INTEGRATED ANNUAL REPORT 2017/2018

WELL EQUIPPED & EXPERIENCED

A UNIQUE & STRATEGIC SOUTH AFRICAN INSTITUTION

MAKING IT HAPPEN TOGETHER

WWW.MYITHALA.CO.ZA

ithala SOC LIMITED

INTEGRATED ANNUAL REPORT 2017/2018

VISION | MISSION | VALUES

OUR VISION

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

OUR MISSION

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

OUR VALUES

Respect

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

Innovation

We become part of the solution, by coming up with ways to make things happen.

Integrity

We aim to always do what is right, no matter what.

Customer satisfaction

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

Empowerment

We 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 take are to provide an environment that is fair and non-biased, no matter the gender or creed of a person, in accordance with best practices.

CONTENTS

SECTION 1: OUR BUSINESS

Chairman's statement	10
Chief Executive Officer's report	12
Creating shared value	14
Stakeholder engagement	16
Our operating environment	18
Material issues and risks	22

SECTION 2: OUR PERFORMANCE

Our finance and performance review	28
Annual performance report	34
How we deliver	38
Our accountability	40

SECTION 3: RISK AND CAPITAL MANAGEMENT

Managing risk	44
Risk governance	45
Approach to stress testing	46
Capital management	46
Credit risk	47
Liquidity risk	49
Contingency liquidity risk management	50
Interest rate risk	50
Operational risk management	51
Risk management tools	51

SECTION 4: GOVERNANCE AND TRANSPARENCY

How our business is governed	54
Board, directors and committees	56

ANNUAL FINANCIAL STATEMENTS

Directors' responsibility statement	74
Company secretary's statement	75
Report of the auditor-general	76
Audit and compliance committee report	80
Directors' report	82
Statement of comprehensive income	84
Statement of financial position	85
Statement of changes in equity	86
Statement of cash flows	87
Notes to the annual financial statements	88

NAVIGATING THIS REPORT

Forward-looking statements

Indicates a page or note reference of information which can be found elsewhere in this report

MATERIAL STAKEHOLDERS

- National and Provincial Government
- Shareholders
- Regulatory bodies
- Suppliers
- Strategic partners
- Public sector customers
- Employees
- Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, cooperatives and stokvels)
- The environment

OUR CAPITALS

- Financial capital
- Human capital
- Intellectual capital
- Manufactured capital
- Social and relationship capital

ABOUT ITHALA

We are a licensed financial services provider and registered credit provider and conduct our business through a banking licence exemption notice. Ithala SOC Limited (Ithala) is the subsidiary of the Ithala Development Finance Corporation (IDFC), a state-owned entity (SOE), that is listed as a public entity in terms of Schedule 3 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

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

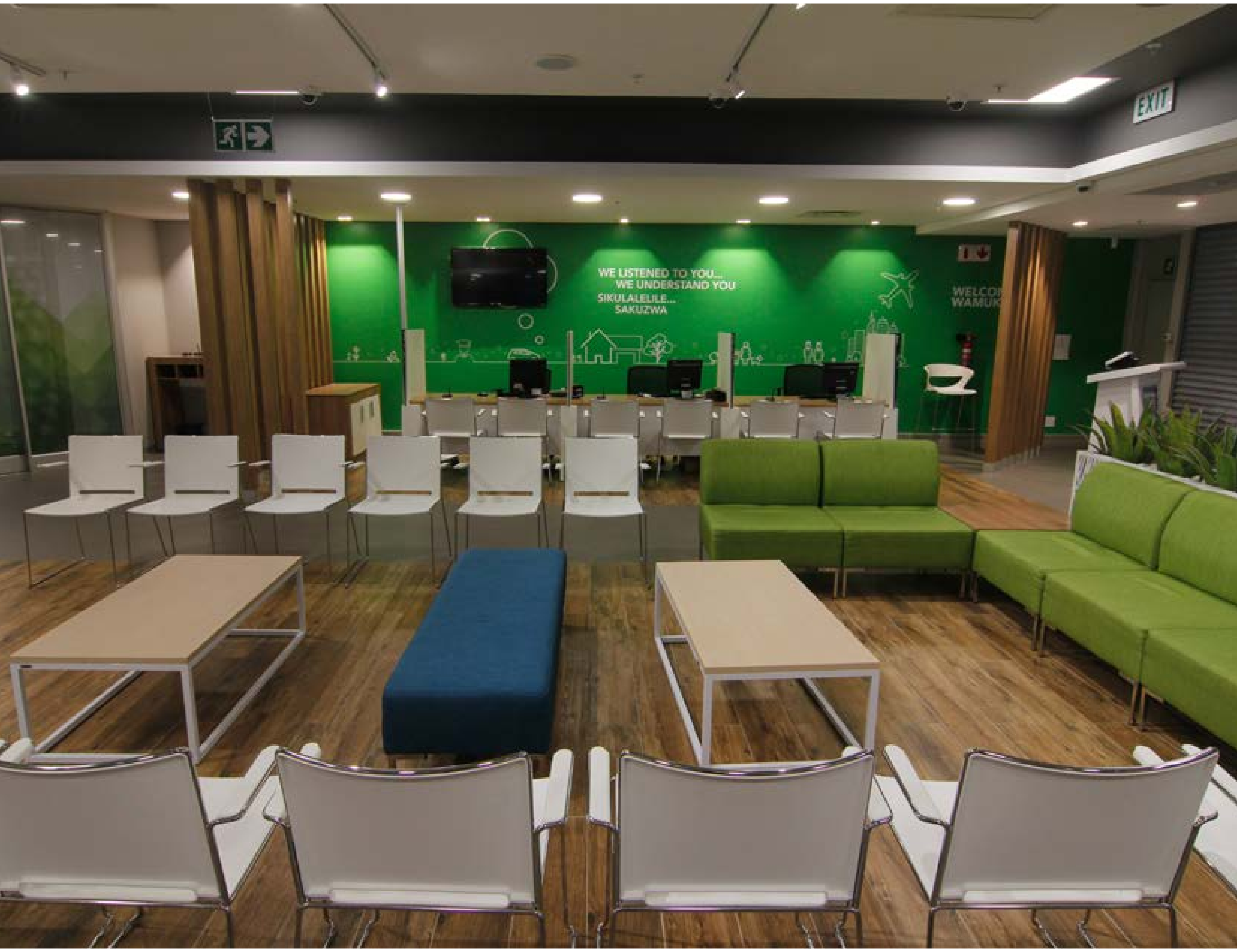
We provide financial services in areas where such services have not been readily available in the past.

We deliver on this mandate by offering:

- Transactional banking services;
- Savings and investment products;
- Housing and loan products; and
- Insurance products and services.

We use a multi-channel distribution network, to reach individuals, groups, businesses and other public sector entities.

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



KEY PERFORMANCE INDICATORS

NET PROFIT/(LOSS)	COST TO INCOME RATIO	JAWS	NUMBER OF DEBIT CARDS
▲ 29.4%	▲ 2.6%	▲ 134.4%	▲ 11.8%
2018: (32.68) Rm	**2018: 108.7%**	**2018: 5.7%**	**2018: 97,859**
2017: (46.33) Rm	2017: 111.6%	2017: (16.6)%	2017: 87,558
2016: 0.02 Rm	2016: 106.7%	2016: *22.9%	2016: 81,689

NON-PERFORMING LOANS	CAPITAL ADEQUACY RATIO	LIQUIDITY RATIO	LEVERAGE RATIO
▲ 15.2%	▲ 27.7%	▲ 42.9%	▲ 12.4%
2018: 6.2%	**2018: 15.2%**	**2018: 15.3%**	**2018: 8.6%**
2017: 7.3%	2017: ^11.9%	2017: 10.7%	2017: 7.7%
2016: 6.9%	2016: 17.7%	2016: 11.0%	2016: 9.9%

CUSTOMER DEPOSITS	TOTAL ASSETS	RETURN ON EQUITY	RETURN ON ASSETS
▲ 4.4%	▲ 6.4%	▲ 26.6%	▲ 32.4%
2018: 2.4 Rb	**2018: 2.8 Rb**	**2018: (13.96)%**	**2018: (1.207)%**
2017: 2.3 Rb	2017: 2.6 Rb	2017: (19.01)%	2017: (1.786)%
2016: 2.2 Rb	2016: 2.6 Rb	2016: 0.01%	2016: 0.001%

^ Ithala identified and queried an issue relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited with the SARB. The SARB advised Ithala that the investment should be risk weighted at 100% instead of 20%. This had a technical implication on the calculation of the capital adequacy ratio such that it reduced to 11.93%. The capital adequacy ratio would have been 13.98%, if not for this technical issue.

ABOUT THIS REPORT

As a truly South African financial services company we have a fundamental role to play in the development of the societies in which we operate. The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term. This forms the very basis of our integrated thinking and integrated reporting.

The annual report (AR) covers Ithala's strategy, material issues and performance for the period from 1 April 2017 to 31 March 2018 and outlines our prospects for ongoing sustainability for the assurance of our stakeholders. This includes our holding company, IDFC; our ultimate shareholder, the KwaZulu-Natal (KZN) Provincial Government; National Treasury; the SARB; our regulators; and large investors.

This report may be read in conjunction with the IDFC's integrated AR 2018, which is available at www.ithala.co.za. The development of the content of this report is guided by the reporting requirements set by the Auditor-General of South Africa (AG-SA), which stipulates that our performance must be demonstrated against the objectives of our annual performance plan (APP) (see page 34 - 37). 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 furthermore incorporated the principles of the International Integrated Reporting Council (IIRC) Integrated Reporting Framework that was released in December 2013, as well as the King Code of Governance for South Africa (2016) (King IV). Other standards applied in the development this report, include the South African Generally Accepted Accounting Principles (SA GAAP), the Companies Act No. 71 of 2008 (Companies Act), the Banks Act, Act No. 94 of 1990 (Banks Act), and the (PFMA).

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking. These relate to the future plans, objectives, goals, strategies, operations and performance of Ithala. Words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will' and 'should' and similar expressions are typically indicative of a forward-looking statement.

These statements are not guarantees of Ithala's future operational, 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 operational, financial or other results anticipated by such forward-looking statements will be achieved. As such, these 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.

Feedback

We welcome the views of our stakeholders on our integrated AR. Please contact Neelan Naidoo at nnaidoo@ithala.co.za with your feedback.

APPROVAL AND ASSURANCE OF OUR REPORT

The Audit and Compliance Committee is responsible for reviewing and recommending the integrated AR and the annual financial statements (AFS) to the Board for approval. The Board processed the content of this integrated AR and believes that it addresses all material issues, and fairly presents our performance. Both the internal and external audit resources provided additional assurance on the effectiveness of our risk management of material issues.

Similar to our previous report, a financial and non-financial assurance team from the AG-SA, supported by the Ithala's internal audit team, adopted a combined assurance approach to the information in this report. In addition to the AFS and opinion included here, the external auditors provided assurance on selected information contained within the annual performance report (APR).

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the APR 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 was assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings on the performance information report concerning the usefulness and reliability of the information.

STATEMENT OF THE BOARD OF DIRECTORS OF ITHALA SOC LIMITED

The Board acknowledges its responsibility to ensure the integrity of the integrated AR, and in the Board's opinion; it addresses all material issues and fairly represents the company's integrated performance.

MALOSE KEKANA
Chairman

DANNY ZANDAMELA
Chief Executive Officer (CEO)

27 July 2018

“WE **CREATE VALUE** BY OPTIMISING OUR CAPITALS (**FINANCIAL, MANUFACTURED, HUMAN, NATURAL**, AND **SOCIAL AND RELATIONSHIP)** IN THE EXECUTION OF OUR BUSINESS ACTIVITIES.”

SECTION 1: OUR BUSINESS

Chairman's statement	10
Chief Executive Officer's report	12
Creating shared value	14
Stakeholder engagement	16
Our operating environment	18
Material issues and risks	22

CHAIRMAN'S STATEMENT

MALOSE KEKANA
CHAIRMAN

I AM PLEASED TO SHARE THAT THE TENDER FOR THE NEW INTEGRATED ENTERPRISE-WIDE DIGITAL CORE-BANKING PLATFORM WAS AWARDED FOLLOWING THE COMPLETION OF THE TECHNICAL DUE DILIGENCE ASSESSMENT OF THE SYSTEM.

Ithala's core vision continues to be a financial services business which has at its core the provision of financial services to those who were previously marginalised from fully participating in South Africa's economy. Ithala is a deposit taking institution which operates under an exemption from the Banks Act. This exemption was granted by the Minister of Finance.

Ithala provides the following products and services, to mostly rural communities throughout KZN Province:

- Savings and investment products;
- Secured and Unsecured lending products
- Insurance services; and
- Transactional products.

In addition Ithala is a pioneer in the provision of housing loans to rural communities who reside on tribal land through the Permission to Occupy (PTO) product.

Events in the economic environment have a direct and indirect impact on our business. The financial year under review was an eventful one, with major changes in the South African economic landscape. South Africa's sovereign rating was downgraded in November 2017, which had major implications on the outlook of the South African financial industry and economy as a whole. The changes in political leadership and the renewed drive to restore investor confidence are showing signs of restoring certainty and stability to the economy.

All credit rating agencies have affirmed SA's foreign and local currency credit ratings at investment grade and revised the outlook on the ratings from negative to stable in their latest reviews. This, despite land expropriation and the mining charter still being topical issues for further government policy clarity.

In the short to medium term the South African economy remains weak and unable to generate sufficient jobs to dent unemployment which remains high at 27.7% (and youth unemployment at 38.6%). Government, which is the country's biggest employer, is cutting back on infrastructure spending and implementing measures to curb its spending across the board.

This, coupled with increases in value added tax (VAT), fuel price, transport costs and the subsequent knock-on effects on food prices, means that the disposable income of our target clients - who are in the lower income groups and public sector employees - is becoming smaller. Leaving them without enough money to cover their basic necessities, save and service their debt.

The SARB's Monetary Policy Committee (MPC) cut the repo rate by 25 basis points in March 2018. However, it kept the repo rate on hold at the May and July 2018 meetings as a higher global oil price coupled with the weakening of the rand pushed the inflation risk towards the upside. Further risks to the rand strength are negative swings in global risk appetite due to simmering tensions in Europe and the US's unexpected universal hike in trade tariffs. These global risks are unlikely to be resolved quickly, and, coupled with SA's persistently low GDP growth rates, point to a greater likelihood of interest rates remaining on hold throughout 2018 and rising moderately in late 2019.

A number of global and local financial institutions have lowered SA's GDP growth forecast for 2018. This means we can expect an even harder economic trading environment in the new financial year.

Investec	1.4% (vs 1.8% in March 2018)
Nedbank and NKC African Economics	1.5% (vs 1.9% in March 2018)
Fitch	1.7% (vs 2.3% in March 2018
BER	1.4% (vs. 1.9% in March 2018)

We operate in a highly regulated environment and compliance with all regulatory and statutory requirements comes at a premium for industry players. Nevertheless it is a necessary evil. This regulation has protected the South African banking and financial services industry from financial crisis experienced in other economies of the world in the past. Regulatory bodies keep us in check and ensure that depositor's funds are protected at all times and that we all operate in an ethical and fair manner in line with all regulatory requirements.

To further improve the financial performance of Ithala, the new management team, has developed and is in the process of implementing a new strategy called the Build the Bank (BtB) strategy. The intention of this strategy is to allow Ithala to apply for a full baking licence from the SARB. This strategy is comprised of the following key strategic areas in order to allow the business to apply for a full banking licence:

- Technology;
- Human Capital; and
- Financial Capital.

With respect to Human Capital, Ithala has commenced with the hiring of skilled and experienced bankers to address the lack of experience as highlighted by the SARB. This has resulted in a number of key management positions being filled, these being:

- Compliance Officer;
- Head: Credit;
- Chief Executive Officer;
- Head: IT; and
- Chief Financial Officer.

In respect of systems, I am pleased to share that the tender for the new integrated enterprise-wide digital core-banking platform was awarded following the completion of the technical due diligence assessment of the system. The new system is currently being implemented and, once complete, will comprise of the full installation of the core application plus a number of modules alongside this core-banking system. Once the system implementation is complete, Ithala will be on-par and even surpass our peer banks in terms of our customer service and product offerings.

In respect of financial capital I am pleased to share that the shareholder, the KwaZulu-Natal provincial government continues to support Ithala through the provision of both grants and capital. Ithala received a conditional grant of R40 million with the specific condition being that it be used to off-set any capital costs incurred in implementing a new core banking platform. In addition, the shareholder also provided additional capital of R60 million, which allowed Ithala to maintain the 15% capital adequacy ratio required by the SARB. Lastly, Ithala is also on discussion with a number of potential investors who have indicated an appetite in providing Ithala with equity and or quasi equity funding.

As Ithala continues its efforts to establish itself as one of the vehicles through which the concept of a fully-fledge fit for purpose state bank can be brought to fruition, we will continue placing more emphasis on strengthening our compliance with all the requirements of the various regulatory entities and bodies. All our oversight board committees are in place and exercise their oversight duties competently to ensure that we remain compliant and that all strategic business risks are adequately managed. During the financial year, we welcomed the following new board members onto our board;

- Ms Given Sibiya (Independent Non-Executive Director)
- Ms Martina Madali (Independent Non-Executive Director)
- Mr Thembinkosi Mathe (Non-Executive Director)
- INkosi Sbonelo Mkhize (Non-Executive Director and Deputy Chairman)
- Mr Danete Zandamela (Chief Executive Officer)
- Mr Lebogang Seriti (Chief Financial Officer)

Finally; I would like to acknowledge the support of our shareholder, the Ithala Development Finance Corporation, the MEC for KZN EDTEA Mr. Sihle Zikalala, the Board of Directors and the management team and all Ithala staff.

MALOSE KEKANA
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

DANNY ZANDAMELA
CHIEF EXECUTIVE OFFICER

FROM A DIGITAL TRANSFORMATION JOURNEY PERSPECTIVE ITHALA SHALL BE WELL PLACED TO DEVELOP NEW PRODUCTS AND SERVICES FOR OUR CUSTOMERS VERY QUICKLY AND EASILY ON THE NEW PLATFORM, TAKING US FIRMLY INTO THE 21ST CENTURY, LITERALLY AT A KEYSTROKE.

Whilst the result delivered for 2018 is still not up to the desired standard in absolute profitability terms, it must be recognised that we achieved an overall improvement in performance to the value of R13, 6 million during this financial year. This demonstrates that our earlier efforts to re-engineer business processes at Ithala to create a mature and sustainable financial institution carrying on the business of a bank are now paying dividends and that a turnaround is starting to take place.

The South African economy continues to present a challenging environment with limited opportunities for growth across its various sectors, which requires an agile response and an ability to leverage the limited value that is available for business activity. In addition, Ithala experienced significant system and process limitations which restricted our operations and capacity to execute the business expansion objectives that were set. This in turn had a negative impact on our performance objectives.

Despite these adversities, we were still able to grow our existing business by increasing our client base by 3.5%, our advances book by 11.1% and our customer deposits by 4.4%.

During the financial year under review, the newly recruited executive team at Ithala developed a new three-year strategic plan to re-engineer Ithala, implement a new integrated enterprise-wide digital core-banking platform, recruit skilled and experienced key individuals and recapitalise the organisation. This is aligned to the requirements of the regulator and in preparation of our application to obtain a full banking licence, to become a key state-owned bank. The executive team has already commenced with the execution of this plan, with some early successes being registered.

Ithala has been operating under a banking licence exemption notice issued by the Minister of Finance. In 2017, this licence was renewed for another two years, to allow Ithala sufficient time to complete its re-engineering of the business.

We continue to build an excellent executive team, who in turn continue to improve and grow their respective teams and our recruitment practices have been enhanced to ensure we engage the best people for the job.. While we are implementing our people strategy, we are also strengthening our skill sets and although this may cost a little more over time, we are convinced that the benefits will far exceed this small additional expense .

The ability to implement the new strategy requires us to look back and fix a number of fundamental problems. This includes a substantial investment into stabilising our legacy systems, addressing outdated networks and investing in a new integrated enterprise-wide digital core-banking platform. From a digital transformation journey perspective Ithala shall be well placed to develop new products and services for our customers very quickly and easily on the new platform, taking us firmly into the 21st century, literally at a keystroke. With this vastly improved capability our customers shall receive the excellent service that they deserve along with our new products. The passion that our staff has for our customers is legend and we shall soon be able to match this passion with fitting, market-leading products.

From a regulatory and compliance perspective, Ithala continues with ongoing efforts to achieve full compliance with the latest requirements of the various regulatory entities and bodies. More importantly, we are continuously improving to ensure that our business processes become more streamlined. Essentially, the aim is to embed continuous improvement in the very DNA of our business and to implement practices that will place us on par with our competition in the industry, such as transitioning to the International Financial Reporting Standard (IFRS) 9 from IAS 39.

Our regulatory and economic capital positions have remained within our risk appetite throughout the year.

With total capital adequacy at 15.24% and common equity tier 1 capital adequacy of 14.41%, we remain well-capitalised.

Looking forward to the next financial year, the muted economic conditions seem set to continue for the foreseeable future, tracking the business confidence index which has been under pressure for a while, making trading conditions challenging, on a somewhat uncertain outlook.

Our continued investment in our people resulted in a notable and pleasing improvement in our Investors in People journey. We are confident that this, together with our investment in our new integrated enterprise-wide digital core-banking platform, which is due for completion in the new financial year, will propel Ithala to the next level in achieving our vision.

To the Chairman, the Board and my fellow executive team, thank you for your guidance and support over the last year; I look to you for your continued support as we set out to achieve our 2019 targets. To our clients who choose to bank with us and to our shareholder and other stakeholders, we thank you for your support in 2018. None of our achievements would have been possible without the hard work, commitment and dedication of all Ithala staff – thank you for contributing to a year of growth in a challenging environment.

The new financial year ushers in an era of significant change at Ithala, as we aim to build the bank for the future and create a unique institution in the South African financial services and banking landscape.

DANNY ZANDAMELA
Chief Executive Officer (CEO)

CREATING SHARED VALUE

We remain focused on becoming an innovative and responsive banking and insurance institution owned by and serving the State and people of South Africa, which provides banking and insurance products and services focusing on corporate and retail customers.

INPUTS

FINANCIAL CAPITAL

R2.79 BILLION
OF TOTAL ASSETS
(2017: R2.62 billion)

HUMAN CAPITAL

362 EMPLOYEES
(2017: 374)

INTELLECTUAL CAPITAL

- brand
- IT systems
- processes
- procedures
- innovative products

MANUFACTURED CAPITAL

R50.7 MILLION
(2015: R58.3 million)

- properties in possession
- equipment
- intangible assets at cost

SOCIAL AND RELATIONSHIP CAPITAL

our relationships with:

- Clients
- Our shareholder
- Employees
- Regulators
- National and Provincial Government
- Communities

BUSINESS ACTIVITIES

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

Mainstream banking and insurance products:

- mortgage lending
- vehicle and taxi finance
- savings and investment products
- transactional banking
- Bank assurance

SUPPORT SERVICES

PROVIDES SUPPORT SERVICES AND PARTNERS WITH THE REVENUE GENERATING BUSINESS UNITS

Support functions

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

OUTPUTS

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

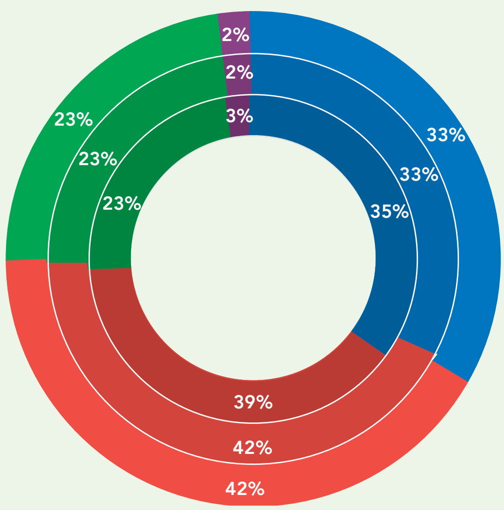
- Robust enterprise risk management
- Internal audit assurance
- Regulatory compliance and reporting
- Meaningful and informed internal and external reporting for decision-making
- Maintaining low credit losses
- People management
- Fit for purpose IT platform and services
- Brand development

OUTCOMES

THE VALUE WE ADDED

We facilitate access to financial services, enabling socio-economic development and financial well-being, which are particularly relevant to our markets. Through our governance and compliance practices, we instill a sense of confidence in the stakeholders as well as the markets we serve.

We support the long-term financial health of all our clients. The insurance products and services we offer help make people and our society more resilient.



Indepth Stakeholder Responses on Page 16

APART FROM SERVING THE GENERAL PUBLIC, **WE CREATE AN OPPORTUNITY FOR THE UNBANKED OF KZN.**

- To suppliers
- To employees
- Interest paid to depositors
- To government

Outer ring: *2018*
Middle ring: *2017*
Inner ring: *2016*

STAKEHOLDER ENGAGEMENT

At Ithala, our strategy development process is informed by stakeholder engagement to ensure that we create value and deliver on stakeholder expectations.

- **National and Provincial Government**
- **Shareholders**
- **Regulatory bodies**
- **Suppliers**
- **Strategic Partners**
- **Public Sector Customers**
- **Employees**
- **The Environment**
- **Customers, Individuals, Youth and Entrepreneurs, Community-based Businesses (taxi associations, Cooperatives and Stokvels)**

KEY OBJECTIVES

We manage the implementation of our business strategy through a balanced scorecard approach that was developed by the board. This approach focuses on creating shared value for our stakeholders who have a material interest in our success.

1. Financial and shareholder perspective

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

2. Customer perspective

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

3. Business process perspective

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

4. People, learning and growth perspective

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

Page 22

STAKEHOLDER ENGAGEMENT

At Ithala, our strategy development process is informed by stakeholder engagement to ensure that we create value and deliver on stakeholder expectations.

The Board is committed to meeting stakeholder information requirements and provides oversight of our stakeholder relationship management. We identify our material stakeholders by assessing our footprint to determine those who have a direct or indirect stake in Ithala, and who are affected or can be affected by our actions, objectives and policies.

We engage with stakeholders in varying degrees, based on the level of their interest in us and the impact of our actions on them. External governance structures also affect the degree of engagement. Our continuous engagement with the IDFC, the KZN Provincial Government, regulatory authorities, and the Minister of Finance, ensures they are updated on developments in Ithala.

Stakeholders	Expectations/key issues	Our response
National Government	• Fulfilling our mandate as a sustainable and responsive provincially-owned retail deposit taking institution. • Returning to profitability.	• Strategy formulation and business plans are based on our mandate from Government. • Our mission is to be a National State Bank, furthering the interests of Government policy.
Provincial Government	• The Ithala Act, 5 of 2013 of the KZN Legislature defines our mandate. Delivering on our corporate plan and the targets contained within our APP. • Returning to profitability.	• Promote financial inclusion and support the IDFC in delivering on its developmental mandate. • Execution of strategic plans to return to profitability.
Our shareholder, the IDFC	• Good governance. • Returning to profitability.	• Our strategic vision complements the development agenda of the IDFC. • Execution of strategic plans to return to profitability
Regulatory bodies	• Full regulatory compliance. • Risk management. • Good governance. • Board leadership and effectiveness.	• We maintain strong relationships with regulators including the SARB, the Banking Association of South Africa (BASA), the Financial Services Board (FSB), the Financial Intelligence Centre (FIC), the National Credit Regulator (NCR) and the Payments Association of South Africa (PASA). • We ensure compliance with legal and regulatory requirements, thereby retaining our various operating licences and minimising our operational risk. • Good governance. (Please refer to the governance and transparency report) • We maintain a fully functional Board and sub-committee structure in line with the provisions of all applicable regulations and legislation.

Stakeholders	Expectations/key issues	Our response
Suppliers	• On-time payment against invoices. • Fairness and transparency.	• Effective Ithala supply chain management process. • Prioritisation of Broad-Based Black Economic Empowerment (B-BBEE) suppliers.
Strategic partners	• Fulfilling our contractual obligations. Quality relationships.	• We enter Memoranda of Understanding (MoUs) with strategic partners. • We are focusing on building partnerships with fellow public sector institutions.
Public sector customers	• Tailored products and services.	• We are working towards increasing our public entity customer base, and deposit balance.
Employees	• Our long-term viability. • Rewards. • Honest and prompt communication. • Learning and development opportunities. • Opportunities for career advancement. • Consultation on changes to working conditions.	• Human Resources (HR) manages employee relations on an ongoing basis.
Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, cooperatives and stokvels)	• Customer service. • Affordable products. • Honest and understandable communication. • Being treated fairly. • Trained and competent Ithala people.	• We conduct quarterly customer satisfaction surveys. • We ensure that we communicate efficiently with our customers and invite their commentary on our value offering, to meet their evolving needs.
The environment	• To cause the least amount of environmental damage possible.	• As a financial institution, the environmental impact of our actions is fairly limited. • Employee awareness assists us to ensure that consumption is kept to a minimum.

OUR OPERATING ENVIRONMENT

ECONOMIC CONDITIONS

The South African economic outlook has improved. The economy grew by 3.1% quarter-on-quarter in the last quarter of 2017. The South African economy advanced 1.9% year-on-year in the fourth quarter of 2017, above an upwardly revised 1.3% growth in the previous period and beating market expectations of 1.4%. It is the strongest expansion since the first quarter of 2015, supported by a rebound in manufacturing and utilities and strong growth in services. The annual GDP for 2017 increased by 1.3%, compared to an increase of 0.6% in 2016.

Although the economy is starting to recover, the improvement is not yet broad or deep. Growth has stubbornly been constrained by declining private investment associated with political and policy uncertainty, and low business and consumer confidence. The global recovery has helped, with higher commodity prices and stronger growth among South Africa's trading partners. However, relative to its peers, the country lags behind. The National Treasury projects real GDP growth of 1.5% in 2018, 1.8% in 2019 and 2.1% in 2020.

The country's quarter-on-quarter economic growth improved significantly in 2017. After declining by 0.5% in the first quarter, growth improved to 2.9%, 2.3% and 3.1% in the second, third and fourth quarter respectively. On a year-on-year growth basis, growth was 1.9% in the fourth quarter, which constitutes the highest growth since the first quarter of 2015.

Provincially, KZN's growth followed suit of the national growth, growing by a significant 4.2% in the fourth quarter of 2017. The final quarter of 2017 growth came after 2.7% and 3.1% in the third and second quarter of 2017.

The largest positive contributor to growth in GDP in the fourth quarter was the agriculture, forestry and fishing industry, which increased by 37.5% and contributed 0.8 of a percentage point to GDP growth. The agriculture, forestry and fishing industry has expanded for four consecutive quarters. The industry's growth of 37.5% in the fourth quarter of 2017 was mainly the result of higher production of animal products. In terms of sectoral contribution to GDP, agriculture contributed about 2.7% to the country's total GDP in the fourth quarter of 2017.

REGULATORY ENVIRONMENT

To mitigate any potential negative impact, ensure sustainable business growth and consumer confidence, it is key for us at Ithala to understand the full context of the environment we operate within. To this end, we are committed to the preservation of our reputation, financial soundness and integrity, through compliance with all applicable regulatory requirements.

As such, ensuring that we remain abreast of existing and new legislation applicable to Ithala, as well as the implications of non-compliance with legislation, is a major focus area for Ithala's Board. The Board approved a compliance policy that defines Ithala's approach to compliance risk management and is closely aligned to the enterprise-wide risk management policy and framework. In line with Ithala's risk appetite policy, the compliance policy emphasises that Ithala has no appetite for non-compliance.

Embedding compliance within our organisation is cross-functional and stems from collaboration between key Ithala role players such as the directorship, as well as the legal-, compliance-, risk management-, business- and internal audit units. These functions all form part of Ithala's "three lines of defence".

Ithala has a dedicated and independent compliance function, as prescribed by the Banks Act. The compliance function operates under a Board-approved policy and assists the Board in managing the risk of non-compliance with applicable legislation and supervisory requirements. It assists in mitigating risks through the identification, assessment, management, monitoring and reporting of non-compliance. The Ithala compliance function also has a responsibility to identify existing and emerging legislation relevant to the business and to ensure that these risks are clearly understood and effectively managed by the Board and management.

Ithala implemented relevant compliance structures and processes to effectively manage and monitor the compliance processes to ensure that these are firmly entrenched within the operations of the organisation.

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

An update on our regulatory universe

A healthy compliance culture is fostered through the implementation of key compliance risk controls in systems, processes, and training of employees. The principles of the Banks Act, Financial Advisory and Intermediary Services Act, Act No. 37 of 2002 (FAIS), National Credit Act, Act No. 34 of 2005 (NCA), Financial Intelligence Centre Act, Act No. 38 of 2001 (FICA) and all relevant insurance related acts are incorporated in our compliance management system activities. This approach ensures that Ithala maintains a balance between compliancy and efficiency in its business activities.

Financial Intelligence Centre Act (FICA)

As part of its anti-money laundering control framework, Ithala focused on proactively increasing awareness on the importance of managing and controlling the money laundering risks that it may encounter on a daily basis. Anti-money laundering training on the updated FICA Internal Rules were included in the new financial year's compliance plan, in line with the Financial Intelligence Centre (FIC) Amendment Act 2017.

A comprehensive impact analysis of the FIC Amendment Act of 2017 was conducted, to ensure that the amendments are included in the Internal Rules (now the Risk Management Compliance Programme) and that the applicable mitigating controls are in place. Ithala is committed to meeting the deadline for the successful implementation of all the FIC Amendment Act requirements before the end of March 2019. The anti-money laundering team is in the final stages of implementing a new screening tool which will screen clients using real-time technology, in line with the required Sanctions Watch List. This will be implemented in the new financial year.

Financial Advisory and Intermediary Services Act (FAIS)

Monitoring of financial advisory and intermediary services is a key deliverable of the compliance team. This is achieved through regular branch visits, the addition and removal of representatives, monitoring the fit and proper requirements of representatives, and monitoring and reviewing of files for FAIS compliance. All compliance findings noted in the 2017/2018 financial year were reported to the Audit and Compliance Committee. As part of managing conflicts of interest, a gift register is maintained and monitored on an ongoing basis. All FAIS related complaints received on a monthly basis, are escalated to the appropriate channels for resolution.

Insurance Acts (Long-Term and Short-Term Insurance Acts)

During the year under review, the compliance function worked closely with the insurance department to ensure that the amendments in the Policyholder Protection Rules (PPRs) and the new Insurance Act of 2017 are implemented. The compliance function assisted in unpacking the various new legislative components that affect the insurance department, which included, inter-alia, several amendments to existing legislation and regulations and new legislation.

National Credit Act (NCA)

As part of its business activities, Ithala is a registered credit provider that provides secured and unsecured lending products which are concluded on the basis of a credit agreement. A risk management plan was developed that focuses on reviewing the adequacy and effectiveness of all controls applicable in the credit granting and collections department.

The recent industry discussion on the draft National Credit Amendment Bill is expected to have an impact on the lending side of our products. Hence, a risk management plan was implemented which provides for the controls to be entrenched into the operating procedures, should the Bill come into law.

The "Proposed Guidelines ascertaining consumers' gross and discretionary incomes for the purposes of Reg23A Affordability Assessments Regulations" was issued for public comment. Our proactive credit risk department, in conjunction with the compliance function, has prepared and provided comments to the NCR on the proposed guidelines by 31 May 2018.

Consumer Protection Act (CPA), Home Loan and Mortgage Disclosure Act (HLAMDA) And National Payment Systems Act (NPSA)

The CPA, HLAMDA and NPSA also form part of our regulatory compliance management framework. To test compliance with the regulatory obligations imposed by these acts, the compliance function developed compliance risk management plans. Regular monitoring of business key controls and procedures were furthermore developed, to ensure continued adherence with regulatory requirements.

Our approach to treating our customers fairly

Treating Customers Fairly (TCF) is a regulatory approach that was introduced to ensure that the fair treatment of customers is embedded within the culture of regulated financial institutions. As an outcomes-based regulatory approach, TCF seeks to ensure that financial institutions deliver specific, clearly articulated and fair outcomes to financial services consumers.

For us at Ithala, TCF means aligning our thinking, doing and feeling with what our clients expect. It is about placing ourselves in the consumer's shoes and remembering that all of us, no matter who we are, want to be treated with fairness.

As part of our commitment to the fair treatment of our consumers, the compliance function identified and prioritised TCF as a dedicated project to ensure that all TCF principles become embedded in our values and culture. The compliance function is committed to guide management and ensure that management remains steadfast in taking responsibility for aligning their objectives and processes in a TCF-appropriate manner.

For our consumers, TCF means that they can have increased confidence in their choice of financial products or services, whether it is an insurance package, a new credit product or an investment. They can enjoy peace of mind, knowing that they have not been sold a product that is unsuitable for their lifestyle or their needs. Our clients now have even more assurance that they will receive first class services from Ithala.

The year ahead

Over the last year, the pace of regulatory change in the financial sector has shown little signs of abating. Whilst keeping a close eye on current legislation affecting Ithala, the compliance function also ensures an understanding and implication of the following pending legislation:

Protection of Personal Information Act (POPI)

The POPI Act protects the personal information of clients and employees of an organisation. Although there is no effective date for this act yet, the compliance function is preparing preliminary alignment with its requirements, to ensure readiness when it comes into effect.

Financial Sector Regulation (FSR) Act

The FSR Act was published in the Government Gazette in August 2017. The act introduces the Twin Peaks model for financial sector regulation in South Africa. Twin Peaks places equal focus on prudential and market conduct supervision. This is achieved by creating dedicated authorities responsible for each of these objectives. The purpose of the act is to achieve a stable financial system that works in the interests of financial customers and supports balanced and sustainable economic growth. The compliance function is already proactively aligning its current policies and procedures with this framework.

National Credit Amendment Bill

The regulatory compliance portfolio is tracking the developments of the draft National Credit Amendment Bill. Should the Bill materialise, it seeks to provide debt interventions for low income consumers with the aim of addressing over-indebtedness. It furthermore aims to provide for the evaluation and referral of debt intervention applications and the suspension of credit agreements considered to be reckless, as part of the enforcement functions of the NCR. The risk management plan will be updated in line with developments of the bill and an impact analysis will be prepared accordingly.

The compliance and risk management functions are in discussions to assess the impact that the proposed "Guidelines on Ascertaining Consumers Gross and Discretionary Income for the Purposes of Regulation 23A Affordability Assessments Regulations" will have on our credit granting processes. Ithala made a commitment to the NCR to provide comments by 31 May 2018.

In an evolving business landscape, where legislation emerges and changes continuously, it has become critical for Ithala to implement adequate and effective structures to embed a compliance culture to ensure that the business remains on track.

To this end, the compliance function was tasked with the responsibility to remain abreast of the ever changing legislative universe of Ithala and to assist in the provision of reasonable guidance and assurance that our structures and processes are adequate and effective to mitigate compliance risk.

MATERIAL ISSUES AND RISKS

A significant number of South African organisations face governance issues which could compromise the value of their strategies and reputation. This is due to the regular detection of inadequate and ineffective internal controls, as reported by Auditor-General, Makwetu, in the media release on the plan to assist government departments in improving governance.

As Ithala is a financial institution owned by the Provincial Government, it is not immune against the public perception of its management of risks. It is in this context that our integrated report focuses on material developments and issues affecting Ithala. We define a material development or issue as one that affects our ability to deliver on our strategy, remain commercially viable and socially relevant to the communities in which we operate.

Our processes for determining material issues include an assessment of our business environment and strategy, our material stakeholders' expectations, as well as issues emanating from our risk management process.

On an annual basis, we also conduct an intensive strategic risk assessment to determine potential risks that could negatively impact our progress or achievement of our strategic objectives. This process includes regular evaluation of the robustness of our mitigation strategies.

Sources of material and risks

As part of our proactive risk management approach, Ithala makes use of strategic measuring instruments such as environmental scanning, to respond effectively to uncertainties. These tools enable Ithala to identify, analyse, evaluate and monitor risks in our political, economic, social and environmental context.

Internal and external sources of risk information

Ithala obtains information on risk through the following:

- Engagement with key stakeholders in terms of the MoA to meet performance targets, including the Minister of Finance, MEC: EDTEA and MEC: Kwa-Zulu Natal Finance;
- Engagements with the SARB to determine requirements to obtain a banking licence;
- Content analysis at Board and Board Committee meetings to identify statements, concerns and resolutions on how risk maturity should be improved;
- Engagements with regulators such as the NCR, etc.;
- Monitoring of media coverage; and
- CEO road shows.

Through these processes, we derived the following material issues (in no particular order), which encompass our key risks, while also addressing our values.

Material issue	Why is this a material issue?	How are we positioned to deal with this?	What risks arise from this issue?
Political change with potential impact on the direction of Ithala.	Ithala as a state-owned financial institution has limited funding options.	The approval of our Section 12 banking license application will enable Ithala to function as a bank. This process will be driven by the build the bank strategy with a clear turnaround plan. There are furthermore ongoing roadshows for brand awareness to change public perception and raise capital from the market, as well as Government partners.	**Strategic risk**
Achieving a permanent banking licence.	Limited financial means (Capital/funding strategies).		

Material issue	Why is this a material issue?	How are we positioned to deal with this?	What risks arise from this issue?
Compliance with applicable legislative requirements.	The Financial Intelligence Centre Amendment Act brings a change in Ithala's compliance landscape. It is important to assess our readiness to comply with the amended act.	A compliance risk universe will be reviewed and updated; a risk and compliance management framework will be developed and embedded in the business, to ensure that we comply with amendments in the legislation.	**Compliance risk**
	Basel III principles: compliance to the principles of Basel III is of material nature, failure of which may have a negative impact in the approval of our banking licence.	Ithala submits reports in compliance with Basel III standards. A GAP assessment will be conducted to establish Basel functionality.	**Capital risk**
Sustaining banking exemption.	To seek extension of the banking licence exemption while waiting for the approval of full banking licence application, engagements with key stakeholders in terms of the MoA to meet performance targets is material for Ithala. The identified key stakeholders are: The Minister of Finance of South Africa, MEC: EDTEA and MEC: Kwa-Zulu Natal Finance.	Ithala will continue to meet the conditions set out in the MoA through its Executive Committee and Board.	**Strategic risk** **Liquidity risk**
Assets and liabilities.	Ithala's loan book is exposed to home loans, while the savings control is dominated by retail deposits.	The deposit to advances limit is defined in the appetite framework approved by the Board (Prudential requirement definition: no more than 85). The credit risk appetite will be reviewed to absorb introduction of unsecured lending products, while savings control will be enhanced to attract longer term deposits.	**Liquidity risk**

Material issue	Why is this a material issue?	How are we positioned to deal with this?	What risks arise from this issue?
Rapid economic changes with impact Ithala's revenue generating strategy	Unstable economic conditions have an impact on Ithala's loan book.	Ithala will comply with new accounting standards which requires Ithala to monitor macro-economic factors with impact on Ithala's loans. There is also a process of establishing and enhanced treasury capability to manage liquidity risk, which is important to address this risk.	**Interest rate risk** **liquidity risk** **Credit risk** **Solvency risk**
Attracting new market segment, retaining existing clients and remaining competitive in the banking industry.	There is a need for Ithala to invest in a technology infrastructure that will service lower, middle and higher-class markets.	Ithala finalised the procurement of a new integrated enterprise-wide digital core-banking platform with advanced features to attract new clients and retain existing customers.	**Operational risk**
Fraud risk and cyber crime	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.	A fraud prevention strategy for Ithala was reviewed and approved. On the other hand, information security capability was established to implement information security controls that will protect Ithala's sensitive data.	**Operational risk**
Employee value proposition	There is a need to invest in human capital through the introduction of incentives and realisation of return on investment for all appointments.	Improvements to our employee value proposition are underway through: • Approval of an Ithala performance incentive scheme; • Pay scale benchmarking against the market; • Attaining of the Investors in People Standards; and • Introduction of employee annual reward and recognition programmes for top performers.	**Operational risk**

Material issue	Why is this a material issue?	How are we positioned to deal with this?	What risks arise from this issue?
Sustainability of the current brand growth	Marketing initiatives that had a positive impact on business growth were minimised in the year under review to maintain cost saving initiatives. This led to a sporadic approach to brand/product marketing with infrequent presence in the market place.	Ithala will continue to build the brand pre- and post-implementation of the new integrated enterprise-wide digital core-banking platform which accommodates innovation of digital products. Allocation of a marketing investment in line with industry benchmarks, will also mitigate the risk.	**Operational risk**
Improvement capital adequacy	The capital adequacy ratio as at 31 March 2018 was 15.2%. This level is above the minimum capital adequacy ratio of 11.625% required by the SARB and the MoA requirement of 15%.	A grant will be received to lower losses which will have an impact on capital adequacy. The ultimate shareholder, EDTEA, has furthermore committed to recapitalise Ithala in the new financial year. The shareholding and funding structure will mitigate the risk, by diversifying the spread of investments.	**Solvency risk/ capital adequacy**

ITHALA'S LEGACY WAS BUILT
BY BEING THE **CHAMPION
OF MAKING BANKING** AND
FINANCIAL SERVICES ACCESSIBLE
TO THE PREVIOUSLY FINANCIALLY
EXCLUDED PEOPLE IN AREAS OF KZN.

SECTION 2: OUR PERFORMANCE

Our finance and performance review	28
Annual performance report	34
How we deliver	38
Our accountability	40

OUR FINANCE AND PERFORMANCE REVIEW

AN IMPROVED SET OF RESULTS

Although the financial year closed with a disappointing net loss of R32, 6 million, the results have still improved by 29.4% year-on-year (2017: loss of R46, 3 million). Our non-interest income has grown by 16.6% year-on-year and our operating expenses grew well below inflationary growth and was only 3.5% higher than the prior year, at the end of this financial year.

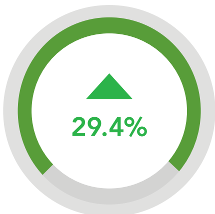
The JAWS ratio for 2018 was a positive 5.8% (2017: negative 16.6%). This was because of a revenue increase of 9.3% and an increase of 3.5% in our expenses, year-on-year .

The balance sheet also grew in the 2018 financial year, with total assets growing by 6.4% to R2, 8 billion (2017: R2, 6 billion). Loans, advances and customer deposits grew by 11.1% and 4.4% to R1, 6 billion (2017: R1, 4 billion) and R2, 4 billion (2017: R2, 3 billion) respectively.

The capital adequacy ratio improved from 11.9% at the end of the previous financial year to 15.2%. This level is above the minimum capital adequacy ratio of 11.625% required by the SARB and the minimum capital adequacy ratio of 15.0% that Ithala is required to hold as stipulated by the exemption extension notice During the 2018 financial year, our shareholder provided capital of R60 million to recapitalise Ithala and, a further R40 million for the new integrated enterprise-wide core banking system.

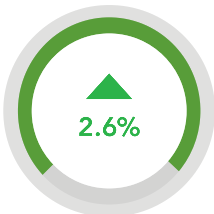
Ithala's credit performance improved in 2018, with our non-performing loans percentage decreasing by 1.1% to 6.2% (2017: 7.3%) and the impaired advances ratio at an impressive 5.0% (2017: 6.3%).

NET PROFIT/(LOSS)



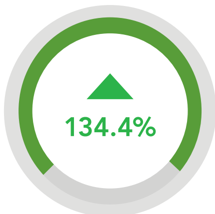
2018: (32.68) Rm
2017: (46.33) Rm
2016: 0.02 Rm

COST TO INCOME RATIO



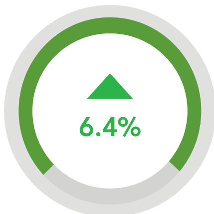
2018: 108.7%
2017: 111.6%
2016: 106.7%

JAWS



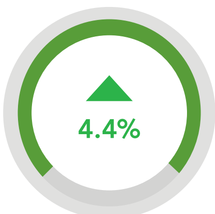
2018: 5.7%
2017: (16.6)%
2016: *22.9%

TOTAL ASSETS



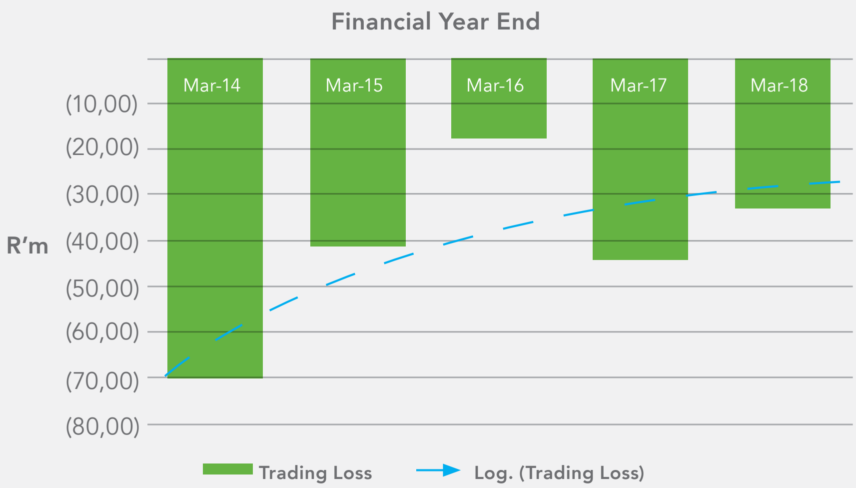
2018: 2.8 Rb
2017: 2.6 Rb
2016: 2.6 Rb

CUSTOMER DEPOSITS



2018: 2.4 Rb
2017: 2.3 Rb
2016: 2.2 Rb

Historical financial performance – Last 5 years



STATUTORY INCOME STATEMENT ANALYSIS

The overview that follows, highlights the main reasons for the variance in the major category line items in the income statement during the year under review.

	Note	2018 R'000	2017 R'000
Interest earned on loans and advances to customers	17	**170 891**	163 960
Interest expenditure	18	**(92 323)**	(90 093)
Net margin		**78 568**	73 867
Interest on held to maturity investments	17	**88 258**	92 409
Net interest income		**166 826**	166 276
Fees and other income	19	**138 183**	118 507
Net income		**305 009**	284 783
Credit impairment (charges) /reversals		**(13 774)**	(18 081)
Loans and advances to customers	6	**(13 194)**	(17 250)
Properties in possession	8	**(309)**	(820)
Receivables		**(271)**	(11)
Operating income		**291 235**	266 702
Operating expenditure	20	**(323 919)**	(313 028)
Impairment of intangible assets			
Loss and total comprehensive expense for the year		**(32 684)**	(46 326)
Attributable to:			
Equity holders of the shareholder		**(32 684)**	(46 326)

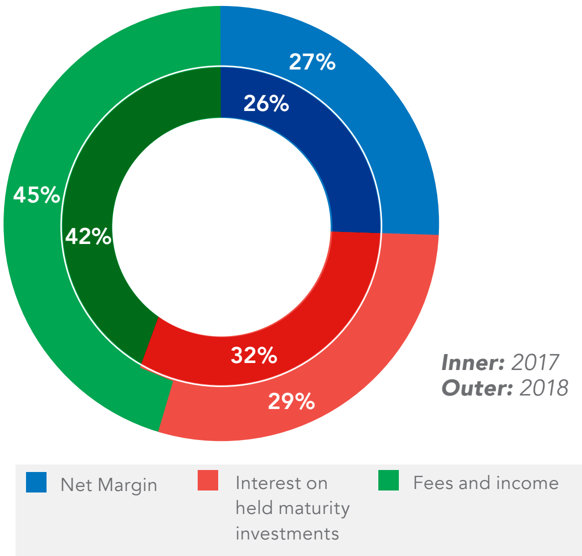
Net interest income

Our net interest income increased by 0.3% to R166, 8 million (2017: R166, 3 million). The main reason for the small increase is the 25bps reduction in repo rates in July 2017 and a further 25bps reduction in the repo rate in March 2018.

Fees and other income

Fees and other income increased by 16.6% to R138, 2 million (2017: R118, 5 million), largely because of an increase in revenue generated from debit cards. Revenue from debit cards as increased by 28.0% (R12, 9 million), year-on-year. Also contributing to the increase, are the fees earned from loan advances (R0, 7 million); fees earned from customer deposits (R3, 5 million) and the bad debts recovered (R2, 0 million).

% of total operating income before impairments



Credit impairment charges on loans and advances

Credit impairment charges on loans and advances decreased by 24.0% from R18, 1 million to R13, 2 million. This is mainly due to the improvement in the non-performing loans for housing loans resulting in lower impairments being raised in the current financial year.

Operating expenditure

The cost-to-income ratio for the financial year that ended 31 March 2018, was 108.7%. The ratio has improved, when compared to the prior year which ended at 111.6%.

The total operating expenditure increased by 3.5% to R323, 9 million (2017: R313, 0 million).

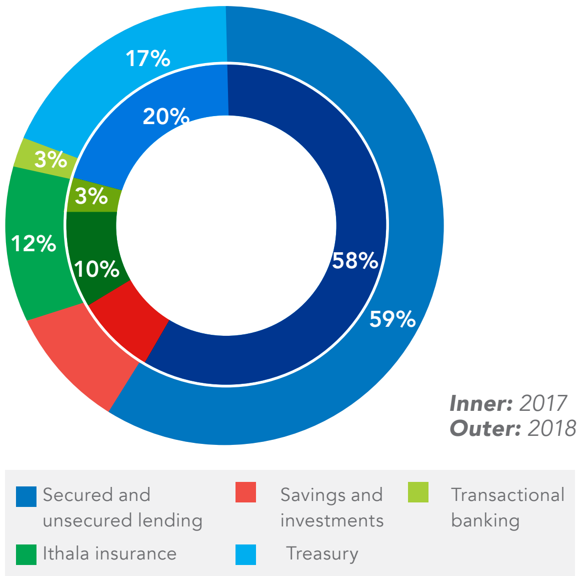
Cost containment measures were effectively implemented during the financial year. This is evident by the lower than inflationary increase in total operating cost.

Staff costs increased by 3.0% to R173, 1 million (2017: R168, 1 million), mainly because of the annual salary increase. This increase was reduced through a decrease in temporary staff cost and the saving in salary cost due to the executive position that has become vacant during the 2018 financial year.

Business unit overview

Business unit contributions to revenue are reflected below. Growth can be seen in the secured and unsecured lending and transactional banking business units. Treasury fund returns however declined, mainly due to the decrease in repo rate during the financial year.

Contribution to revenue for the year – by business unit at a glance



STATUTORY BALANCE SHEET ANALYSIS

Since 31 March 2017:

- Our total shareholders' equity increased by 12.4% to R247, 8 million (2017: R220, 5 million). This is due to the capital injection of R60 million received from the shareholder during the financial year, reduced by the losses incurred;
- The liquidity ratio improved from 10.7% to 15.3%;
- The return on shareholders' equity improved from -17.4% to -14.0%; and
- The return on assets decreased from -1.8% to -1.2%.

Ithala's comparative balance sheet position at 31 March 2018 is as follows:

R'000	Change %	2018	2017
Assets			
Cash	(25.9%)	**34 477**	46 500
Statutory investments	5.6%	**187 714**	177 769
Investments and deposits with banks	2.4%	**950 397**	928 453
Loans and advances to customers	11.1%	**1 554 667**	1 398 875
Trade and other receivables	(1.7%)	**12 933**	13 162
Properties in possession	(19.6%)	**6 996**	8 702
Equipment	(12.9%)	**30 009**	34 439
Intangible assets	(9.9%)	**13 692**	15 195
Inventory	100.0%	**1 399**	1 433
Total assets	**6.4%**	**2 792 284**	2 624 528
Liabilities			
Customer deposits	4.4%	**2 387 119**	2 285 509
Trade and other payables	62.1%	**102 889**	63 454
Long service obligation	0.9%	**14 884**	14 757
Loan account with holding company	(77.3%)	**1 223**	5 397
Retirement benefit obligations	9.9%	**38 331**	34 888
Total liabilities	**5.8%**	**2 544 446**	2 404 005
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	0.0%	**190**	190
Issued share premium	16.0%	**434 710**	374,710
Accumulated loss	21.2%	**(187 062)**	(154 377)
Total equity	12.4%	**247 838**	220 523
Total liabilities and equity	**6.4%**	**2 792 284**	2 624 528

Cash, investments, deposits and statutory investments

Cash, deposits with banks and non-statutory investments equated to an approximate R985 million as at 31 March 2018. This represents an increase of R9, 9 million when compared to the prior year (R974 million). Current cash flow projections for the next 12 months reflect no cash flow shortages. The current liquidity surplus provides a platform for strong organic growth, which if executed in an efficient and responsible manner, supported by sound risk management, will lay the foundation for restoring profitability.

On a monthly basis, Ithala is obliged to hold an average amount of statutory investments that may not be less than 7.5% of its liabilities to the public. Ithala holds a buffer of 20% above this value, to ensure that the minimum balances required to be held are not breached in any instance. These funds are not available for use in operational activities. Ithala held R266, 6 million (15.3%) in average liquid assets per the March 2018 BA 300 which exceeded the total statutory minimum and the MoA target of R132, 3 million (7.5%) by R134, 2 million.

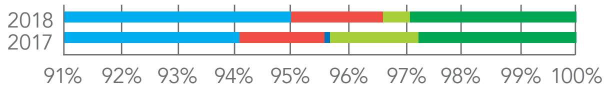
Gross loans and advances

Gross loans and advances increased by 11.1% to R1, 6 billion (2017: R1, 4 billion). As at 31 March 2018, 6.2% of total advances are non-performing.

New advances for 2018 amounted to R405, 9 million. This represents an increase of R129, 7 million (47.0%), when compared to the prior year. New advances for housing loans increased by 75.0%. The introduction of discounted rates to public sector employees for housing loans as well as free attorney cost for bond switches, saw an increase in the uptake of these loans.

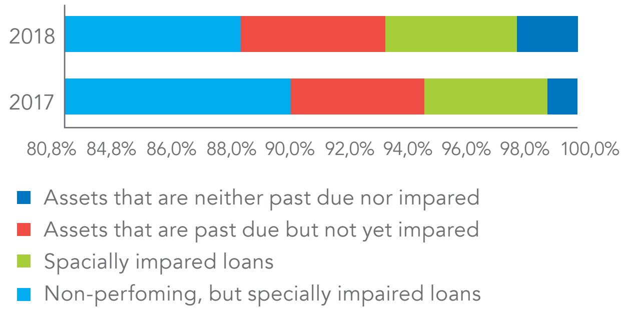
As macro-economic and domestic economic uncertainty persists, combined with the prospect of higher interest rates and inflationary expectations, we continue to expect a subdued household sentiment with regard to overall credit appetite. We expect that all of these factors, either individually or in combination, will continue to present challenges to growth in retail credit demand over the next 18 months.

Gross loans and advances by product



	2017	2018
Housing Loans	94,1%	95,0%
Cash Loans	1,5%	16%
Commercial perty loans	0,1%	0,0%
Unsecured loans	1,5%	0,5%
Vehicle and taxi finace	2,8%	2,9%

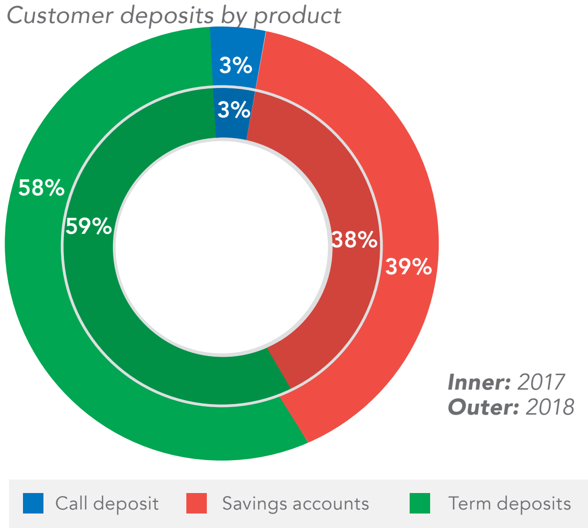
Characteristics and metrics of loans and advances



Customer deposits

The customer deposits balance has increased by R101, 6 million, when compared to the balance at 31 March 2017. Although this is a modest increase, it is nonetheless impressive, considering the reduced savings appetite by customers due to lower disposable income.

Customer deposits by product



Future outlook

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

Total new advances will be increased to R578 million for the year. The main driver of income growth will continue to be derived from non-interest revenue, namely fees on the new and innovative electronic banking and insurance products.

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

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

ANNUAL PERFORMANCE REPORT

Every year, as a state-owned entity, Ithala agrees on its performance objectives, measures and indicators, as well as its annual targets with its ultimate shareholder, EDTEA and Provincial Treasury, in line with the PFMA.

Financial & Shareholder Perspective (Weighting = 25%)

Objectives	Key Performance Indicators	Actual 2016/17	Target 2017/18	Actual 2017/18	Management Comment
Increase & Enhance Capital Base & Assets	Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2018*	11,93%	18,22%	15,24%	Target not achieved The failure to achieve the targets is attributable to: The negative variance in unsecured advances which resulted in fee income from advances being below budget. The customer deposit target was not achieved, resulting in the return on surplus funds being below budget. The growth in electronic transactional accounts was not achieved, resulting in electronic transactional account fee income being below budget. The negative variance in insurance income, due to certain insurance products performing below expectations.
	Achieve the budgeted return on equity (ROE) by 31 March 2018	-19,01%	-1,28%	-13,96%	
	Achieve the budgeted return on assets (ROA) by 31 March 2018	-1,79%	-0,13%	-1,21%	
Sustainable Profitability	Achieve the budgeted annual net profit/(loss) (R'000)	-46 326	-3 641	-32,684	
	Achieve the budgeted cost to income ratio (CTIR) by 31 March 2018	111,57%	98,07%	108,72%	
Sound Governance & Stakeholder Management	Clear all the outstanding internal and external audit issues within the agreed upon timeframes	80.11% completed within the stipulated timeframe	90% completed within the stipulated timeframe	84.81% completed within the stipulated timeframe	Target not achieved Some audit issues are taking longer than the planned time to address due to other urgent deliverables required by the business and limited capacity.

* Unaudited key performance indicator (KPI).

Customer Perspective (Weighting = 25%)

Objectives	Key Performance Indicators	Actual 2016/17	Target 2017/18	Actual 2017/18	Management Comment
Increase Market Share	Achieve the budgeted **total** number of **active^ debit** cards by 31 March 2018	87 558	107 615	97 859	Target not achieved The failure to achieve the target is attributable to the lower than budgeted sales volumes and account activation.
	Achieve the budgeted insurance revenue amount by 31 March 2018 (R'000)	New KPI not in 2016/17	21 272	14 165	Target not achieved The budget prepared on the assumption that certain product launches would be successul and that the insurance managment system (IMS) would be available, this was not the case.
	Achieve the budgeted customer deposits amount by 31 March 2018 (R'000)	2 285 509	2 625 731	2 387 119	Target not achieved Although there is growth in the customer deposits balance on a month on month basis, the expected budget has not been achieved, due to the difficult economic conditions and unattractive interest rates.
	Achieve the budgeted secured new advances amount by 31 March 2018 (R'000)	New KPI not in 2016/17	327 862	403 100	Target achieved
	Achieve the budgeted **unsecured** new advances amount by 31 March 2018 (R'000)	New KPI not in 2016/17	176 202	2 769	Target not achieved The take up of the unsecured loan product has been poor due to system related fulfilment issues.
Establish Public Sector Banking Services	Achieve the budgeted **total** value of deposits from public sector clients (R'000)	328 174	433 825	253 011	Target not achieved A large number of new depositors, declined Ithala's pricing over the period, as well as existing depositors moving the funds to other institutions with higher rates.
Sound Customer Relationship Management	Achieve the targeted score per the customer satisfaction measure by 31 March 2018	87%	80%	91%	Target achieved

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

Business Process Perspective (Weighting = 25%)

Objectives	Key Performance Indicators	Actual 2016/17	Target 2017/18	Actual 2017/18	Management Comment
Effective Distribution Channels	Install and operationalise the budgeted number of new self-service devices (SSDs) by 31 March 2018	0	100	Nineteen (19)	Target not achieved The introduction of the new ATM SSD has been going through protracted internal business readiness, with most of the challenges now having been overcome.
	Install and operationalise the budgeted number of new automatic teller machines (ATMs) by 31 March 2018	9	50	Nine (9)	Target not achieved Acquisition of profitable sites remain challenging; ATM's have been unable to achieve the minimum of 2,000 transactions to maintain financial viability.
Enhanced Business Effectiveness through Technology	Achieve the core banking system centralisation milestones by March 2018	42.50% adherence to the implementation milestones	100% adherence to the implementation milestones	n/a	The IT Governance Committee has approved the cancellation of the Centralization Project and, replacing it with a Stabilization Project which commenced in September 2017. This project will be combined with the implementation of the new integrated enterprise-wide core banking system which will commence in the next financial year.
	Achieve the insurance management system (IMS) implementation milestones by 31 March 2018	86.05% adherence to the implementation milestones	100% adherence to the implementation milestones	34.00% adherence to the implementation milestones	Target not achieved Delays have been experienced due to changes in leadership and business priorities which lead to the need to re-plan the project.

People, Learning and Growth Perspective (Weighting = 25%)					
Objectives	**Key Performance Indicators**	**Actual 2016/17**	**Target 2017/18**	**Actual 2017/18**	**Management Comment**
An Organisational Culture that Promotes Excellence	Implementation of the Investors in People ("IIP") Standard by 31 March 2018	New KPI not in 2016/17	100% adherence to the implementation milestones	62.96% adherence to the implementation milestones	Target not achieved In this years review, Ithala received 17/27, which is encouraging; however, Ithala still did not achieve the Developed standard.

HOW WE DELIVER

INFORMATION TECHNOLOGY

The information technology (IT) unit is a strategic partner to business that focuses on improved operational efficiency through the automation and integration of core business processes and the provision of real-time information for decision-making.

Although Ithala still runs outdated disparate systems that have not been upgraded in more than 10 years, the IT team has utilised the means to their avail to ensure continued support to the business. Where possible, system controls were implemented to mitigate risks related to these outdated platforms, whilst ensuring improved accessibility to the systems.

The availability of the legacy system and the hosted banking system in 2018 has been more than 95%, which is within service level agreement (SLA) tolerances and consistent with the prior year's performance. The disk utilisation of most of the branches on the IBS AS400 platform was however above 80.0%. This indicates a need to urgently replace this solution, as it is no longer upgradable.

The centralisation project that was planned for conclusion in 2017 was cancelled in August 2017 when the new Head of IT was appointed, as the business case for it proved to be insufficient, and the project was more than a year behind schedule. The Enterprise hosted banking solution continues to have major performance challenges and the support and infrastructure teams have been working closely together, to monitor it and mitigate the business risks.

To mitigate these system challenges, an integrated banking solution tender was initiated, published and awarded. This solution will replace both the legacy IBS and Enterprise platforms with a modern, agile and functionality rich integrated core-banking solution, with full digital platform capability that is closely aligned to the build the bank strategy.

The solution will be fully implemented in the 2019 financial year and will include a complete IT infrastructure upgrade at all branches.

OPERATING INFRASTRUCTURE

Our self-service channels

Technology plays a significant role in the delivery of our service to our customers. A technology road map that includes the implementation and the enhancement of our new digital core-banking platform is currently underway. This will enable us to improve the speed and accessibility of our services and enhance our customer experience at all service touch points; be it at the branch, customer contact centre, or digital platforms i.e. mobile banking, automatic teller machines (ATM's) etc.

The introduction of electronic or digital banking channels requires that banks revisit their branch sizes and design. Most customers, especially the younger generation, do most of their day-to-day banking through digital channels, i.e. internet, mobile applications and ATM's. The physical branch however remains a critical point of contact for transacting and providing end-to-end services, especially amongst lower income market segment customers.

To remain relevant, we invested in developing our digital capability, which includes mobile and internet banking and self-service devices (SSD's). During the 2018 financial year, Ithala installed a further nine (9) ATM's and nineteen (19) SSD's. The SSD's were rolled out on a pilot basis, in partnership with the eThekwini Municipality and Business Association. These devices can currently be found in informal businesses in the rural and peri-urban areas that supports the township revival programmes.

Our branch network

Ithala's legacy was built by being the champion of making banking and financial services accessible to the previously financially excluded people in areas of KZN. The customer loyalty that the brand enjoys is a clear indication of a solid foundation that has been built over the years. Our customers trust Ithala and remain committed to a culture of saving, mainly using our flagship book based products. The future growth of Ithala will continue to be built by leveraging these strong roots.

Ithala's brand is being repositioned in line with its vision of becoming a national player and serving the people of South Africa and the State. Central to this positioning, is being a partner in enabling ordinary South Africans to manage their money and create wealth.

Ithala's physical presence, particularly in rural areas, remains key to our market positioning. Some of our 38 branches can be found in areas where there are no other financial service providers.

To remain relevant in the evolving banking landscape, we developed our 'branch of the future' concept which will transform our physical branches into customer engagement platforms through integration with digital channels.

The branch of the future project was launched through the redesign and refurbishment of the Mega City branch. The design and décor were completely revised to provide a hi-tech customer engagement platform for customers to transact in. This project does not only improve the look and feel of the branch, but also the customer experience.

To date, two branches have been transformed, with the third set for completion in the second quarter of the 2019 financial year.

Adding meaningful value to our customers' lives, is one of the key differentiators that has set us apart from our competitors and has driven brand loyalty. Our brand is being re-positioned to play an even more significant role in improving our customers lives, by helping them progress financially. The new positioning addresses a key need of financial literacy and money management. This is a need that, if left unmet, can become a barrier to wealth creation. With the new positioning, we will take our customers on a journey that will move them from financial indebtedness to creating wealth.

Customer service

At Ithala we understand that sustainable success of our business depends on our customers. It is for this reason that we place a high premium on meeting and exceeding customer expectations. As such, we set a customer satisfaction score target of 80.0% for ourselves; which is above the financial services industry benchmark of 76.3%.

We strive to deliver on our set customer service targets at all customer touch points and we measure our performance on a quarterly basis. Ithala customers continue to be loyal and satisfied with the service they are receiving from the brand. In the current reporting period, our customer satisfaction score was above the industry benchmark in all four quarters and above our internal target, for three quarters.

The quarter in which we did not meet our target of 80.0%, was quarter three, which was during the festive season. This trend is not unique to Ithala though, as most service industries must contend with long queues during this time of the year, which negatively impacts service levels. We did however embark on a drive to encourage our customers to use digital banking, and as more of them adopt digital banking, it will alleviate pressure for the branch network, especially during the festive season.

The implementation of the new integrated enterprise-wide core-banking digital platform will enable Ithala to further enhance the customer experience, at every touch point with the brand.

The brand also continued to maintain good net promoter scores (NPS's) of above 50.0% in all four quarters with a 61.0% NPS achieved in quarter four. This is a clear indication that customers are satisfied with the service they are receiving from Ithala. 68.0% are also recommending the brand to their friends and family.

OUR ACCOUNTABILITY

SOCIO-ECONOMIC DEVELOPMENT

Ithala was established to provide essential financial services to the unbanked people of KZN. Today, we are a unique retail financial services institution that provides money management solutions for individuals, businesses and Government.

Affordable housing

We finance quality affordable housing units for households with 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 continue to do so, to this day. In KZN, we remain the only provider of housing loans to rural communities on land under tribal tenure. In 2018, we issued rural home loans to the value of R2, 1 million (2017: R3, 8 million).

Low-income earners who belong to pension and provident funds, may qualify for a home improvement loan which will grant them access to credit to build or renovate a home. In 2018, we issued home improvement loans to the value of R36, 8 million (2017: R28, 4 million). A high level of customer indebtedness is a particular challenge when providing housing finance to low-income earners. We consider factors such as combined household income and the contributions other family members make towards their expenses. We are constantly investigating innovative ways to ensure that our customers in the low-income segment can access home loans.

Empowering the youth and promoting financial literacy

Working in partnership with IDFC and by utilising our extensive rural branch network, Ithala conducts ongoing campaigns to support the empowerment of the youth. Campaigns include competitions for young entrepreneurs, as well as the development of banking products designed to serve the needs of learners, students and their families. Ithala and IDFC regularly participate in initiatives implemented by the KZN Provincial Treasury to promote financial literacy and the development of a savings culture amongst the youth.

Ithala's recently launched student debit card product provides clients with affordable transactional banking services, mobile telephony and access, Wi-Fi access and exclusive discounts with retailers. Linked to the organisation's student debit card product, is a student bursary scheme, into which a portion of transaction fees generated by the youth account is donated.

The Ithala Education Fund was launched during the 2017 financial year with the intention to assist academically-deserving, yet historically disadvantaged students to pay their registration fees at tertiary institutions. Twenty cents of every R1 transactional fee income earned from our student debit card product is being donated to this fund. In addition, members of the public who are able to assist, also contribute to the Ithala Education Fund.

In the 2018 academic year, a total of 294 applications where received and accessed, of which only 46 were eligible for funding in accordance with the set criteria, with the top six candidates being funded through the Ithala Education Fund.

Support for emerging entrepreneurs

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

The Ithala-IDFC collaboration includes ongoing support for the strategically important National School Nutrition Programme, with IDFC providing working capital and Ithala offering payment solutions and banking services to service providers. In addition, during the 2018 financial year, Ithala, in partnership with the eThekwini Municipality, piloted an enterprise development model with the Northern Business Association (NORBA) that introduced banking services, capital to support cashflow and the rollout of SSD's.

Alignment with key development strategies and programmes of government

Ithala's overall goals and strategies are aligned with the socio-economic policies and strategies of Government, without detracting from the governance requirements and the independence required of a regulated financial institution. Ithala's relationship and ongoing interaction with Provincial Government, as its 'ultimate shareholder,' ensure that the organisation's business focus is aligned with the key strategic imperatives of Government. These include:

- Promoting financial inclusion;
- Supporting emerging enterprises, entrepreneurship and employment creation; and
- Providing services to Government and SOE's.

This alignment is secured through governance processes, which include the compilation of APP's and five-year corporate plans. Amongst other, these plans are required to demonstrate how Ithala's objectives are aligned to provincial and national development plans and priorities.

Currently, Ithala's key focus areas that are aligned to the Provincial Government's strategic goals, are:

- Inclusive economic growth;
- Human and community development; and
- Strategic economic infrastructure.

OUR PEOPLE AND CAPACITY

Our employees remain an integral part of our business, with an average tenure of eight and 11 years for head office and our branch network respectively. One of our key people-focused drives, has been our quest to comply with the Investors in People Standard. In 2018, Ithala managed to achieve 63.0% for the developed level, compared to 21.0% in 2017. We plan to intensify this drive in 2019, as part of improving our employee value proposition and culture.

Employee profile

As at 31 March 2018, our headcount was 362 (2017: 374), comprising 93.4% (338) African and 61.3% (222) and female employees, of which 58.3% (211) are African women. We have a total of 20 additional fixed term contract employees, and 16 of them are competent learners that we have absorbed after the expiry of their stipend with Technical Vocational Education and Training (TVET) Colleges.

Investment in human capital

The establishment of a strategic capacity building unit has begun to produce positive results, and we made significant progress in driving regulatory compliance training, despite limited funding. Through optimal realignment of resources, we maintained a lean structure and managed to sustain our delivery in key areas of the business. Whilst our investment in management programmes has been minimal compared to 2017, we instilled a reliable mentorship and coaching philosophy that positively influenced promotion of employees in the branch network.

Our employee productivity levels grew tremendously. From the total of 36.0% employees who were enrolled on performance improvement processes, an encouraging 16.0% demonstrated full improvement.

Our alignment from investment to development and performance has begun to yield the desired results with high correlation. A significant part of our training programme remains the integrated training and development of our employees.

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

Sales and customer service training: The value of this programme was realised through improvement in product knowledge among our frontline employees. The integrated approach in the sales acquisition between the branch network and insurance division has proven to deliver great results. Such an improvement in cross-selling across the business, is no doubt a step in the appropriate direction.

Compliance training: Our commitment to adherence to statutory and regulatory requirements with a focus on the Financial Intelligence Centre and anti-money laundering training was sustained.

Intensive learnerships: We continue to derive value from providing opportunities of employment to the communities that we serve, particularly in the rural areas. A total of 101 learners (2017: 106) and graduates from TVET entities were enrolled on our intensive internship programme in 2018.

Employee engagement

There was an improvement in our key people themes that are influenced by our commitment to achieve the Investors in People Standard. We are determined to be recognised as the employer of choice in the KZN Province and beyond, in future. We created staff blogs and focus groups across the business to ensure that our employees remain informed about the latest developments such as our preliminary work that is geared towards the implementation of a new integrated enterprise-wide digital core-banking platform.

Our culture is marked by a high level of commitment, passion, continuous development, diversity and ethical practice.

Employee wellness and health

We introduced a comprehensive employee health and wellness programme that is run by a specialist provider named ICAS, to improve our wellness and heath. As a result, there is an enhancement in our overall wellness sphere and our response to employee needs in the outer lying areas accelerated. Another positive ripple effect of this initiative is less absenteeism and reduced costs for temporary staff. Through our health and wellness days, we are proactively improving the wellbeing of our employees.

EVERYTHING WE DO AT ITHALA ORIGINATES FROM A PROCESS OF **UNDERSTANDING AND ASSESSING THE RISKS** OF THE ACTIVITIES IN WHICH THE BUSINESS AIMS TO ENGAGE.

SECTION 3: RISK AND CAPITAL MANAGEMENT

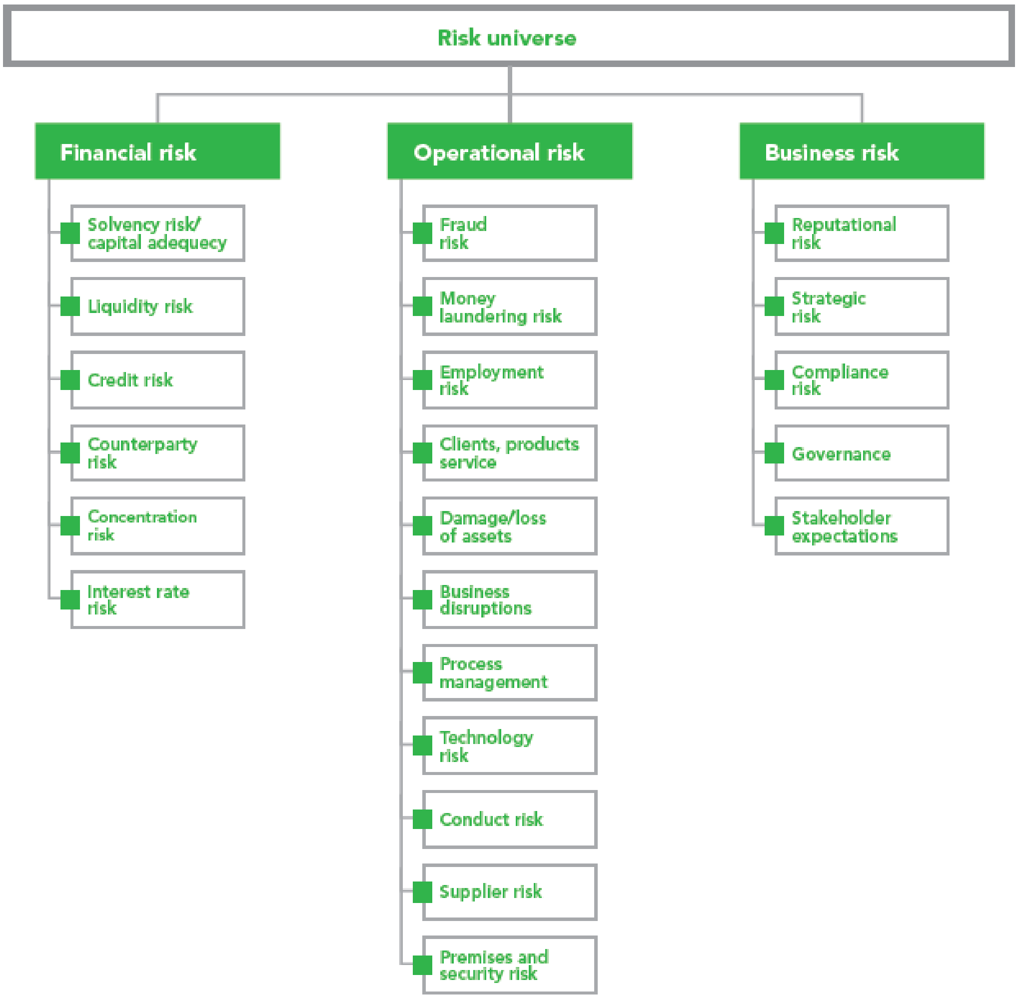
Managing risk	44
Risk governance	45
Approach to stress testing	46
Capital management	46
Credit risk	47
Liquidity risk	49
Contingency liquidity risk management	50
Interest rate risk	50
Operational risk management	51
Risk management tools	51

MANAGEMENT OF RISK

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

Everything we do at Ithala originates from a process of understanding and assessing the risks of the activities in which the business aims to engage. From there, we formulate strategies which mitigate the assessed risks to an acceptable level, in line with the Board's approved risk appetite. In doing so, we can also maximise the stakeholder value creation process.

In formulating our strategy and determining our strategic imperatives, we consider the full range of issues that impact the viability of our business. The risk management process is continuous, and management remains committed to identifying and making improvements as and when necessary.



To determine whether a risk is material, we consider the following:

- The guidelines issued by National Treasury;
- The nature of our business;
- Applicable statutory requirements;
- The inherent and control risks that affect Ithala;
- Quantitative aspects, such as financial losses in excess of 2.0% of qualifying capital and reserve funds;
- Qualitative aspects, such as the reputation of the company being negatively affected to the extent that it causes a deterioration in overall liquidity; and
- Stakeholder expectations.

We have clear risk management objectives and a well-established risk strategy, delivered through our core risk management processes. Our approach to managing risk is outlined in the approved enterprise risk management framework.

The latter defines the principal risks, the key roles and responsibilities of principal and key risk owners, as well as related governance requirements. Furthermore, for each risk, there is a control framework with supporting policies and standards that outline the risk, control and governance requirements for management of that risk.

RISK GOVERNANCE

Risk governance is the management of risk with the responsibility of oversight by the Board and Board Committees, namely:

- The risk and capital management committee (RCMC);
- The audit and compliance committee (ACC);
- The IT governance committee; and
- The human resources, social and ethics committee (HRSEC).

Operational risks are managed by:

- The executive committee (EXCO);
- The management credit committee (MCC); and
- The asset and liability committee (ALCO).

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

The Board of Directors

The tone for risk management is set at the top and the overall responsibility for risk management lies with the Board. The Board ensures that risks are managed and remain within acceptable parameters. The Board is assisted by the RCMC and the ACC in the execution of its risk management responsibilities.

Risk and capital management committee (RCMC)

The RCMC assists the Board in:

- 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;
- The identification of the build-up of and concentration of the various risks to which the company is exposed; and
- The development of risk mitigation strategies to ensure that the company manages risk in an optimal manner.

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

Audit and compliance committee (ACC)

The role of the ACC 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 (EXCO)

As part of its overall responsibility for the day-today business of the company, the EXCO:

- Manages strategic and reputational risks;
- Actively monitors other risks, including stakeholder, compliance and human resources risks; and
- Identifies and monitors new types of risks.

In addition, the EXCO is responsible for:

- Ensuring the adequacy of all policies, procedures and controls applied to the business;
- Promoting a risk culture within the business, and
- Making sure that the risk and compliance functions are independent, impartial and effective.

It furthermore 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 (MCC)

The MCC is responsible for the following:

- Ensuring implementation of the strategies aimed at ensuring that Ithala conforms to the risk appetite and levels of exposure, as approved by the Board;
- Reviewing of the credit risk reports and credit risk legislative requirements; and
- Recommending changes in policies and procedures.

Where necessary, it also recommends amendments to the credit granting and control environment within the business to the Board and the RCMC.

The committee is furthermore responsible for:

- Considering and monitoring the performance of the loans portfolio, including large exposures;
- Monitoring the performance of properties in possession (PIP’s), including losses from sales thereof;
- Recommending credit granting and control policies and procedures for new products;

- Reviewing of re-scheduled loans;
- Monitoring the effectiveness of credit risk controls; and
- Monitoring our exposure to credit and counterparty risk.

Asset and liability committee (ALCO)

The ALCO ensures that all strategies conform to the risk appetite and levels of exposure as approved by the Board and focuses on protecting our equity base and ensuring balance sheet growth over time.

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

SCOPE OF RISK APPETITE

The definition of risk appetite should be expanded to include:

- The specific nature of risks to be assumed e.g. credit, interest rate, liquidity or market risk, which emanate from Ithala's lending and deposit taking activities;
- The amount of risk to be assumed; and
- The desired balance of risk versus reward.

PARAMETERS FOR RISK TAKING

A risk appetite statement serves as a reference point against which all risk taking and risk mitigation activity within the bank is measured. It defines parameters within which risk-based decision-making can occur. The risk appetite statement assists direct decision-making in the areas where Ithala has the greatest opportunity of high returns, for example, through its sources of competitive advantage.

Although the risk appetite statement sets parameters for risk taking, risk-based performance measures facilitate the final selection of one course over another in a risk-adjusted environment. A key objective of enterprise risk management (ERM), is to maximise overall returns for the risks taken.

APPROACH TO STRESS TESTING

The Board approved an appropriate stress testing framework comprising a broad range of scenarios, including company-wide, as well as product and business segment specific stress tests. These form an integral part of our overall governance and risk management culture and our internal capital adequacy assessment process (ICAAP), which requires us to undertake rigorous, forward-looking stress testing that identifies the impact of severe events or changes in market conditions.

Our stress testing evaluates our financial position under severe, though plausible scenarios and includes setting out our risk appetite and risk tolerance, strategic planning and budgeting process, and capital planning and management. We develop risk mitigation and contingency plans across a range of these stress conditions. In our recovery and resolution planning, we assess the adequacy and plausibility of proposed recovery actions.

We conduct stress testing across all major risk types using a number of macro-economic stress scenarios. Stress testing is augmented by product and service-specific stress testing and sensitivity analyses, to identify the drivers of our risk profile. Our risk and capital management committee approves both the appropriateness of the stress scenarios we use and the impact of these stress situations on the risk profile for use in the ICAAP and our broader capital planning process.

CAPITAL MANAGEMENT

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

To ensure that adequate capital is maintained to support current business activities as well as anticipated growth and absorption of unexpected losses, capital adequacy assessments are conducted, which takes the following into consideration:

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

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

Capital structure

Common equity tier I (CET I) capital consist of issued ordinary shares, share premium and retained income. Tier II capital comprises secondary unimpaired reserve funds which consist of the prescribed general allowance for credit impairment.

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

Our capital position

Our year-end capital adequacy ratio was 15.2%, which is above the regulatory minimum of 11.625%.

How we manage capital

Ithala developed its build the bank strategic plan which outlines the capital requirements for the next five years. This serves as a business case for the ultimate shareholder, the KZN Province, to allocate the necessary funds.

CREDIT RISK

Credit risk arises from the potential that a borrower is either unwilling to perform on an obligation, or the borrower's ability 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-, or cash loans and vehicle- and taxi finance. The balance flows from businesses and property developers in the form of property development- and commercial property loans.

Reporting according to the IRFS 9 model commenced in March 2018, which produced acceptable non-performing loan and coverage ratios for Ithala. A month-to-month comparison of the new and old regulation reports were produced in March and April 2018. The exercise will continue retrospectively for a period of 12 months, to assess whether there is a significant change in Rand value.

To date, the new regulation has considered factors that were previously excluded, such as assumptions on macro-economic data and credit score (amongst many factors), when assessing expected credit loss.

How we manage credit risk

The responsibility for credit risk management primarily resides with the Board which, together with the RCMC, oversees our credit risk management process. The EXCO and MCC implement our credit risk processes on a day-to-day basis. The RCMC approves key aspects of our rating systems, credit risk modelling and credit concentration risk decision-making and delegates implementation thereof to credit officers and committees charged with credit management.

Regular model validation and reporting to these committees is undertaken by the risk department that is independent of the credit department. The MCC ensures the implementation of the strategies that conform to the risk appetite and levels of exposure as approved by the Board, 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 RCMC. The MCC is also responsible for:

- Considering and monitoring the performance of the loans portfolio, including large exposures;
- Monitoring the performance of properties in possession, including losses from sales; and
- Recommending 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.

Ithala approved the following mitigation strategies to ensure that the risk that is absorbed to pursue strategic objectives, remains within the approved risk appetite:

- The coverage ratio must be maintained below 5.0%; with the target to reduce this to 4.5% and 4.0% in the next 24 months and beyond;
- The non-performing loan percentage must remain below 5.0%, with a concerted effort to reduce it to 3.5% in the next 24 months and beyond;
- Growth of the loan and advances must be supported in line with the budget outlined in the build the bank strategic plan; and
- The skills of the credit management team must be enhanced.

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

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

The credit processes

The credit and collections processes are aligned to the current regulations and are updated regularly to give effect to the changes recorded in the NCA.

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

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

Provisioning

The provisioning model is based on the Basel III standards and is reviewed by the SARB and the AG-SA. The approach is prudent, and the model ensures that the loans in the loss category are fully provided for in general.

In line with industry practice, the loans under debt review are rescheduled to the performing loans category upon receipt of six consecutive payments. The write-off policy recommends write-off of loans after 12 consecutive months of non-payment.

Collections

Payments due are collected via an employer deduction, debit order and stop order payments. The outbound call centre of the collections department follows up on unsuccessful collections and past due amounts. The strategy employed is to review large and group exposures and collections based on urgency.

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

Recovery

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

LIQUIDITY RISK

Liquidity risk is the risk that Ithala will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises from mismatches between maturities of assets and liabilities. Ithala's business-as-usual liabilities are sufficiently matched with appropriate assets and it has significant liquidity available to cover its obligations. The company's liquidity and ability to meet financial obligations is constantly monitored by the ALCO and the RCMC.

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

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

How we manage liquidity risk

Ithala's liquidity position is continuously monitored by the ALCO. The liquidity risk is managed in accordance with the approved liquidity risk policy. The policy is designed to ensure proper management of liquidity risks and that regulatory, prudential, as well as internal minimum requirements are met, at all times. This is achieved through maintaining adequate liquidity buffers to ensure that cash flow requirements can be met.

Cash flow forecasts and maturity gap analyses are used to assess and monitor liquidity requirements and risk levels. A maturity gap profile report is reviewed and analysed by the ALCO, on a monthly basis.

Ithala successfully implemented the LCR, in accordance with Basel III. The LCR sets out minimum requirements to ensure a short-term resilience of liquidity risk profile i.e. maintenance of an adequate level of unencumbered level one and level two high-quality liquid assets, that can be converted into cash to meet the bank's liquidity needs over a 30 calendar day period, under a significantly severe liquidity stress scenario.

An additional requirement in respect of liquidity risk management that is set to be introduced, is the Basel III net stable funding ratio (NFSR). It is anticipated that the ratio will become a requirement on 1 January 2018, as soon as the calibration has been finalised.

NSFR sets out minimum requirements to promote resilience over a one-year period and ensures continuous maintenance of a specified number of stable sources of funding relative to the liquidity profile of the liabilities and the potential for contingent liquidity needs arising from off balance sheet commitments. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. As at 31 March 2018, Ithala meets the 100% minimum requirement of the NSFR.

Liquidity risk measurement

Liquidity risk is measured by conducting an analysis of net funding requirements. Net funding requirements are determined by analysing future cash flows based on the assumptions of the expected behaviour of assets and liabilities and off balance sheet items.

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

In terms of section 72 of the Banks Act, on a monthly basis, all banks are obliged to hold an average amount of statutory investments that shall not be less than 5.0% of its liabilities to the public. It was agreed with the SARB that we would hold a further 2.5%, instead of depositing an amount as a reserve balance with the SARB. In terms of Ithala's liquidity management policy, a buffer of 20% above the prudential requirements will be held to ensure that the minimum balances required to be held are not breached in any instance. These funds are not available for use in operational activities.

Business-as-usual liquidity mismatch

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

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

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

Contingency liquidity risk management

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies. In terms of our liquidity risk management policy, the advances to deposits ratio which is in excess of 85.0%, will trigger the implementation of the contingency funding plans.

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

Liquidity stress testing and scenario analyses

Stress testing is conducted to assess the ability of the organisation to withstand stressed liquidity conditions and to determine how it will cope in such a situation. Stressed liquidity is defined as a condition that arises from a sudden deterioration of the perceived safety and credibility of the organisation, which results in substantial withdrawal of funds by depositors.

A liquidity crisis arises when the organisation is unable to roll over deposits or replace withdrawn deposits and as a result, cannot meet its financial obligations.

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

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

The advances to deposit ratio is 72.0%, which is below 85%. Ithala continues to maintain a contingency plan in case that expected capital is not received.

With regards to standby lines of credit and the availability of funding in stress scenarios, the MEC: EDTEA signed the request for renewal of a provincial guarantee to the value of R300 million annually over five years, as part of the resolution plan by the KZN Provincial Government.

An application for R500 million as standby lines of credit from the five major banks is currently being processed.

For further discussion in respect of liquidity risk management, refer to note 28.3 in the AFS.

INTEREST RATE RISK

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

Ithala's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, Ithala needs to measure and manage its interest rate risk exposure over both the short- and long term, to protect the earnings stream and ensure its continued financial sustainability

How we manage interest rate risk

Interest rate risk is the responsibility of the ALCO at management level, and the RCMC at Board level.

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

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

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

Sensitivity analysis is another tool used by Ithala to manage and monitor interest rate risk. Sensitivity analyses are performed regularly, which measures the impact of a shock increase or decrease in interest rates. For regulatory purposes, an interest rate shock of 200 basis points is used, and for business purposes it is aligned to the expected basis points increase/decrease per economists' views, which was 50 basis points for the year under review.

Sensitivity analysis

Assuming that there is no change in the balance sheet and no management intervention in response to interest rate movements, a 200bps increase in interest rates will result in an increase of R14.0 million (2017: R16.0 million) in the projected 12-month NII and a decrease in interest rates will result in a reduction of R30.0 million (2017: R25.1 million) in the projected 12-month NII.

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

OPERATIONAL RISK MANAGEMENT

Ithala's approach to managing risks (amongst other things) is to pay special attention to the top ten risks that may prevent the organisation from achieving its strategic goals and business objectives. The adopted practice is the implementation of an adequately aggressive operational risk management framework that gives effect to the micro management of operational risks from their point of origin.

Operational risk analysts, internal audit and the compliance function, provide assurance services and give an opinion on how the business is performing in terms of managing risks.

The mandate of operational risk is to build a solid foundation for an operational risk management culture and to implement programmes that will drive the achievement of efficient and effective customer service. Ithala also implemented a risk management tool called BarnOwl, which assists in the management and monitoring of risk trends in the organisation, risk appetite exposures and real-time information on activities that management embark on, to mitigate, avoid or transfer risks.

RISK MANAGEMENT TOOLS

BarnOwl software was implemented to promote a matured risk management culture in the organisation and technology was developed to support effective and efficient business process management. ERM also implemented the tool to assist risk management to:

- Efficiently maintain the risk registers of the organisation;
- Monitor risk exposure levels;
- Manage and monitor management action items relating to risks in their control environment; and
- Provide supporting information to assist management in prioritising actions according to their level of importance and urgency.

THE BOARD HAS EMBARKED ON AN IMPORTANT JOURNEY OF PROCURING THE **INTEGRATED ENTERPRISE-WIDE CORE-BANKING SYSTEM**, WITH THE AIM OF PROVIDING ITHALA'S CUSTOMERS WITH **MODERN TECHNOLOGY** AND BRINGING CONNECTIVITY TO CUSTOMERS ACROSS THE VARIOUS GEOGRAPHICAL AREAS COVERED BY ITHALA.

THE IMPLEMENTATION OF THE INTEGRATED ENTERPRISE-WIDE CORE-BANKING SOLUTION WILL **ENABLE ITHALA TO ACHIEVE ITS STRATEGIC OBJECTIVES.**

SECTION 4: GOVERNANCE AND TRANSPARENCY

How our business is governed 54
Board, directors and committees 56

HOW OUR BUSINESS IS GOVERNED

Corporate governance within Ithala is managed and monitored by the Board, the ACC and several Committees of the Board. The Board subscribes to high standards of ethical leadership, governance, business, social and sustainability.

The Board reviewed its application and adherence to the 17 King IV principles by assessing its corporate governance approach, policies and practices that support the achievement of each of the King IV principles and concluded that the organisation is achieving the governance outcomes, as prescribed by King IV.

The King IV assessment report is available online: *http://myithala.co.za/about2/finhighlights/all/all/all*

Ithala operates in a highly regulated environment that is constantly evolving. Ithala constantly reviews its compliance universe to ensure that it acts in the best interest of its stakeholders and seeks to go beyond compliance through adopting and embedding the spirit and principles of governance in its operations.

The Board is accountable to the stakeholder for exercising leadership, integrity and judgment in directing Ithala. The Board acknowledges its responsibilities and that it should serve as the focal point and custodian of corporate governance in the organisation.

The Board delegates to relevant Board Committees and the CEO according to clearly defined terms of reference and authority, while preserving its ultimate accountability. Board Committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a clear mandate and terms of reference, which the Board reviews once a year.

The day-to-day management of the company vests in the CEO, subject to the delegated powers of authority approved by the Board. The EXCO assists the CEO in the day-to-day management of the affairs of Ithala. The Company Secretary plays a vital role in the corporate governance of the organisation. The Company Secretary is responsible to the Board for, inter alia, ensuring compliance with procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties.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BOARD, DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

The primary functions of the Board include:

- Approving Ithala's strategic direction and confirming its main strategic objectives;
- Approving key policies and ensuring the communication of such policies to management; and
- Monitoring the implementation of management's plans and strategies.

Through the ACC, the Board also reviews and approves the annual business plan and budget and monitors performance against the budget.

In the 2018 financial year, the Board embarked on an important journey of procuring the integrated enterprise-wide core-banking system, with the aim of providing Ithala's customers with modern technology and bringing connectivity to customers across the various geographical areas covered by Ithala. The implementation of the integrated enterprise-wide core-banking solution will enable Ithala to achieve its strategic objectives.

BOARD PROFILE

The Board comprises a majority of Independent Non-executive Directors which complies with King IV requirements and ensures that the interests of the minority stakeholders are protected.

Together with the CEO, the Board has an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet its responsibilities and objectives.

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

BOARD STRUCTURE AND COMPOSITION

The composition of the Board ensures that there is a balance of power and authority, with company policy determined by consensus. The structure consists of two Executive and nine Non-executive Directors, seven of whom are independent. Consideration is given to the age profile and gender diversity of directors. All new appointments are made via a formal process and in accordance with the Board Continuity Plan.

The philosophy is to maintain a vibrant Board that constructively challenges management's strategies and evaluates performance against the established and set scales.

Signing of the contract with TechMahindra for the implementation of the new integrated enterprise-wide digital core-banking platform.

BOARD STRUCTURE AND COMPOSITION

2 Executives

5 Independent Non-Executive Directors

3 Non-Executive Directors

GENDER

7

4

AGE

30+ 1

40+ 5

50+ 3

60+ 1

70+ 1

BOARD COMMITTEES

ACC Audit and Compliance Committee

DAC Directors Affairs Committee

RC Remuneration Committee

ITGC Information Technology Governance Committee

HRSEC Human Resources, Social and Ethics Committee

RCMC Risk and Capital Management Committee

IAC Insurance Advisory Committee

MALOSE FRANS KEKANA (48)

Chairman of The Board

Appointed in June 2013

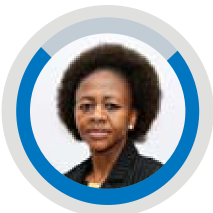
DAC RC

INKOSI SBONELO MKHIZE (40)

Deputy Chairman

Appointed in March 2018

DAC RCMC ITGC IAC



GIVEN REFILWE SIBIYA (50)

Board Member

Appointed in August 2017

ACC RCMC ITGC

SIPHO CYPRIAN NGIDI (63)

Chairman of the Human Resources, Social and Ethics Committee and Remuneration Committee

Appointed in August 2010

DAC RC HRSEC

THEMBINKOSI MATHE (56)

Board Member

Appointed in October 2017

IAC DAC HRSEC ITGC RCMC

DANETE HIGGINS ZANDAMELA (50)

Chief Executive Officer

Appointed in September 2017

IAC ITGC RCMC

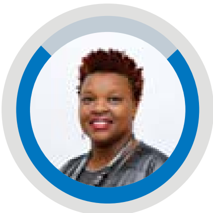
INDEPENDENT NON-EXECUTIVE DIRECTORS

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

- Following the nomination from the Board, the appointment of the Directors is confirmed at the annual general meeting;
- The positions of Chairman and CEO are separate;
- The Chairman is an independent Non-executive member of the Board; and
- All Board Committees are chaired by an Independent Non-executive member.

RESIGNATION AND APPOINTMENT OF DIRECTORS

- Ms Given Sibiya was appointed as an Independent Non-Executive Director on 1 August 2017.
- Mr Thembinkosi Mathe was appointed as a Non-Executive Director on 20 October 2017.
- Ms Martina Madali was appointed as an Independent Non-Executive Director on 31 January 2018.
- Inkosi Sbonelo Mkhize was appointed as a Non-Executive Director and Deputy Chairman on 23 March 2018.
- Mr Danete Zandamela was appointed as the CEO on 1 September 2017.
- Mr Lebogang Serithi was appointed as the CFO on 1 October 2017.



BABALWA NGONYAMA (44)

Chairman of the Audit and Compliance Committee and Interim Chairman Of The IT Governance Committee

Appointed in January 2012

ACC IAC DAC ITGC RC RCMC

POLO RADEBE (43)

Chairman of the Risk and Capital Management Committee and the Insurance Advisory Committee

Appointed in March 2018

DAC ACC RCMC IAC ITGC

MAHMOOD MIA (71)

Board Member

Appointed in August 2010

DAC RCMC ITGC IAC HRSEC RC

MARTINA THANYANE MADALI (49)

Board Member

Appointed in March 2018

DAC RCMC ITGC

LEBOGANG SERITHI (39)

Chief Financial Officer

Appointed in October 2017

IAC ITGC RCMC

The full curriculum vitae of each board director is available online:
http://myithala.co.za/about/our-leadership/

BOARD MEETING ATTENDANCE

Board Member	Board of Directors	Directors Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committee	Human Resources, Social and Ethics Committee	Remuneration Committee	Insurance Advisory Committee
	Number of meetings: 6	Number of meetings: 1	Number of meetings: 8	Number of meetings: 4	Number of meetings: 4	Number of meetings: 4	Number of meetings: 1	Number of meetings: 4
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Malose Kekana	6	1	n/a	n/a	n/a	n/a	1	n/a
Inkosi Sbonelo Mkhize	0	0	n/a	0	0	n/a	n/a	n/a
Mahmood Mia	6	1	1	4	4	4	1	4
Sipho Ngidi	4	1	n/a	n/a	n/a	3	1	n/a
Babalwa Ngonyama	6	1	8	4	4	n/a	1	4
Given Sibiya	5	1	5	3	n/a	3	n/a	n/a
Polo Radebe	6	1	8	4	4	n/a	n/a	4
Martina Madali	2	0	n/a	1	1	n/a	n/a	n/a
Thembinkosi Mathe	4	0	n/a	1	0	2	1	0
Danete Zandamela	3	n/a	n/a	3	2	2	1	3
Lebogang Serithi	2	n/a	n/a	2	1	1	0	1

PROCESSES AND POLICIES

Appointment, rotation and induction of Directors

In terms of the Shareholder Compact, all Non-executive Directors retire every year and are, if available, considered for reappointment by the shareholder at the annual general meeting. The Board has a formal and transparent process in place for the appointment of Directors which is in line with the Banks Act. The directors' affairs committee serves as the nominations committee of the Board and identifies suitable candidates for recommendation and approval by the Board. A formal induction process is followed to familiarise new incumbents with the business and the operational and legislative context within which it operates.

Board effectiveness and evaluation

The cyclical and specialist nature of banking necessitates the retention of Directors with long-serving Board experience, making it impractical, and not in stakeholders' best interests, for Directors to retire after nine years of service. A robust annual evaluation of Director independence is undertaken on a bi-annual basis. The evaluation process includes the completion of a comprehensive self-assessment questionnaire, evaluating their own performance and the performance of their peers. This assists the Chairman to identify training needs of Board members as well as necessary skills.

Board remuneration

The Non-executive Directors' remuneration is determined at the annual general meeting, in line with the provisions of the National Treasury guidelines on remuneration for Non-executive Directors of SOE's. The Directors are remunerated on the basis of a monthly retainer and meeting attendance.

Declaration of interest

The Board conforms to a conflict of interest process, whereby any interest in matters tabled before the Board or its Committees are required to be disclosed by individual Directors at each meeting. There were no matters of conflict in the reporting period.

Company Secretary

The appointment and removal of the Company Secretary is a matter for consideration by the Board as a whole. The Company Secretary acts as the organisation's custodian of good governance and ensures compliance with statutory and regulatory procedures.

The Company Secretary attends all Board and Board Committee meetings and has unrestricted access to the Chairman. The Company Secretary provides a central source of advice and guidance on business ethics, compliance with good corporate governance, and changes in legislation, assisting the Board as a whole, and its members individually, with guidance on how their duties, responsibilities and powers should be adequately discharged and exercised in the best interest of Ithala.

The Company Secretary also maintains and regularly updates a corporate governance manual, copies of which are distributed to all Directors, and organises and conducts an induction programme to familiarise new Directors with Ithala's operations, their fiduciary duties and responsibilities as Directors.

BOARD OBJECTIVES AND PERFORMANCE FOR 2018

The Board has set objectives for measuring its performance. The Board objectives for 2018, together with an overview of its performance, are outlined here below:

1. Review the progress of the implementation of Ithala's strategy, within the framework of a sound control and risk management environment, and ethical and transparent leadership.

- The Board and the management team held a strategy session in October 2017. Updates on the execution of the strategy agreed upon were presented by management at every Board meeting, thus enabling the Board to fulfil its responsibilities in regard to monitoring the progress of the implementation of the strategy.
- Relevant Board Committees played a key role in monitoring the risks with input from management forums. The Board continued to build an organisational culture based on ethical values, transparency and accountability.
- A code of business conduct and ethics policy was approved by the Board and the progress of the implementation of the policy was reviewed at every Board meeting through the HRSEC.
- Approved updated Company policies.

Fully achieved

2. Approve the procurement and implementation of the enterprise-wide new core-banking system and monitor the implementation of the Ithala's IT strategy and the ongoing development of the IT governance and cyber security frameworks

- The Board approved the procurement and implementation of the integrated enterprise-wide digital core-banking platform of Ithala and monitors the progress in implementation of the project on a quarterly basis through the IT Governance Committee.
- The IT Governance Committee has oversight of the execution of Ithala's IT strategy and continued to focus on the development of Ithala's cyber security framework and to monitor developments in the area of cybercrime.

Fully achieved

3. Monitor the impact and implementation of legislative and regulatory changes.

- In 2018, the Board gave significant attention to the following key regulatory themes: combating money laundering, corruption and terrorist financing; King IV; IFRS 9, Risk Data Aggregation and Risk Reporting (BCBS 239); adherence to all statutory requirements of the Banks Act; and current and potential litigation against Ithala.
- Feedback from the SARB on our compliance with section 12 of the application is monitored.

Fully achieved

4.

Ensure that the risk management and capital management processes are appropriate.

- The risk and capital management framework was updated, as and when required, in the context of changing regulatory, risk and business environments. The annual assessment of the top ten risks facing Ithala was reviewed at the beginning of the year and approved by the Board for enhanced monitoring.
- The 2017 top twenty strategic risks included: capital risk; regulatory and compliance risk; operational risk; IT risk; business continuity management and disaster recovery; banking licence risk; human resource risk; capital risk and interest risk.
- Major projects being monitored include IFRS 9 accounting standards and the Basel III Committee on Banking Supervision's regulation number 239 (BCBS 239) on risk data aggregation and risk reporting.
- During 2018, the capital adequacy ratio remained above the prudential requirement of 15% (including buffer).

Fully achieved

The Board set the following objectives for 2019:

1. Review the progress of the implementation of the integrated enterprise-wide digital core-banking platform and IT strategy, with a particular focus on our growth objectives, within the framework of a sound control and risk management environment, whilst being ethical and transparent;
2. Approve the 2019 budget, APP and corporate plan, as well as the AFS for the year ending 31 March 2018;
3. Monitor management's plans in respect of future changes to IFRS 9 and other regulations, focus on ensuring that the financial systems, processes and internal controls are operating effectively;
4. Ensure compliance with section 12 of our application for a banking licence on or before 30 September 2019;
5. In line with the Companies Act, review the company's solvency, liquidity and going concern status and obtain quarterly feedback from the Board Committee Chairpersons;
6. Engage with the supervisory team of the SARB in line with the SARB's annual supervisory programme; and
7. Ensure that the risk management and capital management processes are appropriate in the context of a challenging local and global economy, the current risk environment and a changing business landscape.

BOARD COMMITTEES OBJECTIVES AND PERFORMANCE FOR 2018

The Board appointed several Board Committees to assist in carrying out its duties and responsibilities. This does not relieve the Board of any of its responsibilities and the Board critically evaluates the recommendations and reports of these committees before approving such recommendations or accepting such reports. These Committees all operate in terms of Board-approved terms of reference, which define their roles. All Board Committees' terms of reference are reviewed annually by the Board. Each Committee reports to the Board and the minutes of Committee meetings are shared with the Board.

DAC

Directors Affairs Committee

- Reviewed the Board Committee membership and retirements from the Boards, while ensuring the experience and tenure on the Committees remain appropriate.
- Identified, evaluated and recommended nominees with IT and business skills to the Board for appointment.
- Reviewed the results of the Board evaluation assessment and concluded the Directors' training requirements for the 2018 financial year.
- Monitored the Board expenditure against budget.
- Assessed the overall effectiveness of the Board.
- Reviewed the succession plans for the Chairman of the Board, the CEO. CFO and senior executive management.
- Reviewed and updated the Committees terms of reference in line with King IV requirements.

Fully achieved

The Directors Affairs Committee set the following objectives for 2019:

1. Assess the conduct and competence of Directors and Board Committees and assist the Board in determining whether the services of any Director should be reviewed;
2. Review and approve the training and ongoing development programmes for directors; and
3. Monitor Ithala's governance practices.

RC

Remuneration Committee

- Approved the remuneration structures for staff members and continued to ensure that the appropriate quality of staff is attracted, retained, motivated and appropriately rewarded at Ithala.
- Continued to ensure that employees' salary increases are directly linked to the performance levels of individuals, as well as the business.
- Approved the amendments to the remuneration policy to be in line with King IV for recommendation to the Board. The policy was amended to include reference to the steps taken to help ensure remuneration is fair, responsible and transparent.
- Reviewed the draft performance incentive scheme bonus that covers variable remuneration, including short- and long-term incentives and deferrals; as well as payments on termination of employment or office.
- All sign-on payments that form part of the recruitment for all levels of executives are considered by the Committee and will be recommended for approval by the Board.
- Approved the overall remuneration increases for all staff

Fully achieved

The Remuneration Committee set the following objectives for 2019:

1. Ensure consistency and fairness in the remuneration and conditions of employment throughout management levels, including internal equity between remuneration of executive Directors and executive management;
2. Oversee the implementation of the remuneration policy to attract and retain human capital; promote the achievement of strategic objectives within Ithala's risk appetite; promote an ethical culture and responsible corporate citizenship;
3. Perform a remuneration benchmarking exercise;
4. Ensure that the remuneration policy remains a priority; and
5. Meet the requirements of the remuneration terms of reference.

HRSEC

Human Resources, Social and Ethics Committee

- Focused on reviewing all HR policies listed below to establish a culture of accountability and ethics which is fundamental to the sustainability of the operations of Ithala:
  - Talent management policy;
  - Employment policy;
  - General conditions of employment;
  - Remuneration policy; and
  - Employment wellness policy.
- Ensured publication of all HR policies to employees.
- Ongoing monitoring of the application of the organisation's ethical standards to the processes for the recruitment, evaluation of performance and rewarding of employees.
- Ongoing monitoring of the overall responsible corporate citizenship performance of the organisation, with the main focus on the health and safety of Ithala.
- Reviewed and approved departmental structures to align with the strategy of Ithala.
- Reviewed the role ascribed to the Social and Ethics Committee (SEC)as outlined in King IV and updated the terms of reference for the Board's approval.
- Filling of key executive positions:
  - CEO;
  - CFO;
  - Head: IT;
  - Compliance officer; and
  - Critical middle management positions.
- All sign-on payments that form part of the recruitment for all levels of executives are considered by the Committee and will be recommended for approval by the Board.
- The Tipoffs Anonymous Hotline was implemented to enable internal and external reporting of actual or suspected unethical or unlawful behaviour and matters related to organisational integrity
- A comprehensive employee assistance programme was established through ICAS. Health and wellness days were held during 2018 to offer employees the opportunity to benefit from services such as health screening assessments, employee wellness and fitness information, and other related offerings. Employees are continuously encouraged to live healthily and be active.
- Absenteeism is monitored monthly and provides guidance to managers and employees in understanding the impact of absenteeism. The programme monitors trends month-by-month and we engage with employees, where necessary, to potentially reduce the impact.

Fully achieved

The Human Resources, Social & Ethics Committee set the following objectives for 2019:

1. Fill critical executive positions such as the Chief Audit Executive; Chief Risk Officer; Head: Distribution Channels and Head: Credit;

2. Approve the revised divisional structures for the build a bank strategy structure for implementation in the 2019 financial year;

3. Monitor the internal and external mechanism for reporting actual and suspected unethical behavior on an ongoing basis; and

4. Ensure commitment to ongoing screening of the violation of human rights; and offer ethics and conflict of interest awareness training to staff.

ITGC

IT Governance Committee

- Conducted an independent assurance on the effectiveness of Ithala's IT arrangements, including outsourcing of the IT systems.
- Recommended the implementation of the new integrated enterprise-wide digital core-banking platform to the Board for approval.
- Continued to monitor the information and communication technology (ICT) investment and expenditure, including the shared costs services.
- Reviewed the internal audit unresolved issues and ensured that management set clear action plans within the agreed timelines to resolve these.
- Conducted a cyber security assessment and developed the cyber security implementation plan.
- Appointed an external service provider to conduct a compliance review and recommended action plan on risk data aggregation.
- Appointed the Cyber Security Manager.
- Monitored regulatory compliance. Oversaw the alignment of ICT objectives with business objectives, set priorities and allocated resources.

Fully achieved

The IT Governance Committee set the following objectives for 2019:

1. Complete the implementation of the new integrated enterprise-wide core-banking system and assess and monitor the migration to the new system and ensure action plans to rectify and prevent any failure reoccurrence, if applicable;
2. Fill critical vacant position within the IT division;
3. Monitor regulatory compliance of the new integrated enterprise-wide digital core-banking platform; and
4. Roll out change management plans and train the organisation on the new integrated enterprise-wide digital core-banking platform.

IAC

Insurance Advisory Committee

- Oversaw the ongoing implementation of the insurance management system.
- Reviewed regular reports from internal audit, external audit, compliance and risk and others on the operational effectiveness of measures relating to risks.
- Monitored the capital and liquidity in relation to such capital adequacy and liquidity requirements and practices.
- Set sales target to achieve the budget.
- Considered possible partnership/ opportunities to grow the insurance business.

Fully achieved

The Insurance Advisory Committee set the following objectives for 2019:

1. Continue searching for a skilled resource to head up the division;
2. Pursue opportunities to grow the insurance business; and
3. Monitor the implementation of the insurance management system

ACC

Audit and Compliance Committee

- Reviewed the internal audit terms of reference and annual work plan, aligned it to King IV requirements and recommended it to the Board for approval
- Reviewed and discussed information from management, internal audit and external auditors and considered the effectiveness of the internal controls of Ithala in the year under review.
- Ensured that internal audit performs an independent assurance function and monitored the effectiveness of the internal audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within Ithala. Monitored and challenged, where appropriate, actions taken by management with regard to adverse internal audit findings.
- Assessed compliance with all other statutory requirements in terms of section 94(7) of the Companies Act, King IV and any other applicable regulatory requirements.
- Monitored the implementation of IFRS 9 to ensure appropriate accounting judgements and disclosure (by management), effective from 1 April 2018.
- Reviewed and approved the external auditors' annual plan and related scope of work, monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, and considered the key audit matters reported in the external audit annual report.
- Reviewed the Compliance Officer's reports regarding the effectiveness of the implemented compliance framework with the applicable laws and regulations, findings of any examinations by the regulatory agencies and updates on new legislative/ regulatory requirements.
- Worked with management to address and substantially reduce the number of internal and external audit findings and ensured that internal controls, processes and procedures are implemented, to avoid reoccurrence.
- Reviewed the AFS and budget for recommendation to the Board for approval.
- Reviewed the report from the Company Secretary on the adherence of governance processes and consequence management of non-compliance.

Fully achieved

The Audit and Compliance Committee set the following objectives for 2019:

1. In 2019, continue to review and consider management's plans in respect of future changes to IFRS and other regulations and focus on ensuring that Ithala's financial systems, processes and internal controls are:
   a. Operating effectively;
   b. Consistent with complexity; and
   c. Responsive to changes in the environment and industry.
2. Appoint a Chief Audit Executive.
3. Conduct an independent quality assurance review of the audit function.
4. Ensure compliance with section 90(2) of the Companies Act on non-audit work performed by the AG-SA (external auditors) and assess the independency of the external auditors.
5. Review the combined assurance model and effectiveness of the process for identifying, assessing and reporting on significant internal financial controls.
6. Recommend the FICA Internal Rules to the Board for approval.

RCMC

Risk and Capital Management Committee

- Monitored the adequacy, efficiency and appropriateness of Ithala's risk, capital and liquidity management, and asset and liability management governance structures and processes.
- Reviewed Ithala's risk strategy and risk appetite in an environment of unprecedented levels of change.
- Reviewed and assessed the divisional risks associated with the environment in which the business operates, and the appropriateness of the mitigation strategies implemented.
- Provided oversight regarding management's efforts to identify, categorise and manage the company's risks, including credit risk, market risk, operational risk, liquidity risk, and capital risk, as well as business continuity and IT risk.
- Reviewed and recommended the updated risk and capital management committee terms of reference to the Board for approval.
- Reviewed and concluded that there are no control issues that are considered to be a material weakness and that merits specific disclosure.
- Implemented risk data aggregation.
- Assisted 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.
- Assisted the Board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the day-to-day management of the company.
- Provided oversight of management actions to strengthen the internal control environment

Fully achieved

The Risk and Capital Management Committee set the following objectives for 2019:

1. Consider and recommend for approval the annual internal capital and liquidity adequacy assessment processes, as well as the Basel III Recovery Plan and considered scenarios or stress testing outcomes that demonstrated preparedness for such events.
2. Actively monitor developments relating to Ithala's top 20 risks in 2018, as well as emerging risks in line with local and international trends.
3. Appoint a Chief Risk Officer and capacitate the risk function.
4. Approve a risk management framework and risk appetite.
5. Recommend a Risk-Based Approach Policy to the Board for approval.

ANNUAL FINANCIAL STATEMENTS

Directors’ Responsibility Statement	74
Company Secretary’s Statement	75
Report of the Aditor-General	76
Audit and Compliance Committee Report	80
Directors’ Report	82
Statement of Comprehensive Income	84
Statement of Financial Position	85
Statement of Changes in Equity	86
Statement of Cash Flows	87
Notes to the Annual Financial Statements	88

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the AFS of Ithala, comprising:

- The statement of financial position as at 31 March 2018;
- The statement of comprehensive income;
- The statement of changes in equity;
- The statement of cash flow for the year then ended;
- The notes to the AFS, which include a summary of significant accounting policies and other explanatory notes; and
- The Directors' report, in accordance with 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 ACC, 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 ACC, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

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

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

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

The Directors conducted an assessment of the company's ability to continue as a going concern and included appropriate disclosure in the Directors' Report. The basis of accounting was adopted by the Board after enquiring about management and giving 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 be able to continue as a going concern in the year ahead.

The AG-SA, who was appointed as independent auditor in terms of the Public Audit Act, Act No. 25 of 2004 and the PFMA, audited the company's AFS. Their report is presented on pages 76 to 79.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The AFS of Ithala was approved by the Board on 27 July 2018 and are signed on their behalf by:

Malose Kekana	Danete Zandamela
Chairman	CEO

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Company Secretary of Ithala, that for the year that ended 31 March 2018, 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.

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Thabisile Mungwe
Company Secretary

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

1. I have audited the financial statements of Ithala SOC Limited set out on pages 84 to 144, which comprise the statement of financial position as at 31 March 2018, and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ithala SOC Limited as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and the Banks Act of South Africa, 1990 (Act No.94 of 1990) (Banks Act).

BASIS FOR OPINION

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

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

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

EMPHASIS OF MATTERS

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

MATERIAL LOSSES

7. As disclosed in note 27.2 to the financial statements, material losses of R24,80 million (2016-17: R15,30 million) was reported by the entity as a result of the write-off of previously impaired loans and advances.

RESPONSIBILITIES OF ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

8. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with SA Statements of GAAP, the requirements of the PFMA, Companies Act, Banks Act and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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

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

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 1: Financial and shareholder perspective	34
Programme 2: Customer perspective	35

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

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

OTHER MATTERS

17. I draw attention to the matters below.

ACHIEVEMENT OF PLANNED TARGETS

18. The annual performance report on pages 34 to 37 includes information on the achievement of planned targets for the year.

ADJUSTMENT OF MATERIAL MISSTATEMENTS

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the customer perspective programme. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

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

ANNUAL FINANCIAL STATEMENTS

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

EXPENDITURE MANAGEMENT

23. Effective and appropriate steps were not taken to prevent irregular expenditure disclosed in note 27.3 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by expenditure incurred on expired contracts.

CONSEQUENCE MANAGEMENT

24. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to the fact that proper and complete records were not maintained as evidence to support the action taken against individuals.

OTHER INFORMATION

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

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

27. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

28. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

29. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

FINANCIAL MANAGEMENT

- Management did not perform a proper review of the disclosure notes to the annual financial statements to ensure that they reconcile to the underlying records.
- Management has not implemented proper contract management and monitoring systems to ensure that all payments are made in terms of approved and valid contracts. Proper records were not maintained to confirm that appropriate actions were taken against individuals who caused irregular expenditure.

OTHER REPORTS

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

AUDIT RELATED SERVICES

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

32. 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).

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

Auditor General

Pietermaritzburg
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

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

Financial statements

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

    - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
    - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
    - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
    - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ithala SOC Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
    - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

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

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

AUDIT AND COMPLIANCE COMMITTEE REPORT

The ACC presents its report for the financial year that ended 31 March 2018 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 PFMA, section 94(7)(f) of the Companies Act, the Banks Act, and the Code of Corporate Practices and Conduct set out in the King IV Report on Corporate Governance.

The ACC was constituted in accordance with applicable legislation and regulations.

PURPOSE OF THE ACC

The ACC is a Committee of the Board and in addition to having specific statutory responsibilities in terms of the Companies Act, assists the Board through advising and making submissions on financial reporting, and oversees 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 ACC adopted formal terms of reference that was approved by the Board and has executed its duties during the past financial year in accordance with these terms of reference.

MEMBERSHIP AND ATTENDANCE

The ACC consists of three members, all of whom are Independent Non-Executive Directors. The Committee meets at least four times per year.

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

The CEO, CFO, 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 ACC.

STATUTORY DUTIES

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

- Believes that the appointment of the AG-SA as auditor complies with the relevant provisions of the Companies Act and the PFMA;
- Determined the fees to be paid to the AG-SA as disclosed in Note 20 of the AFS;
- Determined the terms of engagement of the AG-SA;
- Reviewed the quality of financial information;
- Reviewed the integrated AR and AFS;
- Received no complaints relating to:
    - o The accounting practices and internal audit of the company;
    - o The content or auditing of its financial statements;
    - o The internal financial controls of the company; and
    - o Any other related matters.
- Made a submission to the Board on matters concerning the company's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

OVERSIGHT OF RISK MANAGEMENT

The ACC:

- Received assurance that the processes and procedures followed by the RCMC are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas were 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 ACC:

- 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 through the internal and external audit processes;
- 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 ACC reviewed the effectiveness of the system for monitoring compliance with laws and regulations.

EXTERNAL AUDIT

The ACC:

- 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 furthermore provided written assurance to the ACC that they remained independent of the company.

Details of the external auditor's fees are set out in Note 20 of the AFS.

INTERNAL AUDIT

The ACC:

- 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, and standing/ authority within the company to discharge its functions;
- Approved the internal audit plan; and
- Encouraged cooperation between external and internal audit.

COMBINED ASSURANCE MODEL

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

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

The model will be owned and managed by internal audit, with the risk and compliance function being an integral part of the process.

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

FINANCE FUNCTION

The ACC believes that the CFO, Mr L Serithi, possesses the appropriate expertise and experience to meet his responsibilities in his 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 ACC believes that Ithala's accounting practices are effective.

INTEGRATED ANNUAL REPORT

Based on processes and assurances obtained, we recommend the integrated annual report to the Board for approval.

On behalf of the ACC

____

Mrs Babalwa Ngonyama
Chairperson

DIRECTORS' REPORT

The Directors of Ithala take pleasure in presenting their report, for the year that ended 31 March 2018.

INTRODUCTION

Ithala is wholly-owned by IDFC, which, in turn, is wholly-owned by the KZN Provincial Government. Formally established in 2001 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 KZN 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 (SARS), granted Ithala 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:
  - Ms G Sibiya - 1 August 2017
  - Mr D Zandamela – 1 September 2017
  - Mr L Serithi – 1 October 2017
  - Mr T Mathe - 20 October 2017
  - Mr M Mia – 1 September 2017**
  - Ms M Madali – 31 Janaury 2018
  - INkosi SN Mkhize - 23 March 2018
- Resignations:
  - MrsT Nyoka - 31 May 2017
  - Mr PA Ireland - 31 May 2017
  - Ms YEN Zwane (passed away 30 June 2017)
  - Mr M Mia – 1 June 2017**

The Board thanks the outgoing directors, Mrs T Nyoka and Mr PA Ireland for their dedicated service.

**Mr M Mia was deployed and appointed as Acting CEO from 1 June 2017 to 31 August 2017. He resumed his Board duties on 1 September 2017.

GOING CONCERN

The company posted a net loss of R32, 6 million (2017 net loss: R46, 3 million) for the year that ended 31 March 2018. As at 31 March 2018, the Company's total assets exceeded its total liabilities by R247, 8 million (2017: R220, 5 million) and total cash resources were R985 million (2017: R975 million).

As at the statement of financial position date, the capital adequacy ratio of the company was 15, 24% (2017: 11, 93%). This level is above the minimum capital adequacy ratio of 11.6250% required by the SARB and the minimum capital adequacy ratio of 15% that Ithala is required to hold as also stipulated by the SARB. During the 2018 financial year, the shareholder provided capital of R60 million to recapitalise the company.

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 accordingly, adopted the going concern basis of accounting in the preparation of the AFS.

The Minister of Finance extended the company's banking licence exemption for two (2) years until 30 November 2019. subject to the company fulfilling certain conditions. The Directors implemented processes to ensure that these conditions are met by the agreed dates.

FINANCIAL RESULTS

The results of Ithala for the year that ended 31 March 2018 are disclosed in the AFS, as set out on pages 84 to 144.

DIVIDENDS

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

DIRECTORS AND COMPANY SECRETARY

Information relating to the Directors is included on pages 74. Information relating to the Company Secretary is included on page 75 of the integrated annual report. The Directors' interest in share capital and contracts, and Directors' remuneration are disclosed in the notes to the AFS.

Material events after balance sheet date

The Directors are not aware of any events which are material to the financial position of the company that occurred between the statement of financial position date and the date of approval of the AFS.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR THAT ENDED 31 MARCH 2018

	Note	2018 R'000	2017 R'000
Interest earned on loans and advances to customers	17	170 891	163 960
Interest expenditure	18	(92 323)	(90 093)
Net margin		78 568	73 867
Interest on held to maturity investments	17	88 258	92 409
Net interest income		166 826	166 276
Fees and other income	19	138 183	118 507
Net income		305 009	284 783
Credit impairment (charges) /reversals		(13 774)	(18 081)
Loans and advances to customers	6	(13 194)	(17 250)
Properties in possession	8	(309)	(820)
Receivables		(271)	(11)
Operating income		291 235	266 702
Operating expenditure	20	(323 919)	(313 028)
Impairment of intangible assets			
Loss and total comprehensive expense for the year		(32 684)	(46 326)
Attributable to:			
Equity holders of the shareholder		(32 684)	(46 326)

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

Assets	Note	2018 R'000	2017 R'000 Restated	2016 R'000 Restated
Cash	3.1	**34 477**	46 500	44 502
Statutory investments	4	**187 714**	177 769	129 882
Investments and deposits with banks	5	**950 397**	928 453	930 279
Loans and advances to customers	6	**1 554 667**	1 398 875	1 392 805
Receivables	7	**12 933**	13 162	11 409
Properties in possession	8	**6 996**	8 702	8 342
Equipment	9	**30 009**	34 439	32 174
Intangible assets	10	**13 692**	15 195	15 094
Inventory	21	**1 399**	1 433	-
Total assets		**2 792 284**	2 624 528	2 564 487
LIABILITIES				
Customer deposits	11	**2 387 119**	2 285 509	2 193 805
Trade and other payables	12	**102 889**	63 454	51 394
Long service obligations	13	**14 884**	14 757	13 334
Loan account with holding company	14	**1 223**	5 397	7 946
Retirement benefit obligations	15.1	**38 331**	34 888	31 159
Total liabilities		**2 544 446**	2 404 005	2 297 638
EQUITY				
Capital and reserves attributable to the equity holders of the shareholder				
Issued share capital	16	**190**	190	190
Issued share premium		**434 710**	374 710	374 710
Accumulated loss		**(187 062)**	(154 377)	(108 051)
Total equity		**247 838**	220 523	266 849
Total liabilities and equity		**2 792 284**	2 624 528	2 564 487

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR THAT ENDED 31 MARCH 2018

	Note	Attributable to equity holders of the shareholder			
		Issued share capital	Issued share premium	Accumulated loss	Total equity
2017		R'000	R'000	R'000	R'000
Balance as at 31 March 2016	16	190	374 710	(108 052)	266 848
Conversion of shares to no par value		-	-	-	-
Share issue		-	-	-	-
Profit and total comprehensive expense for the year		-	-	(46 326)	(46 326)
Balance as at 31 March 2017	16	**190**	**374 710**	**(154 378)**	**220 522**
2018					
Balance as at 31 March 2017		190	374 710	(154 378)	220 522
Share issue		-	60 000	-	60 000
Loss and total comprehensive expenses for the year		-	-	(32 684))	(32 684)
Balance as at 31 March 2018		**190**	**434 710**	**(187 062)**	**247 838**

STATEMENT OF CASH FLOWS
FOR THE YEAR THAT ENDED 31 MARCH 2018

	Note	2018 R'000	2017 R'000 Restated
Loss and total comprehensive expense for the year		**(32 684)**	(46 326)
Operating activities			
Adjustments for:			
Non-cash items included in comprehensive expenses	22	**438**	13 955
Increase in operating liabilities	23	**140 441**	106 367
Decrease in operating assets	23	**(146 705)**	(14 720)
Proceeds from sale of properties in possession		**3 046**	2 695
Net cash flow (utilised)/generated in operating activities		**(35 464)**	61 971
Investing activities			
Acquisition of equipment	9	**(4 218)**	(12 341)
Acquisition of intangible assets	10	**(1 089)**	(2 143)
Proceeds from sale of equipment		**368**	572
Disposal of intangible asset		**270**	-
Increase in statutory investments		**(9 946)**	(47 886)
Decrease /(increase) in other investments		**68 131**	(28 178)
Net cash flow utilised in investing activities		**53 516**	(89 976)
Financing activities			
Proceeds from shares issued	16	**60 000**	-
Net cash flow utilised in financing activities			
Net movement in cash for the year		**78 052**	(28 005)
Cash and cash equivalents at the beginning of the year	3.2	**596 431**	624 436
Cash and cash equivalents at the end of the year	3.2	**674 483**	596 431

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

CORPORATE INFORMATION

The Company provides key retail banking services including savings and home loan products primarily to the previously unbanked citizens of the KwaZulu-Natal Province. The Company is wholly-owned by the Ithala Development Finance Corporation Limited, a finance development agency which is in turn wholly-owned by the KwaZulu-Natal Provincial Government.

The Company is a limited liability Company incorporated and domiciled in South Africa. The address of its registered office and principal place of business is Delta Towers Building, 303 Dr. Pixley KaSeme Street (formerly West Street), Durban, South Africa.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Statement of compliance

The financial statements were prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), as prescribed by the Accounting Standards Board. Statements of GAAP are based on the International Financial Reporting Standards (IFRS) with the exception of eight new IFRSs (IFRS 10, 11, 12, 13, 14 , 15, 16 and 17), amendments to IFRSs, including amendments made under the annual improvements process (namely amendments to IFRS 1, 3,5, 7, 9, 10, 11 12 and 13 and amendments to IAS 1, 16, 19, 27, 28, 32, 34, 38 and 40 and 2 IFRCs (IFRC 20 and 21), which have not been included in the Statements of GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Standards Council withdrawing Statements of GAAP, which ceased to apply from financial years commencing on or after 1 December 2012. Although no longer formally issued by a particular standard-setter, the Accounting Standards Board adopted and defined Statements of GAAP as the reporting framework for Government Business Enterprises like Ithala, through its amendments to Directive 5. IFRS will be fully adopted for the financial year ending 31 March 2019.

The annual financial statements for the year that ended 31 March 2018, were authorised for issue in accordance with a resolution of the Board of Directors (Board) on 27 July 2018.

1.2 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.

1.3 Financial sustainability

For the year ended 31 March 2018, the Company posted a net loss of R32, 6 million (2017 net loss: R46, 3 million). As at 31 March 2018, the Company's total assets exceeded its total liabilities by R247, 8 million (2017: R220, 5 million) and total cash resources were R985 million (2017: R975 million). As at the date of the statement of financial position, the capital adequacy ratio of the Company was 15, 24% (2017: 11, 93%). This level is above the minimum capital adequacy ratio of 11.6250% that is required by the South African Reserve Bank and the minimum capital adequacy ratio of 15% that Ithala is required to hold, as stipulated by the South African Reserve Bank.

Although the Company incurred a loss and is reliant on the continued support of its holding company and other government entities for the implementation of its 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.

1.4 Banking licence exemption

The Minister of Finance agreed to extending the banking licence exemption until 30 November 2019, subject to the Company, together with its stakeholders, fulfilling certain conditions. These conditions specify that a turnaround business plan is submitted to National Treasury and the Registrar of Banks and that the Memorandum of Agreement (MoA) with the Minister of Finance for the revised milestones as outlined in the aforementioned turnaround business plan is updated.

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

1.5 Functional and presentation currency

The financial statements are presented in South African Rands, which is the Company's operational currency. All financial information presented are 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 judgment in the process of applying the Company's accounting policies. The areas that involve a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

1.6 Significant accounting policies

Except as described otherwise, the accounting policies set out below were consistently applied to all periods presented in these financial statements:

1.6.1 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 combinations involving entities or businesses under common control is defined in IFRS3: Business combinations as a business combination in which all the combining entities or businesses are ultimately 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.

1.6.2 Financial instruments

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 payable and the inter-company loan. They are not entered 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 / treasury bills are classified as held-to-maturity financial assets, as the debentures / treasury bills are non-derivative financial assets with fixed or determinable payments and fixed maturity. The Company intends to hold these assets to maturity. Held-to-maturity assets are carried at amortised cost, using the effective interest rate method, less any impairments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

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 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 considering 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 considers all contractual terms of the financial instrument and includes any fees or incremental costs which are directly attributable to the instrument and is an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial instrument is adjusted if the Company revises its estimate of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Impairment of financial assets

Loans and advances are assessed at each reporting date to determine whether there is objective evidence of impairment. Impairment losses are incurred if there is objective evidence of impairment because 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 because 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 considers 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 experienced.

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 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 because 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 and after considering the appropriate value of the underlying security, and or collateral. 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 flow from the realisation of "permission to occupy" security, past experience in realising this type of security was taken into account.

When a loan carried at amortised cost is 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, using an allowance account and the amount of the loss is recognised as credit impairment in the statement of comprehensive income.

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

When the Company has transferred its right to receive cash flow from an asset or has entered into a pass-through arrangement and has neither transferred nor retained all the risks and rewards of the asset substantially, 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 flow, cash and cash equivalents comprise cash on hand, net of bank overdrafts, short-term highly liquid investments and short-term deposits with banks.

Borrowed funds

Borrowed funds arise from contractual arrangements which result in the Company having an obligation to either 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.

Financial guarantees

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

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'.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

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 disposals are recognised in 'Operating expenditure'.

Receivables

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

Other receivables are deferred assets which arise because 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.

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 (WIP) is not subject to depreciation. Cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Equipment, furniture, vehicles and other tangible assets are depreciated on the straight-line basis, from the date they are available for use, which may be earlier than the date they are actually in use, over the estimated useful lives of the assets to the current values of their expected residual values. The Company's leasehold improvements are depreciated over the expected useful life of assets based on management's best estimate. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date and the depreciation method is reviewed annually. Additions include fixed assets purchased but not yet in use. WIP includes equipment not yet brought into use and as such are not depreciated.

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

Computer equipment	3-10 years
Furniture and fittings	Maximum of 15 years
Leasehold improvements	Maximum of 10 years
Office equipment	2-5 years

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

The carrying value of assets are reviewed at each statement of financial position date, to assess whether there is any indication of impairment. 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 flow was transferred or expired or when all the risks and rewards of ownership have passed on disposal substantially, 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 are not classified as revenue.

Intangible assets

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

Intangible assets comprise computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a finite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised. At each date of the statement of financial position, intangible assets are reviewed for indications of 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, from the date it is available.

(b) System development costs
Costs associated with maintaining computer software programs are recognised as an expense as and when incurred.

Direct software development costs that enhance the benefits of computer software programs are clearly associated with an identifiable and unique software system, which is controlled by the Company and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as WIP up to the date of completion of the project, after which the asset is transferred to computer software and accounted for as per the computer software and licences policy.

Management reviews the carrying value of capitalised WIP on an annual basis, irrespective of whether there is an indication of impairment.

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

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 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 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.

A 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 flow is discounted to its 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 flow has 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

Provisions and contingent liabilities

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

A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision will be recognised.

The Company recognises no provisions for future operating losses.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received from the contract.

Contingent liabilities

Contingent liabilities, which include certain guarantees other than financial guarantees, are possible obligations that arise from past events, the existence of which 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 it is remote

Retirement benefit obligations

The Ithala Group provides for retirement benefits of employees by means of several defined benefits 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, considering recommendations of independent actuaries. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future outflows, using interest rates of government securities that have terms to maturity, approximating the terms of the related liability.

Under this method, the cost of providing pensions is charged to the statement of comprehensive income spread monthly over the service lives of employees in accordance with the advice of independent actuaries, who execute a valuation of the plan, every three years. The liability recognised in the statement of financial position in respect of a defined benefit plan is the present value of the defined benefit obligation at the reporting date, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

Surpluses in the fund will only be recognised on the balance sheet to the extent that surplus amounts are apportioned to the employer by the trustees and have thus been allocated to an employer surplus account.

Past service costs are recognised immediately as 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 it is due, and as such are included in staff costs as a charge to the statement of comprehensive income, in the period to which it relates.

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 of 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 reporting 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.

Share capital

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

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 flow, considering all contractual terms of the financial instrument, except for 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.

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.

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 of which the primary condition is that the Company should purchase, construct or acquire non-current assets, are deducted in arriving at the carrying amount of the assets. Except for non-current assets that are measured at fair value, the grants are recognised as income over the periods necessary, to match the grant with the costs for which it is intended to compensate, on a systematic basis.

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

Operating leases

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Payments, including prepayments, 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, is 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.

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).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

Inventory

Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring, converting and bringing it to its present location and condition.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion costs and selling expenses.

Related parties

A party is related to the Company if any of the following are met:

- Directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the Company;
- It is a joint venture or an associate;
- The party is a member of the key management personnel or a non-executive director of the Company or its parent company; and
- The party is a close member of the family of any individual referred to in the above.

A 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.

Financial assets that are subject to renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. These loans are not considered to be past due after renegotiations, but are treated as current loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated by using the loan's original effective interest rate.

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

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 judgment of management, indicate that payment will most likely continue.

Loans where terms have been renegotiated, are subject to ongoing review to determine whether it should be considered impaired or past due.

New standards and interpretations not yet adopted

Below are new standards, amendments to standards and interpretations not yet effective for the year that ended 31 March 2018. These have not been applied in the preparation of these financial statements as it does not apply to the Company, because the Company has been following SA GAAP since December 2012:

Standard	Description	Annual periods beginning on or after
IFRS 1 (AC 138) amendment	*First-time Adoption of International Financial Reporting Standards* · Annual Improvements 2011–2013 Cycle: Amendments to the Basis of Conclusion clarify the meaning of "effective IFRSs". · Annual Improvements 2014-16 Cycle: Deletion of short-term exemptions that are no longer applicable. · The company will apply IFRS 1 in the 2018/2019 AFS since the Accounting Standards Board (ASB) has determined that government business enterprises such as Ithala should comply with IFRS for periods commencing on or after 1 April 2018.	1 July 2014 1 January 2018
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. · Annual Improvements 2015-2017 Cycle: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.	1 July 2014 1 July 2014 1 January 2019
IFRS 5 (AC 142)	*Non-current Asset Held for Sale and Discontinued Operations* · Annual improvements 2012 -2014 Cycle: Amendments clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held for sale does not change.	1 January 2016
IFRS 7 (AC 144)	*Financial Instruments: Disclosures* · Annual Improvements 2012-2014 Cycle: Amendments clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts. · Annual Improvements 2012-2014 Cycle: Amendments clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34.	1 January 2016 1 January 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

Standard	Description	Annual periods beginning on or after
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	*Financial Instruments: Classification and Measurement* · Annual Improvements 2010–2012 Cycle: Amendments to the measurement requirements for all contingent consideration assets and liabilities included under IFRS 9. · A final version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition: · IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cashflow characteristics. A new business model was introduced which allows 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 expected credit loss" impairment 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, and 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. · Prepayment Features with Negative Compensation. The narrow-scope amendment allows companies to measure particular pre-payable financial assets with negative compensation at amortised costs or at fair value through other comprehensive income if a specified condition is met. · Given the nature of the company's operations, this standard is expected to have a significant impact on the company's annual financial statements when applied. The anticipated impact of IRFS 9 is a decrease in balance sheet impairments.	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 IFRS13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in level 3.	 1 July 2014 1 July 2014
IFRS 15 (not adopted into SA GAAP)	*Revenue from Contracts from Customers* A new standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers. · The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. · The new standard supersedes: (a) IAS 11 Construction Contracts; (b) IAS 18 Revenue; (c) IFRIC 13 Customer Loyalty Programmes; (d) IFRIC 15 Agreements for the Construction of Real Estate; (e) IFRIC 18 Transfers of Assets from Customers; and · (f) SIC-31 Revenue—Barter Transactions Involving Advertising Services	1 January 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

Standard	Description	Annual periods beginning on or after
IFRS 16 (AC105)	*Leases* A new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. · A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Consequently, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents it in the statement of cash flows. · IFRS 16 contains expanded disclosure requirements for lessees. · IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. · IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. · IFRS 16 supersedes the following Standards and Interpretations: (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases - Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. · Given the nature of the Company's operations, this standard is expected to have a significant impact on the Company's annual financial statements when applied.	1 January 2019
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	*Presentation of Financial Statements* Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	1 January 2016
IAS 7 (AC 118)	*Statement of Cash Flows* Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017

Standard	Description	Annual periods beginning on or after
IAS 12 (AC 102)	Income Taxes · Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): Narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. · Annual Improvements 2015-2017 Cycle: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises.	1 January 2017 1 January 2019
IAS 16 (AC 123)	*Property, Plant and Equipment* · Annual Improvements 2010-2012 Cycle: Amendments to the Revaluation method – proportionate restatement of accumulated depreciation. · Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. · Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, Plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	1 July 2014 1 January 2016
IAS 19 (AC 116) (amendment not adopted into SA GAAP)	*Employee Benefits* · IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. · For defined benefit plans, removal of the accounting policy for recognising actuarial gains and losses is expected to have an impact on the Company as the Company currently utilises the corridor method to account for such gains and losses. Should the amended IAS 19 be adopted, unrecognised actuarial losses in the balance sheet of R0.05m for the Company would have to be released to the income statement. · Amendments to Defined Benefit Plans: Employee Contributions whereby the requirements in IAS 19 for contributions from employees or third parties that are linked to service have been amended. · Plan Amendment, Curtailment or Settlement: The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2013 1 July 2014 1 January 2019
IAS 23 (AC 114)	Borrowing Costs Annual Improvements 2015 – 2017 Cycle: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	1 January 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

Standard	Description	Annual periods beginning on or after
IAS 38 (AC 129)	*Intangible Assets* · Annual Improvements 2010-2012 Cycle: Amendments to the revaluation method – proportionate restatement of accumulated depreciation. · Amendments to IAS 16 and IAS 38 to clarify the basis for the calculation of depreciation and amortisation, as being the expected pattern of consumption of the future economic benefits of an asset. · Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.	1 July 2014 1 January 2016
IAS 40 (AC 135)	*Investment Property* · Annual Improvements 2011-2013 Cycle: Amendments to clarify the inter-relationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. · Transfers or Investment Property: Clarification of the requirements on transfers to, or from, investment property.	1 July 2014 1 January 2018
IFRIC 21	*Levies* IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability when and only when the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.	1 January 2014
IFRIC 23	*Uncertainty Over Income Tax Treatments* IFRIC 23 specifies how any entity should reflect the effects of uncertainties in accounting for income taxes.	1 January 2019

IFRS 17 and amendments to IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28, IAS 34 and IFRIC 20 are not applicable to the business of the Company and will therefore have no impact on future financial statements.

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The Company makes estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and assumptions made predominantly relate to a going concern, impairment of loans and advances, disclosed in Note 6, and determination of the useful lives and residual values, as well as depreciation methods for equipment as disclosed in Note 9. Other judgments made, relate to classifying financial assets and liabilities in their relevant categories.

Management assessed 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 "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 bond boycott properties, the take on value is used to estimate the fair value.

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

Impairment of loans and advances and properties in possession

The credit impairment allowance represents management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.
Management is required to exercise judgment in making assumptions and estimations when calculating such allowances on both specific and portfolio loans and advances.

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

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. Any changes in the programme however, 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 considering 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 29.1.

3. CASH AND CASH EQUIVALENTS

3.1 Cash

	2018 R'000	2017 R'000
Coins and bank Notes	34 477	46 500

Included in cash is an amount of R12, 1 million (2017: R8, 0 million) relating to cash in transit at yearend.

3.2 Cash and cash equivalents

	Note	2018 R'000	2017 R'000
Cash	3.1	34 477	46 500
Short term investments and deposits with banks		640 006	549 931
Total		**674 483**	596 431

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

4. STATUTORY INVESTMENTS

	2018 R'000	2017 R'000
Treasury bills	187 714	177 769
Total	187 714	177 769

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 2018 exceed the minimum reserve requirements by R55, 4 million, and are invested in terms of the Company's capital management strategy.

5. INVESTMENTS AND DEPOSITS WITH BANKS

	2018 R'000	2017 R'000
Investments and deposits with banks	**950 397**	928 453
Investments and deposits with banks are analysed, as follows:		
Fixed term funds	**309 582**	269 343
Investments in state-owned companies	**136 112**	165 968
Other investments	**85 129**	85 134
Call funds	**419 574**	408 008
Maturity analysis of investments and deposits with banks		
Maturing up to 1 month	**444 975**	464 540
Maturing after 1 month but within 3 months	**195 030**	187 442
Maturing after 3 months but within 6 months	**108 111**	86 472
Maturing after 6 months but not exceeding 1 year	**126 651**	18 898
Maturing after 1 year	**75 630**	171 101
Total	**950 397**	928 453

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings (or an equivalent rating) with a minimum long-term rating of A, and invests surplus funds in other state-owned companies (SOCs). The financial institutions, in which surplus cash is invested, are Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank, Absa Bank Limited and the Bank of China Limited. Due to investments being held in institutions that are highly-rated, these instruments are neither past due, nor impaired.

Funds on fixed deposits at ABSA Bank Limited are subject to a general cession in its favour, up to an amount of R30 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 yearend, funds on fixed deposits with ABSA Bank Limited totalled R34, 3 million (2017: R51, 0 million).

6. LOANS AND ADVANCES TO CUSTOMERS

	2018 R'000	2017 R'000
Housing loans	**1 550 763**	1 400 523
Micro finance – secured loans	**74 408**	63 914
Commercial property loans	**134**	1 137
Micro finance – unsecured loans	**7 552**	23 059
	1 632 857	1 488 633
Credit impairments for loans and advances	**(78 190)**	(89 758)
Loans and advances net of impairment	**1 554 667**	1 398 875
Maturity analysis		
On demand	**66 356**	57 838
Maturing from 1 month to 6 months	**50 840**	47 468
Maturing from 6 months to 1 year	**49 137**	46 848
Maturing from 1 year to 5 years	**340 586**	299 319
Maturing after 5 years	**1 125 938**	1 037 160
Total	**1 632 857**	1 488 633

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.

Credit impairments for loans and advances	2018 R'000	2017 R'000
Balance at beginning of the year	**89 758**	87 780
Amounts written off against specific credit impairments	**(24 762)**	(15 272)
Impairments raised	**13 194**	17 250
Balance at end of the year	**78 190**	89 758
Comprising:		
Impairments for performing loans	**23 167**	21 913
Impairments for non-performing loans	**55 023**	67 845
Total credit impairments for loans and advances	**78 190**	89 758

Credit impairment analysis in respect of performing and non-performing loans	2018 R'000	2017 R'000
Non-performing loans		
Balance at beginning of the year	**67 845**	59 094
Impaired accounts written off	**(24 762)**	(15 272)
Net impairments raised	**11 940**	24 023
Balance at end of the year	**55 023**	67 845
Performing loans		
Balance at beginning of the year	**21 913**	28 686
Net impairments raised /(reversed)	**1 254**	(6 773)
Balance at end of the year	**23 167**	21 913
Total	**78 190**	89 758

Segmental analysis by industry of impairments in respect of non-performing loans	2018 R'000	2017 R'000
Retail – mortgage	**36 758**	33 042
Retail - other	**18 265**	34 803
Total	**55 023**	67 845

Concentration of credit risk	2018 R'000	2017 R'000
Loans granted within the boundaries of KwaZulu-Natal	1 632 857	1 488 633
Total	**1 632 857**	**1 488 633**

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 became 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 for example be, 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 will lapse 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 sufficient to mitigate potential risk around default, if the credit quality is compromised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

Age analysis of assets past due but not impaired

2018 R'000	Less than 30 days	31 to 60 days	61 to 90 days	Total
Housing loans	42 186	18 968	13 222	74 376
Micro finance – unsecured loans	6	10	30	46
Commercial property loans	-	-	-	-
Vehicle and taxi finance	1 703	431	57	2 191
Total	**43 894**	**19 409**	**13 309**	**76 613**

2017 R'000	Less than 30 days	31 to 60 days	61 to 90 days	Total
Housing loans	38 896	22 154	8 672	69 722
Micro finance – unsecured loans	461	274	173	908
Commercial property loans	876	-	-	876
Vehicle and taxi finance	1 336	573	101	2 010
Total	**41 569**	**23 001**	**8 946**	**73 516**

At statement of financial position date, the value of non-performing loans was R97 million (2017: R111 million) against which credit impairments of R55 million (2017: R68 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 2018.

The net realisable amount refers to the fair value of the security and expected cash flows discounted to its present value.

The assets held as security by the Company, represented by the net realisable amount which has been disclosed above, comprise properties as well as financial guarantees that are taken into the Company's possession, only in the event of default. In respect of security for home improvement loans, the borrowers' rights to their pension and provident fund assets are ceded to the Company.

The assets held as security which are not readily convertible into cash, are disposed of in accordance with the Company's policy by employing the following methods:

- Outsourcing the marketing and sale of properties in possession; and
- Engaging occupants to encourage them to purchase the properties by utilising any applicable government housing subsidy.

7. RECEIVABLES

	2018 R'000	2017 R'000
Receivables	3 529	2 088
Less: provision for impairment of receivables	(343)	(295)
Sub-total	3 186	1 793
Prepayments	9 747	11 369
Total	12 933	13 162
Credit impairments movement		
Balance at beginning of the year	295	627
Additional provisions made during the year	493	268
Unused amounts reversed during the period	(445)	(600)
Balance at end of the year	343	295
Amounts released during the financial year	(27)	(84)

Analysis of receivables	2018 R'000	2017 R'000
Service deposits*	230	230
Service fees	1 390	1 314
Net refunds due from insurance underwriters	336	10
Outstanding deposits	102	135
VAT apportionment	636	-
Other	493	104
Total	3 187	1 793

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

8. PROPERTIES IN POSSESSION

	2018 R'000	2017 R'000
Gross amount at beginning of the year	14 027	12 847
Additions	2 696	3 817
Disposals	(4 093)	(2 637)
Gross amount at end of the year	12 630	14 027
Fair value decrease	(5 634)	(5 325)
Fair value	6 996	8 702
Fair value decrease		
Balance at beginning of the year	5 325	4 505
Increase for the year	309	820
Balance at end of the year	**5 634**	**5 325**

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

9. EQUIPMENT

Cost	2018 R'000	2017 R'000 Restated
Computer equipment	**52 226**	52 892
Furniture and fittings	**22 542**	22 709
Office equipment	**25 189**	21 406
Leasehold improvements	**48 940**	48 913
Work in progress	**-**	-
Total	**148 897**	145 920
Accumulated depreciation		
Computer equipment	**41 896**	39 346
Furniture and fittings	**18 932**	17 703
Office equipment	**16 649**	14 828
Leasehold improvements	**41 411**	39 604
Total	**118 888**	111 481
Net book value	**30 009**	34 439

Movement in equipment

2018	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improvements R'000	Total R'000
Net carrying value at beginning of the year	13 524	2 547	6 550	11 819	34 439
Additions	127	34	4 030	27	4 218
Disposals	(60)	(71)	(109)	-	(240)
Depreciation	(3 293)	(1 321)	(1 987)	(1 807)	(8 408)
Net carrying value at end of the year	10 298	1 189	8 484	10 039	30 009

Movement in equipment

2017 Restated	Computer equipment R'000	Furniture and fittings R'000	Office equipment R'000	Leasehold improvements R'000	Total R'000
Net carrying value at beginning of the year	12 162	2 226	6 706	11 081	32 174
Additions	6 187	1 567	1 567	3 009	12 330
Disposals	(554)	(56)	(56)	-	(666)
Adjustments	(104)	33	82	-	11
Depreciation	(4 167)	(1 223)	(1 749)	(2 271)	(9 410)
Net carrying value at end of the year	13 524	2 547	6 550	11 819	34 439

The prior year's figures were restated for the following:

- A server that was classified as an intangible asset in the prior year has been reclassified as equipment in the current year; and
- Work in progress has been allocated to the asset class it relates to.

Refer to details of the comparative information reclassification in note 32.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

10. INTANGIBLE ASSETS

Intangible assets	2018 R'000	2017 R'000 Restated
Cost		
Computer software	16 382	16 157
Software - work in progress	42 727	42 132
Total	59 109	58 289
Accumulated amortisation		
Computer software	13 013	10 690
Accumulated impairment		
Software - work in progress	32 404	32 404
Net book value	**13 692**	**15 195**

Movement in intangible assets

2018	Computer software R'000	Software - work in progress R'000	Total R'000
Net carrying value at beginning of the year	5 467	9 728	15 195
Additions	-	**1 089**	**1 089**
Disposals	-	**(270)**	**(270)**
Transfers	**225**	**(225)**	-
Amortisation	**(2 322)**	-	**(2 322)**
Net carrying value at end of the year	**3 370**	**10 322**	**13 692**

2017 Restated	Computer software R'000	Software - work in progress R'000	Total R'000
Net carrying value at beginning of the year	5 630	9 464	15 094
Additions	531	1 612	2 143
Disposals	-	-	-
Transfers	1 348	(1 348)	-
Amortisation	(2 042)	-	(2 042)
Net carrying value at end of the year	5 467	9 728	15 195

An amount of R32, 4 million was recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010. Testing conducted by the Company revealed significant deficiencies which led to the Board of Directors delaying the "go live" decision.

The impairment was recognised due to rectification efforts by the vendor failing to produce the desired result and significant uncertainty as to the implementation of the system. Subsequent negotiations with the vendor relating to the rectification of the deficiencies and the continuation of the project on amended terms and conditions were not successful.

The long-term strategy of the Company includes the possible implementation of a bespoke banking system, and as such certain intrinsic value may exist within the capitalised amount from the previous project which may be realised on the implementation of the new system. The recoverable amount from the asset will be reassessed during the development and final implementation of the new banking system. Should the assessment of the intangible asset prove that there is no value in the asset, the Company will follow the policy based on the delegated powers of authority for the asset to be written off against the impairment provision.

The prior year's figures were restated for the following:

- A server that was classified as an intangible asset in the prior year was reclassified as equipment in the current year.

Refer to details of the comparative information reclassification in note 32.

11. CUSTOMER DEPOSITS

	2018 R'000	2017 R'000
Call deposit accounts	**70 349**	72 602
Savings accounts	**967 944**	871 759
Term deposits	**1 348 826**	1 341 148
Total deposits	**2 387 119**	**2 285 509**
Maturity analysis		
On demand	**1 131 455**	1 026 676
Maturing up to 1 month	**123 928**	185 357
Maturing after 1 month but within 6 months	**717 057**	676 242
Maturing after 6 months but within 1 year	**373 753**	359 623
Maturing after 1 year but within 5 years	**40 926**	37 611
	2 387 119	2 285 509

Savings accounts are further analysed as follows: -	2018 R'000	2017 R'000
Savings book *	**649 639**	622 554
Trust	**57 844**	56 660
Debit card	**212 181**	168 105
Corporate	**48 280**	24 440
Total savings	**967 944**	**871 759**
Term deposits are further analysed as follows: -		
Retail accounts	**899 035**	892 513
Corporate accounts	**449 791**	448 635
Total term deposits	**1 348 826**	**1 341 148**

*A savings book is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who do not prefer electronic banking.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

12. TRADE AND OTHER PAYABLES

	2018 R'000	2017 R'000 Restated
Trade creditors	**2 847**	2 190
Accruals	**12 276**	14 325
Operating leases – accrued expenditure	**544**	681
South African Revenue Services – VAT	**2 311**	201
Loans and advances reflecting credit balances	**3 471**	2 260
Stale cheques	**179**	290
VAT apportionment	**-**	541
Accrual for leave pay	**13 881**	14 193
Accrual- audit fees	**3 785**	3 639
Accrual- bonuses	**1 853**	1 783
Differed income- grant income	**37 986**	-
Sundry payables	**23 756**	23 351
Total	**102 889**	**63 454**

	2018 R'000	2017 R'000
Accruals for audit fees		
Carrying amount at the beginning of the year	3 639	3 760
Additional accrual raised during the year	4 085	3 907
Amounts utilised during the year	(3 939)	(4 028)
Carrying amount at the end of the year	**3 785**	**3 639**

The accrual 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.

The accrual 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.

Audit fees and the bonuses have been reclassified as accruals in the current year.

Refer to details of the comparative information reclassification in note 32.

13. LONG SERVICE OBLIGATIONS

	2018 R'000	2017 R'000 Restated
Other employee benefits		
Long service awards	14 884	14 757
Total	**14 884**	**14 757**

Long service awards	2018 R'000	2017 R'000
Balance at beginning of the year	**14 757**	13 335
Expensed during the year	**1 951**	2 590
Benefits vesting during the year	**(1 824)**	(1 168)
Balance at end of the year	**14 884**	14 757
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	**14 884**	14 757
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	**1 664**	1 556
Interest costs	**1 205**	1 210
Net actuarial (gain)/ loss recognised during the year	**(918)**	(176)
Total included in staff costs	**1 951**	2 590

Sensitivity analysis

Assumption	Change	2018 R'000	2017 R'000
Present value of obligations		**14 884**	14 757
Average salary inflation	+1%	**16 059**	15 895
	-1%	**13 831**	13 739
Average retirement age	-2 years	**13 259**	13 091
	+2 years	**16 473**	16 189

The Company provides long service awards to permanent employees in the form of cash from ten years of continuous service and every five years thereafter.

An actuarial valuation of the provision for long service awards at 31 March 2018 quantified the present value of obligations at R14, 9 million (2017: R14, 8 million). These actuarial valuations are conducted annually at the statement of financial position date. The most recent actuarial valuation of the long service awards for the current financial year was executed 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 8.7% (2017: 8. 8%) and an average salary inflation of 6.7% (2017: 7.2%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

14. LOAN ACCOUNT WITH HOLDING COMPANY

	2018 R'000	2017 R'000
Loan account with holding company	1 223	5 397

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

15. RETIREMENT BENEFIT OBLIGATIONS

15.1 Post-retirement medical benefits

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at the statement of financial position date. 91 current and retired employees (2017: 92) are currently covered under the scheme.

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

The principal actuarial assumptions used included a discount rate of 9.60% (2017: 9.80%) and a health care cost inflation rate of 8.40% (2017: 9.20%). The movement in the liability annualised in the statement of financial position is as follows:

Post-retirement medical benefits	2018 R'000	2017 R'000
Movement in the defined benefit obligation, is as follows:		
Balance at beginning of the year	34 888	31 159
Expensed during the year	4 688	4 921
Contributions paid	(1 245)	(1 192)
Balance at end of the year	38 331	34 888
Amounts recognised in the statement of financial position, are as follows:		
Present value of unfunded obligations	38 384	39 125
Unrecognised actuarial loss	(53)	(4 237)
Net liability in the statement of financial position	38 331	34 888

Post-retirement medical benefits	2018 R'000	2017 R'000
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	887	871
Interest costs	3 770	3 829
Net actuarial loss recognised during the year	30	221
Total included in staff costs	4 687	4 921

Unrecognised actuarial (loss)/gain Unrecognised actuarial (loss)/gain	**2018 R'000**	**2017 R'000**
Movement in the unrecognised actuarial (loss)/gain, is as follows:		
Opening unrecognised actuarial loss	**(4 237)**	(6 284)
Actuarial gain arising	**4 153**	1 826
Actuarial gain recognised	**30**	221
Closing unrecognised actuarial (loss)	**(53)**	(4 237)
Corridor	**-**	3 913
Cumulative unrecognised actuarial loss in excess of Corridor	**3 785**	(324)
Expected average remaining working lives of eligible in-service members	**10.1**	10.7
Actuarial loss to be recognised in the following year	**-**	(30)

Sensitivity analysis – unfunded accrued liability

Assumption	**Change**	**2018 R'000**	**2017 R'000**
Present value of obligation		**38 384**	39 125
Health care cost inflation	+1%	**44 774**	46 079
	+1,5%	**48 544**	50 210
	+1,75%	**50 597**	52 467
	-1%	**33 227**	33 565
Post-retirement mortality	+1 year	**36 938**	37 661
Expected retirement age	-1 year	**39 954**	40 710

15.2 Pension and provident fund schemes

The Company provides retirement benefits to all employees by contributing to pension and provident funds. Membership of either the pension or provident fund is compulsory. The Defined Benefit Pension Fund and the Defined Benefit Provident Fund are governed by the Pension Funds Act, 1956, with retirement benefits being determined with reference to both pensionable remuneration and years of service. Both funds are closed to new members.

The Defined Contribution Pension Fund and Defined Contribution Provident Fund are governed by the Pension Funds Act of 1956 and are open to new members and members who have elected to transfer from the Defined Benefit Funds.

Actuarial valuations of the Defined Benefit Pension and Provident Funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2018 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 for the current and prior annual financial years were executed 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

15.2.1 Defined benefit pension fund

Defined benefit pension fund	2018 R'000	2017 R'000
Present value of funded obligations	894	808
Fair value of plan assets	(3 947)	(9 516)
	(3 053)	(8 708)
Made up as follows:		
Recognised actuarial gain	-	6 796
Unrecognised actuarial gain	3 053	1 912
Liability at end of the year	-	-

It was resolved during the 2012 financial year to close the Ithala Defined Benefit Pension Fund. All active members of the fund were transferred to a defined contribution fund of the Company as at 31 December 2011. The trustees agreed to utilise the surplus in the pension fund to fund the employer contributions towards the Old Mutual Superfund. The Company began utilising the contribution holiday from July 2017.

	2018 R'000	2017 R'000
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of the year	808	717
Interest cost	73	72
Current service cost	-	-
Benefits paid	-	-
Contributions by plan participants (employees)	-	-
Actuarial loss/(gain) on obligation	13	19
Balance at end of the year	894	808
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	9 516	7 834
Expected return on assets	856	783
Contributions received	-	-
Benefits paid / settlements	(6 793)	-
Investment gain on assets	368	899
Balance at end of the year	3 947	9 516
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	-	-
Interest cost	73	72
Expected return on plan assets	(856)	(783)
Recognised actuarial loss	787	(154)
Total included in staff costs	4	(866)

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Present value of obligation	**894**	808	717	589	15 371
Fair value of fund assets	**(3 947)**	(9 516)	(7 834)	(6 536)	(18 130)
Surplus	**(3 053)**	(8 708)	(7 117)	(5 947)	(2 759)
Experience loss/(gain) on fund liabilities	**13**	19	85	(1 468)	(1 524)
Experience gain on fund assets	**367**	899	821	1 485	945

Plan asset portfolio	2018 R'000	2017 R'000
Investment assets	**7 284**	13 160
Current liabilities	**(3 878)**	(3 644)
Total	**3 406**	9 516
Effective rate of return on plan assets (actual)	**9.05%**	13.16%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 9.0%.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages):	2018	2017
Discount rate (annualised yield on R202)		
Discount rate (annualised yield on R186)	**8.1%**	9.0%
Expected rate of return on plan assets	**8.1%**	9.0%
Future salary increases (inflation plus 1%)	**6.6%**	7.5%
Inflation	**5.6%**	6.5%

Sensitivity Analysis – Fund Liability	2018 R'000	2017 R'000
At valuation assumptions:	**894**	808

*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.

15.2.2 Defined benefit provident fund

Defined Benefit Provident Fund	2018 R'000	2017 R'000
Amounts recognised in the statement of financial position, are as follows:		
Present value of funded obligations	**23 232**	18 161
Fair value of plan assets	**(24 884)**	(29 028)
	(1 652)	(10 867)
Unrecognised actuarial gain	**1 652**	10 867
Liability at end of the year	**-**	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

	2018 R'000	2017 R'000
The movement in the defined benefit obligation over the year, is as follows:		
Balance at beginning of the year	**18 162**	15 837
Interest cost	**1 652**	2 096
Current service cost	**305**	655
Benefits paid	**(6 488)**	(11 340)
Contributions by plan participants (employees)	**110**	346
Actuarial (gain)/ loss on obligation	**(491)**	10 567
Past service cost vested	**9 984**	-
Balance at end of the year	**23 233**	18 161

The movement in the fair value of plan assets over the year, is as follows:	2018 R'000	2017 R'000
Balance at beginning of the year	**29 028**	22 078
Expected return on assets	**2 336**	3 105
Contributions received	**212**	675
Benefits paid	**(6 488)**	(11 340)
Investment (loss) / gain on assets	**(204)**	14 510
Balance at end of the year	**24 884**	29 028

Amounts recognised in the statement of comprehensive income, are as follows:	2018 R'000	2017 R'000
Current service cost	305	655
Interest cost	1 651	2 096
Expected return on plan assets	(2 336)	(3 105)
Recognised actuarial loss	1 599	256
Past service cost vested	9 984	-
Total included in staff costs	11 203	(98)

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Present value of obligation	**23 233**	18 161	15 836	16 962	22 303
Fair value of fund assets	**(24 884)**	(29 028)	(22 078)	(24 268)	(27 919)
Surplus	**(1 652)**	(10 867)	(6 242)	(7 306)	(5 616)
Experience loss/(gain) on fund liabilities	**(491)**	10 567	44	(4 297)	(3 415)
Experience (loss)/gain on fund assets	**(204)**	14 510	(1 230)	(2 689)	3 623

	2018 R'000	2017 R'000
Plan asset portfolio		
Investment assets	**29 961**	28 790
Current (liabilities)/assets	**(5 078)**	237
Total	**24 884**	29 027
Effective rate of return on plan assets (actual)	**9.05%**	13.16%

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 8,1%.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages)	2018	2017
Discount rate (annualised yield on R202)		
Discount rate (annualised yield on R186)	**8.1%**	9.0%
Expected rate of return on plan assets	**8.1%**	9.0%
Future salary increases (inflation plus 1%)	**6.6%**	7.5%
Inflation	**5.6%**	6.5%

Sensitivity analysis–fund liability	**Change**	2018 R'000	2017 R'000
At valuation assumptions:		**24 245**	15 940
Discount rate	1%	**24 245**	15 287
	-1%	**24 245**	16 650
Expected rate of salary increases	1%	**24 245**	16 484
	-1%	**24 245**	15 434
No salary increases		**24 245**	12 979

The Company expects to make no contribution (2017: Nil) to the Ithala Defined Benefit Pension Fund and no contribution (2017: R632 559) to the Old Mutual Superfund Defined Benefit Provident fund during the next financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

16. SHARE CAPITAL AND SHARE PREMIUM

	2018 R'000	2017 R'000
Authorised share capital		
191 000 000 ordinary shares of 0,1 cent each	**191**	191
Issued share capital and premium		
190 015 500 ordinary shares of 0,1 cent each issued and fully paid for	**190**	190
Share premium	**374 710**	374 710
2 990 ordinary shares of 0, 1 cent par value each issued and fully paid for in the prior year	**-**	-
Share premium	**60 000**	-
Total	**434 900**	**374 900**

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

Revenue arising from held to maturity investments	2018 R'000	2017 R'000
Interest received on call accounts	**24 883**	29 931
Interest received on fixed deposit accounts	**48 030**	52 402
Interest income on treasury bills	**15 345**	10 076
Total interest received from deposits with banks and from statutory investments	**88 258**	92 409
Revenue arising from loans and advances to customers		
Home improvement loans	**11 165**	10 340
"Cash backed" loans	**3 606**	3 422
Interest on rural property loans	**5 805**	6 795
Interest on personal loans	**1 675**	3 548
Housing loans	**142 464**	133 299
Property development loans	**-**	9
Commercial loans	**29**	142
Debt consolidation	**878**	1 962
Vehicle finance	**3 146**	2 238
Taxi finance	**2 123**	2 205
Total interest earned on loans and advances to customers	**170 891**	163 960
Total interest on loans and advances and surplus funds	**259 149**	256 369

18. INTEREST EXPENDITURE

	2018 R'000	2017 R'000
Interest paid on customer deposits	(92 036)	(89 941)
Loan account with holding company	(287)	(152)
Total	(92 323)	(90 093)

19. FEES AND OTHER INCOME

	2018 R'000	2017 R'000
Commission and fee income comprise the following significant categories of revenue:		
Revenue generated by insurance division	14 121	13 352
Rebates received	73	78
Commission income	11 954	11 172
Administration fees	1 090	933
Development fees	4	4
Funeral cover commission and other fees	1 000	1 165
Commission and fee income	113 359	96 330
Investigation and initiation fees from "cash backed" loans	1 781	1 640
Investigation and initiation fees from housing loans	4 790	3 768
Other investigation and initiation fees income	3 389	3 834
Service fees received from business accounts	1 711	1 945
Service fees received from pass book-based accounts	22 991	25 511
Service fees received from club accounts	6 998	4 232
Service fees received from debit card-based savings accounts	58 578	45 605
Service fees received from target save accounts	7 498	5 230
Other service fees income	5 182	4 143
Electronic fund transfer fees income	412	411
Valuation fees income	29	11
Other income	10 703	8 825
Dormant account balances recognised in income	6 558	5 752
Bad debts recovered	2 000	87
Recovery of operating expenses from holding company	925	2 095
Sundry income	1 220	891
Total fees and other income	138 183	118 507

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

20. OPERATING EXPENDITURE

Operating expenditure is stated after the following items:

	2018 R'000	2017 R'000
Auditors' remuneration	**4 377**	3 507
Audit fees	**4 085**	3 907
Prior year under/(over) provision	**292**	(400)
Amortisation of intangible assets	**2 322**	2 042
Depreciation of equipment	**8 408**	9 410
Loss /(profit) on disposal of properties in possession	**1 048**	(58)
Loss on disposal of equipment	**96**	94
Proceeds on insurance claims	**(225)**	(23)
Loss on disposal of investment	**-**	18
Professional fees	**8 550**	6 358
Operating leases	**19 493**	18 734
Personnel costs (excluding directors and key management remuneration)	**149 989**	148 500
Included in personnel costs above are contributions to retirement benefit schemes:	**12 006**	11 410
Defined benefit plans	**3 339**	538
Defined contribution plans	**8 667**	10 872
Write-off of equipment	-	-

	2018 R'000	2017 R'000
Directors' emoluments	**3 731**	3 558
MF Kekana	**950**	934
M Mia (resigned 01 June 2017 and re-appointed on 31 August 2017)	**744**	624
B Ngonyama	**700**	579
SC Ngidi	**304**	340
T Nyoka (resigned 31 May 2017)	**32**	571
P Radebe	**621**	510
G Sibiya (appointed 01 August 2017)	**318**	-
T Mathe (appointed 20 October 2017)	**-**	-
M Madali (appointed 31 January 2018)	**62**	-
INkosi SN Mkhize (appointed 23 March 2018)	**-**	-
The Non-Executive Directors do not have service contracts.		

	2018 R'000	2017 R'000
Executive Directors' remuneration	**6 944**	2 617
PA Ireland – Chief Executive Officer (resigned 31 May 2017)	**990**	2 617
M Mia (appointed as Acting Chief Executive Officer 01 June 2017 and resigned 31 August 2017)	**624**	-
D Zandamela – Chief Executive Officer (appointed 01 September 2017) and Acting Compliance Officer	**4 079**	-
L Serithi- Chief Financial Officer (appointed 01 October 2017) and Acting Chief Risk Officer	**1 251**	-
Appointed Prescribed Officers' remuneration**	**12 412**	13 271
PN Salanje – Compliance Officer (resigned 31 December 2017)	**2 135**	1 504
S Gwala - Head: HR	**1 421**	1 185
S Xolo - Marketing and Sales Manager	**962**	894
Z Mthiyane – Head: Ithala Connect (resigned 17 November 2017)	**567**	850
T Mungwe - Company Secretary	**1 109**	934
F Dikgale - Chief Risk Officer (resigned 08 December 2017)	**1 476**	1 527
D Pillay - Chief Audit Executive (resigned 31 August 2017)	**874**	1 597
MC Zikalala – Head: IT (resigned 31 March 2017)	**421**	985
S Moodley – Head: Segments and Acting Head: Distribution Channels	**966**	883
S Johnson - Head: Distribution Channels (resigned 31 August 2017)	**664**	1 403
A Ndlovu – Head: Insurance (appointed 15 September 2016 and resigned 26 May 2017)	**228**	593
M Tloubatla – Head: Credit (appointed 1 April 2016 and resigned 31 October 2017)	**694**	916
L Keyise – Head IT (Appointed 01 August 2017)	**895**	-
Acting Prescribed Officers remuneration	**337**	-
N Ndlovu – Acting Head: Insurance (Appointed 01 December 2017)	**337**	-

**Prescribed officers include every person, by whatever title the office is designated that:

- Exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the Company; or
- Regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Company.

21. INVENTORY

	2018 R'000	2017 R'000
Debit cards on hand	1 399	1 433
Total	**1 399**	1 433

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

22. OPERATING ACTIVITIES

Non-cash items included in comprehensive expenses	2018 R'000	2017 R'000
Depreciation of equipment	8 408	9 410
Amortisation of intangible assets	2 322	2 042
Fair value increase on properties in possession	309	820
(Profit)/loss on disposal of equipment	(129)	94
Loss/(profit) on disposal of properties in possession	1 048	(58)
Credit impairment in loans and advances	(11 568)	1 979
Credit impairment in trade and other receivables	48	(332)
Total	438	13 955

23. CHANGES IN OPERATING FUNDS

Increase in operating liabilities	2018 R'000	2017 R'000 Restated
Increase in deposits	101 610	91 704
Increase in trade and other payables	39 436	12 060
Increase in long service obligation	127	1 423
Increase in retirement benefit obligations and defined benefit provident fund shortfall	3 442	3 729
Decrease in loan account with holding company	(4 174)	(2 549)
Total	140 441	106 367
Decrease in operating assets		
Increase in loans and advances	(144 224)	(8 047)
Increase in properties in possession	(2 696)	(3 817)
Decrease/(Increase) in receivables	180	(1 422)
Increase/(Decrease) in inventory	35	(1 433)
Total	(146 705)	(14 720)

24. COMMITMENTS

Capital expenditure	2018 R'000	2017 R'000
Authorised and contracted for	**2 713**	15 729
Comprising:		
Acquisition of equipment	**438**	15
Development of intangible assets	**2 275**	15 714

Capital expenditure will be financed from internal resources.

Operating lease commitments	2018 R'000	2017 R'000
Non-cancellable operating lease commitments are as follows:		
Not later than one year	**9 802**	12 827
Later than one year and not later than five years	**5 989**	8 029
Total	**15 791**	**20 856**

All related party lease agreements with the holding company expired during the financial year. The lease agreements have not been renewed and are currently running on a month-to-month basis.

The Company has entered into commercial leases for premises. These lease agreements contain clauses indicating an average lease period of three years and in some instances, a one term renewal option. Operating lease commitments were calculated on the original lease term. No renewal periods were 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 equated to R9,2 million (2017: R4, 0 million).

All commitment figures are VAT inclusive.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

25. RELATED PARTIES

The holding company is Ithala Development Finance Corporation Limited, and the ultimate controlling shareholder is the KwaZulu-Natal Provincial Government through the MEC of the Department of Economic Development, Tourism and Environmental Affairs.

The following are identified as related parties of the Company:

25.1 Ithala Development Finance Corporation Limited

The nature of the relationship between Ithala Development Finance Corporation Limited and the Company is that of holding company and subsidiary.

The outstanding balance of the current loan accounts is disclosed in Note 14.

Outstanding balances with the holding company	2018 R'000	2017 R'000
Outstanding balance on savings and fixed deposits	**(77 559)**	(67 668)
Loan account with holding company	**(1 223)**	(5 397)

Savings and fixed deposit agreements entered with the holding company are done in the ordinary course of business and under terms that are no more favourable to those entered with third parties, at arm's length.

The transactions with the holding company during the financial year are analysed below:

Transactions with the holding company	2018 R'000	2017 R'000
Bank charges received	-	(5)
Interest paid on customer deposits and loan account	5 040	4 660
Shared services	14 246	12 682
Rental paid	4 768	5 201
Recovery of operating expenses	(925)	(1 812)
Other costs	10 935	10 605
Total	**34 064**	**31 331**

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	2018 Deposits due R'000	2018 Interest expense R'000	2017 Deposits due R'000	2017 Interest expense R'000
KwaZulu-Natal Local Government	**31 754**	**1 860**	27 416	1 857
Department of Agriculture and Environmental Affairs	**1 207**	**25**	1 183	24
KwaZulu-Natal Health	**774**	**17**	3 096	13
KwaZulu-Natal Growth Fund Trust	**10 000**	**1 231**	27 800	2 347
Ezemvelo KZN Wildlife	**30 000**	**686**	-	1 970
KwaZulu-Natal Municipalities	**106 757**	**5 845**	134 156	8 233

25.3 The related party transactions detailed below refer to loans which were granted to key management personnel. Key management personnel compensation is disclosed in Note 20.

25.3.1. Key management personnel - Directors of the Company and/or holding company

Directors of the Company and holding company are the individuals responsible for planning, directing and controlling the activities of the Company.

Loans granted to executive management and Directors of the holding company	Outstanding balance R'000	Interest received R'000
2018	**5 170**	**480**
2017	4 942	433

Loans granted to executive management and Directors of the Company	Outstanding balance R'000	Interest received R'000
2018	**4 868**	**430**
2017	7 494	578

Impairment and terms of business relating to related party loans

No specific credit impairments (2017: Nil) were 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 various transactions with related parties. These transactions occur under terms that are no more favourable to those entered with third parties at arm's length, except for housing loans where all full-time employees qualify for the prime overdraft rate of less 1,75% and vehicle and asset finance where all full-time employees qualify for the prime overdraft rate of less 1,00%.

No amount was expensed during this financial year in respect of bad or doubtful debts due from these related parties.

26. CONTINGENT LIABILITY

The Company is a defendant in the following matters or has provided guarantees which may result in possible loss to the Company:

	2018 R'000	2017 R'000
Eskom guarantees	-	81
Mr. PR Bele	**325**	325
Mpikwana Co-operative	**900**	900
South African Insurance Association	**3 000**	3 000
Nkosini Investments	-	309
Pinespring Properties	**644**	644
Ithunzi Protections Services	**50**	50

26.1. Eskom guarantees

The Company had issued a guarantee in favour of Eskom. This guarantee was utilised during the year (2017: R0, 08 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

26.2. 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 was quantified by the applicant at an amount of R0, 3 million. The claim was disputed and defended by the Company, on the basis that no such advice was provided. At yearend, the prospect of success was good.

26.3. Mpikwana Co-operative

A claim was instituted against the Company by Mpikwana Co-oporative 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 joined the Department of Health, which also instituted criminal charges against the members of the co-operative. The claim was quantified by the applicant to an amount of R0, 9million. At yearend, the prospect of success was good.

26.4. South African Insurance Association Guarantee

The Company has issued a guarantee of R3 million (2017: R3 million) in favour of the South African Insurance Association.

26.5. Nkosini Investments

A claim was instituted against the Company by Nkosini Investments. The claim is for a property in possession that was sold to the applicant, but the property was not transferred to the applicant's name. The claim was quantified by the applicant at an amount of R0, 3 million. At yearend, the plaintiff withdrew the action against the Company and tendered costs.

26.6. Pinespring Properties

The Plaintiff, a former Landlord, is suing Ithala for arrear rentals and damages for failure to put the premises in good order.
The Plaintiff served amended particulars of the claim and a list of its required admissions. Our counsel is attending to drafting the amended plea and the reply to the plaintiff's list of required admissions. At yearend, the prospect of success was poor.

26.7 Ithunzi Protection Services

The plaintiff, a former service provider, is suing for professional services rendered. The claim has been quantified at an amount of R0, 05 million. This matter is still under investigation. At yearend, the outcome was uncertain.

27. FRUITLESS AND WASTEFUL EXPENDITURE, MATERIAL LOSSES AND IRREGULAR EXPENDITURE

27.1. Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred during the year (2017: Nil)

27.2. Material losses incurred

As disclosed in Note 6, loans and advances to the amount of R24, 8 million (2017: R 15, 3 million) were written off during the financial year.

The Company suffered a loss of R959 836 because of a branch robbery (2017: nil). Staff fraud amounted to R139 184 in the current year (2017: nil).

27.3. Irregular expenditure

An amount of R6 453 720 (2017: R2 426 105) which relates to irregular expenditure was incurred in the current financial year or identified in the current financial year that related to prior years because of non-compliance with the Company's Supply Chain Management Policy. The table below reflects a summary of expenditure incurred and condoned by the Accounting Authority:

	2018 R'000	2017 R'000
Opening balance	**2 426**	589
Add: irregular expenditure – current year	**5 480**	1 530
Add: prior year amounts identified in the current year	**974**	896
Less: amount condoned	**(2 426)**	(589)
Irregular expenditure awaiting condonation	**6 454**	2 426
Analysis of expenditure awaiting condonation per age classification		
Current year	**5 480**	1 530
Prior years	**974**	896
Total	**6 454**	2 426

Details of irregular expenditure – current year

Incident	**Disciplinary steps taken/ criminal proceedings**	2018 R'000	2017 R'000
Non-compliance with supply chain management policies	Employee dismissed	**-**	170
Non-compliance with supply chain management policies	Employee received a verbal warning	**-**	984
Non-compliance with supply chain management policies	The Board was notified of the irregularity of the transaction	**1 372**	-
Non-compliance with supply chain management policies	No action could be taken against the responsible person as the officials are no longer in employment of the Company. The matter was under investigation in the prior year	**-**	75
Non-compliance with supply chain management policies	No action could be taken as the officials are no longer in the employment of the Group	**39**	1 151
Non-compliance with supply chain management policies	No action could be taken against the responsible person as the officials are no longer in employment of the Company	**60**	46
Non-compliance with supply chain management policies	Matters still to be investigated.	**4 983**	-
Total		**6 454**	2 426

Incident	Condoned by (condoning authority)	2018 R'000	2017 R'000
Non-compliance with supply chain management policies	Accounting Authority	**2 426**	589
Total		**2 426**	589

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

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; and
- 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 R'000	Non-financial instruments R'000	Total R'000
2018				
Cash	**3**	**34 477**	**-**	**34 477**
Statutory investments	**4**	**187 714**	**-**	**187 714**
Investments and deposits with banks	**5**	**950 397**	**-**	**950 397**
Loans and advances to customers	**6**	**1 632 857**	**-**	**1 632 857**
Receivables	**7**	**3 529**	**9 747**	**13 276**
Customer deposits	**11**	**(2 387 119)**	**-**	**(2 387 119)**
Trade and other payables	**12**	**(100 399)**	**(2 490)**	**(102 889)**
Loan account with holding company	**14**	**(1 223)**	**-**	**(1 223)**
2017 Restated				
Cash	3	46 500	-	46 500
Statutory investments	4	177 769	-	177 769
Investments and deposits with banks	5	928 453	-	928 453
Loans and advances to customers	6	1 488 633	-	1 488 633
Receivables	7	2 088	11 369	13 457
Customer deposits	11	(2 285 509)	-	(2 285 509)
Trade and other payables	12	(62 422)	(1 032)	(63 454)
Loan account with holding company	14	(5 397)	-	(5 397)

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

28.1. Credit risk

Credit risk is the risk of suffering financial loss, should any customers or market counterparties fail to fulfil 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:

As at 31 March 2018

Category of assets	Assets that are neither past due nor impaired R'000	Assets that are past due but not yet impaired R'000	Assets that are impaired R'000	Total R'000
Housing loans	1 387 909	74 376	88 479	1 550 764
Cash loans	26 884	-	37	26 921
Commercial property loans	135	-	-	135
Microfinance – unsecured loans	2 248	46	5 258	7 552
Vehicles and taxi finance	41 733	2 191	3 562	47 486
Receivables	12 933	-	343	13 276
Total	**1 471 842**	**76 613**	**104 513**	**1 652 968**

As at 31 March 2017

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
Housing loans	1 239 093	69 722	91 708	1 400 523
Cash loans	22 420	-	34	22 454
Commercial property loans	237	876	24	1 137
Microfinance – unsecured loans	7 218	908	14 934	23 060
Vehicles and taxi finance	34 890	2 010	4 561	41 461
Receivables	13 162	-	295	13 457
Total	**1 317 020**	**73 516**	**118 166**	**1 508 702**

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 period selected is based on the following factors:

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

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 if the net realisable security value is lower than the carrying amount, a further credit impairment is raised, based on the difference.

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 considering 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	2018 R'000	2017 R'000
Statutory investments	4	**187 714**	177 769
Deposits with banks	5	**814 285**	762 485
Deposits with State Owned Companies	5	**136 112**	165 968
Loans and advances to customers	6	**1 632 857**	1 488 633
Receivables	7	**13 276**	13 457
Total assets subject to credit risk		**2 784 244**	2 608 312
Letters of undertaking issued		**9 226**	4 014

Maturity analysis of credit risk exposures

Residual contractual maturity analysis for credit risk exposures is as follows:

31 March 2018

Credit risk exposure relating to on statement of financial position assets:	Note	Up to 1 month R'000	From 1 to 6 months R'000	From 6 months to 1 year R'000	From 1 to 5 years R'000	After 5 years R'000	Total R'000
Statutory investments	4	-	187 714	-	-	-	187 714
Investments and deposits with banks	5	444 975	303 141	126 651	75 630	-	950 397
Loans and advances to customers	6	66 356	50 840	49 137	340 586	1 125 938	1 632 857
Total assets subject to credit risk		511 331	541 695	175 788	416 216	1 125 938	2 770 968
Letters of undertaking issued		9 226	-	-	-	-	9 226

31 March 2017

Credit risk exposure relating to on statement of financial position assets:	Note	Up to 1 month R'000	From 1 to 6 months R'000	From 6 months to 1 year R'000	From 1 to 5 years R'000	After 5 years R'000	Total R'000
Statutory investments	4	-	177 769	-	-	-	177 769
Investments and deposits with banks	5	464 540	273 914	18 898	171 101	-	928 453
Loans and advances to customers	6	57 838	47 468	46 848	299 319	1 037 160	1 488 633
Total assets subject to credit risk		**522 378**	**499 150**	**65 746**	**470 420**	**1 037 160**	**2 594 854**
Letters of undertaking issued		4 014	-	-	-	-	4 014

Individually assessed exposures

The Company considers certain exposures to be individually significant, warranting an individual assessment of impairment. Large exposures are the commercial property loans, property development loans and housing loans exceeding R500 000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

The following tables reflect the total gross and average loans and advances exposed to credit risk.

Total gross exposures

Major types of credit exposures: total gross exposure	Amount outstanding 2018 R'000	Impairment 2018 R'000	Net carrying amount 2018 R'000	Amount outstanding 2017 R'000	Impairment 2017 R'000	Net carrying amount 2017 R'000
Commercial loans	135	1	134	1 137	11	1 126
Property development loans	-	-	-	-	-	-
Housing loans > R500k	677 966	27 990	649 976	538 507	26 066	512 441
Sub-total	678 101	27 991	650 110	539 644	26 077	513 567
Other loans	954 756	50 199	904 557	948 989	63 681	885 308
Total	1 632 857	78 190	1 554 667	1 488 633	89 758	1 398 875

Net realisable amount relates to security provided for these exposures

Average gross exposures

Major types of credit exposures: average gross exposure	Amount outstanding 2018 R'000	Impairment 2018 R'000	Net carrying amount 2018 R'000	Amount outstanding 2017 R'000	Impairment 2017 R'000	Net carrying amount 2017 R'000
Commercial loans	67	1	66	284	3	281
Property development loans	-	-	-	-	-	-
Housing loans > R500k	731	30	701	720	34	686
Sub-total	798	31	767	1 004	37	967
Other loans	226	10	216	206	11	195
Total	1 024	41	983	1 210	48	1 162

The average amount of gross exposure is determined as the yearend 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 bonds
Home improvement loans	Pledge of pension and provident fund assets
Micro finance – secured loans	Cession of term deposits
Vehicle and taxi finance	Cession of movable assets
Commercial loans and property development loans	Mortgage bonds, cessions of income, suretyships and where appropriate, key man insurance policies

28.2.1. Valuation of security

The amount of the loan is dependent on the value of the security. Therefore prior to a mortgage agreement being concluded, a valuation is done to ascertain the appropriateness of the security. The valuation is done according to the guidelines of the Valuers' Institute of South Africa. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant.

In respect of home improvement loans granted to customers, the pension/provident proceeds are ceded to the Company and the loan amount is dependent on the pension/provident amount accumulated at a particular time.

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which was 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 the due legal process to attach and perfect the security. The properties will first be auctioned by the sheriff of the court and failure to receive an offer equal to or greater than the reserve price at the auction will result in the properties being repossessed and made available for sale.

28.2.3. Credit risk concentration

Credit risk concentration occurs when several 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.

Most of the housing loan customers are employees of KwaZulu-Natal Provincial Government.

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

Sectoral analysis of loans and advances

Sectoral analysis	2018 R'000	2018 %	2017 R'000	2017 %
Real estate	**135**	-	1 137	0
Construction	**-**	-	-	0
Retail-mortgage	**1 384 072**	85	1 242 193	83
Retail-other	**248 650**	15	245 303	17
Total	**1 632 857**	100	1 488 633	100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

As at 31 March 2018

Category of assets	Assets that are neither past due nor impaired R'000	Assets that are past due but not yet impaired R'000	Financial assets that are impaired R'000	Total R'000	Credit impairments R'000
Real estate	**135**	-	1	136	1
Retail-mortgage	**1 237 957**	68 515	77 601	1 384 073	55 005
Retail-other	**220 818**	8 098	19 735	248 651	23 184
Total	**1 458 909**	76 613	97 336	1 632 858	78 190

As at 31 March 2017

Category of assets	Assets that are neither past due nor impaired R'000	Assets that are past due but not yet impaired R'000	Financial assets that are impaired R'000	Total R'000	Credit impairments R'000
Real estate	**237**	876	24	1 137	11
Retail-mortgage	**1 094 913**	66 188	81 091	1 242 192	56 358
Retail-other	**208 708**	6 451	30 144	245 303	33 389
Total	**1 303 858**	73 515	111 259	1 488 632	89 758

Credit impairment reconciliation

Category of assets	31 March 2017 R'000	Impaired accounts written off R'000	Net impairments raised/(released) R'000	31 March 2018 R'000
Real estate	**11**	-	(10)	1
Retail-mortgage	**56 358**	(8 649)	7 296	55 005
Retail-other	**33 389**	(16 112)	5 907	23 184
Total	**89 758**	(24 761)	13 193	78 190

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

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 resides with the Board, which has established an appropriate liquidity risk management framework. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecasts and actual cash flows, as well as matching the maturity profiles of financial assets and liabilities. The tables 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 2018

	Note	On demand R'000	Up to one month R'000	1–6 months R'000	6-12 months R'000	More than 1 year R'000	Total R'000
Deposits from customers	11	1 131 455	123 928	717 057	373 753	40 926	2 387 119
Trade creditors	12	-	2 8	-	-	-	2 847
Accruals and accruals for leave pay	12	-	26 157	-	-	-	26 157
Loans and advances with credit balances	12	3 471	-	-	-	-	3 471
Other payables and sundry payables	12	62 466	2 311	-	-	-	64 777
Accrual for audit fees	12	-	129	3 656	-	-	3 785
Loan account with holding company	14	1 223	-	-	-	-	1 223
Total		**1 198 615**	**155 372**	**720 713**	**373 753**	**40 926**	**2 489 379**
% of weighting		48%	6%	29%	15%	2%	100%

Contractual maturity analysis of financial liabilities as at 31 March 2017

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

The maturity analysis is based on the contractual amounts payable (including interest) over the remaining periods to contractual maturity from year-end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

28.4. Market risk

28.4.1. Interest rate risk

The Company is exposed to interest rate risk on loans and advances to customers, deposits with banks, customer deposits (savings and term) and the Company's loan account balance with the holding company.

Key assumptions applied in projections and forecast cash flows are that:

- Levels of repayments (including prepayments) from existing clients will continue at a similar rate, and
- As a result of clients regularly depositing their incomes and renewing investments, net deposits (based on historical behaviour) continue growing, except over the annual festive season during which higher than usual withdrawals are made. Provision for this reduction is made.

The table below demonstrates the re-pricing gap between the Company's assets and liabilities upon the application of a change in market interest rates. The table shows the impact of a 2% (2017: 2%) increase/decrease in interest rates on the interest income of the Company. The scenario analysis is limited to the impact on interest income and expenditure over the period of 12 months. The application of the change in interest rates is applied to a static statement of financial position and is in accordance with Regulation 30 of the Banks Act, 1990.

The sensitivity analysis below was 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

	2018 R'000	2017 R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	**50 745**	45 369
Increased net interest income percentage	**(30%)**	27%
Impact of increase in cost of funds on comprehensive income	**(42 799)**	(31 410)
Decreased net interest income percentage	**26%**	(19%)
Decrease:		
Impact of decrease in yield on assets on comprehensive income	**(50 745)**	(45 369)
Decreased net interest income percentage	**30%**	(27%)
Impact of decrease in cost of funds on comprehensive income	**33 725**	15 351
Increased net interest income percentage	**(20%)**	9%

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 repricing.

29. CHANGE IN ESTIMATES

29.1. Asset lives

Equipment is depreciated over its estimated useful lives considering 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:

	2018 R'000	2017 R'000
Decrease in depreciation	**1 435**	1 931
Increase in net book value of fixed assets	**1 435**	1 931

30. SUBSEQUENT EVENTS

No events have occurred between the balance sheet date and the date of this report that materially affect the reported results and financial position of the Company.

31. 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.

32. COMPARATIVES

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

a. Provisions

Audit fees and bonuses were reclassified as accruals in the current year. Provision for long service awards was reclassified as long service obligations in the current year.

Provisions	Restated	Previously reported
Provision for audit fees	-	3 639
Provision for bonuses	-	1 783
Provision for long service awards	-	14 757

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED 31 MARCH 2018

b. Trade and other payables
Audit fees and bonuses were reclassified as accruals in the current.

	Restated	Previously reported
Trade creditors	**2 190**	2 190
Accruals	**14 325**	14 325
Operating leases – accrued expenditure	**681**	681
South African Revenue Services – VAT	**201**	201
Loans and advances reflecting credit balances	**2 260**	2 260
Stale cheques	**290**	290
VAT apportionment	**541**	541
Accrual of leave pay	**14 193**	14 193
Accrual - audit fees	**3 639**	-
Accrual – bonuses	**1 783**	-
Sundry payables	**23 351**	23 351
Total	**63 454**	58 033

c. Other employee benefits
Provision for long service awards was reclassified as long service obligations in the current year.

	Restated	Previously reported
Long service awards	14 757	-

d. Equipment and intangible assets
A server was reclassified from intangible assets to equipment.
WIP was allocated to the asset class it relates to.

Equipment

	Restated	Previously reported
Cost		
Computer equipment	52 892	47 910
Furniture and fittings	22 709	22 671
Office equipment	21 406	21 387
Leasehold improvements	48 913	48 913
WIP	-	57
Total	**145 920**	**140 938**
Accumulated depreciation		
Computer equipment	39 346	39 346
Furniture and fittings	17 703	17 703
Office equipment	14 828	14 828
Leasehold improvements	39 604	39 604
Total	**111 481**	**111 481**
Net book value	**34 439**	**29 457**

Movement in equipment: previously reported

2017	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improvements R'000	Work in progress R'000	Total R'000
Net carrying value at beginning of the year	12 162	2 188	6 706	11 081	38	32 175
Additions	1 205	1 567	1 548	3 009	-	7 329
Disposals	(554)	(56)	(56)	-	-	(666)
Net WIP movement transfers	-	-	-	-	19	19
Adjustments	(104)	33	82	-	-	11
Depreciation	(4 167)	(1 223)	(1 749)	(2 271)	-	(9 410)
Net carrying value at end of the year	8 542	2 509	6 531	11 819	57	29 458

Movement in equipment: restated

2017	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improvements R'000	Total R'000
Net carrying value at beginning of the year	12 162	2 226	6 706	11 081	32 175
Additions	6 187	1 567	1 567	3 009	12 330
Disposals	(554)	(56)	(56)	-	(666)
Net WIP movement transfers	-	-	-	-	-
Adjustments	(104)	33	82	-	11
Depreciation	(4 167)	(1 223)	(1 749)	(2 271)	(9 410)
Net carrying value at end of the year	13 524	2 547	6 550	11 819	34 440

	Restated	Previously reported
Cost		
Computer software	16 157	16 157
Software - WIP	42 132	47 113
Total	**58 289**	**63 270**
Accumulated amortisation		
Computer software	10 690	10 690
Accumulated impairment		
Software - WIP	32 404	32 404
Net book value	**15 195**	**20 176**

Movement in intangible assets: previously reported

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR THAT ENDED 31 MARCH 2018

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

Movement in intangible assets: restated

2017	Computer Software R'000	Work in progress R'000	Total R'000
Net carrying value at beginning of the year	5 630	9 464	15 094
Additions	531	1 612	2 143
Disposals	-	-	-
Transfers	1 348	(1 348)	-
Amortisation	(2 042)	-	(2 042)
Net carrying value at end of the year	5 467	9 728	15 195

UNAUDITED SCHEDULE

CAPITAL MANAGEMENT

Capital requirements

Tier I and Tier II capital comprise 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 annually to reserves in July, 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 considering 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 to support its business, maximise shareholder value and instil market and creditor confidence.

As at the statement of financial position date, the capital adequacy ratio was 15.24% (2017: 11.93%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB). The capital adequacy ratio is also above the Memorandum of Agreement (MoA) requirement of 15%.

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

Capital adequacy

	Regulatory limit 2018	Regulatory limit 2017	Actual 2018	Actual 2017
Capital adequacy ratio	≥11.625%	≥11.250%	15.24%	11.93%
Primary share capital and reserve funds adequacy ratio	≥7.625%	≥7.500%	14.41%	11.04%
Total risk weighted assets (R'000)			1 625 454	1 814 370

Risk weighted assets

	2018 R'000	2017 R'000
Credit risk weighted assets	**1 065 450**	1 289 603
Other risk weighted assets	**61 194**	57 375
Operational risks	**498 810**	467 392
Total	**1 625 454**	1 814 370

Capital structure

	Note	2018 R'000	2017 R'000
Share capital	16	**190**	190
Share premium	16	**434 710**	374 710
Reserves		**(187 062)**	(154 378)
Prescribed deductions against capital and reserve funds		**(13 692)**	(20 177)
Total tier I capital		**234 145**	200 345
General provisions		**13 138**	16 120
Total tier II capital		**13 138**	16 120
Total qualifying capital		**247 463**	216 465

NOTES

NOTES

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

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