

The management risk and operations committee ensures the implementation of the strategies that conform to the risk appetite and levels of exposure as approved by the board.

It monitors the implementation of strategies to manage strategic, operational, compliance and technology risks. In addition, the committee develops and monitors the implementation of our business continuity plan and monitors progress regarding resolution of audit issues, compliance and customer complaints.

COMBINED ASSURANCE

King lll defines combined assurance as "integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies and optimise overall assurance to the audit and risk committee, considering the company's risk appetite."

The audit and compliance committee reviews whether the various levels of assurance received are appropriate to address all the significant risks facing the company and ensures that the combined model is applied to provide a co-ordinated approach to all assurance activities. These include internal and external audit, legal services, compliance, regulators and risk management.

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 Basel Internal Capital Adequacy Assessment Process (ICAAP), which requires financial institutions to undertake rigourous, 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.

Our stress testing also incorporates forward-looking scenarios and reverse stress tests, which start from a known outcome and work backwards to possible events that could lead to such an outcome.

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 (read information on our interest rate fluctuation stress testing on pages 72 to 73) 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 target 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.

BASEL III

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision (BCBS), to strengthen the regulation, supervision and risk management of the global banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, improve risk management and governance and strengthen banks' transparency and disclosures. (source: BCBS)

South Africa is a BCBS member country that adopted Basel III on 1 January 2013. Most of these reform measures are subject to phase-in requirements.

Basel III objectives and SARB adaptations	
Increased quality, quantity and consistency of capital	• Increased focus on CET 1 • Increased capital levels
Increased risk coverage	• Credit valuation adjustment for over-the-counter derivatives, being the capital charge for potential market-to-market losses, associated with deterioration in counterparty creditworthiness • Asset value correlation, being the increased capital charge on exposures to financial institutions • Strengthened standards for collateral management, margin period of risk, management of general wrong-way risk and stress testing
Capital conservation buffer	• 2,5% capital buffer by 2019 to decrease pro-cyclicality • Build-up capital during favourable economic conditions that can be drawn on during times of stress
Pillar 2a and domestic systemically important banks in South Africa (D-SIB) buffer	• Up to 2% of Pillar 2a buffer prescribed by the SARB to be held against systemic risk requirements • 0 - 2,5% D-SIB buffer required for banks deemed by the SARB to be systemically important • The two buffers are complimentary – the combined impact is less than or equal to 3,5% and is split over all three tiers of capital
Counter-cyclical buffer	• 0 - 2,5% capital buffer deployed by national jurisdictions when system-wide risk builds up • Ensures capital adequacy takes macro-financial environment into account
Leverage ratio	• Constrain build-up of leverage in the banking sector • The ratio is calculated as Tier 1 qualifying capital/on- and off-balance sheet exposures, as defined by the BCBS and is measured against the SARB prescribed minimum ratio of 4%

REGULATORY CAPITAL

The adoption of Basel lll and the amendment of the Banks Act Regulations formalised the additional requirements in respect of liquidity risk management. Regulatory capital adequacy is measured through three risk-based ratios:

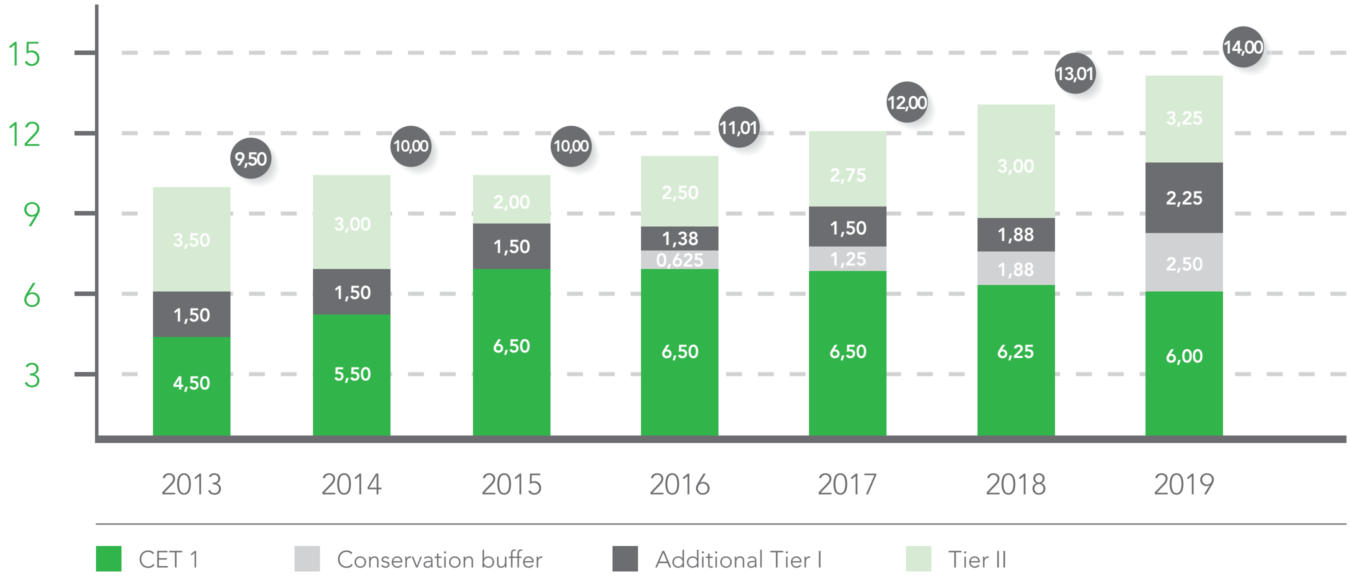
- CET 1: Ordinary share capital, share premium, retained earnings and qualifying non-controlling interest, less impairments divided by total risk-weighted assets;
- Tier I: CET I and qualifying non-controlling interest plus perpetual, non-cumulative instruments with principal loss absorption features issued under the Basel III rules divided by total risk-weighted assets. Perpetual non-cumulative preference shares issued under Basel I and Basel II are included in Tier I capital, but are subject to regulatory phase-out requirements over a 10-year period, effective from 1 January 2013; and
- Total capital adequacy: Tier I plus other items, such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under Basel III divided by total risk-weighted assets. Subordinated debt issued under Basel I and Basel II is included in total capital, but is subject to regulatory phase-out requirements, over a 10-year period effective from 1 January 2013.

These ratios are a measure of the capital supply relative to the capital demand as measured by the total risk-weighted assets and are measured against internal targets and regulatory minimum requirements.

BASEL III IMPLEMENTATION TIMELINE

LIQUIDITY	2013	2014	2015	2016	2017	2018	2019
LCR	Bank disclosure starts		60% minimum standard	70% minimum standard	80% minimum standard	90% minimum standard	100%
NSFR	Bank disclosure starts					100%	100%

SARB MINIMUM RATIOS (CAPITAL AS A PERCENTAGE OF RISK-WEIGHTED ASSETS) EFFECTIVE 1 JANUARY EACH YEAR (%)



The graph excludes counter-cyclical buffer and confidential bank-specific pillar 2b capital requirement, but includes maximum potential D-SIB requirement, which is also bank-specific and also confidential.

HOW WE MANAGE OUR CAPITAL

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 capital requirements in accordance with Pillar I of Basel III;
- Additional capital requirements for risks not fully covered by Pillar I (credit, operational and market risk) and risks not covered by Pillar II (systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk), which the accord combines under the title of residual risk;
- Available capital against required capital; and
- 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, including a prescribed general allowance for credit impairment. (see pages 148 to 149 of our AFS). Our capital supply consists of Tier I funding: CET I plus perpetual, non-cumulative instruments with principal loss-absorption features issued under Basel III rules divided by total risk-weighted assets. Our Risk-Weighted Asset (RWA) is concentrated in our residential mortgage book. Capital requirements are calculated using the standardised approach for credit risk and basic indicator approach for operational risk. 'Other' relates to other assets, which in terms of Regulation 23 of the Banks Act are grouped with credit risk for the purposes of calculating regulatory capital, effectively using the same approach as for credit risk. (see pages 148 to 149 of the AFS).

We maintain capital above minimum Basel III regulatory requirements. We have focused this year on ensuring that we are adequately positioned to respond to regulatory capital rules under the Basel III phase-in requirements.

Capital adequacy as at 31 March 2015, based on Basel III requirements, as adopted by the SARB:

	Minimum capital requirements	2015	2014
Capital adequacy ratio	>=10,0%	**16,80%**	12,23%
Common equity Tier 1	>= 7,0%	**16,00%**	11,40%
Total risk-weighted assets (R'000)		**1 429 336**	1 570 912

A

There are no known restrictions or major impediments to transfer funds from the holding company to Ithala. However, transfer of funds from the subsidiary to the holding company is limited to 10% of the qualifying capital and reserves.

OUR CAPITAL POSITION

While our capital levels are in excess of minimum regulatory requirements, the current level of capital and the fact that we have not yet entered into a sustained operating profit-making situation, impacts negatively on growth opportunities and our sustainability.

Capital is required for investment in information technology and to facilitate business growth and profitability.

In addition, the Basel lll regime raised the quality and quantity of capital requirements. Additional capital requirements were phased-in from 1 January 2013 and are expected to be fully implemented by 1 January 2019.

A capital injection of R50 million was received during 2014/15.

Other than the losses incurred in the normal operations of business there were neither undue, unexpected nor unusual risks taken in pursuit of reward which could materially impact on capital.

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 RCMC, oversees our credit risk management process.

The EXCO and management credit committee (MCC) implement our credit risk processes on a day-to-day basis. The RCMC approves key aspects of rating systems, credit risk modelling and credit concentration risk decision-making and delegate implementation thereof to credit officers and committees charged with credit management.

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

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 risk and capital management committee.

The committee is also responsible for considering and monitoring the performance of the loans portfolio, including large exposures, monitoring the performance of PIPs, including losses from sales 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.

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.

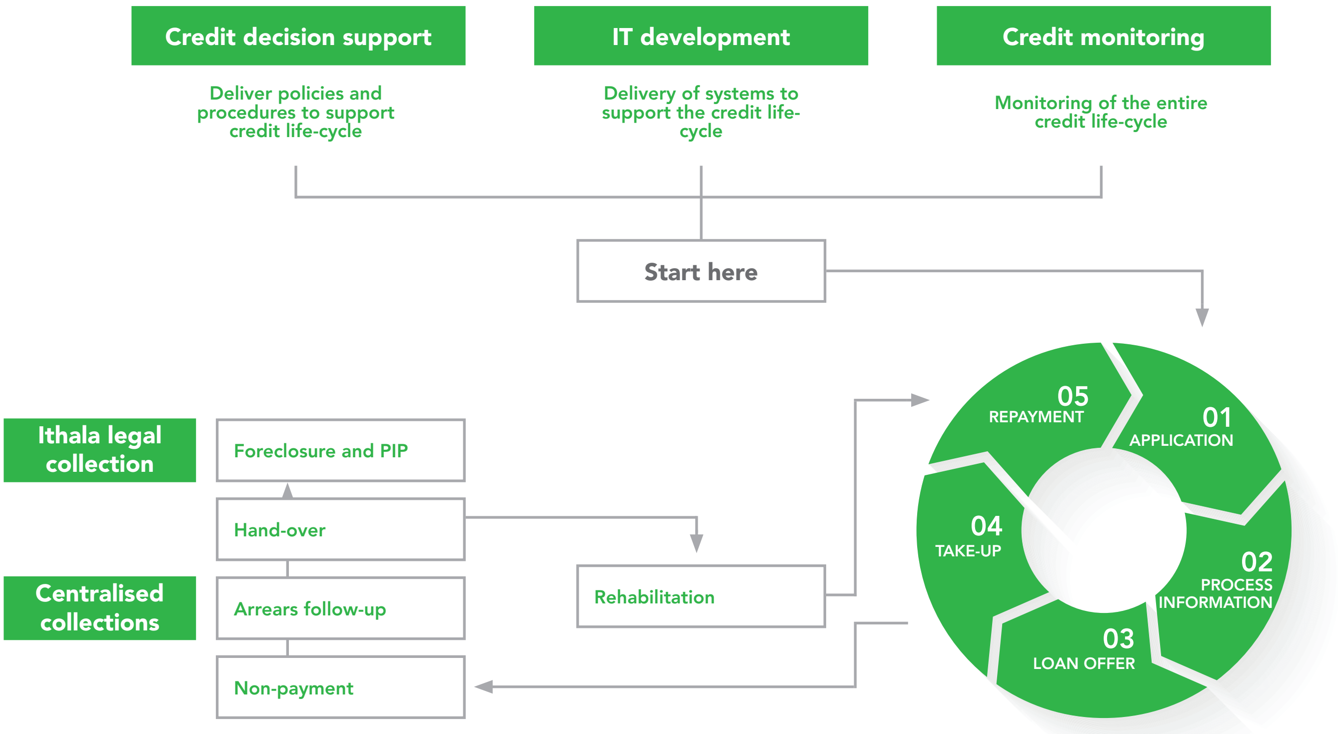
We have implemented a more prudent approach and updated our policies to be more stringent in provisioning arrears and write-offs including:
- Full provision of accounts at loss category; and
- Our write-off policy now provides for accounts to be written-off after 12 months of non-payment.

OUR CREDIT PROCESS

Lending in South Africa is highly regulated through the NCA, which is a consumer-focused statute that requires credit providers to perform a thorough assessment of the ability of prospective clients to repay any potential credit they may be granted.

Our credit model is based on policies and procedures that give effect to the model and which are reviewed on an on-going basis.

This ensures that the credit offered is in line with clients' needs and within our acceptable and approved credit risk appetite.



GRANTING

The credit granting decision is based on the client's behaviour (willingness to pay), affordability (ability to pay) and source of income. The integrated rules determine the credit offer based on the input into the system and the pricing based on the scorecard matrix.

Behaviour	Affordability	Source of payment
External bureau data and internal repayment records	Client authentication, document verification, income, living expenses and financial obligations as prescribed by the NCA and affordability guideline	Recent salary slip details and recent 3 month bank statements
Credit bureau, customers application, behavioural scorecard, product and client rules	Calculation of cash flow available to service. Minimal variable expenses and net-disposable income as a percentage to gross	Employment confirmation
Fraud alert checks	Further mitigation is achieved through decreasing repayment-to-income parameters	Type of employment (private or Government)

COLLECTION

Our collections strategy includes employer-based collection, debit-order collection and stop-order collection. We utilise the regulated Non-Authenticated Early Debit Order System (NAEDO), an NCA initiative, to collect unsecured loan instalments from clients who do not deposit their salary with us.

In respect of home, commercial property and property development loans, mortgage bonds over properties and life insurance policies represent security. For home improvement loans, the employee's pension amount represents security and all cash loans are secured through deposits or investments.

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 loan, excluding Permission to Occupy (PTO)	Mortgage bond
Home improvement loans	Pledge of pension fund
Cash loan	Cession of term investment
Vehicle and taxi finance	Cession of moveable asset
Commercial loans and property development loans	Mortgage bonds, cession of income, key man insurance policies, suretyships

When collection is unsuccessful, our credit and collection department follows-up on arrears.

Rescheduling of a loan account is utilised as a collection strategy, which accommodates administrative changes to loan agreements and assists clients experiencing difficulty in making their repayments.

The original term of the loan agreement is altered as agreed by the client and Ithala.

This pro-active engagement with clients mitigates the risk of credit losses and simultaneously addresses the needs of clients.

All rescheduling is governed by the credit rescheduling policy.

RECOVERY

Post-handover recoveries are conducted by the legal collections team.

Legal collection is responsible for tracking clients, re-negotiating repayment terms and instituting debit-orders.

Legal action, for which we use an external panel of attorneys, is instituted only as a last resort.

GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES

The company operates solely in the province of KwaZulu-Natal and lends mainly to individuals in the mortgage sector.

All exposures are within KwaZulu-Natal, South Africa.

ON BALANCE SHEET NETTING

Term deposits, namely, fixed deposit and target save placed with the company are considered eligible financial security.

On balance sheet netting is used only on cash loans which are secured by a term investment.

In cases where customers do not make regular payments, the term deposits are netted off against loan balances, on maturity.

CREDIT RISK EXPOSURES

Credit risk exposures relating to interbank (deposits with banks) are risk-weighted with reference to Fitch International ratings.

The international ratings are mapped to risk-weightings in order to determine capital requirements for these exposures.

Banks with high ratings attract low risk-weightings and consequently low capital requirements.

The table below shows Fitch International ratings and the related risk-weightings as at 31 March 2015:

Exposure	Short-term	Long-term	Risk-weightings
Interbank	F2		20%
	F3		20%
		A-	50%
		BBB	50%
		BBB-	50%

CREDIT PORTFOLIO CHARACTERISTICS AND METRICS

Loans and advances are analysed and categorised based on credit quality using the following definitions:

Performing loans

Neither past due nor specifically impaired loans are loans that are current and fully compliant with all contractual terms and conditions.

Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral.

Ultimate loss is not expected, but could occur if adverse conditions persist.

Non-performing loans

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.

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.

Loans

Performing loans

Assets that are neither past due nor impaired (Rm)	2015	2014
	1 388 180	1 416 437

Assets that are past due but not yet impaired (Rm)	2015	2014
	78 123	87 415

Non-performing loans

Specifically impaired loans (Rm)	2015	2014
	100 258	78 561

Non-performing, but not specifically impaired loans (Rm)	2015	2014
	26 853	47 320

CAPITAL RISK

Capital risk relates to an inadequate composition of own funds or the inability to raise additional capital, especially if required immediately or during unfavourable market conditions.

The risk of operating in a situation where Ithala's issued primary and secondary share capital and its primary and secondary unimpaired reserve funds (as defined in Section 70(1) of the Banks Act) falls below an amount representing a prescribed limit and buffer (currently 10% of the risk-weighted assets).

LIQUIDITY RISK

The nature of our business activities exposes us to liquidity risk, which relates to exposure to funding mismatches due to contractual differences in maturity dates and repayments structures of assets and liabilities resulting in us not being able to meet our financial obligations.

The adoption of Basel lll and the amendment of the Banks Act Regulations formalised the additional requirements in respect of liquidity risk management. These include:

- Liquidity Coverage Ratio (LCR) which sets out minimum requirements to ensure 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.

  The LCR was fully adopted by the SARB with the inclusion of a committed liquidity facility and will be phased-in from 2015 to 2019.

  The minimum LCR requirement will be 60% at 1 January 2015, with 10% incremental step-ups each year to 100% on 1 January 2019;
- Net Stable Funding Ratio (NSFR) sets-out minimum requirements to promote resilience over a one-year time horizon and ensures continuous maintenance of a specified amount of stable sources of funding relative to the liquidity profile of the assets and the potential for contingent liquidity needs arising from off-balance sheet commitments.

  The latest consultative paper of the BCBS reflects the NSFR as a more structural balance sheet ratio and no longer a one-year stressed balance sheet ratio.

  The BCBS maintains the principle that a stable funding profile in relation to the composition of a bank's assets and off-balance sheet items promotes a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio has to at least equal 100%.

  It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration has been finalised.

HOW WE MANAGE LIQUIDITY RISK

Our liquidity position is continuously monitored by the asset and liability management committee.

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.

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

Our liquidity risk management strategies and processes include:

- Management of assets and liabilities to ensure sufficient resources to meet approved and anticipated advances, repayment of maturing liabilities withdrawals and any other commitments which become due in the ordinary course of business;
- Maintaining a diversified depositor base and limiting significant exposure to a single depositor or group of related depositors;
- Preparing cash flow projections regularly to assess available cash against cash requirements and determining funding sources;
- Maintaining a buffer of liquid assets in addition to statutory requirements;
- An assessment of the level of compliance with the statutory liquid asset requirements;
- An analysis of short-term liquidity mismatch and the trend;
- An assessment of sources of liquid funds available to address such mismatch; and
- Projected cash inflow and outflow estimates and thus the net deficit or surplus over a time horizon.

On a monthly basis we are obliged to hold an average amount of statutory investments that shall not be less than 5,0% of our liabilities to the public.

We hold a buffer of 20% above this value to ensure that the minimum balance required is not breached in any instance. These funds are not available for use in operational activities.

We have been applying the LCR requirements of the Banks Act Regulation 26(12) to monitor our readiness to implement and fully comply with the requirements and any subsequent amendments thereto as a minimum standard from 1 January 2015.

Our focus continues to be on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management.

BUSINESS AS USUAL LIQUIDITY MISMATCH

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets.

Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

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

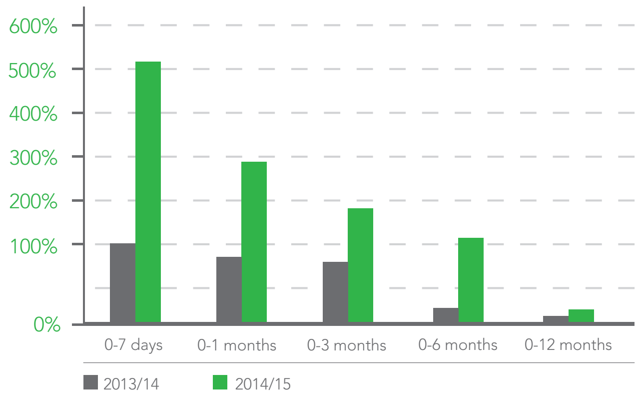
The graph below indicates our cumulative maturity mismatch between assets and liabilities for the 0 to 12 months bucket, after applying behavioural profiling. The cumulative maturity mismatch is expressed as a percentage of the total funding-related liabilities.

Expected aggregate cash outflows are subtracted from expected aggregate cash inflows.

The mismatches are monitored on a regular basis with active management intervention if potential limit breaches are evidenced.

The behaviourally adjusted cumulative liquidity mismatch remains within our liquidity risk appetite.

BUSINESS AS USUAL LIQUIDITY MISMATCH



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, an advances to deposits ratio in excess of 85,0% will trigger the implementation of the contingency funding plans.

These address internal and external communications and escalation processes and liquidity generation management actions.

Liquidity stress testing and scenario analysis

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

These are conducted on the group's funding profiles and liquidity positions.

Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely, but possible events on liquidity positions.

The results are assessed against the prudential liquidity buffer and contingency funding plan to provide assurance as to our ability to maintain sufficient liquidity under adverse conditions.

In stress scenarios, standby lines of credit and the availability of funding are guaranteed to the extent of R300 million as part of the recovery plan by the KwaZulu-Natal Provincial Government.

INTEREST RATE RISK

Interest rate risk emanates from the repricing gap between assets and liabilities resulting from changes in the prime interest rate.

It is the potential loss of income resulting from downward interest rate changes.

We are exposed to interest rate risk due to deposit-taking and lending activities.

Balance sheet items, namely assets and liabilities, are both impacted by changes to the prime interest rate save for fixed rate products, which reprice on maturity.

HOW WE MANAGE INTEREST RATE RISK

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

A change in market interest rates impacts the earnings potential of the banking book as underlying assets and liabilities reprice to new rates. The role of management is to protect both our financial performance as a result of a change in earnings and our long-term economic value.

Interest rate risk management strategies and processes include sensitivity and margin analysis and the monitoring of mismatch levels between repricing of assets and liabilities. Sensitivity analysis 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' view, for the year under review being 50 basis points.

INTEREST RATE EXPOSURE CHARACTERISTICS

The SARB repo rate has increased by 50 basis points to 5,50% during January 2014 and a further 25 basis points to 5,75% during July 2014, on concerns about the potential for a deterioration in the inflation forecast.

The following table shows the 12-month non-interest (NII) sensitivity for a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates.

Interest rate sensitivity: Impact on net interest income	Cumulative total for 12 months R'000
Impact of a parallel rate shock	
Upward 200 bps	17 699
Downward 200 bps	(28 382)

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events, including legal risk, but does not include strategic and reputational risk.

RESPONSIBILITY

The board is ultimately responsible for ensuring that operational risk is managed to an acceptable level.

The risk and capital management committee assists the board in discharging this responsibility. Each and every individual within the organisation is responsible for managing operational risk as it exists in all products and business activities.

Line managers and their teams are responsible for day-to-day management of operational risk.

The management operations committee is responsible for ensuring that operational risk is managed to an acceptable level in line with approved parameters.

FRAMEWORK

The operational risk management framework involves risk identification, assessment and measurement. Various methods are used to identify areas of risk and vulnerability. Risk assessment is conducted to determine the impact of such events.

MANAGEMENT AND MONITORING

Operational risk is managed through implementation of appropriate internal control systems.

In addition, key controls and procedural manuals, as well as delegated powers of authority, are in place to assist staff in the execution of their duties. These are regularly reviewed.

Risk monitoring includes monitoring of operational risk events and trends. Operational loss events are reported to the relevant committees.

INSURANCE

The company's assets are covered by relevant insurance policies to minimise losses. These policies, are reviewed annually and are considered to be a complementary tool rather than a substitute for operational risk management.

BUSINESS CONTINUITY MANAGEMENT

The company maintains business continuity plans at organisational and business/branch levels.

TECHNOLOGY RISK

Technology risk is the risk of failures in systems, errors in the development of programmes, inadequate or inaccurate management information, as well as inadequate security and contingency planning. Technology is the key enabler for conducting business, resulting in increased reliance thereon which, in turn, has increased the need for sound management of risks inherent in automated systems.

To this end, disaster recovery plans are subject to review on an ongoing basis, thus ensuring that risks are mitigated. The business continuity programme aims to enhance our ability to respond to emergencies and disasters, as well as to facilitate the resumption of critical business activities under abnormal circumstances.

STAKEHOLDER EXPECTATION

Risks can arise due to the mis-alignment between stakeholder expectations and business performance and our inability to meet such expectations.

The HRSEC provides oversight of our relationship with various stakeholders, including consumers and employees.

Find further detail on how our strategy formulation process incorporates stakeholder expectations on page 19.

HOW OUR BUSINESS IS GOVERNED

GOOD CORPORATE GOVERNANCE REMAINS INTEGRAL TO THE WAY WE OPERATE. WE ARE COMMITTED TO OPERATING IN A CORRECT, PRINCIPLED AND YET COMMERCIALLY VIABLE MANNER AND STAYING ACCOUNTABLE TO OUR STAKEHOLDERS.

Ithala's board of directors holds the view that transparency and accountability are essential for us to thrive and succeed in the short, medium and long-term.

Ithala's board of directors is responsible for effective leadership.

Its key focus is improving business sustainability based on the ethical values of accountability, fairness and professionalism.

The board ensures that Ithala conducts its affairs with integrity and that, in addition to compliance with the King Code of Governance for South Africa, it complies with the provisions and regulations of the Banks Act, Companies Act and the PFMA.

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

It is committed to continually enhancing its corporate governance processes in line with best practice and ensuring that operations are ethically conducted within the regulatory framework in which the company operates.

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

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

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

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

The day-to-day management of the company vests in the hands of the chief executive officer, subject to the delegated authority approved by the board.

The EXCO assists the CEO in the day-to-day management of the affairs of Ithala, subject to statutory parameters.

BOARD, DIRECTORS AND COMMITTEES

THE BOARD PROVIDES EFFECTIVE LEADERSHIP BASED ON AN ETHICAL FOUNDATION. IT STRIVES TO BALANCE THE INTERESTS OF THE COMPANY AND THOSE OF ITS VARIOUS STAKEHOLDERS.

ROLE OF THE BOARD

The board takes overall responsibility for directing Ithala towards the achievement of its strategic objectives, vision and mission, as well as our overall performance. The board is responsible for the decision-making process on strategy, planning and performance, allocation of resources, business ethics, risk management and communication with stakeholders.

The terms of reference and charter for the board define the framework, authority and parameters within which the board operates. For ease of alignment and business interface with the company, the board invites executive management to its meetings, whilst specifically reserving their right to meet without management's presence when required.

The board charter includes the directors' code of conduct. The board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance. The charter confirms the board's accountability, fiduciary duties, duty to declare conflict of interests, appointments to committees and meeting procedures.

Please visit our website at **www.ithala.co.za** for the full charter and terms of reference of the board.

BOARD PROFILE

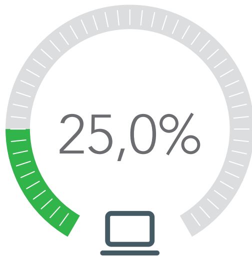
The board members' collective experience and expertise provide a balanced mix of attributes to fulfil its duties and responsibilities, aligned to the company's scope of operations.

This includes finance, audit, legal, risk management and human resources skills, as well as general business. The board is in the process of recruiting a vital IT-skilled independent non-executive director.

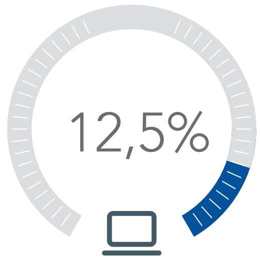
BOARD STRUCTURE AND COMPOSITION

The board has a unitary structure, meaning all directors decide company policy by consensus and is comprised of two executive and six non-executive directors, five of whom are independent. Ithala's definition of 'independent' and 'non-executive' are in line with those of King III.

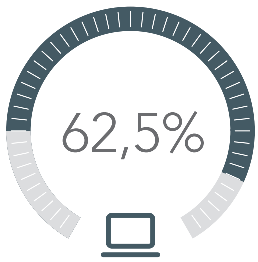
The board functions effectively and efficiently and is considered to be of an appropriate size in terms of its memorandum of incorporation, taking into account, inter alia, the need to have sufficient directors to structure board committees appropriately, as well as succession. Non-executive directors bring diverse perspectives to board deliberations, and constructively challenge the views of executive directors and management.



Executive directors



Non-executive



Independent non-executive

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

- The annual general meeting confirms the nomination and ratifies the appointment of the majority of the board for a fixed term;
- The positions of chairperson and chief executive officer are kept 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 RETIREMENT OF DIRECTORS

During the course of the year, Mr Gregory White resigned as the deputy chairperson of the board on 31 August 2014 and was appointed as acting chief executive officer effective 1 September 2014. Mr Simphiwe Khoza resigned as chief executive officer effective 31 August 2014.

Venete Klein was appointed on 26 November 2014 as a member of the board, the directors affairs committee, the audit and compliance committee, risk and capital management committee and the IT governance committee.

DIRECTORS' APPOINTMENT, ROTATION AND INDUCTION

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

New non-executive directors are appointed through a formal process.

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, operations 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, evaluating their own performance and the performance of their peers for the year.

This assists the chairman in identifying training needs of board members as well as skills gaps.

A training schedule for the year is developed, covering seminars and workshops that are available to the board over and above scheduled in-house training.

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

The board
Main responsibilities

- Retaining full and effective control of the company by considering and approving the company's strategy, business plan, annual and operating budget, as well as any subsequent material changes in strategic direction or material deviations from its business plans and its performance criteria;
- On an on-going basis, monitoring and assessing the effectiveness of the processes relating to corporate governance, internal controls, risk management, compliance, capital management and capital adequacy;
- Approving the annual financial statements upon recommendation of the audit and compliance committee. It records the relevant facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead;
- Ensuring that the audit and compliance committee consists of independent non-executive directors;
- Identifying and monitoring the company's key risk areas and key performance indicators and satisfying itself that Ithala's risk philosophy, strategies and policies are appropriate and that there is due compliance with all risk-related policies, procedures, standards and internal controls.
- Maintaining and reviewing risk-based internal audit, standards and internal controls; and
  - The technology and systems used in the company are appropriate to its business needs;
  - The levels of risk tolerance are determined;
  - That management considers and implements appropriate risk responses by annually reviewing the business continuity plan; and
  - Continual risk monitoring by management takes place and the board receives assurance regarding the effectiveness of the risk management process from the risk and capital management committee;
- With the guidance of the human resources, social and ethics committee, the board ensures that:
  - The ethical standards guiding relationships with internal and external stakeholders are clearly identified;
  - The company's ethics performance is assessed, monitored, reported and disclosed;
  - The company's ethics risks and opportunities are assessed and that an ethics risk profile is compiled; and
  - The company's ethics standards are integrated into all company strategies and operations;
- The board is responsible for information technology and has delegated the responsibility for the implementation of an IT governance framework to the IT governance committee (see page 82).

The board

Summary of key focus areas in 2014/15

- Oversaw the establishment of an IT governance committee;
- Approved the recovery plan;
- Approved the Business Continuity Plan (BCP);
- Oversaw the completion of a comprehensive corporate strategy, including a customer and product strategy;
- Agreed to the establishment of a treasury function;
- Oversaw the development of a comprehensive human resources strategic plan;
- Approved the budget, annual performance plan and corporate plan; and
- Provided on-going monitoring of the implementation of the strategy and plans and supported management in the prioritisation of key projects.

The year ahead

- In the new financial year, the board will oversee the implementation of the hosted banking and insurance management system;
- Ensure that the business is on-track to achieve the targets as per the MoA with the Minister of Finance; and
- Oversee the application for the banking licence with the SARB, a process which would enable Ithala to acquire a full banking licence by 2017.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Malose Kekana	Chairperson	8	8
Mahmood Mia	Member	8	7
Sipho Ngidi	Member	8	8
Babalwa Ngonyama	Member	8	7
Yvonne Zwane	Member	8	8
Venete Klein*	Member	8	1
Gregory White#	Deputy chairperson/acting chief executive officer	8	8
Peter Ireland	Finance director	8	7
Simphiwe Khoza^	Chief executive officer	8	3

Gregory White – Resigned as the deputy chairperson of the board on 31 August 2014 and appointed as acting chief executive officer, effective 1 September 2014

^ Simphiwe Khoza – Resigned as chief executive officer of Ithala, effective 31 August 2014

* Venete Klein – Appointed on 26 November 2014 as a member of the board, directors' affairs committee, audit and compliance committee, risk and capital management committee and IT governance committee

Directors' affairs committee

Main responsibilities

- Reviewing and monitoring compliance with all corporate governance practices;
- Assisting the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structures and practices of the company;
- Assisting the board in establishing and maintaining a board continuity programme;
- 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; and
- Assisting the board in the nomination and appointment of board members.

Summary of key focus areas in 2014/15

- During the year, the committee proposed the nomination of Mrs V Klein to the board and monitored the expenditure of the directors. In addition, a performance evaluation of the board was conducted in November 2014 and the results were tabled at the meeting of the board on 26 November 2014

The year ahead

- The committee will oversee the implementation of board and management succession plans to ensure the company has appropriate leadership in place to deliver on its mandate and its strategic objectives;
- Oversee the appointment of the chief executive officer and chief operating officer; and
- Ensure stability at board level and build effective leadership and capability within the board. A board continuity policy will be developed to ensure that the governance needs of Ithala are addressed and to prepare it for unexpected or sudden change in leadership, and that the company continues to have the correct leadership capable of delivering on its mandate and its strategic objectives.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Malose Kekana	Chairperson	2	2
Mahmood Mia	Member	2	2
Sipho Ngidi	Member	2	2
Babalwa Ngonyama	Member	2	2
Yvonne Zwane	Member	2	2
Venete Klein	Member	2	0

Audit and compliance committee

Main responsibilities

- Ensuring the credibility and objectivity of the financial statements and integrated report prepared with reference to the affairs of the company; and
- Performing functions determined by the board, including reviewing policies and procedures designed to improve the effectiveness of risk management, control and governance processes within the company.

Financial statements

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

Compliance

- The committee reviews the effectiveness of the system for monitoring compliance with laws and regulations and the results of managements' investigation and follow-up of any instances of non-compliance;
- Obtains reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory requirements; and
- Reviews the report submitted by the compliance officer on the level of compliance with laws, regulations and supervisory requirements by the company at every meeting of the audit and compliance committee, a copy of which 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 fulfilment of the internal audit charter; and
- Ensures that the internal audit function has the necessary access to information to enable it to fulfil its programme and to perform its duties in accordance with the appropriate professional standards for internal auditors.

External auditors

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

Summary of key focus areas in 2014/15

External Audit

- The committee approved the re-appointment of the auditor-general as external auditors for the financial year ended 31 March 2015;
- Approved the external auditors terms of engagement, the audit plan and budgeted audit fees payable;
- Considered the nature and extent of all non-audit services provided by the external auditors; and
- Confirmed that no reportable irregularities were identified and reported by the external auditors.

Internal audit

- The committee assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources. The committee satisfied itself that the company has a fully functioning and capacitated internal audit

Audit and compliance committee (continued)

Summary of key focus areas in 2014/15

function by 31 March 2015;

- It reviewed and approved the annual internal audit plan to ensure proper coverage of the matters laid-out in the terms of reference and that critical matters are all attended to, while other matters are dealt with on a rotation basis;
- It reviewed significant issues raised by internal audit processes and the adequacy of corrective action in response to such findings; and
- The committee worked with management to address and substantially reduce the number of internal and external audit findings and ensured that internal controls, processes and procedures are implemented to avoid re-occurrence.

Compliance

- The committee reviewed and approved the mandate and compliance plan;
- Monitored compliance with the Companies Act, the Banks Act, PFMA and all other applicable legislation and governance codes;
- Monitored 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 applicable laws and regulations, findings of any examinations by the regulatory agencies and updates on new legislative/ regulatory requirements; and
- Approved the implementation of integrated governance, risk management, compliance and audit software to ensure that the company uses best practice methodologies and frameworks.

Financial reporting

- The committee monitored the implementation of the turn-around strategy in order to meet the performance obligations as documented in the MoA signed with the Minister of Finance on 27 August 2014; and
- Continuously monitored the capital adequacy ratio, ensuring that it is above the minimum required by the SARB;
- Monitored and reviewed reports on the adequacy of the provisions of non-performing loans, impairments of the other assets and focused on enhancing the collection strategy to improve collections.

The year ahead

- The committee will focus on approving the revised collections strategy and monitor the implementation of the strategy;
- It will continue to monitor on an ongoing basis the capital adequacy ratio;
- Approve the combined assurance model; and
- Monitor the activities of the assurance functions.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Babalwa Ngonyama	Chairperson	7	7
Mahmood Mia	Member	7	7
Venete Klein	Member	7	1

Risk and capital management committee

Main responsibilities

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

Summary of key focus areas in 2014/15

- The annual risk management review and approval of the Internal Capital Adequacy Assessment Process (ICAAP), which forms part of the Basel II Pillar 2 assessment, whereby the level of capital that adequately supports all relevant current and future risks in the business is assessed;
- Review and approve the risk appetite framework;
- Develop and monitor the strategic risk and divisional risk registers;
- Approve the risk management plan;
- Monitor management's activities and assess management's capabilities relating to the company's risk management, by way of regular discussion with and reports from management concerning the systems and procedures that management has developed and maintains to identify, monitor and mitigate risks;
- Provide oversight regarding management's efforts to identify, categorise and manage the company's risks, including credit risk, market risk, operational risk, liquidity risk, capital risk and business continuity and IT risk; and
- Identify risk issues that should be escalated to the board for final action.

The year ahead

- The committee will continue to evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the company in the day-to-day management of the business; and
- The committee will continue to monitor the risk profiles, strategic risk and divisional registers.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Mahmood Mia	Chairperson	6	6
Babalwa Ngonyama	Member	6	5
Yvonne Zwane	Member	6	4
Venete Klein	Member	6	1
Gregory White	Member	6	6
Peter Ireland	Member	6	5
Fain Ferguson	Member	6	4

Information technology governance committee

Main responsibilities

- 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 Communication 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; and
- Reviewing ICT audit reports and recommending appropriate remedial actions.

Summary of key focus areas in 2014/15

The committee, in the five months since its inception, focused on:

- Reviewed the ICT strategy and initiatives supporting the business;
- Reviewed the ICT policy, governance framework and budget;
- Reviewed the internal audit issues that were unresolved and ensured that management set clear action plans within the agreed timelines to resolve such issues; and
- Monitored the implementation of the hosted banking and insurance management systems.

The year ahead

- The committee will focus on the enhancement of IT architecture through the effective establishment and efficient delivery of IT programmes, projects and systems;
- Ensuring that a disaster recovery plan is in place and that testing regularly occurs;
- Overseeing process ownership, clear responsibility and accountability for ICT activities;
- Overseeing the alignment of ICT objectives with business objectives, setting priorities and allocating resources;
- Ensuring return on ICT investments and minimising costs;
- Monitoring significant ICT risks that have been identified to ensure these are addressed;
- Monitoring ICT risk management and obtaining assurance on the effectiveness of controls put in place;
- Overseeing the promotion of an ethical ICT governance culture and awareness within the company;
- Continuing to monitor ICT investment and expenditure; and
- Appointing a head of information technology.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Mahmood Mia	Chairperson	1	1
Babalwa Ngonyama	Member	1	1
Yvonne Zwane	Member	1	0
Venete Klein	Member	1	1
Gregory White	Member	1	1
Peter Ireland	Member	1	1

Human resources, social and ethics committee

Main responsibilities

- Monitoring the implementation of human resource policies and evaluating whether they promote the achievement of strategic objectives and encourage individual performance;
- Reviewing general conditions of employment;
- Ensuring that just and equitable processes are followed on implementation of disciplinary action against executive management;
- Ensuring that the human resource department is appropriately led and has adequate resources to fulfil its function;
- Reviewing the criteria and process used to measure staff performance;
- Assisting the chief executive officer with the recruitment, selection and appointment of executives;
- Through its oversight, providing assurance to internal stakeholders that Ithala's human resources policies are in the best interest of the company; and
- Evaluating its performance against its duties and responsibilities as set-out in its terms of reference.

Summary of key focus areas in 2014/15

- The committee oversaw the development of the human resource strategy for the company, including talent retention and attraction, career progression, training and employee wellness;
- It provided oversight of the development of the automated performance management system and the enhancement of our performance management policy;
- Rolled-out a sales academy programme with Mangosuthu University of Technology;
- Focused on filling key executive and senior vacancies, including the establishment of an adequately resourced IT division;
- Strengthened stakeholder relationships; and
- Oversaw the establishment of an ideal human resources model for the company.

The year ahead

- The committee will focus on organisational transformation to establish a business culture that supports all facets of the environment within which the company operates, which is fundamental to the sustainability of its operations; and
- Will oversee the development of a proactive approach towards matters relating to making Ithala the best place to work.

Meeting attendance

Full names	Position	Meetings as at the financial year-end	
		Number of meetings	Attended
Sipho Ngidi	Chairperson	4	4
Mahmood Mia	Member	4	4
Yvonne Zwane	Member	4	3
Gregory White	Member	4	4

Remuneration committee^

Main responsibilities

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

Summary of key focus areas in 2014/15

- The committee oversaw the development of an incentive performance scheme to reward performance across the company; and
- Conducted an exercise to benchmark executive remuneration.

The year ahead

- The committee will monitor succession planning for board members, the chief executive officer, finance director and executive members.

^ Meeting Attendance - The two remuneration committee meetings were combined with the human resources, social and ethics committee as the members are the same for both committees.

ANTI-FRAUD AND CORRUPTION

ITHALA IS COMMITTED TO ERADICATING ALL FORMS OF FRAUD AND CORRUPTION.

We have in place measures to ensure that the risk of fraud is minimised and include the following:

- The provision of fraud awareness training;
- Adherence to a culture of zero tolerance vis-à-vis fraud and theft;
- Effective management and implementation of policies aimed at governing staff behaviour;
- Conducting fraud risk susceptibility assessments and formulating appropriate controls and action plans to mitigate identified weaknesses; and
- An independent "whistle-blowing" service, enabling staff to report fraud anonymously, via Ithala@tip-offs.com.

These measures are the subject of ongoing review and refinement designed to minimise loss and improve fraud detection, awareness and control.

All known internal and external incidents of fraud and corruption are fully investigated.

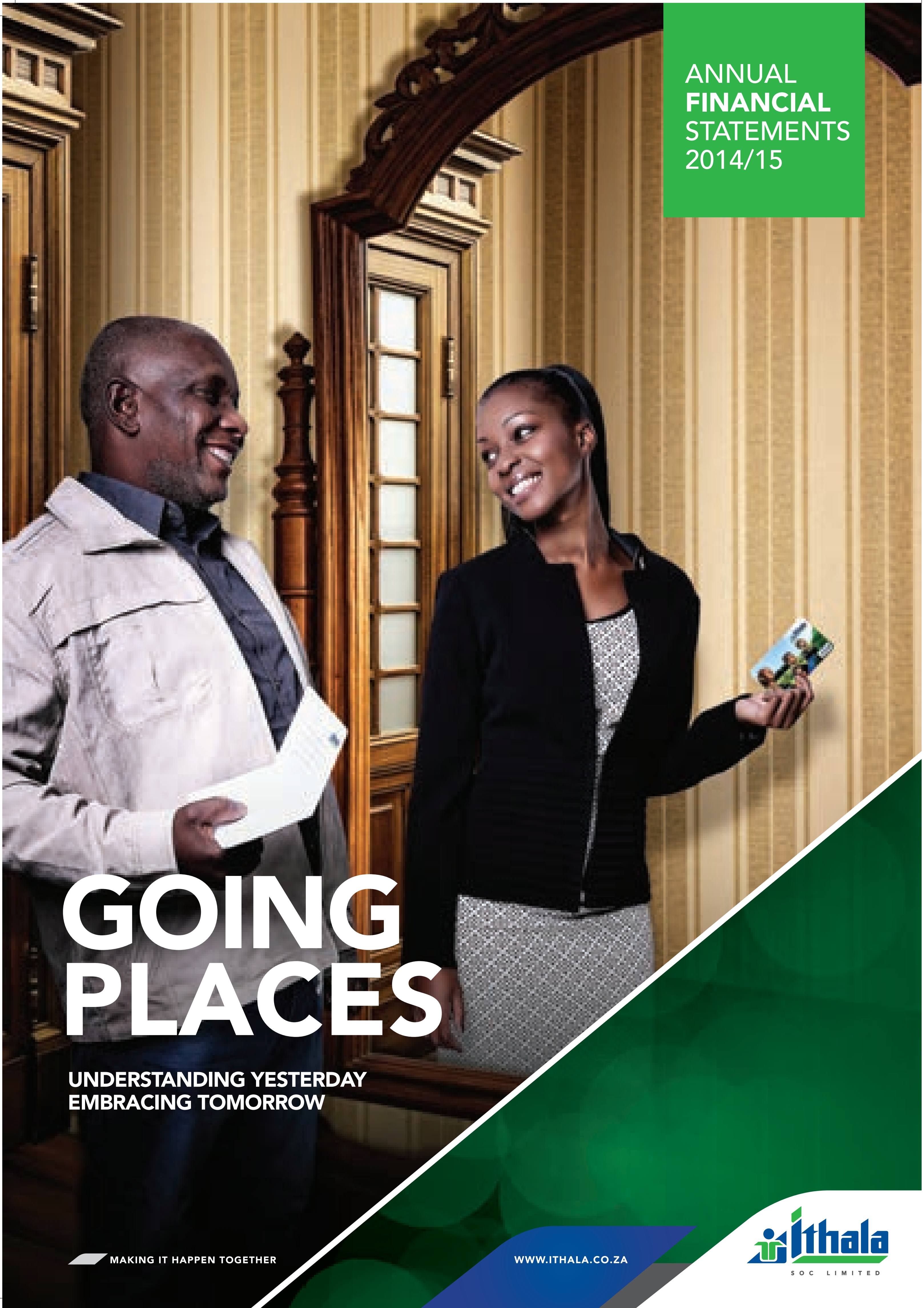
The anti-fraud and ethics framework outlines the company's four-pronged approach to anti-fraud and corruption, namely fraud prevention, detection, deterrence and investigation.

The acting chief executive officer, together with the company's management and employees, have signed and committed themselves to an anti-fraud declaration as a pledge to zero tolerance against fraud and corruption.

The anti-fraud and ethics committee, an executive oversight structure chaired by the IDFC chief finance officer, safeguards employees from occupational victimisation should they 'blow the whistle' on fraud and corruption, as well as assisting management in identifying and managing fraud risk in order to protect the reputation of the company.

To assist in addressing any fraudulent and corrupt activities, the forensic investigation team works in collaboration with various law enforcement agencies, as well as service providers, such as tip-offs anonymous.

(Read more about our approach to anti-fraud and corruption and a detailed incident report in the IDFC integrated report for 2014/15).



ANNUAL **FINANCIAL** STATEMENTS 2014/15

GOING PLACES

UNDERSTANDING YESTERDAY
EMBRACING TOMORROW

MAKING IT HAPPEN TOGETHER

WWW.ITHALA.CO.ZA

Ithala SOC LIMITED

ANNUAL FINANCIAL STATEMENTS

CONTENTS

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 2015, the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, and the notes to the Annual Financial Statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) as prescribed by the Accounting Standards Board.

To enable the Directors to meet these responsibilities:

- The Board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

- The internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Audit and Compliance Committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.

- The Audit and Compliance Committee, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

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

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

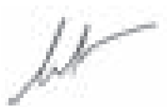
The Directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management. All employees are required to maintain the highest ethical standards in ensuring that the Company's practices are concluded in a manner, which in all reasonable circumstances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

The Directors have made an assessment of the Company's ability to continue as a going concern and have included appropriate disclosure in the Directors' Report. The basis of accounting has been adopted by the Board 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 89 to 90.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements of Ithala SOC Limited, as identified in the first paragraph, was approved by the Board of Directors on 28 July 2015 and are signed on their behalf by:

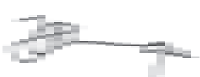


Malose Kekana
Chairman
28 July 2015

Gregory White
Acting Chief Executive
28 July 2015

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm, in my capacity as company secretary of Ithala SOC Limited, that for the year ended 31 March 2015, 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
28 July 2015

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

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the financial statements of Ithala SOC Limited set out on pages 94 to 149, which comprise the statement of financial position as at 31 March 2015, 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, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and the Banks Act of South Africa, 1990 (Act No.94 of 1990) (Banks Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ithala SOC Limited as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Statements of GAAP and the requirements of the PFMA, Companies Act and the Banks Act.

EMPHASIS OF MATTERS

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

BANKING LICENCE EXEMPTION

8. As disclosed in note 1 to the financial statements, the National Minister of Finance (the Minister) has specified performance obligations for Ithala SOC Limited for the financial years ending 31 March 2015, 2016 and 2017. The Minister has assessed the specific performance obligations for the year ending 31 March 2015 and has granted the entity a banking licence exemption until 30 June 2016.

   The 2015-16 first quarter financial performance by the entity indicates that there may be challenges in achieving certain specified performance obligations for the year ending 31 March 2016. This indicates the existence of a material uncertainty on the entity's ability to obtain a further banking licence exemption which may cast doubt on the entity's ability to continue as a going concern.

SIGNIFICANT UNCERTAINTIES

9. As disclosed in note 26 to the financial statements, the entity is the defendant in various claims. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

MATERIAL LOSSES

10. As disclosed in note 27.2 to the financial statements, material losses of R3,76 million were reported by the entity as a result of the write-off of previously impaired loans and advances.

ADDITIONAL MATTERS

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

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

12. As part of our audit of the financial statements for the year ended 31 March 2015, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

FINANCIAL REPORTING FRAMEWORK

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PREDETERMINED OBJECTIVES

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for objective 1: market share and revenue enhancement on pages 39 to 40, objective 2: accessible financial services on page 41 as well as objective 4: operational excellence on pages 42 to 43 presented in the annual performance report of the entity for the year ended 31 March 2015.
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the market share and revenue enhancement, accessible financial services and operational excellence objectives.

ADDITIONAL MATTER

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

ACHIEVEMENT OF PLANNED TARGETS

21. Refer to the annual performance report on pages 39 to 43 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

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

INTERNAL CONTROL

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

OTHER REPORTS

INVESTIGATIONS

24. Ithala Group Audit and Risk Assurance Services (IGARAS) conducted investigations into allegations of teller shortages, theft at branches and disputed withdrawals.

AUDIT-RELATED SERVICE AND SPECIAL AUDITS

25. Agreed upon procedures reports were issued to the South African Reserve Bank relating to returns issued in terms of the Banks Act.
26. A report was issued to the National Credit Regulator on compliance with the National Credit Act of South Africa, 2005 (Act No.34 of 2005).
27. A report was issued to the National Department of Human Settlements relating to the annual return submitted in accordance with the Home Loans and Mortgage Disclosures Act of South Africa, 2000 (Act No.63 of 2000).

Auditor - General

Auditor-General
Pietermaritzburg
28 September 2015

DIRECTORS' REPORT

The Directors of Ithala SOC Limited have pleasure in presenting their report, for the year ended 31 March 2015.

INTRODUCTION

Ithala SOC Limited is wholly-owned by Ithala Development Finance Corporation Limited which, in turn, is wholly-owned by the KwaZulu-Natal Provincial Government. Formally established in 2001 in order to enhance the Group's capital position through its deposit-taking capability, the Company's purpose is to provide financial services to the people of KwaZulu-Natal in areas where such services have not been readily available in the past, thereby contributing to the province's socio-economic development.

TAXATION

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

CHANGES IN DIRECTORS

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

- Appointments:
  - VJ Klein - 26 November 2014
- Resignations:
  - SV Khoza (Chief Executive Officer) - 31 August 2014

Mr GNJ White, an existing Non-Executive Director, was appointed as Acting Chief Executive Officer from 1 September 2014.

The Board thanks the outgoing Chief Executive Officer, Mr SV Khoza, for his dedicated service.

SHARE CONVERSION

The Company approved a conversion of all no par value shares to par value shares, on a one-for-one basis via special resolution on 13 November 2014 in terms of the Companies Act, 2008 (Act No. 71 of 2008). The notice of amendment and consequent change in value was lodged with the Companies and Intellectual Properties Commission of SA (CIPC) on 21 November 2014.

GOING CONCERN

The Company posted a net profit for the year ended 31 March 2015 of R0,5 million (2014 net loss: R69,9 million). As at 31 March 2015 the Company's total assets exceeded total liabilities by R236,9 million (2014: R186,3 million) and total cash resources were R756,9 million (2014: R531,2 million). As at statement of financial position date the capital adequacy ratio of the Company was 16,80% (2014: 12,23%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 10%. In keeping with the financial support provided in previous years, Ithala Development Finance Corporation Limited provided additional share capital amounting to R50 million during the 2014/15 financial year to recapitalise the Company, on mutually agreed terms and conditions. Although the Company continues to incur losses and is reliant on the continued support of its holding company and other government entities for the implementation of its turnaround plan, the Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

The Minister of Finance has signed a Memorandum of Agreement with the Company which specifies specific performance obligations that the Company must achieve for the renewal of the banking licence exemption for the years commencing 1 July 2015 and 1 July 2016. The Minister of Finance has assessed the performance obligations for the year ending 31 March 2015 and has granted the Company a banking licence exemption until 30 June 2016. The 2015/16 first quarter financial performance by the Company indicates that there may be challenges in achieving certain specified performance obligations for the year ending 31 March 2016 which may give rise to a material uncertainty on the Company's ability to obtain a further banking licence exemption which may cast doubt on the Company's ability to continue as a going concern.

FINANCIAL RESULTS

The results of Ithala SOC Limited for the year ended 31 March 2015 are disclosed in the Annual Financial Statements, as set out on pages 94 to 149.

DIVIDENDS

No dividends were declared or paid during the review period.

DIRECTORS AND COMPANY SECRETARY

Information relating to the Directors is included on pages 10 to 11. Information relating to the Company Secretary is included on page 88 of the integrated report. The Directors' interest in share capital and contracts, and Directors' remuneration are disclosed in the notes to the Annual Financial Statements.

MATERIAL EVENTS AFTER BALANCE SHEET DATE

The disputed dismissal case before the CCMA, in which the Company is a co-defendant, was awarded in favour of an ex-employee in July 2015. The Company had previously disclosed this matter as a contingent liability owing to the outcome being uncertain. The defendants have applied to the Labour Court to have the CCMA award reviewed. It has also been agreed by the defendants that the Company has already incurred its proportion in legal costs and that all future legal costs or possible awards will be borne by the Ithala Development Finance Corporation Limited and, as such, the contingent liability has been removed. The Directors are not aware of any other event which is material to the financial position of the Company that has occurred between the Statement of Financial Position date and the date of approval of the Annual Financial Statements.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee presents its report for the financial year ended 31 March 2015 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [In terms of section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act of 1999 as amended], section 94(7)(f) of the Companies Act, the Banks Act 94 of 1990, and the Code of Corporate Practices and Conduct set-out in the King Report on Corporate Governance for South Africa 2009.

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

PURPOSE OF THE AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is a committee of the Board of Directors and in addition to having specific statutory responsibilities in terms of the Companies Act, it assists the Board through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the 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 all Independent Non-Executive Directors. The Committee meets at least four times per year.

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

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

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

STATUTORY DUTIES

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

- Believes that the appointment of the Auditor-General (South Africa ("AG (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 13 of the Annual Financial Statements;
- Determined the terms of engagement of the AG (SA);
- Reviewed the quality of financial information;
- Reviewed the Annual Report and Financial Statements;
- Received no complaints relating to the accounting practices and internal audit of the 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
- The Committee has 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 introduction of a combined assurance model for the Company.

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

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

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

FINANCE FUNCTION

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

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 REPORT

Based on processes and assurances obtained, we recommend the integrated report to the Board for approval.

On behalf of the Audit and Compliance Committee:

Mrs Babalwa Ngonyama
Chairperson
28 July 2015

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015	2014
		R'000	R'000
Interest earned on loans and advances to customers	17	165 354	144 701
Interest expenditure	18	(71 472)	(55 654)
Net margin		93 882	89 047
Interest on held to maturity investments	17	46 633	33 088
Net interest income		140 515	122 135
Fees and other income	19	162 998	112 832
Net income		303 513	234 967
Credit impairment charges		(19 451)	(31 595)
Loans and advances to customers	6	(18 736)	(29 671)
Properties in possession	8	429	(1 511)
Trade and other receivables	7	(1 144)	(413)
Operating income		284 062	203 372
Operating expenditure	20	(283 525)	(273 350)
Impairment of intangible assets		-	-
Profit/(Loss) and total comprehensive income/(expense) for the year		537	(69 978)
Attributable to:			
Equity holders of the shareholder		537	(69 978)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2015

	Note	2015	2014
		R'000	R'000
Assets			
Cash	3	**53 840**	54 723
Statutory investments	4	**152 493**	146 205
Deposits with banks	5	**703 095**	476 445
Loans and advances to customers	6	**1 454 578**	1 505 875
Trade and other receivables	7	**4 658**	5 681
Properties in possession	8	**7 667**	7 955
Equipment	9	**32 775**	46 779
Intangible assets	10	**8 262**	7 306
Total assets		**2 417 368**	2 250 969
Liabilities			
Customer deposits	11	**2 072 979**	1 973 429
Trade and other payables	12	**53 459**	40 399
Provisions	13	**17 587**	15 089
Loan account with holding company	14	**8 181**	10 153
Retirement benefit obligations	15.1	**28 236**	25 510
Defined benefit provident fund shortfall	15.2.2	**-**	-
Total liabilities		**2 180 442**	2 064 580
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	16	**190**	295 000
Issued share premium		**344 810**	-
Accumulated loss		**(108 074)**	(108 611)
Total equity		**236 926**	186 389
Total liabilities and equity		**2 417 368**	2 250 969

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2015

	Attributable to equity holders of the shareholder			
	Issued share capital	Issued share premium	Accumulated loss	Total equity
	R'000	R'000	R'000	R'000
2014				
Balance as at 31 March 2014	190	189 810	(38 633)	151 367
Conversion of shares to no par value	189 810	(189 810)	-	-
Share issue	105 000	-	-	105 000
Loss and total comprehensive expense for the year	-	-	(69 978)	(69 978)
Balance as at 31 March 2014	295 000	-	(108 611)	186 389
2015				
Balance as at 31 March 2014	**295 000**	**-**	**(108 611)**	**186 389**
Conversion of shares to no par value	**(294 810)**	**294 810**	**-**	**-**
Share issue	**-**	**50 000**	**-**	**50 000**
Profit and total comprehensive income for the year	**-**	**-**	**537**	**537**
Balance as at 31 March 2015	**190**	**344 810**	**(108 074)**	**236 926**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015	2014
		R'000	R'000
Profit/(loss) and total comprehensive income/(expense) for the year		**537**	(69 978)
Operating activities			
Adjustments for:			
Non-cash items included in profit	22	**35 261**	38 797
Increase in operating liabilities	23	**115 862**	168 226
Decrease/(increase) in operating assets	23	**34 945**	(229 300)
Proceeds from sale of properties in possession		**1 264**	1 960
Net cash flow generated/(utilised) in operating activities		**187 869**	(90 295)
Investing activities			
Acquisition of equipment	9	**(3 343)**	(6 925)
Acquisition of intangible assets	10	**(2 551)**	(5 485)
Proceeds from sale of equipment		**80**	-
Net cash flow utilised in investing activities		**(5 814)**	(12 410)
Financing activities			
Proceeds from shares issued	16	**50 000**	105 000
Net cash flow utilised in financing activities		**50 000**	105 000
Net movement in cash for the year		**232 055**	2 295
Cash and cash equivalents at the beginning of the year	3	**677 373**	675 078
Cash and cash equivalents at the end of the year	3	**909 428**	677 373

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

CORPORATE INFORMATION
The Company provides key retail banking services including savings and home loan products primarily to the previously unbanked citizens of the KwaZulu-Natal Province. The Company is wholly-owned by the Ithala Development Finance Corporation Limited which is, in turn, wholly-owned by the KwaZulu-Natal Provincial Government as a finance development agency.

The Company is a limited liability Company incorporated and domiciled in South Africa. The address of its registered office and principal place of business is Delta Towers, 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, which are based on the International Financial Reporting Standards (IFRS), with the exception of four IFRSs (IFRS10,11,12 and 13), 11 Amendments to IFRSs including amendments made under the annual improvements process (namely, amendments to IFRS1,7,9 and 10 and amendments to IAS1, 16,19, 27, 28, 32 and 34) and 1 IFRC (IFRIC 20) which have not been included in GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Council to withdraw SA GAAP, which will cease to apply from financial years commencing on or after 1 December 2012.

The Annual Financial Statements for the year ended 31 March 2015 were authorised for issue in accordance with a resolution of the Board of Directors (Board) on 28 July 2015.

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

Financial Sustainability
The Company posted a net profit for the year ended 31 March 2015 of R0,5 million (2014 net loss: R69,9 million) after receiving specific grant funding of R52,1 million. As at 31 March 2015 the Company's total assets exceeded total liabilities by R236,9 million (2014: R186,3 million) and total cash resources were R756,9 million (2014: R531,2 million). As at statement of financial position date the capital adequacy ratio of the Company was 16,80% (2014: 12,23%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 10%. In keeping with the financial support provided in previous years, Ithala Development Finance Corporation Limited provided additional share capital amounting to R50 million during the 2014/15 financial year to recapitalise the Company, on mutually agreed terms and conditions.

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

Banking Licence Exemption
The Minister of Finance has signed a Memorandum of Agreement with the Company which specifies specific performance obligations that the Company must achieve for the renewal of the banking licence exemption for the years commencing 1 July 2015 and 1 July 2016. The Minister of Finance has assessed the performance obligations for the year ending 31 March 2015 and has granted the Company a banking licence exemption until 30 June 2016.

The 2015/16 first quarter financial performance by the Company indicates that there may be challenges in achieving certain specified performance obligations for the year ending 31 March 2016 which may give rise to a material uncertainty on the Company's ability to obtain a further banking licence exemption which may cast doubt on the Company's ability to continue as a going concern.

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 has the positive intention and ability to hold these assets to maturity. Held to maturity assets are carried at amortised cost using the effective interest rate method, less any impairments.

All financial liabilities are classified as non-trading financial liabilities and are measured at amortised cost. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. They are not entered into with the intention of immediate or short-term resale.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

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 comprises cash on hand net of bank overdrafts, statutory liquid assets and deposits with other banks.

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

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

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

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

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

The Company is firmly committed to the sale of these assets with various initiatives implemented to ensure transfer of these properties. No depreciation is charged on these assets.

Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the statement of comprehensive income, as 'Operating expenditure'.

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

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

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

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

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FOR THE YEAR ENDED 31 MARCH 2015

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 definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised.

At each date of the statement of financial position, intangible assets are reviewed for indications of impairments or changes in estimated future economic benefits.

If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

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

(a) Computer software and licences
Acquired computer software and 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 as follows:

- Computer software 2-5 Years

(b) System development costs
Costs associated with maintaining computer software programmes are recognised as an expense as and when incurred.

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

These costs are initially capitalised as work-in-progress up to the date of completion of project after which the asset is transferred to computer software and accounted for as per the computer software and 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 software product are available; and
(f) The expenditure attributable to the software product during its development can be reliably measured.

h. Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets in order to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

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.

Cumulative unrecognised actuarial gains and losses arising from experience, adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets of the defined benefit obligation were charged or credited to the statement of comprehensive income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in administration expenses.

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

The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs as a charge to the statement of comprehensive income in the period to which they relate.

Post-retirement medical obligations
Eligible employees and pensioners are entitled to certain post-retirement medical benefits in the form of medical aid contribution subsidies.

Employees who commenced service after 1 August 2000 are not entitled to post retirement medical benefits.

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

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

Long service award benefits
Employees are entitled to a long-term benefit based on various periods of long service to the Company. The long service award liability is calculated by independent actuaries using the projected unit credit method.

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

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

Current service costs and interest costs are recognised as expenses.

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

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

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

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

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

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

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

m. Fee and commission income
Fee and commission income are recognised on an accrual

basis when the service has been rendered.

Other income includes amounts recognised for dormant accounts which are greater than five years and efforts have been exhausted to contact the customer to refund the balances.

The method of recognition is consistent with the proposed treatment as recommended by the Banking Association of South Africa.

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

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

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

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

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

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

Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

- Fulfilment of the arrangement is dependent on the use of a specific asset or assets; and/or
- The arrangement conveys a right to use the asset.

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

The Company is, however, subject to indirect taxes which comprise non-recoverable Value Added Taxation (VAT) and Skills Development Levies (SDL).

q. Related parties
A party is related to the Company if any of the following are met:

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

Close family member of the family of an individual includes:

- The individual's domestic partner and children;
- Children of the individual's domestic partner; and
- Dependents of the individual or the individual's domestic partner.

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

These loans are not considered to be past due after re-negotiations, 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.

s. New standards and interpretations not yet adopted
Overleaf are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2015.

These have not been applied in preparing these financial statements:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

s. New standards and interpretations not yet adopted (continued)

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 may have to apply IFRS 1 in the 2015/16 Annual Financial Statements should the Accounting Standards Board (ASB) determine that government business enterprises 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 9 (AC 146) (amendment not adopted into SA GAAP)	**Financial Instruments: Classification and Measurement** • Annual Improvements 2010-2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities included under IFRS 9. • A finalised version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition: - IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow 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 pervasive impact on the Company's Annual Financial Statements when applied.	1 July 2014 1 January 2018

Standard	Description	Annual periods beginning on or after
IFRS 13 (not adopted into SA GAAP)	**Fair value measurements** IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. • Annual Improvements 2010-2012 Cycle: Amendments to clarify the measurement requirements for those short-term receivables and payables • Annual Improvements 2011-2013 Cycle: Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Company to provide additional disclosures.	 1 July 2014 1 July 2014
IFRS 15 (not adopted into SA GAAP)	**Revenue from Contracts from Customers** New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. • The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. • The new standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and (f) SIC-31 Revenue-Barter Transactions Involving Advertising Services.	1 January 2017
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	**Presentation of Financial Statements** • Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	1 January 2016
IAS 16 (AC 123)	**Property, Plant and Equipment** • Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method - proportionate restatement of accumulated depreciation.	1 July 2014

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

s. New standards and interpretations not yet adopted (continued)

Standard	Description	Annual periods beginning on or after
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	**Employee Benefits** • IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. • For defined benefit plans, removal of the accounting policy for recognising actuarial gains and losses is expected to have an impact on the 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 of R5,0 million will 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 32 (AC 125) (amendment not adopted into SA GAAP)	**Financial Instruments: Presentation** • Amendment clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set – of and when gross settlement is equivalent to net settlement. • Annual Improvements 2009-2011 Cycle: Amendments to clarify the tax effect of distribution to holders of equity instruments. Based on an initial assessment, the Company is not expecting a significant impact from the adoption of the amendments to IAS 32.	1 January 2013 1 January 2013
IAS 38 (AC 129), Intangible Assets	Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation.	1 July 2014
IAS 40 (AC 135), Investment Property	Annual Improvements 2011-2013 Cycle: Amendments to clarify the inter-relationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014

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).

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing the Company's 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 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015	2014
		R'000	R'000
3. CASH AND CASH EQUIVALENTS			
Cash		53 840	54 723
Statutory investments	4	152 493	146 205
Deposits with banks	5	703 095	476 445
Total		909 428	677 373

Included in cash is an amount of R7,6 million (2014: R9,4 million) relating to cash in transit at year-end.

	Note	2015	2014
4. STATUTORY INVESTMENTS			
Treasury bill		152 493	146 205
Total		152 493	146 205

The treasury bill yields interest at 5,75%. This instrument matures on 03 June 2015 and its maturity value is R154 million.

The Company invests in statutory investments to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2015 exceed the minimum reserve requirements by R37,4 million and are invested in terms of the Company's capital management strategy.

	Note	2015	2014
5. DEPOSITS WITH BANKS			
Deposits with banks		703 095	476 445
Deposits with banks is analysed, as follows:			
Fixed-term funds		430 141	406 632
Call funds		272 954	69 813
Maturity analysis of fixed-term funds			
Maturing up to 1 month		315 937	208 946
Maturing after 1 month but within 3 months		73 649	70 243
Maturing after 3 months but within 6 months		32 160	50 268
Maturing after 6 months but not exceeding 1 year		8 395	75 164
Maturing after 1 year		-	2 011
Total		430 141	406 632

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+. 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. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R161,1 million (2014: R273,8 million).

	2015	2014
	R'000	R'000
6. LOANS AND ADVANCES TO CUSTOMERS		
Housing loans	1 457 119	1 485 618
Micro finance – secured loans	66 479	50 802
Commercial property loans	12 434	20 254
Micro finance – unsecured loans	57 382	73 059
	1 593 414	1 629 733
Credit impairments for loans and advances	(138 836)	(123 858)
Loans and advances net of impairment	1 454 578	1 505 875
Maturity analysis		
On demand	-	-
Maturing from 1 month to 6 months	45 698	53 794
Maturing from 6 months to 1 year	45 459	51 212
Maturing from 1 year to 5 years	337 535	378 370
Maturing after 5 years	1 164 722	1 146 357
Total	1 593 414	1 629 733

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.

	2015	2014
Credit impairments for loans and advances		
Balance at beginning of the year	123 858	101 008
Amounts written-off against specific credit impairment	(3 758)	(6 821)
Impairments raised	18 736	29 671
Balance at end of the year	138 836	123 858
Comprising :		
Impairments for performing loans	38 578	45 297
Impairments for non-performing loans	100 258	78 561
Total credit impairments for loans and advances	138 836	123 858

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

	2015	2014
	R'000	R'000
6. LOANS AND ADVANCES TO CUSTOMERS (continued)		
Credit impairment analysis in respect of performing and non-performing loans		
Non-performing loans		
Balance at beginning of the year	78 561	68 803
Impaired accounts written-off	(3 758)	(6 821)
Net impairments raised	25 455	16 579
Balance at end of the year	100 258	78 561
Performing loans		
Balance at beginning of the year	45 297	32 205
Net impairments (reversed)/raised	(6 719)	13 092
Balance at end of the year	38 578	45 297
Total	138 836	123 858
Segmental analysis by industry of impairments in respect of non-performing loans		
Real estate	7 848	6 663
Construction	4 400	5 803
Retail - Mortgage	51 238	41 422
Retail - Other	36 772	24 673
Total	100 258	78 561
Concentration of credit risk		
Loans granted within the boundaries of KwaZulu-Natal	1 593 414	1 629 733
Total	1 593 414	1 629 733

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	31 to 60 days	61 to 90 days	More than 90 days	Total	Net realisable amount of security
2015	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Housing loans	**9 658**	**10 487**	**11 836**	**41 405**	**73 386**	**67 624**
Micro finance – unsecured loans	**159**	**228**	**47**	**1 792**	**2 226**	**-**
Commercial property loans	**-**	**-**	**-**	**-**	**-**	**-**
Vehicle and taxi finance	**-**	**-**	**-**	**2 511**	**2 511**	**1 054**
Total	**9 817**	**10 715**	**11 883**	**45 708**	**78 123**	**68 678**
2014						
Housing loans	27 108	9 209	7 708	34 399	78 424	69 214
Micro finance – unsecured loans	397	262	475	5 363	6 497	-
Commercial property loans	800	115	-	-	915	2 751
Vehicle and taxi finance	-	168	-	1 411	1 579	1 573
Total	28 305	9 754	8 183	41 173	87 415	73 538

At statement of financial position date, the value of non-performing loans was R157 million (2014: R154 million) against which credit impairments of R100 million (2014: R79 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 2015.

The net realisable amount refers to the fair value of the security and expected cash flows discounted to its present value.

The security held by the Company, represented by the net realisable amount which has been disclosed above, comprises properties as well as financial guarantees that are taken into the Company's possession only in the event of default. In respect of security for home improvement loans, the borrowers' rights to their pension and provident fund assets are ceded to the Company.

The assets held as security which are not readily convertible into cash are disposed of in accordance with the Company's policy by employing the following methods:

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

	2015	2014
	R'000	R'000
7. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	6 837	7 204
Less: provision for trade and other receivables	(4 793)	(3 650)
Sub-total	2 044	3 554
Pre-payments	2 614	2 127
Total	4 658	5 681
Credit impairments movement		
Balance at beginning of the year	3 650	3 237
Additional provisions made during the year	1 784	1 704
Unused amounts reversed during the period	(641)	(1 291)
Balance at end of the year	4 793	3 650
Amounts released during the financial year	(61)	(102)
Amounts expected to be recovered after more than 12 months from reporting date	1 256	2 894

The amount of R1,3 million (2014: R2,9 million) represents the amount expected to be received after more than 12 months from reporting date, whilst the aging of trade and other receivables as disclosed in Note 28.1 represents the contractual maturity.

	2015	2014
Analysis of trade and other receivables		
Properties in possession debtors	171	127
Service deposits	194	179
Service fees	1 050	1 274
Net refunds due from insurance underwriters	-	133
Outstanding deposits	351	343
Other	278	1 498
Total	2 044	3 554

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

	2015	2014
	R'000	R'000
8. PROPERTIES IN POSSESSION		
Gross amount at beginning of the year	13 449	11 132
Additions	1 254	4 181
Disposals	(1 971)	(1 864)
Gross amount at end of the year	12 732	13 449
Fair value decrease	(5 065)	(5 494)
Carrying amount	7 667	7 955
Fair value decrease		
Balance at beginning of the year	5 494	3 983
Increase/(decrease) for the year	(429)	1 511
Balance at end of the year	5 065	5 494

Properties in possession relate to immovable properties that have been repossessed by the Company and comprise mainly private residential dwellings. These assets are valued in terms of AC 142: Non–Current Assets Held for Sale. The manner and timing of the expected disposals of properties situated in rural areas are ascertained based on a back-testing exercise performed on prior disposals and an expected net realisable value being the Government housing subsidy receivable on disposal.

	2015	2014
9. EQUIPMENT		
Cost		
Computer equipment	46 809	45 236
Furniture and fittings	21 550	21 662
Office equipment	19 275	19 588
Leasehold improvements	43 986	53 036
Work in progress	-	680
Total	131 620	140 202
Accumulated depreciation		
Computer equipment	33 506	29 673
Furniture and fittings	16 263	15 176
Office equipment	12 606	11 418
Leasehold improvements	36 470	37 156
Total	98 845	93 423
Net book value	32 775	46 779

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2015

9. EQUIPMENT (continued)

Movement in equipment	Computer equipment	Furniture & fittings	Office equipment	Leasehold improvements	Work in progress	Total
2015	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Net carrying value at beginning of the year	**15 542**	**4 026**	**8 142**	**18 389**	**680**	**46 779**
Additions	**2 298**	**-**	**992**	**53**	**-**	**3 343**
Disposals	**(75)**	**(48)**	**(502)**	**(3 311)**	**-**	**(3 936)**
Net WIP movement transfers	**678**	**-**	**2**	**-**	**(680)**	**-**
Depreciation	**(5 162)**	**(1 150)**	**(1 993)**	**(5 106)**	**-**	**(13 411)**
Net carrying value at end of the year	**13 281**	**2 828**	**6 641**	**10 025**	**-**	**32 775**
2014						
Net carrying value at beginning of the year	16 873	4 994	8 260	22 898	-	53 025
Additions	3 153	972	2 120	-	680	6 925
Disposals	(36)	(98)	(270)	-	-	(404)
Net WIP movement transfers	-	-	-	-	-	-
Depreciation	(4 448)	(1 842)	(1 968)	(4 509)	-	(12 767)
Net carrying value at end of the year	15 542	4 026	8 142	18 389	680	46 779

The aggregate gross carrying amount of fully depreciated property, plant and equipment still in use amounts to R27,1 million (2014: R10,2 million).

	2015	2014
	R'000	R'000
10. INTANGIBLE ASSETS		
Intangible assets		
Cost		
Computer software	12 307	12 307
Work in progress	36 221	33 670
Total	48 528	45 977
Accumulated amortisation		
Computer software	7 862	6 267
Accumulated impairment		
Work in progress	32 404	32 404
Net book value	8 262	7 306

	Computer software	Work in progress	Total
2015	R'000	R'000	R'000
Movement in intangible assets			
Net carrying value at beginning of the year	6 040	1 266	7 306
Additions	-	2 551	2 551
Transfers	-	-	-
Amortisation	(1 595)	-	(1 595)
Net carrying value at end of the year	4 445	3 817	8 262
2014			
Net carrying value at beginning of the year	2 386	383	2 769
Additions	4 602	883	5 485
Transfers	-	-	-
Amortisation	(948)	-	(948)
Net carrying value at end of the year	6 040	1 266	7 306

An amount of R32,4 million had been recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010. Testing conducted by the Company revealed significant deficiencies which led to the Board of Directors delaying the "go live" decision. The impairment was recognised due to rectification efforts by the vendor failing to produce the desired result and significant uncertainty as to the implementation of the system. Subsequent negotiations with the vendor relating to the rectification of the deficiencies and the continuation of the project on amended terms and conditions were not successful.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	2015	2014
	R'000	R'000
11. CUSTOMER DEPOSITS		
Call deposit accounts	71 939	151 433
Savings accounts	838 164	795 492
Term deposits	1 162 876	1 026 504
Total deposits	2 072 979	1 973 429
Maturity analysis		
On demand	977 366	993 974
Maturing up to 1 month	177 454	107 349
Maturing after 1 month but within 6 months	526 656	516 726
Maturing after 6 months but within 1 year	351 532	313 372
Maturing after 1 year but within 5 years	39 971	42 008
	2 072 979	1 973 429

The maturity analysis is based on the remaining periods to contractual maturity from year end. At 31 March 2015, 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.

	2015	2014
Savings accounts are further analysed as follows:-		
Pass book *	589 451	573 179
Trust	83 494	90 621
Debit card	116 324	94 459
Corporate	48 895	37 233
Total savings	838 164	795 492
Term deposits are further analysed as follows:-		
Retail accounts	886 112	840 105
Corporate accounts	276 764	186 399
Total term deposits	1 162 876	1 026 504

*A passbook is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who prefer this to 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.

	2015	2014
	R'000	R'000
12. TRADE AND OTHER PAYABLES		
Trade creditors	**3 129**	3 077
Accruals	**8 513**	8 589
Operating leases - accrued expenditure	**454**	761
South African Revenue Service - VAT	**3 350**	173
Loans and advances reflecting credit balances	**1 813**	990
Stale cheques	**602**	1 219
VAT apportionment	**592**	947
Accrual for leave pay	**11 322**	12 249
Outstanding cheques	**6 131**	3 636
Sundry payables	**17 553**	8 758
Total	**53 459**	40 399
Amounts expected to be settled more than 12 months from reporting date	**14 004**	10 597

The amount of R14,0 million (2014: R10,6 million) represents the amount expected to be settled more than 12 months from the reporting date, while the ageing of trade and other payables, as disclosed in Note 28.3 represents the contractual maturity.

13. PROVISIONS

	2015	2014
Provisions comprise:		
Provision for audit fees	**3 570**	3 384
Provision for bonuses	**1 644**	1 764
Provision for long services award	**12 373**	9 941
Total	**17 587**	15 089
Provision for audit fees		
Carrying amount at the beginning of the year	**3 384**	3 473
Additional provisions during the year	**3 924**	3 758
Amounts utilised during the year	**(3 738)**	(3 847)
Carrying amount at the end of the year	**3 570**	3 384

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.

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	2015	2014
	R'000	R'000
13. PROVISIONS (continued)		
Provision for bonuses		
Carrying amount at the beginning of the year	1 764	1 552
Additional provisions during the year	4 544	4 993
Amounts utilised during the year	(4 664)	(4 781)
Carrying amount at the end of the year	1 644	1 764

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

	2015	2014
Provision for long service awards		
Balance at beginning of the year	9 941	9 458
Expensed during the year	3 561	998
Benefits vesting during the year	(1 129)	(515)
Balance at end of the year	12 373	9 941
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	12 373	9 941
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	1 010	1 009
Interest costs	883	664
Net actuarial (gain)/loss recognised during the year	1 668	(675)
Total included in staff costs	3 561	998

Sensitivity analysis	Change	2015	2014
		R'000	R'000
Assumption			
Present value of obligations		**12 373**	9 941
Average salary inflation	+1%	**13 422**	10 658
	-1%	**11 441**	9 269
Withdrawal rates	-50%	**N/A**	12 302
Average retirement age	-2 years	**11 140**	8 891
	+2 years	**13 442**	10 998

*No sensitivity analysis in respect of withdrawal benefits has been disclosed in the current year. The sensitivity analysis was disclosed in the prior year as the prevailing actuaries had not yet changed the withdrawal table used by the previous actuaries. In the current year the new withdrawal table was phased in and hence there is no need for this sensitivity.

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 2015 quantified the present value of obligations at R12,4 million (2014: R9,9 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 7,5% (2014: 8,5%) and an average salary inflation of 6,2% (2014: 7,3%).

14. LOAN ACCOUNT WITH HOLDING COMPANY

		2015	2014
Loan account with holding company		**8 181**	10 153

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.

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	2015 R'000	2014 R'000
15. RETIREMENT BENEFIT OBLIGATIONS		
15.1 Post-retirement medical benefits		
The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date. 109 current and retired employees (2014: 120) are currently covered under the scheme.		
The most recent actuarial valuation of the present value of defined benefit obligations were carried out for the current financial 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 8,60% (2014: 9,10%) and a health-care cost inflation rate of 8,40% (2014: 8,60%). The movement in the liability annualised in the statement of financial position is as follows:		
Post-retirement medical benefits		
Movement in the defined benefit obligation, is as follows:		
Balance at beginning of the year	**25 510**	23 289
Expensed during the year	**3 357**	2 762
Contributions paid	**(631)**	(541)
Balance at end of the year	**28 236**	25 510
Amounts recognised in the statement of financial position, are as follows:		
Present value of unfunded obligations	**33 208**	27 315
Unrecognised actuarial (loss)/gain	**(4 972)**	(1 805)
Net liability in the statement of financial position	**28 236**	25 510
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	**901**	812
Interest costs	**2 456**	1 950
Net actuarial (gain)/loss recognised during the year	**-**	-
Total included in staff costs	**3 357**	2 762
Unrecognised actuarial (loss)/gain		
Movement in the unrecognised actuarial (loss)/gain, is as follows:		
Opening unrecognised actuarial (loss)/gain	**(1 805)**	322
Actuarial (loss) arising	**(3 167)**	(2 127)
Closing unrecognised actuarial (loss)	**(4 972)**	(1 805)
Corridor	**3 321**	2 732
Cumulative unrecognised actuarial loss in excess of corridor	**(1 651)**	-
Expected average remaining working lives of eligible in-service members (years)	**11,6**	6,2
Acturial loss to be recognised in the following year	**(142)**	-

Sensitivity analysis – unfunded accrued liability	Change	2015	2014
		R'000	R'000
Assumption			
Present value of obligation		33 209	27 315
Health-care cost inflation	+1%	33 228	27 337
	+1,5%	33 328	27 375
	+1,75%	33 235	27 322
	-1%	33 182	27 284
Post-retirement mortality	-2 years	33 209	27 315
Expected retirement age	-1 year	34 854	29 050

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 Pensions Fund 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 Pensions Fund 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 2015 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.

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	2015	2014
	R'000	R'000
15. RETIREMENT BENEFIT OBLIGATIONS (continued)		
15.2 Pension and provident fund schemes (continued)		
15.2.1 Defined benefit pension fund		
Present value of funded obligations	589	15 371
Fair value of plan assets	(6 536)	(18 130)
	(5 947)	(2 759)
Unrecognised actuarial gain	5 947	2 759
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. Accordingly, the trustees have not yet apportioned the surplus in the fund.

	2015	2014
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of the year	15 371	24 272
Interest cost	722	1 300
Current service cost	-	-
Benefits paid	(14 036)	(8 677)
Contributions by plan participants (employees)	-	-
Actuarial loss/(gain) on obligation	(1 468)	(1 524)
Balance at end of the year	589	15 371
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	18 130	24 556
Expected return on assets	957	1 306
Contributions received	-	-
Benefits paid	(14 036)	(8 677)
Investment gain on assets	1 485	945
Balance at end of the year	6 536	18 130
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	-	-
Interest cost	722	1 300
Expected return on plan assets	(957)	(1 306)
Recognised actuarial loss	235	6
Total included in staff costs	-	-

	2015	2014	2013	2012	2011
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	**589**	15 371	24 272	22 124	22 140
Fair value of fund assets	**(6 536)**	(18 130)	(24 556)	(23 763)	(23 027)
Surplus	**(5 947)**	(2 759)	(284)	1 639	887
Experience loss/(gain) on fund liabilities	**(1 468)**	(1 524)	16 663	(542)	5 039
Experience loss/(gain) on fund assets	**1 485**	945	14 776	61	2 502

	2015	2014
	R'000	R'000
Plan asset portfolio		
Investment assets	**19 575**	18 085
Current assets/(liabilities)	**(13 039)**	45
Total	**6 536**	18 130
Effective rate of return on plan assets (actual)	**16,10%**	19,77%
The expected rate of return on plan assets in the current year has been set equal to the discount rate of 7,3%.		
	%	%
The principal actuarial assumptions at the reporting date were (expressed as weighted averages):		
Discount rate (annualised yield on R208)	**7,3%**	8,5%
Expected rate of return on plan assets	**7,3%**	8,5%
Future salary increases (inflation plus 1%)	**6,9%**	7,6%
Inflation	**5,9%**	6,6%
	R'000	R'000
Sensitivity analysis – fund liability		
At valuation assumptions:	589	15 371

*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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	2015	2014
	R'000	R'000
15.2.2 Defined benefit provident fund		
Amounts recognised in the statement of financial position, are as follows:		
Present value of funded obligations	16 964	22 303
Fair value of plan assets	(24 269)	(27 919)
	(7 305)	(5 616)
Unrecognised actuarial gain	7 305	5 616
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	22 303	25 628
Interest cost	1 135	1 542
Current service cost	612	737
Benefits paid	(3 067)	(2 488)
Contributions by plan participants (employees)	276	299
Actuarial (gain)/loss on obligation	(4 297)	(3 415)
Balance at end of the year	16 962	22 303
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	27 919	24 522
Expected return on assets	1 431	1 466
Contributions received	674	796
Benefits paid	(3 067)	(2 488)
Investment gain/(loss) on assets	(2 689)	3 623
Balance at end of the year	24 268	27 919
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	612	737
Interest cost	1 135	1 543
Expected return on plan assets	(1 431)	(1 466)
Recognised actuarial (gain)/loss	(88)	(2 588)
Total included in staff costs	228	(1 774)

	2015	2014	2013	2012	2011
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	16 962	22 303	25 628	17 866	18 977
Fair value of fund assets	(24 268)	(27 919)	(24 522)	(20 773)	(20 142)
Surplus	(7 306)	5 616	(1 106)	2 907	1 165
Experience loss/(gain) on fund liabilities	(4 297)	(3 415)	7 216	(734)	860
Experience gain/(loss) on fund assets	(2 689)	3 623	2 825	1 197	(429)

		2015	2014
		R'000	R'000
Plan asset portfolio			
Investment assets		25 368	27 145
Current assets/(liabilities)		(1 099)	774
Total		24 269	27 919
Effective rate of return on plan assets (actual)		16,10%	19,77%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 7,3%.

		2015	2014
		%	%
The principal actuarial assumptions at the reporting date were (expressed as weighted averages)			
Discount rate (annualised yield on R208)		7,3%	8,5%
Expected rate of return on plan assets		7,3%	8,5%
Future salary increases (inflation plus 1%)		6,9%	7,6%
Inflation		5,9%	6,6%

Sensitivity analysis - fund liability

Assumption	Change	2015	2014
		R'000	R'000
At valuation assumptions:		16 814	22 303
Discount rate	+1%	16 291	21 269
	-1%	17 388	22 801
Expected rate of salary increases	+1%	17 202	22 564
	-1%	16 468	21 483
No salary increases		15 068	19 111

The Company expects to make a contribution of R527 359 (2014: R592 705) to the Ithala Defined Benefit Provident Fund.

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	2015	2014
	R'000	R'000
16. SHARE CAPITAL AND SHARE PREMIUM		
Authorised share capital		
191 million ordinary shares of 0,1 cent each	191	-
191 million ordinary shares of no par value	-	191
Issued share capital and premium		
190 010 500 ordinary shares of 0,1 cent each issued and fully paid for	190	-
Share premium	294 810	-
190 000 000 ordinary shares of no par value issued and fully paid for	-	190 000
10 500 ordinary shares of no par value issued and fully paid for	-	105 000
5 000 ordinary shares of 0,1 cent par value each issued and fully paid for in the current year	-	-
Share premium	50 000	-
Total	345 000	295 000

The Company currently operates under a banking licence exemption issued by the Minister of Finance in terms of which the Company shall comply with the regulatory requirements imposed by the Registrar of Banks.

In accordance with Section 79(1) of the Banks Act, which states that a Bank shall not issue shares of no par value or convert shares to shares of no par value, the Company converted all no par value shares to par value shares.

This conversion was approved by special resolution on 13 November 2014 in terms of Schedule 5 of the Companies Act, 2008, as amended.

This was subsequently lodged with the Companies and Intellectual Property Commission on 21 November 2014.

During the current financial year the Company issued 2 000 ordinary shares of no par value for a consideration of R20 000 000.

These were subsequently converted to 2 000 ordinary par value shares of 0,1 cent each on 13 November 2014 which amounted to R2 share capital and R19 999 998 share premium.

A further 3 000 ordinary par value shares of 0,1 cent each were issued during the year for a consideration of R30 000 000 which amounted to R3 share capital and R29 999 997 share premium.

	2015	2014
	R'000	R'000
17. INTEREST ON LOANS AND ADVANCES TO CUSTOMERS AND SURPLUS FUNDS		
Revenue arising from held to maturity investments		
Interest received on call accounts	3 902	1 306
Interest received on fixed deposit accounts	34 309	21 998
Interest income on treasury bills and debentures	8 422	9 784
Total interest received from deposits with banks and from statutory investments	46 633	33 088
Revenue arising from loans and advances to customers		
Home improvement loans	9 673	9 574
"Cash backed" loans	2 962	2 717
Interest on rural property loans	7 615	8 042
Interest on personal loans	8 717	9 464
Housing loans	125 974	107 829
Property development loans	803	876
Commercial loans	1 566	1 626
Debt consolidation	3 326	3 579
Vehicle finance	2 021	798
Taxi finance	2 697	196
Total interest earned on loans and advances to customers	165 354	144 701
Total interest on loans and advances and surplus funds	211 987	177 789
18. INTEREST EXPENDITURE		
Interest paid on customer deposits	(71 403)	(55 588)
Loan account with holding company	(69)	(66)
Total	(71 472)	(55 654)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	2015	2014
	R'000	R'000
19. FEES AND OTHER INCOME		
Commission and fee income comprises the following significant categories of revenue:		
Revenue generated by Insurance Division	**16 795**	16 953
Rebates received	92	101
Commission income	14 044	13 761
Administration fee	1 187	1 354
Development fee	8	143
Funeral cover commission and other fees	1 464	1 594
Commission and fee income	**85 497**	88 396
Investigation and initiation fees from "cash backed" loans	1 778	1 935
Investigation and initiation fees from housing loans	3 373	4 426
Other investigation and initiation fees income	4 095	7 015
Service fees received from business accounts	3 653	4 304
Service fees received from pass book-based accounts	25 480	25 316
Service fees received from club accounts	3 857	3 488
Service fees received from debit card-based savings accounts	35 627	35 451
Service fees received from target save accounts	1 662	-
Other service fee income	5 511	5 977
Electronic fund transfer fee income	413	451
Valuation fee income	48	33
Government grants	**52 096**	-
Turn-around grant funding	52 096	-
Other income	**8 610**	7 483
Dormant account balances recognised in income	5 133	3 580
Bad debts recovered	107	319
Value Added Taxation	-	172
Recovery of operating expenses from holding company	2 696	2 289
Sundry income	674	1 123
Total fees and other income	**162 998**	112 832

	2015	2014
	R'000	R'000

20. OPERATING EXPENDITURE

	2015 R'000	2014 R'000
Operating expenditure is stated after the following items:		
Auditors' remuneration	3 924	3 792
Audit fees	3 967	3 758
Prior year (over)/under provision	(43)	34
Amortisation of intangible assets	1 595	948
Depreciation of equipment	13 411	12 767
Profit on disposal of properties in possession	705	(96)
Loss on disposal of equipment	3 857	404
Proceeds on insurance claims	(433)	(62)
Professional fees	5 209	2 106
Operating leases	20 053	18 946
Personnel costs (excluding Directors' and key management remuneration)	126 335	117 858
Included in personnel costs above are contributions to retirement benefit schemes:	9 281	9 400
Defined benefit plans	603	497
Defined contribution plans	8 678	8 903
Directors' emoluments	3 130	2 527
MF Kekana (appointed 7 May 2013)	921	714
M Mia	520	356
B Ngonyama	425	339
SC Ngidi	335	295
L Van Lelyveld (resigned 31 March 2014)	2	315
G White (resigned 31 August 2014)	804	508
VJ Klein (appointed 26 November 2014)	123	-
The Non-Executive Directors do not have service contracts.		
Executive Directors' remuneration	5 707	3 516
PA Ireland – Finance Director	1 716	1 635
SV Khoza – Chief Executive Officer (resigned 31 August 2014)	2 799	1 881
G White (appointed 1 September 2014)	1 192	-

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	2015	2014
	R'000	R'000
20. OPERATING EXPENDITURE (continued)		
Key management remuneration	10 001	7 434
ZK Beshe - Divisional Manager: Insurance (resigned 30 November 2014)	865	925
P Bowden - Divisional Manager: Channels (resigned 15 October 2013)	-	573
NM Dlamini - Divisional Manager: Business Risk	1 154	1 104
M Sajiwan - Compliance Officer	1 066	953
B Ntshangase - Divisional Manager: Housing (Re-assigned on 30 November 2013)	-	555
P Nzimande - Acting Divisional Manager: Channels (15 October 2013 to 28 February 2014)	-	285
PN Salanje - Divisional Manager: Internal Audit	1 102	1 040
M Mfeka - Divisional Manager: Distribution Channels (appointed 01 February 2014)	945	144
S Gwala - HR Manager	862	828
S Xolo - Marketing and Sales Manager	682	675
B Hadebe - Acting Head Credit (appointed 01 March 2014)	703	54
M Mtshali - Manager Public Sector (appointed 12 January 2014)	670	143
Z Mthiyane - Acting Divisional Manager: Segments (appointed 06 January 2014)	672	155
R Hill - Group Divisional Manager: IT Services Delivery Manager (appointed 01 July 2014)	817	-
T Mungwe - Company Secretary (appointed 01 September 2014)	336	-
R Aniff - Insurance Operation Specialist (appointed 20 January 2015)	145	-

21. TAXATION
There is no provision for normal taxation as the Company has been granted an income tax exemption in accordance with Section 10(1)(cA)(ii) of the Income Tax Act.

22. OPERATING ACTIVITIES

	2015	2014
Non-cash items included in comprehensive expense		
Depreciation of equipment	13 411	12 767
Amortisation of intangible assets	1 595	948
Fair value (increase)/decrease on properties in possession	(429)	1 511
Loss on disposal of equipment	3 857	404
Loss/(profit) on disposal of properties in possession	705	(96)
Credit impairment in loans and advances	14 978	22 850
Credit impairment in trade and other receivables	1 144	413
Total	35 261	38 797

	2015	2014
	R'000	R'000
23. CHANGES IN OPERATING FUNDS		
Increase in operating liabilities		
Increase in deposits	**99 550**	169 972
Increase in trade and other payables and provisions	**15 558**	2 940
Increase in retirement benefit obligations and defined benefit provident fund shortfall	**2 726**	1 115
(Decrease)/increase in loan account with holding company	**(1 972)**	(5 801)
Total	**115 862**	168 226
Increase in operating assets		
Decrease/(increase) in loans and advances	**36 319**	(230 963)
Increase in properties in possession	**(1 254)**	(4 181)
Decrease/(increase) in trade and other receivables	**(120)**	5 844
Total	**34 945**	(229 300)
24. COMMITMENTS		
Capital expenditure		
Authorised and contracted for	**20 092**	19 068
Comprising:		
Acquisition of equipment	**1 016**	2 205
Development of intangible assets	**19 076**	16 863
Capital expenditure will be financed from internal resources.		
Operating lease commitments		
Non-cancellable operating lease commitments are as follows:		
Not later than one year	**11 812**	17 015
Later than one year and not later than five years	**5 268**	15 231
Total	**17 080**	32 246

The Company as a lessee has entered into 16 (2014:16) related party lease agreements with the holding company. These contracts, in aggregate, amount to R8,0 million (2014: R12,9 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 R9,7 million (2014: R37,55 million).

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	2015	2014
	R'000	R'000

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 for 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.

	2015 R'000	2014 R'000
Outstanding balances with the holding company		
Outstanding balance on savings and fixed deposits	**(3 705)**	(63 337)
Loan account with holding company	**(8 181)**	(10 152)

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:

	2015 R'000	2014 R'000
Transactions with the holding company		
Bank charges received	**(94)**	(80)
Interest paid on customer deposits and loan account	**2 335**	135
Shared services	**16 385**	18 785
Rental paid	**4 600**	3 976
Recovery of operating expenses	**(2 696)**	(2 289)
Insurance recovery	**(2 496)**	(2 496)
Total	**18 034**	18 031

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	2015 Deposits due	2015 Interest expense	2014 Deposits due	2014 Interest expense
	R'000	R'000	R'000	R'000
KwaZulu-Natal Local Government	26 134	1 478	26 030	1 273
Department of Agriculture	1 138	23	1 116	17
Department of Human Settlements	12 694	264	12 431	192
KwaZulu-Natal Health	3 260	12	1 402	5
KwaZulu-Natal Growth Fund Trust	57 926	2 789	-	611

25.3 The related party transactions detailed below refer to housing loans which were granted to key management personnel. Key management personnel compensation is disclosed in Note 20.

25.3.1 Key management personnel - Directors of the Company and/or holding company

Directors of the Company and holding company are the individuals responsible for planning, directing and controlling the activities of the Company.

Loans granted to Executive Management and Directors of the holding company	Outstanding balance	Net realisable amount of security	Interest received
	R'000	R'000	R'000
2015	**4 867**	**5 280**	**388**
2014	5 294	5 340	204
Loans granted to Executive Management and Directors of the Company			
2015	**4 599**	**5 119**	**314**
2014	4 791	5 499	271

Impairment and terms of business relating to related party loans

No specific credit impairments (2014: 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 2,00% .

No amount has been expensed during this financial year in respect of bad or doubtful debts due from these related parties.

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	2015	2014
	R'000	R'000
26. CONTINGENT LIABILITY		
The Company is a defendant in the following matters which may result in possible loss to the Company:		
KZN Security Services	**2 843**	2 843
Eskom guarantees	**81**	81
Mr PR Bele	**325**	325
Mpikwana Co-operative	**900**	900
Mist of Gold Investment 23 CC	**4 296**	4 296
South African Insurance Association	**3 000**	3 000

26.1 KZN Security Services
A claim was instituted against the Company by KZN Security Services during the 2009/10 financial year, based on early termination of a written service level agreement between both parties which was due to expire on 31 March 2009. KZN Security Services has further alleged that the agreement was to have been extended, based on a verbal agreement between the holding company and KZN Security Services for a further three years until 31 March 2012. The claim has been quantified by the applicant at an amount of R2,8 million.

The matter has been in court before, but was adjourned sine die with an adverse order of costs on an attorney and client scale because the claimant was not ready. The claimant is currently operating under business rescue. The Company has written to the business rescue practitioner requesting for the formal withdrawal of the matter or to set it down for hearing. At year-end the outcome of this legal matter is still uncertain.

26.2 Eskom guarantees
The Company has issued guarantees totalling R0,08 million (2014: R0,08 million) in favour of Eskom.

26.3 Mr. PR Bele
A claim was instituted against the Company by Mr PR Bele. The claim is for damages allegedly resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R0,3 million. The claim is disputed and defended by the Company, on the basis that no such advice was provided. Pleadings have closed and the claimant must set the matter down for hearing. At year-end the outcome of this legal matter is still uncertain.

26.4 Mpikwana Co-operative
A claim was instituted against the Company by Mpikwana Co-operative for monies attached from its bank account and returned to the KZN Department of Health, which according to the latter were fraudulently obtained. The Company is defending the claim and has joined the Department of Health, which has also instituted criminal charges against the members of the Co-operative. The claim has been quantified by the applicant to an amount of R0,9 million. The matter is still at pleading stage. At year-end the outcome of this legal matter is uncertain.

26.5 Mist of Gold Investment 23 CC
A claim was instituted against the Company by Mist of Gold Investment 23 CC for damages in respect of a failed development project on the grounds that the Company did not advance the loan applied for. The Company is defending the matter on the basis that the claimant failed to meet the conditions of the loan including presales. The claim has been quantified by the applicant to an amount of R4,2million. At year-end the outcome of this legal matter is uncertain.

26.6 South African Insurance Association Guarantee
The Company has issued a guarantee of R3 million (2014: R3 million) in favour of the South African Insurance Association.

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 (2014: Nil)

27.2 Material losses incurred

As disclosed in Note 6, loans and advances to the amount of R3,8 million (2014: R6,8 million) were written-off during the financial year.

The Company has suffered losses from theft due to break-ins at branches during the year amounting to R2,4 million. R871 290 was recovered from insurance.
The Company has also suffered losses due to staff fraud of R244 900. R50 000 was recovered from the employees' pensions.

27.3 Irregular expenditure

An amount of R1 641 275 (2014: R421 588) which relates to irregular expenditure was incurred in the current financial year as a result of not complying with the Company's Supply Chain Management Policy. The table below reflects a summary of expenditure incurred and condoned by the Accounting Authority:

		2015	2014
		R'000	R'000
Opening Balance		**421**	-
Add: Irregular expenditure - current year		**1 641**	421
Add: Prior year amounts identified in the current year		**2 031**	-
Less: Amount condoned		**(421)**	-
Irregular expenditure awaiting condonation		**3 672**	421
Analysis of expenditure awaiting condonation per age classification			
Current year		**1 641**	421
Prior years		**2 031**	-
Total		**3 672**	421
Details of irregular expenditure - current year			
Incident	**Disciplinary steps taken/criminal proceedings**		
Non-compliance with supply chain management policies	None: Employee resigned	**38**	421
Non-compliance with supply chain management policies	Employee reprimanded	**45**	
Non-compliance with supply chain management policies	Employee reprimanded	**42**	
Non-compliance with supply chain management policies	Employee suspended pending hearing finalisation	**3 547**	
Total		**3 672**	421
Incident	**Condoned by (condoning authority)**		
Non-compliance with supply chain management policies	Accounting Authority	**421**	-
Total		**421**	-

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28. FINANCIAL RISK MANAGEMENT

The core function of the Company's risk management department is to identify all key risks impacting the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

The Company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Company's primary financial risks are:
- Credit risk
- Liquidity risk
- Market risk

The Board takes overall responsibility for risk management and approves risk management strategies and policies.

Senior management is responsible for its implementation and creating a risk management culture within the Company through communication, education and training.

The risk management policies are designed to set appropriate limits and controls. These are reviewed at least annually.

The table below displays an explanation of the classes of financial instruments held and their related measurement categories.

	Note	Financial asset and liabilities at amortised cost	Non-financial instruments at fair value	Total	Fair value
		R'000	R'000	R'000	R'000
2015					
Cash	3	**53 840**	-	**53 840**	**53 840**
Statutory investments	4	**152 493**	-	**152 493**	**152 493**
Deposits with banks	5	**703 095**	-	**703 095**	**703 095**
Loans and advances to customers	6	**1 593 414**	-	**1 593 414**	**1 593 414**
Trade and other receivables	7	**6 837**	**2 614**	**9 451**	**9 451**
Customer deposits and trade and other payables	11 & 12	**(2 125 836)**	**(602)**	**(2 126 438)**	**(2 126 438)**
Loan account with holding company	14	**(8 181)**	-	**(8 181)**	**(8 181)**
2014					
Cash	3	54 723	-	54 723	54 723
Statutory investments	4	146 205	-	146 205	146 205
Deposits with banks	5	476 445	-	476 445	476 445
Loans and advances to customers	6	1 629 733	-	1 629 733	1 629 733
Trade and other receivables	7	7 204	2 127	9 331	9 331
Customer deposits and trade and other payables	11 & 12	(2 012 609)	(1 219)	(2 013 828)	(2 013 828)
Loan account with holding company	14	(10 153)	-	(10 153)	(10 153)

28.1. Credit Risk

Credit risk is the risk of suffering financial loss, should any customers or market counterparties fail to fulfill their contractual obligations to the Company. Credit risk arises mainly from commercial and consumer loans and advances.

Credit risk is a significant risk resulting in management carefully managing its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

In terms of Basel III, the Standardised Approach has been adopted in the management of credit risk.

It is well suited to the Company's size and level of complexity.

Capital requirements for credit risk are determined based on the total risk-weighted assets. The assets are assigned different weightings based on their level of risk.

28.1.1 Credit portfolio analysis

The credit quality of the Company's advances is presented in the table below:

Category of Assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Assets that are impaired	Total
	R'000	R'000	R'000	R'000
As at 31 March 2015				
Housing loans	**1 292 963**	**73 385**	**90 771**	**1 457 119**
Cash loans	**24 758**	**-**	**-**	**24 758**
Commercial property loans	**2 743**	**-**	**9 691**	**12 434**
Microfinance - unsecured loans	**29 483**	**2 227**	**25 672**	**57 382**
Vehicles	**38 233**	**2 511**	**977**	**41 721**
Trade and other receivables	**4 658**	**-**	**4 793**	**9 451**
Total	**1 392 838**	**78 123**	**131 904**	**1 602 865**
As at 31 March 2014				
Housing loans	1 307 540	78 424	99 654	1 485 618
Cash loans	22 420	-	-	22 420
Commercial property loans	10 370	915	8 969	20 254
Microfinance - unsecured loans	49 304	6 497	17 258	73 059
Vehicles	26 804	1 579	-	28 383
Trade and other receivables	5 681	-	3 650	9 331
Total	1 422 119	87 415	129 531	1 639 065

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28. FINANCIAL RISK MANAGEMENT (continued)
28.1.1 Credit portfolio analysis (continued)

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 prevailing economic conditions.

The data used in the credit impairment model draws from the following factors, determined through back-testing:
- Defaults rates;
- Ratio of accounts that remained non-performing over the back-testing 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	2015	2014
		R'000	R'000
Statutory investments	4	152 493	146 205
Deposits with banks	5	703 095	476 445
Loans and advances to customers	6	1 593 414	1 629 733
Trade and other receivables	7	9 451	9 331
Total assets subject to credit risk		2 458 453	2 261 714
Letters of undertaking issued		9 669	37 550

Maturity analysis of credit risk exposures

Residual contractual maturity analysis for credit risk exposures is as follows:

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2015							
Statutory investments	4	-	152 493	-	-	-	152 493
Deposits with banks	5	588 890	105 810	8 395	-	-	703 095
Loans and advances to customers	6	7 861	37 837	45 459	337 535	1 164 722	1 593 414
Trade and other receivables	7	9 257	194	-	-	-	9 451
Total assets subject to credit risk		606 008	296 334	53 854	337 535	1 164 722	2 458 453
Letters of undertaking issued		9 669	-	-	-	-	9 669

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2014							
Statutory investments	4	-	146 205	-	-	-	146 205
Deposits with banks	5	278 759	120 511	75 164	2 011	-	476 445
Loans and advances to customers	6	9 387	44 407	51 212	378 370	1 146 357	1 629 733
Trade and other receivables	7	9 152	179	-	-	-	9 331
Total assets subject to credit risk		297 298	311 302	126 376	380 381	1 146 357	2 261 714
Letters of undertaking issued		37 550	-	-	-	-	37 550

Individually assessed exposures

The Company considers certain exposures to be individually significant warranting an assessment of impairment individually. Large exposures are the commercial property loans, property development loans and housing loans exceeding R500 000.

The following tables reflect the total gross and average loans and advances exposed to credit risk.

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28. FINANCIAL RISK MANAGEMENT (continued)
28.1.2 Credit risk measurement (continued)

Total gross exposures

Major types of credit exposures: total gross exposure	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
	2015	2015	2015	2015	2014	2014	2014	2014
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Commercial loans	12 434	7 876	4 558	16 714	20 254	6 804	13 450	26 795
Property development loans	5 859	4 401	1 458	3 680	11 423	5 804	5 619	6 752
Housing loans > R500 000	495 339	38 205	457 134	406 356	460 744	31 375	429 369	365 626
Sub-total	513 632	50 482	463 150	426 750	492 421	43 983	448 438	399 173
Other loans	1 079 782	88 354	991 428	896 296	1 137 312	79 875	1 057 437	1 232 997
Total	1 593 414	138 836	1 454 578	1 323 046	1 629 733	123 858	1 505 875	1 632 170

Net realisable amount relates to security provided for these exposures

Average gross exposures

Major types of credit exposures: total gross exposure	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security	Amount outstanding	Impairment	Net carrying amount	Net realisable value of security
	2015	2015	2015	2015	2014	2014	2014	2014
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Commercial loans	1 554	984	570	2 089	2 025	680	1 345	2 679
Property development loans	2 930	2 201	729	1 840	3 808	1 935	1 873	2 251
Housing loans > R500 000	708	54	654	581	715	49	666	568
Sub-total	5 192	3 239	1 953	4 510	6 548	2 664	3 884	5 498
Other loans	181	12	169	212	59	4	55	63
Total	5 373	3 251	2 122	4 722	6 607	2 668	3 939	5 561

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 is dependent on the pension/provident amount accumulated at a particular time.

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which has been ceded to the Company.

The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant.

28.2.2 Enforcement of security

In the event of a defaulter failing to rehabilitate an overdue loan, the Company will follow due legal process to attach and perfect the security. Properties are repossessed and made available for sale.

28.2.3 Credit risk concentration

Credit risk concentration occurs when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market conditions.

The Company operates solely in the Province of KwaZulu-Natal and lends mainly to individuals in the housing mortgage sector.

The Company has set a limit of 10% of the qualifying capital and reserves as the maximum exposure to an individual client or group of related clients. This limit is closely monitored by the Risk and Capital Management Committee.

The majority of the housing loan customers are employees of the KwaZulu-Natal Provincial Government.

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

Sectoral analysis of loans and advances	2015	2015	2014	2014
	R'000	%	R'000	%
Sectoral analysis				
Real estate	**12 434**	**1**	20 254	1
Construction	**5 859**	**0**	11 423	1
Retail - mortgage	**1 288 746**	**81**	1 280 000	79
Retail - other	**286 375**	**18**	318 056	19
Total	**1 593 414**	**100**	1 629 733	100

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28. FINANCIAL RISK MANAGEMENT (continued)
28.2.3 Credit risk concentration (continued)

Category of assets	**Assets that are neither past due nor impaired**	**Assets that are past due but not yet impaired**	**Financial assets that are impaired**	**Total**	**Credit impairments**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
As at 31 March 2015					
Real estate	**2 743**	**-**	**9 691**	**12 434**	**7 876**
Construction	**-**	**-**	**5 859**	**5 859**	**4 401**
Retail - mortgage	**1 145 044**	**66 830**	**76 872**	**1 288 746**	**78 884**
Retail - other	**240 393**	**11 293**	**34 689**	**286 375**	**47 675**
Total	**1 388 180**	**78 123**	**127 111**	**1 593 414**	**138 836**

Category of assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
As at 31 March 2014					
Real estate	10 370	915	8 969	20 254	6 804
Construction	-	-	11 423	11 423	5 804
Retail - mortgage	1 131 741	67 574	80 685	1 280 000	71 909
Retail - other	274 326	18 926	24 804	318 056	39 341
Total	1 416 437	87 415	125 881	1 629 733	123 858

Credit Impairment Reconciliation	31 March 2014	Impaired accounts written-off	Net impairments raised/(released)	**31 March 2015**
	R'000	R'000	R'000	R'000
Category of assets				
Real estate	6 804	-	1 072	**7 876**
Construction	5 804	(2 200)	797	**4 401**
Retail - mortgage	71 909	(228)	7 203	**78 884**
Retail - other	39 341	(1 330)	9 664	**47 675**
Total	123 858	(3 758)	18 736	**138 836**

Credit Impairment Reconciliation	31 March 2013	Impaired accounts written-off	Net impairments raised	31 March 2014
	R'000	R'000	R'000	R'000
Category of assets				
Real estate	7 809	-	(1 005)	6 804
Construction	6 734	(1 024)	94	5 804
Retail - mortgage	65 176	(2 021)	8 754	71 909
Retail - other	21 289	(3 776)	21 828	39 341
Total	101 008	(6 821)	29 671	123 858

28.3 Liquidity risk
Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayment structures of assets and liabilities resulting in the Company not being able to meet its financial obligations.

Liquidity risk management
The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities.
The tables below represent the contractual and expected maturities of financial liabilities as at the reporting date:

Contractual maturity analysis of financial liabilities as at 31 March 2015

	Note	On demand	Up to one month	1-6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Deposits from customers	11	977 366	177 454	526 656	351 532	39 971	2 072 979
Trade creditors	12	-	3 129	-	-	-	3 129
Accruals and accrual for leave pay	12	-	19 835	-	-	-	19 835
Loans and advances with credit balances	12	1 813	-	-	-	-	1 813
Other payables and sundry payables	12	25 332	3 350	-	-	-	28 682
Provision for audit fees	13	-	153	3 417	-	-	3 570
Provision for bonuses	13	-	-	-	1 644	-	1 644
Provision for long service awards	13	-	51	255	306	11 761	12 373
Loan account with holding company	14	8 181	-	-	-	-	8 181
Retirement benefit obligations	15.1	-	77	385	462	27 312	28 236
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	-	-
Total		1 012 692	204 049	530 713	353 944	79 044	2 180 442
% of weighting		46%	9%	24%	16%	4%	100%

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28. FINANCIAL RISK MANAGEMENT (continued)
28.3 Liquidity risk (continued)

Contractual maturity analysis of financial liabilities as at 31 March 2014

	Note	On demand	Up to one month	1-6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Deposits from customers	11	993 974	107 349	516 726	313 372	42 008	1 973 429
Trade creditors	12	-	3 077	-	-	-	3 077
Accruals and accrual for leave pay	12	-	20 838	-	-	-	20 838
Loans and advances with credit balances	12	990	-	-	-	-	990
Other payables and sundry payables	12	12 253	3 242	-	-	-	15 495
Provision for audit fees	13	-	251	3 133	-	-	3 384
Provision for bonuses	13	-	-	-	1 764	-	1 764
Provision for long service awards	13	-	42	210	252	9 436	9 940
Loan account with holding company	14	10 153	-	-	-	-	10 153
Retirement benefit obligations	15.1	-	26	131	158	25 195	25 510
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	-	-
Total		1 017 370	134 825	520 200	315 546	76 639	2 064 580
% of weighting		49%	7%	25%	15%	4%	100%

The maturity analysis is based on the contractual amounts payable (including interest) over the remaining periods to contractual maturity from year-end.

28.4 Market risk
28.4.1 Interest rate risk
The Company is exposed to interest rate risk on loans and advances to customers, deposits with banks, customer deposits (savings and term) and the Company's loan account balance with the holding company.

Key assumptions applied in projections and forecast cash flows are that:
- Levels of repayments (including pre-payments) 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 overleaf 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% (2014: 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 is presented on a net interest income basis to reflect the operations of the Company.

Projected impact on statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates	2015	2014
	R'000	R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	46 353	42 214
Increased net interest income percentage	56%	35%
Impact of increase in cost of funds on comprehensive income	(28 382)	(27 248)
Decreased net interest income percentage	(23%)	(22%)
Decrease:		
Impact of decrease in yield on assets on comprehensive income	(46 461)	(42 448)
Decreased net interest income percentage	(38%)	(35%)
Impact of decrease in cost of funds on comprehensive income	17 699	17 766
Increased net interest income percentage	15%	15%

As the Company has no assets or liabilities subject to adjustments resultant from market rate fluctuations, equity change is limited to the above changes.

Changes from the previous year to this forecast are mainly due to changes in interest rates and the related strategy in application, changes to volume, differing maturities and, hence, terms of re-pricing.

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29. CAPITAL MANAGEMENT
Capital requirements
Tier I and Tier II capital comprises issued ordinary shares, share premium, (accumulated loss)/retained income and other regulatory adjustments, such as deduction of intangible assets.

(Accumulated loss)/retained income is appropriated to reserves in July annually and, as such, the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets.

The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

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

As at statement of financial position date the capital adequacy ratio was 16,80% (2014: 12,23%).

This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank.

Capital planning is an integral part of capital management.

The 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.

		Actual	
Capital adequacy ratio	**Regulatory limit**	**2015**	2014
	≥10%	**16,80%**	12,23%
Primary share capital and reserve funds adequacy ratio	≥7%	**16,00%**	11,40%
Total risk-weighted assets (R'000)		**1 429 336**	1 570 912

Risk-weighted assets	**2015**	2014
	R'000	R'000
Credit risk-weighted assets	**921 700**	1 046 331
Other risk-weighted assets	**62 477**	79 422
Operational risk	**445 159**	445 159
Total	**1 429 336**	1 570 912

Capital structure	Note	2015	2014
		R'000	R'000
Share capital	16	190	295 000
Share premium	16	344 810	-
Reserves		(108 074)	(108 611)
Prescribed deductions against capital and reserve funds		(8 262)	(7 306)
Total Tier I capital		228 664	179 083
General provisions		11 521	13 079
Total Tier II capital		11 521	13 079
Total qualifying capital		240 185	192 158

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:

	2015	2014
Decrease in depreciation	702	692
Increase in net book value of fixed assets	702	692

31. MATERIAL EVENTS AFTER BALANCE SHEET DATE

The disputed dismissal case before the CCMA, in which the Company is a co-defendant, was awarded in favour of an ex-employee in July 2015. The Company had previously disclosed this matter as a contingent liability owing to the outcome being uncertain. The defendants have applied to the Labour Court to have the CCMA award reviewed. It has also been agreed by the defendants that the Company has already incurred its proportion in legal costs and that all future legal costs or possible awards will be borne by the Ithala Development Finance Corporation Limited and, as such, the contingent liability has been removed.

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

NOTES

MAKING IT HAPPEN TOGETHER

We would welcome your feedback and comments on this report.
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