ENABLING DREAMS

INTEGRATED
ANNUALREPORT2013/14

MAKING IT HAPPEN TOGETHER

WWW.ITHALA.CO.ZA

Ithala SOC LIMITED

VISION
"To be the partner of choice in providing financial solutions"

- To build a banking operating model (Return to Profitability)
- To grow the franchise and diversify revenue streams (Rise Again)
- To be the best public sector financial institution in KwaZulu-Natal, with the best rural banking model (Quantum Leap)

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

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

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

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

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

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

Fair and Equitable Employment Practices
We will ensure that we provide an environment that is fair and non-biased, no matter the gender or creed of a person, in accordance with best practices.

CONTENTS

ABOUT THIS REPORT

The Directors of Ithala SOC Limited are pleased to present our integrated report for 2013/14. The report reflects the value created for our stakeholders and the measures in place to ensure that business operations are sustainable into the future. We aim to provide simple, transparent and pertinent feedback on the performance and prospects of Ithala SOC Limited and present our mandate, business model, strategy, the material issues we face and our governance. This report follows the publication of our previous report in July 2013 and covers the period 1 April 2013 to 31 March 2014.

Ithala SOC Limited's aim as the subsidiary of a state-owned entity is to be responsive in its reporting to a breadth of stakeholders, including our shareowners, the Ithala Development Finance Corporation (IDFC) and ultimately the Province of KwaZulu-Natal, our customers, employees, regulators and the stakeholder groups we desire to take with us on our value creation journey.

This report may be read in conjunction with the IDFC's Integrated Annual Report 2013/14 (www.ithala.co.za).

In determining the contents of this report, we are bound by the reporting requirements set by the Auditor-General in regard to conveying our performance against our Annual Performance Plan (see page 22 - 26). Materiality is determined by the Board, in line with Ithala SOC Limited's mandate and the information requirements of its shareowners and regulators as well as other key stakeholder groups.

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

Reflecting the evolutionary state of integrated reporting internationally, we are very much at the beginning of our integrated reporting journey. As such and as connected thinking within our organisation around value creation will challenge us to communicate more effectively externally, we expect our disclosure to improve year-on-year. We will continue to adopt best practice in integrated reporting as the discipline evolves.

CHANGE IN STATUS

Our sole shareholder (IDFC) has approved a new Memorandum of Incorporation, via special resolution on 27 June 2013 in terms of the Companies Act, 2008 (Act No. 71 of 2008). The notice of amendment and consequent change in status was lodged with the Companies and Intellectual Properties Commission of South Africa on 8 July 2013. The status of the Company has since been amended in terms of the Companies Act, 2008 and Ithala Development Finance Corporation Act, 2013 (Act No. 05 of 2013) and is now referred to as "Ithala SOC Limited".

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking. These relate to, among other things, the plans, objectives, goals, strategies, future operations and performance of Ithala SOC Limited. 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 SOC Limited's future operating, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from these expressed or implied by such statements. Ithala SOC Limited makes no representation or warranty, express or implied, that the operating, financial or other results anticipated by such forward-looking statements will be achieved.

APPROVAL AND ASSURANCE OF OUR REPORT

The Ithala SOC Limited Audit and Compliance Committee is responsible for reviewing and recommending the integrated report and the Annual Financial Statements to the Board for approval. The Board has applied its mind to the integrated report and believes that it addresses all material issues and fairly presents the performance of the Ithala Group. Internal and external audit provide additional assurance on the effectiveness of our risk management of material issues.

Chairman

Keys to using this report

Navigation Icons

Cross Reference

Strategy

Operational Excellence

Social and Relationship

Information Technology

WHO WE ARE

Our mandate	• To provide access to finance and financial literacy as part of the economic development of the previously disadvantaged persons in the Province of KwaZulu-Natal
Who we are	• Registered as a public Company under the Companies Act • Listed as a public entity in terms of Schedule 3 of the Public Finance Management Act • Wholly-owned subsidiary of Ithala Development Finance Corporation • Authorised financial services provider • Operating under banking licence exemption
Total assets	• Total assets R2,3b • Total assets exceeded total liabilities by R186,3m • Total cash resources were R531,2m (2013: R457,0m) • At year-end, Ithala SOC Limited held R146,2m liquid assets which exceeded the total statutory minimum of R118,0m
Capitalisation	Total capitalisation broken down in terms of debt and equity: • Issued share capital R295,0m • Accumulated loss R108,6m
Our strategy	• Returning Ithala SOC Limited to profitable operations through a phased turn-around strategy
Performance highlights	• Implementation of Hosted Banking System • Business process re-engineering programmes implemented, including acquisition of specialised talent and regulatory skills to strengthening the business • Product performance recorded all-round improvement year-on-year: total advances recorded a 40,7% year-on-year growth, indicating the early signs of turn-around • Savings improved by 9,4% despite tight liquidity and economic conditions
Services and products	• Transactional Banking • Electronic Banking • Insurance • Lending • Public Sector Finance • Savings and Investments
Employee profile	• 443 employees • 432 are previously disadvantaged South Africans • 64% (282) are women
Footprint	• 74 ATMs • 48 branches • 17 call centre seats
Market reach	• 276 302 savings and investment accounts • 108 629 lending accounts • 85 389 transactional accounts • 8 446 new insurance policies
Financial performance	• Net loss of R69 978 000 • Capital adequacy ratio at 12,2%

BUSINESS MODEL

Ithala SOC Limited is in a transitional phase of refocusing its activities in line with a multi-channel approach, which will see the Company move towards a transactional-led customer acquisition strategy, primarily in the rural areas of KwaZulu-Natal. This approach necessitates further product and service development to respond to the chosen market segment requirements.

We are, therefore, in the process of fundamentally changing our way of doing business in order to effectively compete in the market. Ithala SOC Limited is expanding into a multi-channel product and service distribution network.

Read an in-depth account of our strategy from page 20

Business Model

Our Mandate

To provide access to finance and financial literacy as part of the economic development of the previously disadvantaged persons in the Province of KwaZulu-Natal.

"To provide relevant financial services to the people of KwaZulu-Natal and returning Ithala SOC Limited to profitable operations"

Strategic Intent

Societal Inputs and Considerations

- National Government's key strategic initiatives of poverty alleviation, job creation and providing access to finance.
- KwaZulu-Natal's growth and development needs
- Promoting and supporting economic development and access to financial services
- Regulatory frameworks and guidelines

Key Resources

Key Relationships
- Government
- Shareholder
- Employees
- Customers

Intellectual Property and Brand
- Innovation
- People's brand: "I am better off banking with Ithala"
- Satisfied customers

Financial Capital
- Capital Injection from shareholder R105,0m
- Liquid assets R146,2m

IT Infrastructure
- New Hosted Banking System
- Planned customer relationship management system

Human Capital
- Financial services knowledge and skills
- Leadership

Business Segments

Value adding products and services
- Savings and investments
- Lending
- Insurance
- Transactional banking
- Electronic banking
- Public sector finance

Key Inputs

- Unique products and services
- Multi-channel distribution network
- Skills development
- Financial literacy

Social and Economic Value

- Affordable housing through permission to occupy (PTO) loans
- Supporting entrepreneurs
- Insurance against risk and uncertainties
- Promoting a savings culture
- Access to banking services
- Growing transport infrastructure with taxi finance

Accessible Financial Services | Market Share and Revenue Enhancement | Operational Excellence | Good Governance | Customer Centricity

Respect | Innovation | Integrity | Customer Satisfaction | Empowerment | Fair and Equitable Employment Practices

LETTER TO STAKEHOLDERS
MALOSE KEKANA, CHAIRMAN OF THE BOARD

DEMONSTRABLE GOOD CORPORATE GOVERNANCE IS NON-NEGOTIABLE IN BUILDING TRUST AND GAINING MARKET SHARE AND IS A KEY STRATEGIC OBJECTIVE FOR US

Welcome to our integrated report for 2013/14. We believe integrated reporting provides us as a state-owned entity an opportunity to significantly improve our reporting in terms of the value we create and ensure responsiveness to a wider range of stakeholders.

You will notice that we have invested considerable effort into conveying our value-creation activities, our challenges, risks and opportunities in a more accessible and user-friendly manner.

This report is focused on our material issues. These are aligned to our turn-around strategy described in this report and entail:

- Claiming market share and enhancing our revenue to return the Company to profitability;
- Fulfilling our developmental mandate by providing accessible financial services;
- Creating a customer-centric organisational culture;
- Fostering operational excellence, focusing on our Information Technology and human capital management systems; and
- Achieving good corporate governance.

I will briefly deal with Ithala SOC Limited's performance from the Board's perspective and then turn my attention to governance.

Ithala SOC Limited's strategic objectives are aligned with the strategic planning framework adopted by the Province. This is guided by the medium-term strategic framework which reflects Provincial outcome priorities. The Corporate Plan and Annual Performance Plans (see pages 22 to 26) were developed with set targets and performance measurements to achieve specific pre-determined outcomes aligned with stakeholder expectations. Capital planning and financial sustainability form part of these strategic objectives.

The past year presented Ithala SOC Limited with many challenges and opportunities to become a retail banking operation of choice in the Province of KwaZulu-Natal.

As Chairman of the Board, I had the pleasure to steer the Company through the turbulent market conditions constrained by the sustained credit crunch and continued growth in household indebtedness. In short, our strategy entails a three-phased approach:

- The building of our operating model through the implementation of a Hosted Banking System. This allowed us to introduce some new products and services, including taxi finance and vehicle asset finance;
- As a second phase, pursuing sustainable business growth in our existing niche market and cementing our role as a preferred provider of financial services to public sector clients. Work in this area has begun and we envisage that this phase will be concluded by March 2015; and
- The third phase will culminate in 2016, with Ithala SOC Limited meeting all requirements for a full banking licence and becoming the premier public sector bank in the Province of KwaZulu-Natal.

While being granted a banking licence exemption this year, our ultimate aim is to be a fully licensed financial services entity. After further consultation with the Minister of Finance, the exemption was extended until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to certain performance obligations being met on an annual basis. One of Ithala SOC Limited's key risks remains the under-capitalisation of the bank, which primarily impacts our capital-related risks.

Central to our new strategic direction is our compelling customer value proposition, encompassing both financial and developmental aspects, driven by a committed group of people. We see Ithala SOC Limited partnering with our customers to achieve a sound financial position, aided by products and services tailor-made to their needs regardless of their status in society. Financial education and literacy is key to ensuring financial independence and ours will be a simplified savings and investment approach, using a variety of suitable and convenient channels.

Financial institutions continue to operate under heightened regulations, particularly in the area of risk and capital management with the introduction of Basel III. Demonstrable good corporate governance is non-negotiable in building trust and gaining market share and is a key strategic objective for us.

Highlights

- Launch of the Hosted Banking System
- Ithala SOC Limited on trajectory to becoming a profitable retail banking operation
- Compelling customer value proposition – "I'm better off banking with Ithala"
- Strengthened corporate governance

Challenges

- Heightened regulation
- One year banking licence exemption
- Customer acquisition
- Diversification of income streams

Activities during the financial year to strengthen Ithala SOC Limited's corporate governance systems and processes included the commencement of the process of establishing the Internal Audit function within Ithala SOC Limited with the appointment of a Head of Internal Audit. We are also in the process of implementing a combined assurance methodology, ensuring a more holistic approach to understanding overall levels of assurance required to manage material organisational risk.

As with all financial services organisations, fraud risk is considered an extremely serious concern, with white collar crime on the increase. Ithala SOC Limited continued to focus and improve on the internal control environment to minimise the potential for losses and Group Risk and Compliance launched a group-wide anti-fraud pledge during 2013, signed and committed to, by every single employee including the Chief Executive. We also have to deal with greater complexity resulting from increased regulation and higher compliance costs and this has impacted business activities.

The Board provides strategic guidance and mentorship to the Executive Management team, with the emphasis on accountability, transparency and responsibility. A performance management system has been implemented to set objectives and enhance the performance of the Executive Management. This performance-driven methodology also promotes accountability and optimal quality of outputs from the Executive Management team.

The support of our shareholder, Ithala Development Finance Corporation, as well as our ultimate shareholder, the Province of KwaZulu-Natal, provides powerful leverage and synergy. The recapitalisation of the Company by our shareholder played a vital role in strengthening the capital base of Ithala SOC Limited and provided an essential building-block for the Company going forward.

This would not have been possible without the support of the Board, Management and staff of Ithala SOC Limited, our shareholder representative, the Chairman of Ithala Development Finance Corporation, Dr Mandla Gantsho, who tirelessly provided guidance to Ithala SOC Limited.

The ongoing support of our ultimate shareholder, through the MEC for Economic Development, Tourism and Environmental Affairs, Mr Michael Mabuyakhulu, is deeply appreciated.

Malose Kekana
Chairman of the Board

CHIEF EXECUTIVE OFFICER'S REPORT
SIMPHIWE KHOZA

DURING THE PAST 50 YEARS ITHALA HAS HELPED REALISE THE DREAMS OF THE PEOPLE OF KWAZULU-NATAL. WE SAW OPPORTUNITY FOR OUR PEOPLE WHERE OTHERS SAW RISK.

Operating predominantly in the lower segments of the market, we have more than 50 years' experience in banking the rural poor of KwaZulu-Natal.

As an organisation which pioneered banking the unbanked in poor and marginalised communities, Ithala SOC Limited has earned a reputation for seizing opportunities.

It is, however, clear that Ithala SOC Limited has not realised its full potential and managed to grow its market share and evolve a business model that is responsive to changing customer and economic needs.

We experienced yet another difficult trading year in 2013/14 with market events that impacted largely on the trading ability in the non-interest income revenue line, exacerbated by the loss of the South African Social Security Agency grant recipient accounts when we were unsuccessful in the tendering process, which contributed greater than 75% of total fee income.

Despite this, it is worth noting that the relative non-interest income and deposits from transactional account holders increased by R7,6 million and R35,7 million respectively to R28,6 million and R94,5 million respectively.

All financial institutions continued on their precautionary approach to unsecured lending given the sustained low economic growth and the persistently high levels of debt to income ratios, especially in the LSM 2-7 categories. Our Company operates predominantly in the lower segments of the market and has, therefore, been negatively affected by these conditions during the past financial year.

We posted a loss of R69,9 million for the year which can be attributed to the loss of the South African Social Security Agency grant recipient accounts, paying for our Ithala Group shared services costs for the first time and the increase in the credit impairment charge resulting from the increase in unsecured lending in line with our strategy to expand and diversify our lending portfolio.

The revenue lines, in particular non-interest income remained the biggest challenge, with the cost to income ratio high at 117,6%, exceeding the budgeted level by 25,8%. The costs were maintained at lower than budgeted throughout the financial year despite major capital investments, such as the Hosted Banking System implementation and business process re-engineering programmes which included acquisition of specialised talent and regulatory skills to strengthen the business. The non-performing loans to total loans percentage was equal to the budgeted level. Capital adequacy was above the minimum requirement prescribed by the South African Reserve Bank as part of our exemption condition.

The real growth in the main business categories, however, was positive. The product performance recorded all-round improvement year-on-year. Notably, new advances recorded a 40,7% year-on-year growth indicating the early signs of a successful turn-around. Savings business also improved by 9,4% despite tight liquidity and economic depression. Refer to our segmental report on pages 32 to 33 for detail on product performance.

Our lending book was concentrated on home loans which highlighted a concentration risk. The Company embarked on the expansion of other lending products to diversify its portfolio and mitigate against the concentration risk.

Our transactional accounts were dominated by savings, emphasising the developmental role that the Company plays in mobilising savings in the financial market. This product accounted for 61% of the deposits within the Company books.

On the other hand, the insurance portfolio depicted a balanced portfolio with all products faring evenly. Credit life, client portfolio and own assets contributed the largest portions. Our strategic shift away from interest income activities will see the implementation of a restructured insurance business model and the implementation of the public sector banking model. Ithala SOC Limited is relaunching itself to become even more relevant to its target markets.

The introduction of a new Hosted Banking System will allow faster development of products and flexibility to advance business operational goals, including operating longer hours and effecting a multi-channel distribution network.

Highlights
- Launch of the Hosted Banking System to broaden the product range
- Product performance shows year-on-year improvement
- Launch of unique offerings, such as taxi finance
- Early signs of successful turn-around

Challenges
- Difficult trading conditions
- Concentration risk in home loans mitigated by diversifying lending book
- Aligning regulatory obligations with developmental mandate

Of the capitals on which we draw and on which we are dependent in the execution of our strategy, none are more critical at this juncture than our human capital. Fostering a sales culture and skill at our frontline to promote cross-selling requires up-skilling and investment, supported by formal systems and a process of recognition, reward and career planning, which we are in the process of implementing.

A public sector banking business model with proper infrastructure and capacity is being created to ensure that the Company entrenches itself to take the lead in the public sector banking arena within KwaZulu-Natal by 2016.

A stronger and more skilled Executive Management team will be built and maintained in order to ensure that institutional memory is preserved within the banking operation.

Succession planning will be facilitated on a continuous basis in order to minimise dependency risk.

The new financial year is regarded as the critical turning point for Ithala SOC Limited. This is evident through a balanced and robust budget to be deployed together with a very concentrated customer acquisition programme using unique offerings, such as rural home loans, taxi finance, livestock insurance, mobile banking and other products and services.

Major cost rationalisation across the business will be implemented in stages during the 2014/15 financial year and in building a multi-channel distribution model, parts of the business will require reconfiguration in order to achieve financial sustainability in the future.

We are particularly grateful for the support that all our stakeholders have shown through these difficult times and their patience with the Company whilst it was navigating through challenging situations.

I would like to thank our shareholder, Ithala Development Finance Corporation Limited, the Board of Directors, the Executive Management and the staff within the Company for the support and dedication shown during the past year.

I would further like to extend our sincere gratitude to the South African Reserve Bank and other regulatory bodies for all the support and guidance they provided during the past financial year.

The support of the MEC for Economic Development, Tourism and Environmental Affairs, Mr Michael Mabuyakhulu, is greatly appreciated.

We remain committed to leading the Company to financial sustainability, whilst improving our developmental impact and social value creation. I believe that we have reached a point of no return and we have our sights firmly on the road to recovery and sustained growth.

Simphiwe Khoza
Chief Executive Officer

ORGANISATIONAL PROFILE

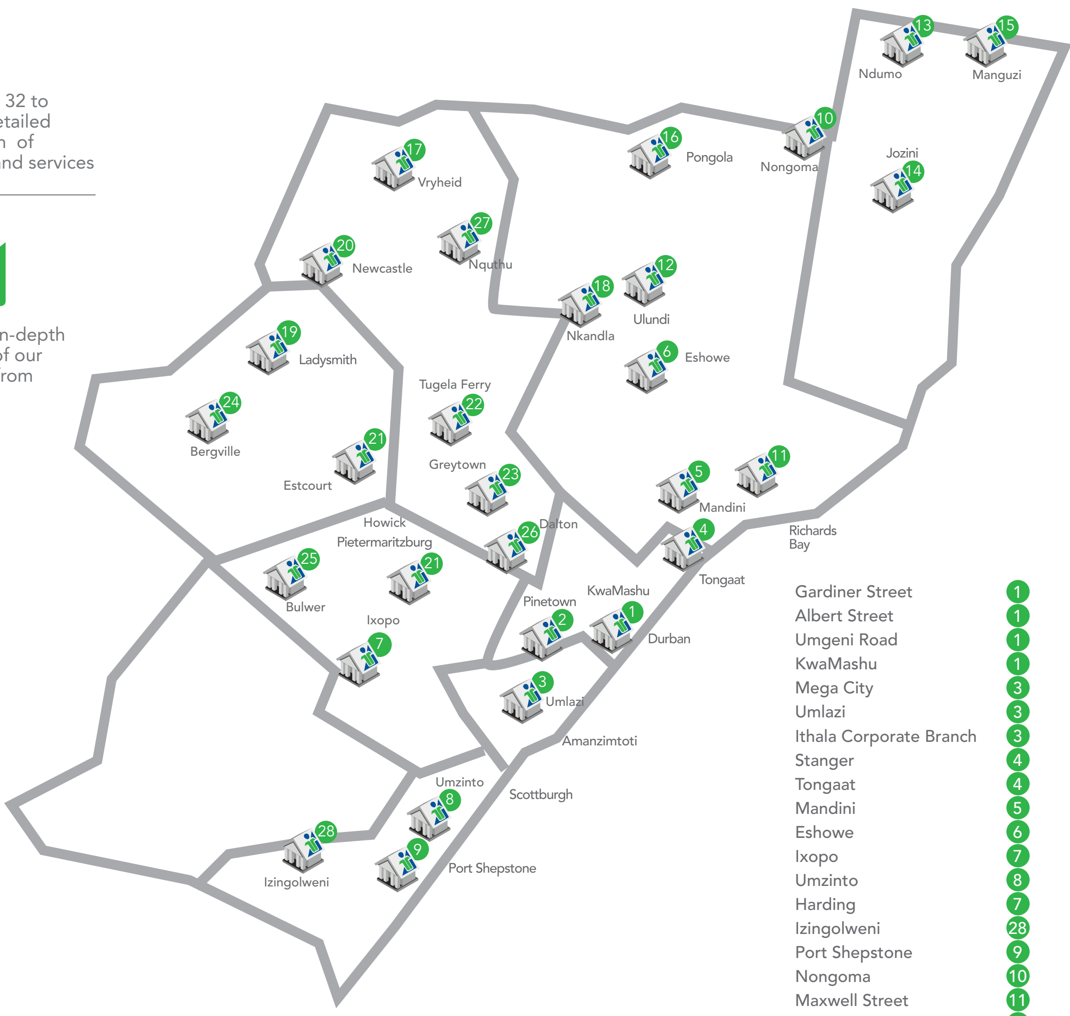
Ithala SOC Limited is a subsidiary of the Ithala Development Finance Corporation, a state-owned entity and is also capitalised by it. We operate under a banking licence exemption status in terms of the Banks Act 94 of 1990 (the 'Banks Act'). As a licensed financial services provider, Ithala SOC Limited was formally established in 2001 in order to enhance the Ithala Development Finance Corporation's capital position through its deposit-taking capability, in line with a recommendation from the South African Reserve Bank.

Ithala SOC Limited's purpose is to provide financial services to the people of KwaZulu-Natal, particularly in poor and marginalised areas, in the form of savings and lending products, including home loans to build or buy affordable housing for persons who would not be granted financing by the traditional banking sector (commonly known as 'unbanked' communities). Our mandate aligns to the Government's key strategic initiatives associated with providing access to finance and emanates from the Ithala Act, which provides for 'the continued existence of Ithala Development Finance Corporation Limited with the primary purpose of promoting, supporting and facilitating social and economic development in the Province of KwaZulu-Natal, in accordance with the Province's Growth and Development Strategy and in an appropriate and sustainable manner.'

To this end, Ithala SOC Limited offers a range of products and services, including savings accounts, insurance, vehicle and asset finance, rural home loans, taxi finance, livestock insurance, mobile banking and other products and services. Ithala SOC Limited currently has 48 operational branches spread throughout the Province of KwaZulu-Natal.

See pages 32 to 33 for a detailed description of products and services

Read an in-depth account of our strategy from page 20



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

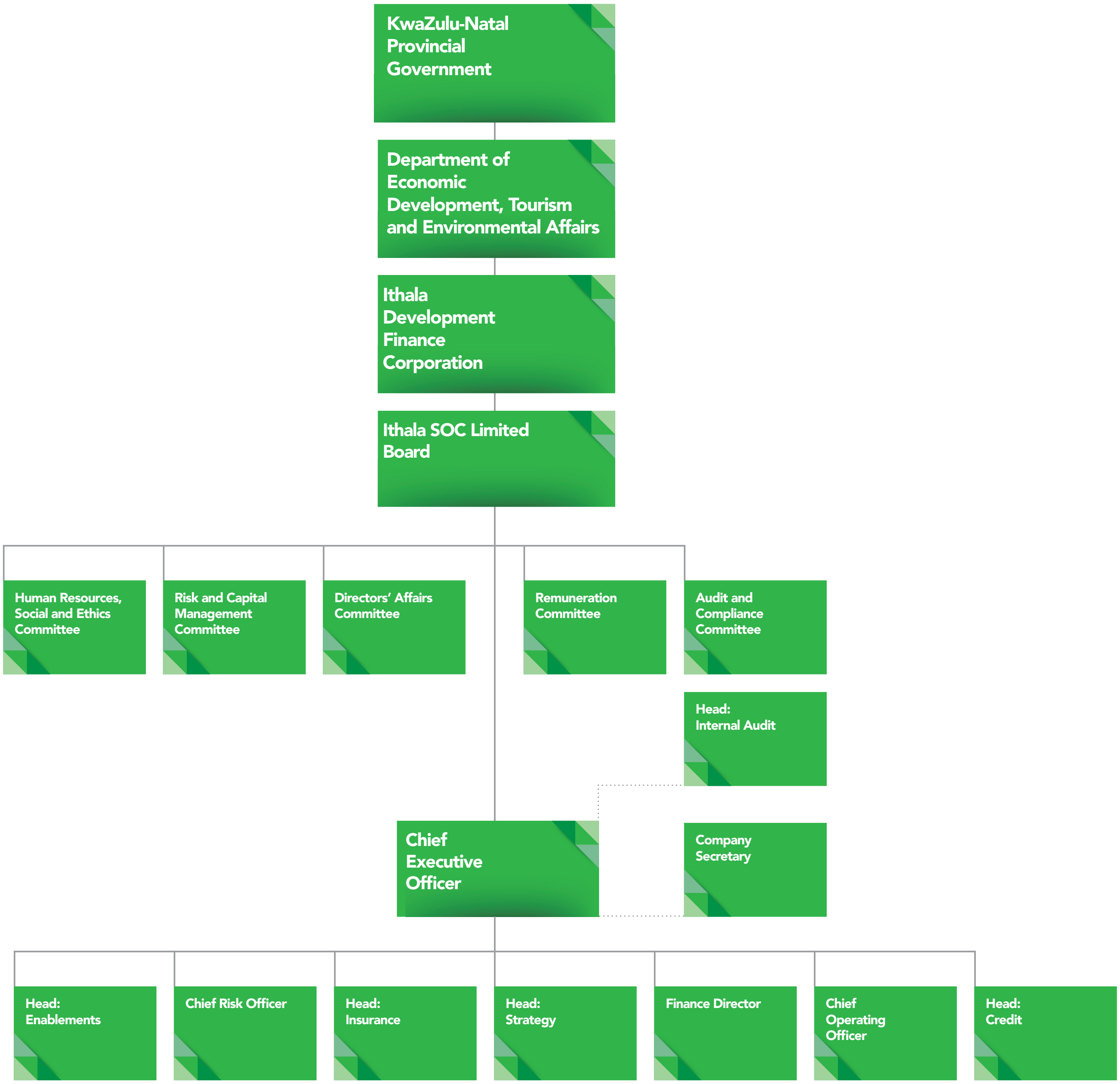
OUR LEADERSHIP

ITHALA HAS A STRONG KWAZULU-NATAL BRAND AND IS THE LEADING LENDER IN RURAL AREAS

Board of Directors

Executive Committee

Governance Structure



OPERATING ENVIRONMENT

REGULATORY FRAMEWORK

We operate in a highly regulated environment. The regulatory framework of the South African Reserve Bank, emanating from the Banks Act, requires Ithala SOC Limited to operate fully and independently as a financial services institution, subject to all the associated regulatory frameworks, such as King III, the Companies Act and the Banks Act.

In addition, as do all retail banks, Ithala SOC Limited further operates under heightened regulations in the area of risk and capital management with the introduction of Basel III. These regulatory requirements contribute to the creation of a healthy banking system in South Africa. The recent revision of the National Credit Act, which offered clients credit amnesty is expected to have an impact on the lending side of banks' products.

These will also require time for banks to adjust and stabilise lending levels.

Public Finance Management Act

Objectives of Act	Ithala SOC Limited's Response	Compliance Status	Targets
Regulate financial management in national and local Government	Compliance reviews, staff training, consequence management	One instance of non-compliance with the Company's procurement procedures was reported relating to security at branches	Ithala SOC Limited is in the process of implementing more stringent consequence management to reduce financial misconduct. In addition, we have implemented a Public Finance Management Act awareness and accreditation process to improve compliance, encourage employees to apply the delegation of authority entrusted to them in a responsible manner and to improve compliance with the procurement processes to strive towards zero Public Finance Management Act reportable violations

National Credit Act

Objectives of Act	Ithala SOC Limited's Response	Compliance Status	Targets
To promote fair and non-discriminative practices in regard to credit; to follow best practices in assessing affordability and propensity to pay back	To ensure that all documentation and other best practices are utilised in ensuring compliance with the National Credit Act	Continuous testing and review of the National Credit Act and business practices	We aim to continually review internal control procedures and we conducted two training interventions during the year to increase awareness

Financial Intelligence Centre Act			
Objectives of Act	Ithala SOC Limited's Response	Compliance Status	Targets
To combat money laundering activities	Report suspicious transactions and cash thresholds. Employ guidance notes and development of Anti-Money Laundering internal rules. Employment of an Anti-Money Laundering Officer	Quarterly reviews are conducted and findings of non-compliance reported to management and the Audit and Compliance Committee. No issues have been identified that need to be reported to the Financial Intelligence Centre	Root causes are addressed and training and awareness will be rolled-out to all customer-facing staff during the course of 2014/15. 88 employees were trained during this reporting period

Financial Advisory and Intermediary Services Act			
Objectives of Act	Ithala SOC Limited's Response	Compliance Status	Targets
To regulate the rendering of certain financial advisory and intermediary services to clients	Ensure that key individuals and representatives are registered with the Registrar and are trained and equipped to offer advice or assistance	Representative registers are updated on an ongoing basis. Communication and engagement between the business, Human Resources and Compliance is necessary	Enhanced communication process between Human Resources, business and Compliance is being developed in order to ensure that changes to any Financial Advisory and Intermediary Services Act-impacted roles are identified and communicated to the Financial Services Board on time

The Banks Act			
Objectives of Act	Ithala SOC Limited's Response	Compliance Status	Targets
The Banks Act establishes the office of the Business Registrar and serves to regulate the establishment of a Bank and Regulation of Banking Institutions	Reporting schedule is being maintained by Compliance to ensure that all Banks Act returns are submitted on time to the South African Reserve Bank	No non-compliance issues have been identified to date	Reporting schedule is updated and communicated to business as and when required

BANKING LICENCE

The Minister of Finance initially extended the Company's exemption for a period of one year ending 31 December 2014. Subsequent to further consultation, the Minister of Finance agreed that the Company will be granted an exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by the Company.

One of the provisions of the exemption granted is that the Company maintains a minimum capital adequacy ratio of 10%. As at 31 March 2014, the capital adequacy ratio of the Company was 12,23% (11,06% at 31 March 2013). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 10%.

The key to turning around an ailing company is the support of the shareholder. To this end the Company

OPERATING ENVIRONMENT

has seen continued strong support from the shareholder. The support and guidance of the shareholder has been essential in ensuring that the Company moves in the direction of restoring financial stability.

The focus of the 2014/15 financial year is to drive activities that will assist the organisation to return to profitability and will require a further capital injection from the shareholder of R50,0 million (R105,0 million received during the 2013/14 financial year) in order to meet the Basel III capital requirements. A motivation for this additional capital will be presented to the shareholder.

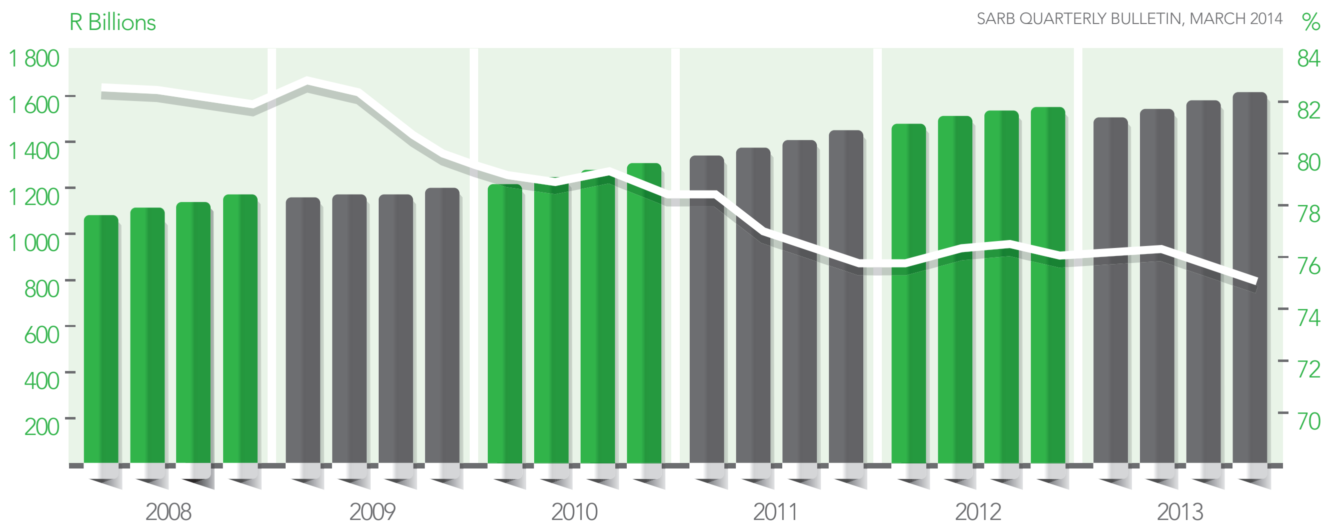
ECONOMIC CONDITIONS

Weak global economic conditions continued to weigh on the South African economy, whilst the recent and on-going domestic shocks in the form of severe labour unrest are exacerbating domestic economic growth pressures. Moody's, as well as Standard & Poor's, have recently downgraded South Africa's credit rating. South African GDP growth picked-up from an annualised rate of 0,7% in the 3rd quarter of 2013 to 3,8% in the 4th quarter of 2013, due largely to a rebound in the secondary sector. During the 2013 calendar year, the economy grew by only 1,9%, down from 2,5% in 2012 and 3,5% in 2011. Growth in real GDP in 2013 was, with the exception of 2009 when GDP contracted, the lowest during the past 15 years. On average, annual growth was 2,8% between 2010 and 2013, compared against an average of 3,7% in the preceding 10 years.

The current GDP growth rate of less than 2% has an impact on consumer spending patterns, with the growth rate over the next two to three years expected to be around 3% per annum. Current instability in the mining sector continues to undermine South Africa's expected growth prospects.

Pressure is building on discretionary consumer spending, traditionally the mainstay of South African GDP growth. Easing since the 4th quarter of 2010, this is driven largely by a slow-down in real disposable income growth and is now exacerbated by increasing cost pressures from the sustained rand weakness, high administrative prices and weak employment dynamics. The current percentage of debt to household income is 78%.

HOUSEHOLD DEBT AND DEBT RATIO



The predicted further repo rate hikes will put added pressure on heavily indebted consumers. The interest rate environment is expected to increase in the near future and it is predicted that at least 300 basis points will still be added to the current interest rate. This will place a strain on consumers' ability to borrow and service their debts.

Credit growth is expected to remain under pressure during 2014. Rising impaired loan ratio's at, especially, institutions that focus on unsecured lending has resulted in a tightening of credit standards. Data from the National Credit Regulator suggests that the growth in credit extension to households has started to ease, with the growth in unsecured lending to the low-income groups, in particular, now slowing. Growth in general loans to households, a proxy for unsecured lending, appears to have peaked in 2012, with 12-month growth in this category of lending posting 14 consecutive months of slowing growth up to January 2014.

The moderation reflects a greater caution on the part of lenders in an attempt to limit credit impairments and improve risk profiles, increased regulatory scrutiny of this type of lending and continued financial pressure experienced by highly indebted households amid constrained income growth.

All these factors stress the relevance of Ithala SOC Limited's turn-around strategy. Its pillars of Operational Excellence emphasise the crucial role of innovation in the development of new products and, in particular, a focus on non-interest income revenue streams becomes more important for financial sustainability.

OUR STAKEHOLDERS

We consider stakeholder engagement to be important. The Board remains committed to meeting stakeholder information requirements and provides oversight of Ithala SOC Limited's stakeholder relationship management. We identify our material stakeholders as those that have a direct or indirect stake in Ithala SOC Limited due to their being in a position to affect or be affected by our actions, objectives and policies.

Stakeholder Group	Engagement Methods	Material Stakeholder Issue	Ithala's Response
National Government South Africa's National Treasury is responsible for granting the Company its banking licence	• The Board Banking Licence Sub-committee maintains ongoing engagement with National Treasury	• Meeting of banking licence requirements • Regular, balanced reporting • Ithala SOC Limited's viability	• Engagement with Government is strategically important to Ithala SOC Limited. Strategy formulation and business plans are based on the company's mandate from Government. Ithala SOC Limited proactively wants to create an informed perception of its value creation capability • The Board has successfully motivated for the extension of the banking licence exemption beyond 31 December 2014
Provincial Government The Ithala Act, 5 of 2013 of the KwaZulu-Natal legislature, defines the company's mandate	• Quarterly performance reports are submitted to the KwaZulu-Natal Department of Economic Development, Tourism and Environmental Affairs • Monthly engagements are held as part of continuous reporting and keeping Government informed, focusing particularly on financial and strategic issues	• Regular and balanced reporting • Delivery on economic and social mandate and prescribed performance targets	• Demonstrate economic and social dividend creation
Regulatory Bodies To maintain strong relationships with regulators and ensure compliance with legal and regulatory requirements, thereby retaining the Company's various operating licences and minimising its operational risk	• Ongoing meetings and interaction with regulators, including prudential visits and statutory reporting • Reporting timelines of our regulators, such as the National Urban Reconstruction Agency, South African Reserve Bank and the Financial Advisory and Intermediary Services Act, vary from quarterly to annual prescribed reports	• Regulatory compliance • Good governance	• King III application where practicable • Strengthening governance (see pages 40 to 56) • Ensuring compliance (see pages 12 to 13)

ENABLING DREAMS

OUR STAKEHOLDERS

Stakeholder Group	Engagement Methods	Material Stakeholder Issue	Ithala's Response
Ithala Development Finance Corporation As our primary shareowner, Ithala SOC Limited is reliant on the Ithala Group's support and involvement in its strategy formulation and is currently dependent on the Ithala Group for shared services (Information Technology, Legal Services, Marketing and Human Resources)	• Ongoing engagement • Ithala Group Executive Committee, which meets bi-weekly, includes the Chief Executive and Finance Director of Ithala SOC Limited	• Ithala SOC Limited is to pay its share of the Ithala Group shared services costs from the beginning of the new financial year, amounting to approximately R17,9m for the year • Good governance • Quality of management • Ithala SOC Limited's viability • Understand our business model, strategic direction and profit drivers	• Ithala SOC Limited strives for financial independence • Strengthening governance (refer to pages 40 to 56) • Ensuring compliance (refer to pages 12 to 13) • Ithala SOC Limited is on a drive to recruit quality management
Customers A key strategic imperative for the Company is customer-centricity, which focuses on understanding and delivering on customer needs in a manner that enhances the customer experience and fosters customer loyalty	• Internal annual customer satisfaction survey • Ithala SOC Limited seeks customers' opinions regarding products and services through surveys, via complaints received, as well as responses to marketing and advertising	• Service levels • Viability • Customer experience	• Meeting customer requirements and satisfaction levels is incorporated into key performance indicators (refer to page 23) • Ithala SOC Limited aims to regularly survey its customers 1 Customer-Centricity
Employees To ensure current and potential employees regard Ithala SOC Limited as an employer of choice by providing a safe, positive and inspiring working environment To provide all staff with direction and pertinent information regarding the activities and strategic focus areas of the Company To understand and respond to staff needs and concerns To maintain good relationships with unions and obtain approval or reach consensus on any decisions or projects that require changes to the working conditions or the operational requirements of the business	• Ongoing • A robust combination of face-to-face, written and broadcast communications, including planned surveys, road-shows, email communication, intranet and an e-newsletter, Ziyenzeka online which relays newsworthy items and newsflashes	• Ithala SOC Limited's viability/job security • Learning and development opportunities • Reward • Consultation on changes to working conditions	• Ithala Group Human Resources consults on any changes in working conditions, restructuring of the business as well as performance management. This includes consultations on the resolution of alleged unfair labour practices to ensure fair and equitable treatment of staff • Ithala Group Human Resources manages labour relations with the South African Municipal Workers' Union on an ongoing basis, to which 362 employees belong • A Joint Engagement Committee has been established, consisting of representatives from management, including the Chief Executive and Human Resources, as well as the Chairperson of the shop steward's and three shop stewards, to constructively engage on labour issues

Stakeholder Group	Engagement Methods	Material Stakeholder Issue	Ithala's Response
Suppliers The Company requires goods and services, on time, to specification, from reputable, quality suppliers	• Ongoing engagement during contracting process in line with regulatory requirements and the company Supply Chain Management process. • Prioritisation of Broad-Based Black Economic Empowerment suppliers • A centralised procurement unit has implemented an automated 'Procure-to-Pay' system during the past financial year • Ensuring adherence to the Company's Supply Chain Management policies and processes is ongoing	• On-time payment against invoices • Ithala SOC Limited's viability • Quality of relationship	• Formalised procurement policies and procedures managed by a centralised procurement unit, to manage supplier relationships. Refer to our Procurement report from page 30
Strategic Partnerships External partnerships, such as with the Taxi Association Internal strategic partnerships	• Ithala SOC Limited enters into Memoranda of Understanding with strategic partners. During the year under review, material partnerships included a Memorandum of Understanding with the South African National Taxi Association for the bulk acquisition of the taxi finance deals. • Internal Service Level Agreements include the provision of shared services (Information Technology, Legal Services, Marketing and Human Resources) from Ithala Group	• The provision of cost-effective products to taxi owners • Ithala SOC Limited's viability • Payment terms	• The provision of a specific affordable taxi finance product

MATERIAL RISKS AND OPPORTUNITIES

WE HAVE IDENTIFIED RISKS THAT WOULD PREVENT THE COMPANY ACHIEVING ITS STRATEGIC OBJECTIVES, AND ARE MITIGATING AGAINST SUCH RISKS

STRATEGIC RISKS

During the year under review we conducted the annual strategic risk assessment workshop, the objective of which was to identify risks that would prevent the Company from achieving its strategic objectives and any other risks it could be exposed to and to formulate mitigation strategies. The following risks were identified:

Rank	Risk Name	Risk category	Residual Risk
1	Banking licence	Strategic risk	Extreme
2	Competition	Strategic risk	Extreme
3	Staff capability and skills	Operational risk	Extreme
4	Financial sustainability (Going concern)	Capital risk	Extreme
5	IT systems implementation	Technological risk	Moderate
6	Recovery and resolution planning	Strategic risk	High
7	Leadership team cohesion	Strategic risk	Moderate
8	Credit risk	Credit risk	Moderate
9	Industrial action	Operational risk	Low
10	Single channel distribution dependency	Strategic risk	Low
11	Regulatory compliance	Strategic risk	Insignificant
12	Brand reputation	Reputational risk	Insignificant

Mitigation strategies are evaluated on a regular basis to ensure that residual risks are reduced to the desired levels. This report deals with our main strategic risks and presents our approaches to their mitigation.

Risks and Opportunities	Mitigation Strategy and Actions	Page reference
Banking Licence	- Refer to banking licence discussion	5,12, 15
Competition	- Understanding of our target market - Pricing of products - New products putting us on a par with competitors	14, 32, 34
Capacity and skills	- Specific product knowledge and critical skills, such as management training	36, 38
Financial sustainability	- Diversify funding sources - Diversify the customer base to mitigate against risk of lower income groups' potential to default - Development of non-interest income revenue streams - Distribution network and cross-selling opportunities - Cost containment - Revenue enhancement	20, 27, 32
IT systems implementation	- New live central banking platform ('Hosted Banking System') - Planned implementation of customer relationship management system	34
Recovery and resolution planning	- Business continuity plan in place and reviewed annually by the Risk Capital and Management Committee	36, 56
Leadership team cohesion	- Cohesion on key strategic issues - Common drive towards achievement of strategic imperatives	36
Credit risk	- Credit risk arising from external economic factors - Manage credit risk within defined risk appetite	53, 54
Industrial action	- Recognition agreement has been signed - Joint Engagement Committee	36
Single channel distribution dependency	- Automation to improve efficiencies - Growing our market footprint through a multi-channel distribution network	4, 34
Regulatory compliance	- Improve efficiencies to absorb regulatory compliance costs - Compliance (training, registration and support)	25, 64, 65
Brand reputation	- Strengthened corporate governance through combined risk assurance approach and internal audit capacity - Zero tolerance of fraud and corruption	44, 45, 46

STRATEGY

ITHALA SOC LIMITED HAS ADOPTED A PHASED TURN-AROUND STRATEGY OVER THE NEXT FIVE YEARS

After careful analysis of the challenges that exist in our industry, a robust process was undertaken to refine and redefine the strategic direction to be taken by Ithala SOC Limited.

This process resulted in the identification of structural weaknesses the organisation faces, together with regulatory operating requirements that do not necessarily take into account the developmental nature of the business model.

Ithala SOC Limited has adopted a phased turn-around strategy over the next five years to ensure that the organisation returns to profitability in order to remain financially sustainable, entailing:

1. Return to profitability (Financial viability);
2. Enhance business growth (Financial sustainability); and
3. Exponential growth (Developmental sustainability in line with our developmental mandate)

This will allow us to produce a credible shareholder dividend which will then be allocated to drive specific developmental activities in line with our mandate. The main focus in the 2014/15 financial year will be to drive activities that will assist the organisation in its journey to return to profitability.

Stop the Bleeding
Return to profitability
Phase I
2013/14 - 2015/16

Rise Again
Enhance business growth
Phase II
2016/17 - 2019/20

Quantum Leap
Exponential growth
Phase III
5 years
and beyond

To turn around the Company's loss-making trend during the past three years, we are driving revenue and growing our range of products, particularly transactional-based products and fully maximising the opportunities for cross-selling within the organisation.

The critical success factor will be the reconfiguration of our business model to focus more on public sector banking, electronic banking and insurance business in order to improve our non-interest income revenue stream.

Our Strategic Objectives

To provide relevant financial services to the people of KwaZulu-Natal and returning Ithala SOC Limited to profitable operations

Market Share and Revenue Enhancement

To grow our revenue base by growing our existing market share, entering new markets, introducing new products and leveraging strategic partnerships

Accessible Financial Services

To provide financial services to rural and urban communities of KwaZulu-Natal through various distribution channels

Customer-Centricity

To understand and deliver on customer needs in a manner that generates and promotes customer-centricity

Operational Excellence

To be highly efficient in our operations through continuous improvement of skills and competence levels, development of Information Technology solutions, innovations and leveraging our assets and resources

Good Governance

To comply with all relevant regulatory requirements and develop proactive risk management structures and governance processes

Strategic Approach Phase 1

- Revenue Generating Enhancements
- Expanding Non-Interest Revenues
- Introducing New Products and Leveraging Strategic Partnerships
- Transaction Led Customer Acquisition and Improved Cross-Sell Potential

Strategic Imperatives

Operational Excellence
- Information technology
- Systems and processes

Human Capital
- Change management
- Employee engagement
- Customer-centric culture
- Innovation

Multi-channel Distribution Network
- Electronic banking
- Public sector banking
- Call centre capability
- Insurance business cross-sell

Good Governance
- Combined risk assurance approach
- Strengthened internal capacity

MAKING IT HAPPEN TOGETHER

ANNUAL PERFORMANCE REPORT

As a state-owned entity, Ithala SOC Limited each year agrees its performance objectives, measures and indicators, as well as its annual targets with its ultimate shareholder the Department of Economic Development, Tourism and Environmental Affairs and Provincial Treasury, in line with the Public Finance Management Act (1999). Ithala SOC Limited reports quarterly to its shareholder regarding its performance.

2013/14 Annual Performance Report

Strategic Objective 1: Market Share and Revenue Enhancement				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Access to Finance	To increase the number of net transactional accounts held by individuals to 259 491 by 31 March 2014	259 491	85 389	Target not achieved Value added services to support the transactional product offerings were not introduced on 1 April 2013 as earmarked. Time was needed to carefully negotiate the terms of the agreement which resulted in the late awarding of the Hosted Banking System tender. Most grant recipient transaction accounts were closed due to the South African Social Security Agency issuing their own branded transaction account with proof of life functionality. Market conditions have also become more competitive, contributing to subdued growth in this area of the business
	To increase the value of new advances by R546 959 107 by 31 March 2014	R546 959 107	R498 276 197	Target not achieved The launch of the overdraft and taxi finance products were delayed due to the late awarding of the Hosted Banking System.The taxi finance product was launched in September 2013 and the Overdraft product is expected to be launched in June 2014
	To increase the number of insurance policies by 9 860 by 31 March 2014	9 860	8 446	Target not achieved Staff shortages in the insurance department and the poor cross-sell opportunities associated with the low growth in customer numbers resulted in the target not being achieved
	Improve the Savings/ Investment Control Book to R2 268 187 167 by 31 March 2014	R2 268 187 167	R1 973 429 039	Target not achieved The competitive market conditions, reduced savings appetite due to lower disposable income and the low growth in customer numbers contributed to target not being achieved

Strategic Objective 1: Market Share and Revenue Enhancement				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Economic Profit	Achieve a net profit of R1 168 000 by 31 March 2014	R1 168 000	(R69 978 000)	Target not achieved The poor growth in revenue drivers resulted in the net profit not being achieved. Total costs were well contained within targeted levels

Strategic Objective 2: Accessible Financial Services				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Customer Experience	Spend an additional R7 016 000 on branch upgrades by 31 March 2014	R7 016 000	R6 362 368	Target not achieved A strategic decision was made to revise the budget in order to manage costs in view of the poor revenue growth
	To increase ATMs to 78 by 31 March 2014	78	74	Target not achieved Branch closures and the downturn in volumes for ATMs at certain retail sites have resulted in the strategic decision to remove the ATMs and halt any further investment
	To install 50 new self-service devices by 31 March 2014	50	0	Target not achieved Compliance with internal procurement policy and processes delayed the tender process until the first quarter of 2014
	To increase the number of call centre seats to 15 by 31 March 2014	15	Distribution: 8, Insurance: 4, Credit Risk: 4, Call Centre Manager: 1. Total: 17	Target achieved

Strategic Objective 3: Customer Centricity				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Customer Service	To receive at least 70% positive feedback from customer service surveys quarterly	7/(10)	9,7/(10)	Target achieved
	To receive a minimum 70% of stipulated timeframes of service levels by 31 March 2014	70%	20%	Target not achieved Inter-departmental Service Level Agreements deliverables were not achieved

BANKING THE UNBANKED

ANNUAL PERFORMANCE REPORT

Strategic Objective 4: Operational Excellence (Human Resources, Information Technology and Marketing)				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
People Management and Leadership	To achieve a minimum score of 80% for leadership surveys by 31 March 2014	80%	80%	Target achieved
	To implement 90% of the Workplace Skills Plan by 31 March 2014	90%	81%	Target not achieved The drive to achieve the strategic objective of revenue enhancement meant that staff were not always available during the scheduled training times
	To conduct a minimum of four performance assessments per employee by 31 March 2014	100%	50%	Target not achieved The inconsistent application of performance management processes by management across business units caused delays in completion
	To conduct a minimum of two performance appraisals per employee by 31 March 2014	100%	50%	Target not achieved The inconsistent application of performance management processes by management across business units caused delays in completion

Strategic Objective 4: Operational Excellence (Human Resources, Information Technology and Marketing)				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Technology and Innovation	Approval of the Banking System implementation plan by 31 May 2013	Approved Plan	Target achieved	Target achieved
	Adherence to the implementation plan milestones by 31 March 2014	Milestones per project initiation document	Not achieved	Target not achieved Delays occurred due to user acceptance testing issues experienced, as well as problems in the printing function set-up. 'Go Live' only achieved on 20 January 2014

Strategic Objective 4: Operational Excellence (Human Resources, Information Technology and Marketing)				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Efficiencies and Effectiveness	Cost to Income Ratio	91,8%	117,6%	Target not achieved The failure to achieve targets is attributable to the poor growth in the revenue drivers of the business
	Return on Assets %	0,3%	(3,3%)	
	ROE %	2,9%	(34,3%)	
	Capital Adequacy Ratio	14,5%	12,2%	
	NPLs %	9,5%	9,5%	Target achieved
	Impaired Advances % Loan Book	7,5%	7,6%	Target achieved. The difference is regarded as immaterial
	Credit Loss Ratio	2,2%	2,0%	Target achieved

Strategic Objective 5: Corporate Governance Excellence				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Regulatory Compliance	Adherence to anti-money laundering internal rules by 100% on new business and 70% on existing by 31 March 2014	100% on new business and 70% on existing	Achieved	Target achieved
	Adherence to FAIS Fit and Proper requirements by 31 March 2014	100% adherence	100% adherence	Target achieved
	Submission of regulatory reports as per the annual statutory reporting register by 31 March 2014	100% adherence	100% adherence	Target achieved
	To achieve a minimum of 75% resolution of the Compliance Issues Log by 31 March 2014	75% resolution	24% resolution	Target not achieved Target not achieved as most findings were not resolved within the required deadline

ANNUAL PERFORMANCE REPORT

Strategic Objective 5: Corporate Governance Excellence				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Business Risk	Implementing Risk Management Action Plans for the risks per the Register by 31 March 2014	100% of all items	78% of all items	Target not achieved Target not achieved as most findings were not resolved within the required deadline

Strategic Objective 5: Corporate Governance Excellence				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Risk Assurance	To achieve 100% resolution of the audit issues log by 31 March 2014	100% achieved	72% achieved	Target not achieved Target not achieved as most findings were not resolved within the required deadline

Strategic Objective 5: Corporate Governance Excellence				
Goals	Key Performance Indicators	2013/14 Target	2013/14 Actual Performance	Management Comment
Governance Framework	To conduct quarterly training of the Board and the Executive on King III	Training conducted each quarter	Not Achieved	Target not achieved The Board's consistent focus on financial sustainability and Ithala's turn-around strategy throughout the year resulted in little time available for training during this reporting period
	To conduct quarterly training of the Board and the Executive on the Companies Act	Training conducted each quarter	Not Achieved	
	To submit the monthly Banks Act returns to South African Reserve Bank within the deadlines as stipulated by the Regulations to the Banks Act	100% adherence	100%	Target achieved

FINANCIAL PERFORMANCE

While we had ambitiously set-out to achieve a net profit of R1 168 000 this year, we recorded a loss of R69 978 000.

The late awarding of the Hosted Banking System, resulting in delays in getting our new transactional product offerings to market, together with the loss of the South African Social Security Agency accounts and highly competitive market conditions, have contributed to significant losses.

The failure to achieve targets is attributable to negative variance in non-interest income which is attributable to the delayed launch of new products, as well as the loss of South African Social Security Agency debit card customers. Furthermore, the capital injection which was budgeted to be received on 1 April 2013 was provided in tranches during the period after a resolution by the Ithala Group Board, resulting in reduced interest income earned therefrom.

The adverse variance will be addressed by the focused drive for bulk customer acquisition and the introduction of new products during the 2014/15 financial year to drive transaction-led customer acquisition.

Key Performance Indicators	2014 R'000	2013 R'000	Change %
Profitability			
Interest income	177 789	162 819	9%
Commission, fee income and insurance income	105 349	126 934	(17%)
Interest paid	55 654	54 024	3%
Other income	7 483	9 970	(25%)
Net loan impairment expense	29 671	14 945	99%
Operating expense	273 350	253 372	8%
Cost to income ratio	117,6%	103,9%	13%
Return on shareholders' equity	(34,3%)	(16,4%)	(109%)
Assets			
Net loans and advances	1 505 875	1 297 762	16%
Cash, statutory investment and deposits with banks	677 373	675 078	0%
Other	67 721	74 881	(10%)
Total assets	2 250 969	2 047 721	10%
Liabilities			
Deposits	1 973 429	1 803 457	9%
Other	91 151	92 897	(2%)
Total liabilities	2 064 580	1 896 354	9%
Equity			
Shareholders' funds	186 389	151 367	23%
Capital adequacy ratio	12,2%	11,1%	11%

ENABLING DREAMS

FINANCIAL PERFORMANCE

Key Performance Indicators	2014 R'000	2013 R'000	Change %
Operations			
Branches (number)	48	48	0%
Employees (number)	443	422	5%
ATM			
Own (number)	58	58	0%
Partnerships (number)	16	14	14%
Total (number)	74	72	3%
Capital expenditure	12 410	5 414	129%
Loan sales			
Value of loans advanced	498 276	354 109	41%
Repayments	440 782	403 269	9%
Gross loans and advances	1 629 733	1 398 770	17%
Loans past due (arrears)	213 296	167 129	28%
Arrears to gross loans and advances	13,1%	11,9%	10%
Provision for doubtful debts	123 858	101 008	23%
Loan fee income	19 386	17 270	12%
Deposits			
Total savings accounts	795 492	745 511	7%
Total term deposits	1 026 504	1 013 352	1%

CONTRIBUTING VALUE TO THE ECONOMY
ECONOMIC VALUE ADDED STATEMENT

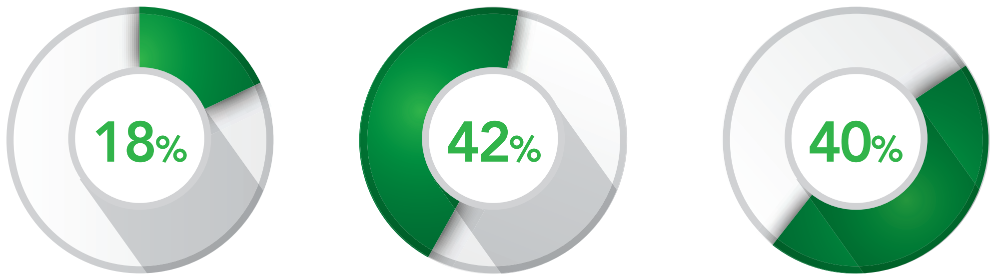
Ithala SOC Limited contributed value to the local economy and created wealth for its stakeholders for the current and previous reporting periods as follows:

	2014	2013
	R'000	R'000
Direct economic value generated		
Interest income	177 789	162 819
Commission and fee income	105 349	126 934
Other income	7 483	9 970
Net impairment charge on loans and advances to customers	(29 671)	(14 945)
	260 950	284 778
Economic value distributed		
To suppliers in payment of operating expenses	125 058	103 246
To employees	128 866	126 658
Interest paid on deposits to customers	55 654	54 024
To providers of funds	309 578	283 928
Value Added Tax	4 606	7 656
Unemployment insurance	1 442	1 333
Skills development levies	904	855
Property rates taxes	524	476
To Government	7 476	10 320
To the community	158	25
	317 213	294 272
Economic value retained for expansion growth		
Accumulated loss	(69 978)	(24 382)
Depreciation and amortisation	13 715	14 888
	(56 263)	(9 494)

DELIVERING DEVELOPMENT IMPACT

CONTRIBUTING VALUE TO THE ECONOMY

ECONOMIC VALUE DISTRIBUTED



Interest paid on deposits to customers

To employees

To suppliers in payment of operating expenses

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

As a public entity, we are subject to the Public Finance Management Act, which promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources. As such, we maintain appropriate procurement and provisioning systems which aim to be fair, equitable, transparent, competitive and cost-effective.

Preferential procurement means we give, where possible, preference to those suppliers with Broad-Based Black Economic Empowerment status, such as companies owned by black people or women, employing people with disabilities, youth, workers and people living in rural areas, based on their verified Broad-Based Black Economic Empowerment status.

The higher level status indicates higher contributions made by the supplier to supporting the integration of black people into the economy.

Ithala Development Finance Corporation, our parent organisation, is a value added service provider and the most recent scorecard shows a Level 5 provider which means an 80% procurement level can be used by our customers in their procurement levels.

SOCIO-ECONOMIC DEVELOPMENT

FINANCIAL LITERACY

Ithala SOC Limited participated in the 2013 Teach Children to Save (TCTS SA™) launch and rollout, a financial literacy programme of The Banking Association of South Africa. It is a collaborative effort of the banking industry and broader financial sector, part of Consumer Education/Financial Education, an element of the Access to Financial Services transformational pillar.

The overall goal of the initiative is to teach children to save.

The secondary goal is to promote volunteerism in the sector.

Volunteer bankers and financial sector professionals deliver one-hour savings lessons to Grades 4 to 7 nation-wide.

TCTS SA™ covers the basic concepts of saving:

- reasons to save,
- budgeting to save,
- understanding the difference between needs and wants and where to save.

The programme is integrated within the Economic Management Science learning area of the national school curriculum. The campaign aims to foster a culture of saving among children, promote volunteerism, create awareness about the value of money and promote financial literacy, while assisting learners to appreciate the power of choice.

South Africa's low savings rate and low levels of financial literacy are well-known. Poor savings levels impact on not only the financial stability of individual households, but also impact on the country's economic growth. The household savings rate has declined since 1980 and in 2009 was just 1,5% of GDP and it is estimated that over 65% of South African adults do not save at all (see The Banking Association South Africa website for further details).

TCTS SA™ was piloted in South Africa in July 2008, with the Provincial launch hosted at Ntakemazolo Combined School in Hammarsdale and thereafter rolled-out to Magqibagqiba and Tshanyana Schools. Fifty two volunteers from all regions were trained to facilitate the programme from their respective areas, such as savings and investments and lending.

MEN IN THE MAKING (POWERED BY TRACKER)

To expose young men to the world of work, 19 learners were introduced to various divisions within Ithala SOC Limited. Our management inspired and motivated them to pursue their goals and ambitions with an ultimate aim of reaching their potential.

TAKE A GIRL CHILD TO WORK

Ithala SOC Limited participated in this programme, aiming to expose female learners to the world of work. The theme for this year was 'Empower a Girl Child, Empower a Nation'. They were introduced to various divisions within Ithala SOC Limited. Management inspired and motivated them to pursue their goals and ambitions with the ultimate aim of reaching their full potential.

OUR BUSINESS

Segment	Key Products	Performance Highlights/Lowlights	Looking Ahead
Transactional Banking 	• Iciko Transactional Account • Business Transactional Account	• The deployment of the new Hosted Banking System transactional account capability on 20 January 2014 puts us in a better position to offer relevant products and services to our chosen target market and achieve parity status with our competitors, recapturing lost market share • Despite the loss of South African Social Security Agency account holders, the relative deposits from transactional account holders increased by R35,6 million during the year	• Growth depends on successful collaborations across business units within the Ithala Group to enable cross-selling to existing customers • In particular, collaboration with the electronic banking segment will drive innovation • This strategy also supports the aspirations of our target markets as their personal circumstances, or that of their families, improves
Savings and Investments 	• Target Save • Club 'Stokvel' Save • Call Deposit • Fixed Deposit • 32-Day Notice Deposit • Corporation Fixed Deposit	• Promoting a culture of savings and financial literacy • We achieved a savings control book of R1,9 billion reflecting a 9,4% improvement on the prior year during constrained economic conditions	• Our multi-channel distribution network approach will increase the footprint of our product offering • The South African Reserve Bank's indication that the South African economy is in an upward interest rate cycle will have an impact on our pricing strategies
Lending 	• Home Improvement Loans • Home Loans • Rural Home Loans • Cash Loans • Permission to Occupy Loans • Taxi Finance • Vehicle and Asset Finance • Debt Consolidation Loans • Lifestyle Personal Loans • Assisting customers in applying for the State guarantee and subsidy offered under the Finance Linked Subsidy Programme aimed at providing housing to the gap market	• Taxi Finance was launched in September 2013 • Permission to Occupy is a unique product that enables customers to buy, build or improve a rural property • Concentration risk is a key risk given the bias towards home loans, emphasising the need for further diversification of the loan portfolio • Increased automation of processes and the implementation of the new Hosted Banking System • We achieved our target on non-performing loans • Civil servants make up the majority of our home loan accounts at 9 250, offering opportunities to expand our public sector services	• Further products, including an Overdraft Product, are due to be launched in the new financial year • The recent review of the National Credit Act by the Trade Ministry to provide amnesty could have a significant impact on our debtors' book • Efforts to improve our cross-sell ratio will be a key focus

Segment	Key Products	Performance Highlights/Lowlights	Looking Ahead
Insurance	• Funeral Cover • Commercial Insurance • Credit Life Insurance • Income Booster • Future Builder Life Cover • Domestic Insurance • Commercial Insurance • Taxi Insurance	• We increased the number of insurance policies by 8 446 • Realignment of resources to achieve optimal sales distribution	• Insurance sales are set to increase with the establishment of a Public Sector Finance Department, direct sales unit and dedicated call centre
New Segments	**Planned Products**		**Prospects**
Electronic Banking	• It is envisaged that electronic payments will be our primary service • Enhanced electronic revenue collection linked to electronic asset financing • Target markets are youth, business, personal and public sector banking		• Only an estimated 28% of mobile phones in South Africa are currently linked to mobile banking, indicating high potential profitability and growth in this sector • Relationships with partners will be crucial to successful delivery on our strategy • Our success also depends on the implementation of Ithala SOC Limited's world-class customer relationship management solution
Public Sector Finance	• Transactional Banking (third party payments, disbursements and revenue collection) • Treasury Service (cash deposits and investments) • Insurance (short and long-term insurance and advisory service) • Electronic Banking (internet banking, stop orders and debit orders) • Payroll Service (payment of employees and third parties) • Vehicle and Asset Finance • Housing Finance • Personal Banking (personal savings, loans and transactional banking) • Project Management (Implementation of infrastructure projects, including housing and expanded public works) • In the next financial year we hope to add Corporate Banking as a fully-fledged web-based service	• We currently service 10 public sector clients, including KwaZulu-Natal Co-operative Governance and Traditional Affairs, the Department of Rural Development and Land Reform, the Department of Health, the National Development Agency, Ugu Municipality and Dube TradePort Corporation • New deal sourcing capacity has been secured	• The potential exists to grow our market share by 100%

MAKING IT
HAPPEN
TOGETHER

OPERATIONAL EXCELLENCE

A NEW HOSTED BANKING SYSTEM WAS INTRODUCED THIS YEAR, ALLOWING FOR THE SIGNIFICANT BROADENING OF OUR PRODUCT OFFERING

INFORMATION TECHNOLOGY

Ithala SOC Limited has faced technological challenges with its current systems out-dated for modern banking requirements. The turn-around strategy has been crafted to re-focus deliverables on a technological platform. A new Hosted Banking System was introduced this year, together with other associated technological advancements.

A nine-month delay in its implementation due to a prolonged due diligence and contracting process, issues experienced during testing, as well as a malfunctioning printing function, seriously affected the achievement of our market share and revenue enhancement targets for the period.

In the next financial year, we have set ourselves the task of introducing a suitable in-house Information Technology platform that will assist in creating a permanent solution. Despite the challenges and delays in the launch of the new Hosted Banking System, new products launched during the year include vehicle and taxi finance.

In addition, call centre seats were increased to 17, exceeding our target of 15 for the year, an increase of 14 on 2013. These include a call centre manager, four credit risk operators, eight representing insurance and four representing credit risk.

The next milestone in our technology project implementation plan is to offer transactional accounts with the option of an overdraft facility depending on the customer's qualification and savings and investment accounts, as well as online (internet and mobile) transaction account applications.

STRATEGIC OBJECTIVES

Operational Excellence

Access to Finance

Revenue Enhancement

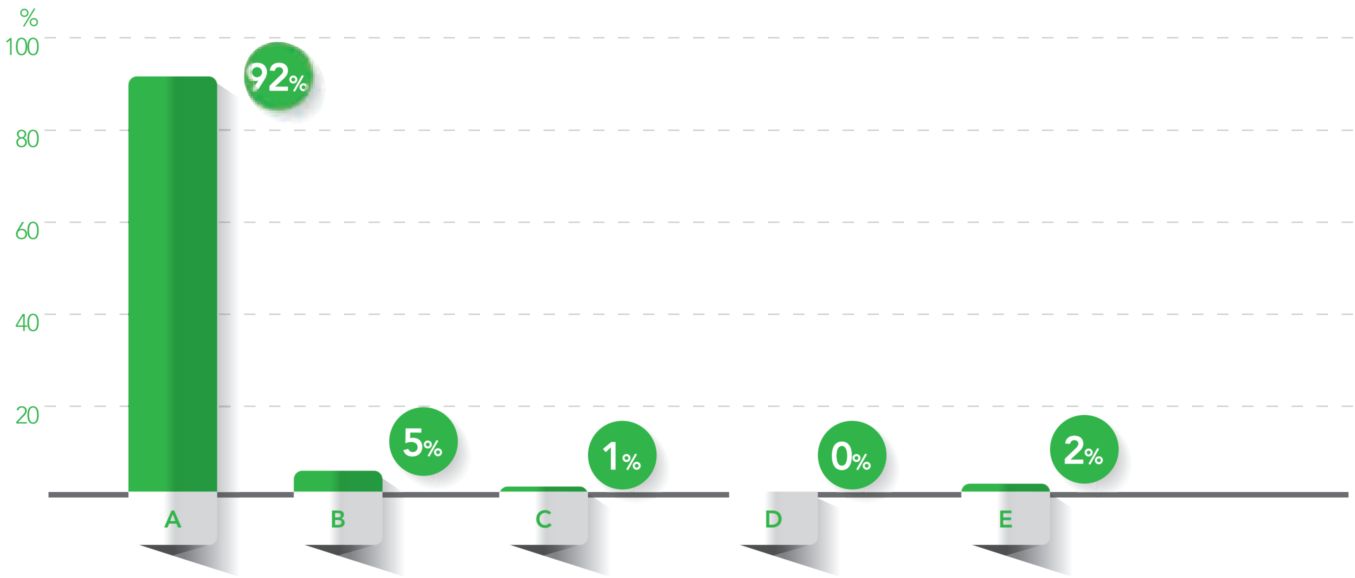
MATERIAL ISSUES

Market share
Improving range of products and services

CUSTOMER SATISFACTION

While we are nearing a turning point in our turn-around strategy, we are gratified by the continued loyalty of our customer base. A recent customer satisfaction survey we conducted indicated that 92% of Ithala SOC Limited customers are extremely satisfied with the overall service they are getting from us and 90% of our customers found Ithala SOC Limited staff to be very helpful. Areas in which we could improve include reducing the waiting period - 61% of Ithala SOC Limited customers say they did not have to wait a long time before being attended to by staff.

CUSTOMER SATISFACTION



A - Extremely satisfied

B - Very satisfied

C - Moderately satisfied

D - Slightly satisfied

E - Not satisfied at all

OPERATIONAL EXCELLENCE

HUMAN CAPITAL

During the year under review, Ithala SOC Limited focused on the development of its human capital in order to deliver on its strategic objectives over the short and medium-term. Specifically, our human capital strategy focused on leadership cohesion and employee engagement.

Employee and labour engagement was strengthened through the formation of the Joint Engagement Committee, comprising the Chief Executive and two other executives, Human Resources and union representatives, including the Chairperson of the shop steward's and three shop stewards, ensuring that our people issues are prioritised.

Human capital interventions aim specifically to mitigate the people risks we need to address in order to move our Company forward.

Risk	Mitigating Factors
Staff morale	• Change management interventions are conducted regionally to understand what inhibits employees from adding value to the business
Operational risk	• Succession plan for senior management positions • The lessons learned from the labour unrest faced in 2013, resulting in a loss of R1 422 688 and 20,6 work-days, have re-emphasised regular modification of our business continuity plans.
Regulatory risk	• Only Financial Advisory and Intermediary Services Act-compliant candidates are appointed in frontline roles • Adherence to the approval process related to South African Reserve Bank appointments, including that of the Finance Director and Compliance Officer
Competence	• Skills deficiencies have been a challenge in many areas of the business and even though on-going interventions are being put in place to sustain development, we have much work to do on job specific skill enhancement, including sales skills, client-facing and management skills

LEADERSHIP AND MANAGEMENT DEVELOPMENT

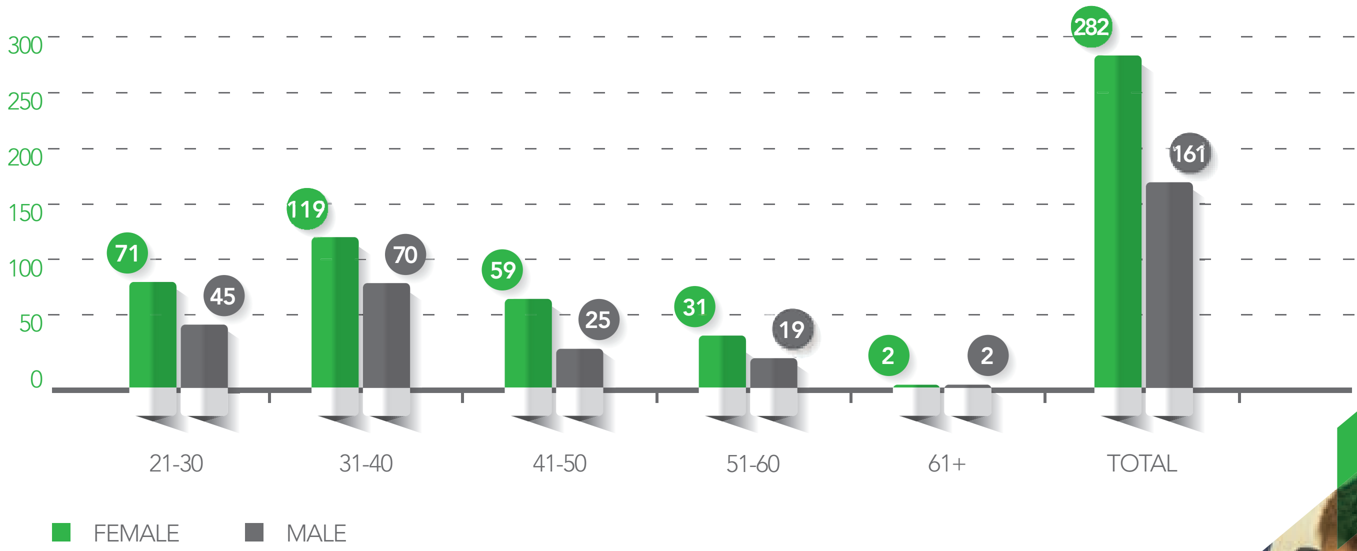
Ithala SOC Limited's turn-around strategy requires specific and specialised leadership competencies, effectiveness and collaboration. The implementation of a tailored leadership development programme coincided with the implementation of our turn-around strategy and as part of its implementation phases, all Executive Committee members underwent an assessment aimed at creating self-awareness and self-efficacy in the delivery of their objectives. The next phase incorporates one-on-one sessions with coaches to delve into further personal development.

Workforce Profile

As at the end of March 2014, Ithala SOC Limited had a staff complement of 443, of which 64% (282) were women. However, in the higher occupational categories of employment (i.e. D Band and above), 73% (22) were men. We currently have in our employ three people with disabilities. A further 11 contractors and 20 temporary employees supplement this number.

Grading Bands	Occupational Categories	Designated															Non-Designated		Total Employees	Disabled Employees
		African			Indian			Coloured			White		Total Designated							
		M	F	Tot	M	F	Tot	M	F	Tot	F	Tot	M	F	Tot	WM	Tot			
F	Top management	1	0	1	0	0	0	0	0	0	0	0	1	0	1	1	1	2	0
E	Senior management	3	2	5	0	1	1	0	0	0	0	0	3	3	6	0	0	6	0
D1	Professionally qualified and experienced specialist & managers	6	1	7	2	1	3	0	0	0	0	0	8	2	10	1	1	11	0
D4		7	2	9	1	1	2	0	0	0	0	0	8	3	11	0	0	11	0
C1	Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	18	43	61	1	2	3	0	0	0	3	3	19	48	67	0	0	67	0
C3		23	27	50	0	1	1	1	0	1	0	0	24	28	52	2	2	54	0
C4		9	27	36	1	2	3	0	1	1	0	0	10	30	40	1	1	41	2
B1	Semi-skilled and discretionary decision-making	1	1	2	0	0	0	0	0	0	0	0	1	1	2	0	0	2	1
B3		6	13	19	0	0	0	0	0	0	0	0	6	13	19	0	0	19	0
B4		71	136	207	1	2	3	0	0	0	0	0	72	138	210	0	0	210	0
A2	Unskilled and defined decision-making	1	16	17	0	0	0	0	0	0	0	0	1	16	17	0	0	17	0
TOT	Total	146	268	414	6	10	16	1	1	2	3	3	153	282	435	5	5	440	3

Our workforce is mainly in the 25 – 40-year age bracket, a distinct advantage to our business as we move towards a younger, fresher brand with techno-savvy market appeal.



OPERATIONAL EXCELLENCE

TALENT MANAGEMENT DRIVE

The introduction of talent reviews has lessened the succession planning burden for most senior management positions, which has been a challenge in the past few years. The quality of discussions about the potential of the staff has been encouraging. We plan to sustain the focus through other human resources management interventions that promote the involvement of employment equity and skills development committees in the growth and development of our talent. Our ultimate goal is structured mentorship and development of talent, which will improve employee productivity. During the year, we confirmed 16 promotions in C band and 11 in B band, of which 16 were women.

ORGANISATIONAL CULTURE

There has been an emphasis on employee engagement through road-shows and regular business performance updates to staff, creating understanding of the financial state of the organisation. The Executive Management team has championed general staff briefings which coincided with updates on our journey to profitability strategy. We have supplemented our Local Labour Forum with the Joint Engagement Committee which has assisted tremendously in proactively resolving challenges from a people perspective.

PERFORMANCE MONITORING

A Performance Management System has been introduced, but there has been little emphasis in its execution, predominantly, in the lower categories of employment. The general application of performance reviews and appraisals in the organisation range between 50% and 65%, which is indicative of inconsistent application. There is a clear correlation between the lack of monitoring of employee performance and low productivity levels. We have plans to electronically enable the performance monitoring system during the coming year for ease of statistical analyses and it will simplify the talent analyses across the business.

EMPLOYEE WELLNESS

During the reporting period, various interventions took place that were aimed at ensuring employee health, prevention of diseases as well our employees' financial stability. As part of our employee wellness programme, we have partnered with various local non-Governmental organisations and health clinics in rural areas. We have also expanded this alliance to professional health bodies to assist us in driving a range of programmes outside metro areas for our employees, where provision of support is inconsistent. Wellness programmes and activities conducted throughout the Company during the year include:

- Two Wellness Days, which focused on the promotion of healthy living and prevention of diseases, were conducted in conjunction with medical schemes Discovery and Bonitas;
- A one-on-one financial wellness/debt rehabilitation discussion was held with an affected employee;
- Two pre-retirement seminars;
- 69 employees were tested for HIV;
- 18 employees accessed the telephone counselling service;
- 13 employees were referred to a psychologist; and
- Of 14 applications for disability, 3 were approved.

TRAINING AND DEVELOPMENT

Training costs for the year amounted to R1 778 128. While relying, to some extent, on training interventions that are driven through the BankSETA due to our own cost constraints, in-house training included product knowledge, induction and Financial Intelligence Centre Act training. External training courses ranged from marketing and strategy development to data warehousing and JD Edwards. The BankSETA funded 14 employees' studies, including certificates in Management Development, as well as a Masters in Business Leadership.

Segment	Number of Training Interventions	Spend
Planned Training	1 486	R1 778 128
BankSETA-Funded Studies	7	R345 800
Study Loans	6	R60 690
		R2 184 618

REMUNERATION AND REWARD

The high overhead cost structure associated with our branch network, has the effect of staff costs exceeding 50% of operational costs, compared to that of 45% as benchmarked against tier II banks. There has consequently been a focus on containing costs. However, there is much scope to better align employees' performance to the achievement of our strategic objectives by, for example, incentivising performance, which we have not previously been in a position to do.

The outcome of bargaining processes for 2014/15 entailed the following salary increases:

A band 9%
B band 8%
C band 7%

- Housing allowance increased to R1 175 from R1 150 (0,3% increase on payroll);
- Shift and standby allowances increased to 13% from 12% (0,03% increase on payroll); and
- D,E and F Band will receive a 4% cost of living increase and 2% that is based on performance.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT COMPLIANCE

To sustain our drive towards Financial Advisory Intermediary Services Act compliance, in which we have expended more than R2,0 million, we are in the process of preparing for regulatory examination two. Our focus remains on the attainment of Fit and Proper requirements (both 120 credits and the regulatory examination) in which 198 Ithala SOC Limited employees enrolled and our success rate has improved in the past two years.

We have had to exit those employees who did not demonstrate the required desire to complete this qualification.

Currently, all our employees are fully Fit and Proper with some in supervisory programmes.

BURSARY SCHEME

We offered three bursaries to outstanding commerce and science matriculants last year and they have also been receiving practical experience in our branch network during vacation periods.

Through the Letsema Learnership, BankSETA has continued to place learners from previously disadvantaged communities and post-matrics with us as a host employer. Ithala SOC Limited hosted a total number of six learners.

MY JOURNEY AT ITHALA

My name is Sandrisha Rajbunsie and I was a BankSETA Letsema Learner, class of 2012.

Part of my learnership involved acquiring practical experience in the banking sector which affiliated with the qualification I was studying towards. It was an absolute honour to have Ithala as my host bank and I had received such incredible hospitality from Management and the staff members.

I was placed at the Ithala Durban Services Centre and I gained experience in the various divisions, namely Savings and Investments, in the Debit Card and Operations Departments, as well as the Compliance Division. Being exposed to the various departments and learning how they all work in conjunction to create productivity in the business was a very valuable experience.

The assistance I received from management played a very major role in my development. They were supportive in upskilling me, exposed me to the financial environment and allowed me the opportunity to exude my maximum potential. They also inculcated within me the necessary knowledge and skills that were imperative in the field of banking. I considered them to be not only Managers but also strong mentors because of their constant motivation to achieve success in the execution of my duties.

On completion of my Learnership, I was given the opportunity to work as a temporary staff member in the Compliance Division for a year, after which I was given permanent employment as a Compliance Administrator.

Ithala is not just a bank, but it is an institution that allowed an individual like me to develop my career and create a future for myself. My career is now in the positive mainstream and I am very grateful to Ithala for all the assistance and for going the extra mile to accommodate me as a learner and eventually now as a permanent staff member.

Ngiyabonga Ithala

ENABLING DREAMS

STRENGTHENING GOVERNANCE

WE ARE COMMITTED TO CONTINUALLY **ENHANCING OUR CORPORATE GOVERNANCE** PROCESSES IN LINE WITH BEST PRACTICE ENSURING THAT OPERATIONS ARE ETHICALLY CONDUCTED WITHIN THE REGULATORY FRAMEWORK IN WHICH WE OPERATE

Ithala SOC Limited continues to strive to deliver value to its stakeholders through the governance principles of accountability, transparency, responsibility, independence, ethical fairness and social development.

The Company also subscribes to a code of ethics, as well as behavioural standards specified in an employee manual. The codes of good practice and the protocol of good governance that supports the public sector provide guidance to the Board.

We are committed to continually enhancing our corporate governance processes in line with best practice ensuring that operations are ethically conducted within the regulatory framework in which we operate.

The key aspects of the King III Code of Governance were presented to the Board in March 2012. The Company is committed to applying the relevant principles of King III and a roadmap detailing implementation of certain aspects of the Code were finalised during this financial year. Where King III principles or practices will not be applied within the Company, these will be clearly explained to stakeholders and, where necessary, other controls instituted to ensure good governance.

Changes have been made to the structure of the Human Resources Social and Ethics Committee and the Risk and Capital Management Committee during the period under review. Effort has been made to fill vacant positions on the Board and both the Board and shareholder are confident that the vacant positions will be filled during the 2014/15 financial year. Key vacancies in the governance function, including a Head of Compliance and Head of Risk, have impacted governance effectiveness. However, these positions have subsequently been filled.

ITHALA SOC LIMITED BOARD

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

The Terms of Reference and Charter for the Board define the framework, authority and parameters within which the Board operates. For ease of alignment and business interface with the Company, the Board invites Executive Management to its meetings, whilst specifically reserving their right to meet without management's presence when required.

The Board Charter includes the Directors' Code of Conduct. The Board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance. The Charter confirms the Board's accountability, fiduciary duties, duty to declare conflict of interests, appointments to committees and relationship with the Company's staff and meeting procedures.

Board responsibilities

- Reviewing the strategic direction of the Company and adopting business

STRATEGIC OBJECTIVE

Good Governance

MATERIAL ISSUES

- Reputation
- Compliance
- Stakeholder relationship capital

- or other turn-around mechanisms; and
- Ensuring Board appointment processes are in place.

Other Board responsibilities include:

- Promoting a stakeholder-inclusive approach towards the governance of the Company;
- Monitoring operational performance and management; and
- Determining policy and processes to ensure the integrity of Ithala SOC Limited.

Other Governance-Related Matters

The Board ensures the establishment of the Company's internal control system to facilitate the effectiveness and efficiency of operations and assists in ensuring reliability of internal and external reporting, whilst also assisting with general compliance with Ithala's compliance and regulating universe.

The Board also considers matters relating to procurement and capital expenditure which are above the delegated levels of authority of Executive Management.

The work is ongoing and geared to ensuring that Ithala SOC Limited is not adversely exposed to legal and compliance risks.

BOARD PROFILE

The Board has finance, audit, legal, risk management and human resources skills and experience. There are also skills and experience in general business, aligned to the Company's scope of operations. However, there are still skills gaps.

STRENGTHENING GOVERNANCE

Board of Directors - 31 March 2014

Independent Non-Executives

Name	Position	Age	Qualification	Date of Appointment	Other Directorships Past and Present
Malose Frans Kekana	Chairman	43	• B.Comm (Finance) • B.Comm (Hons) (Finance)	07/05/2013	• Chief Executive Officer: Belelani Investment Managers • Chief Executive Officer: Umsobomvu Youth Fund • Chairman: Khula Enterprise Finance Limited • Chairperson: National Development Agency • Tristar Group Holdings (Pty) Ltd
Mahmood Mia	Board Member	66	• Matriculation Exemption	21/05/2010	• Tongaat Hulett Limited • Mutual & Federal Insurance Company Limited • Mutual & Federal Risk Financing Limited • Durban Technology Hub • Credit Guarantee Insurance Corporation Limited • Chairperson: Momentum Health - Audit Committee
Sipho Cyprian Ngidi	Board Member	58	• BAdmin • B.Comm (Hons) (Economics)	05/06/2011	• Chairperson: Spectramed • Chairperson: Fibre Processing and Manufacturing Sector Education and Training Authority • Reatile (Pty) Ltd
Leonie Van Lelyveld	Board Member	43	• CA (SA)	30/09/2012	
Babalwa Ngonyama	Board Member	39	• CA (SA)	15/05/2012	• Chief Executive Officer: Sinayowetu Trading Enterprises • Chief Financial Officer: Safika Holdings (Pty) Ltd • Founding Chairperson: African Women Chartered Accountants • Barloworld Limited • Evraz Highveld Steel and Vanadium Limited • Hollard Insurance (Pty) Ltd • Impala Platinum Limited • Constant Capital (Pty) Ltd

Non-Executives

Name	Position	Age	Qualification	Date of Appointment	Other Directorships Past and Present
Yvonne Nengi Elsie Zwane	Board Member	53	• B.Comm (Accounting) • UED (University Educational Diploma) • CAIB (SA) • MBL	01/03/2012	• Group Chief Executive Officer: Ithala Development Finance Corporation Limited • University of KwaZulu-Natal • Durban Chamber of Commerce and Industry
Gregory Nigel Joseph White	Deputy Chairman	54	• BA (Economics) • BAdmin (Hons) (Development Studies)	28/08/2012	• TransCaledon Tunnel Authority • Deputy Chairperson: Ithala Development Finance Corporation Limited

Executives

Name	Position	Age	Qualification	Date of Appointment	Other Directorships Past and Present
Simphiwe Vincent Khoza	Chief Executive Officer	41	• B.Comm (Accounting) • Associate Diploma in Banking • MBA	01/11/2012	• Principal Owner and Founding Member: Inqolobane Ka Mkhulu Group (Pty) Ltd • Principal Owner and Founding Member: Syaman Group Services (Pty) Ltd
Peter Andrew Ireland	Finance Director	49	• CA (SA)	01/10/2012	• Group Chief Financial Officer: Ithala Development Finance Corporation Limited • Finance Director: BioScience Brands Limited • Finance Director: The Unlimited • Finance Director: Research International (Pty) Ltd

BOARD STRUCTURE AND COMPOSITION

The Board currently comprises five Independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors, namely, the Chief Executive Officer and the Finance Director. Ithala SOC Limited's definition of 'Independent' and 'Non-Executive' are in line with those of King III. Three of the Non-Executive and the two Executive Directors were appointed during the period under review. As at 31 March 2014, the Board comprised:

MF Kekana	-	Independent Non-Executive Director - Chairman
GNJ White	-	Non-Executive Director - Deputy Chairman
L van Lelyveld	-	Independent Non-Executive Director
M Mia	-	Independent Non-Executive Director
B Ngonyama	-	Independent Non-Executive Director
SC Ngidi	-	Independent Non-Executive Director
YEN Zwane	-	Non-Executive Director
SV Khoza	-	Executive Director
PA Ireland	-	Executive Director

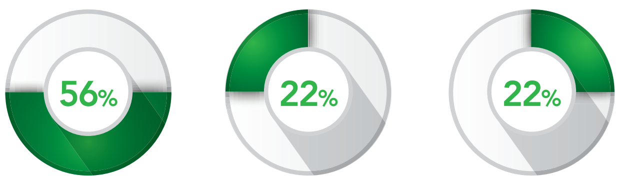
Mr MF Kekana was appointed to the Board as Chairperson with effect from 8 May 2013. Mrs L van Lelyveld resigned from the Board with effect from 31 March 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

- The Annual General Meeting confirms the nomination and ratifies the appointment of the majority of the Board for a fixed term;
- The positions of Chairman and Chief Executive Officer 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.

BOARD OF DIRECTORS



STRENGTHENING GOVERNANCE

BOARD EFFECTIVENESS AND EVALUATION

A formal process to evaluate the performance of individual Board members takes place annually. Every Board member completes a self-assessment form evaluating their own performance for the year. In addition, a peer review process allows for Board members to provide feedback on the performance of their colleagues.

The Chairman of the Board then engages each Board Member individually and reviews the results of this process. Areas of improvement are discussed and corrective actions agreed upon. This exercise also assists the Chairman to identify training needs for each Board member. A plan to assess the effectiveness of the Board as a whole will be implemented during the new financial year.

During the year under review, the Board engaged Ernst and Young Inc. to assist with a maturity assessment of the Board effectiveness and overall governance practices. A remediation plan is in the process of being implemented to address the findings, which included recommendations for appropriate governance training, skills gaps on the Board, adequate administrative support to the Board and its committees and formalising the format and the process of reporting from each sub-committee to the Board.

RESIGNATION AND RETIREMENT OF DIRECTORS

During the course of the year, Ms Leonie van Lelyveld resigned. No Directors retired. The Board has identified the need for a policy on the appointment, rotation and remuneration of Directors, which will be implemented during the following financial year.

DELEGATED POWER OF AUTHORITY

The Board maintains effective control through established Board committees that execute delegated Board responsibilities. The Board committee mandate is reviewed annually.

The day-to-day management of the Company vests in the hands of the Chief Executive, as provided for in the Memorandum of Incorporation, subject to the delegations of authority approved by the Board.

BOARD MEETINGS

The Board meets four times a year with additional meetings convened when necessary. Attendance at Board meetings was as per the table below:

	April	June	July	Aug	Nov	Feb	Mar
Non-Executive							
MF Kekana – Chairman**		√	√√	A	√√	√	√√
GNJ White – Deputy Chairman	√√	√	√√	√√	√√	√	√√
SC Ngidi	√√	√	√√	√√	√√	√	√√
M Mia	A	√	A	√√	√√	√	√√
L Van Lelyveld	√√	√	√√	√√	√√	A	√√
B Ngonyama	√√	√	√√	√√	√√	A	√√
YEN Zwane	√√	√	A	√√	√√	√	√√
Executive							
SV Khoza	√√	√	√√	√√	√√	√	√√
PA Ireland	√√	√	√√	√√	√√	√	√√

√ = Present **A** = Absent with apology √√ = Special Meeting ** = New appointment

ANTI-FRAUD AND CORRUPTION

Ithala SOC Limited is committed to eradicating all forms of fraud and corruption.

Our measures in place to ensure that the risk of fraud is minimised include the following:

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

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

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

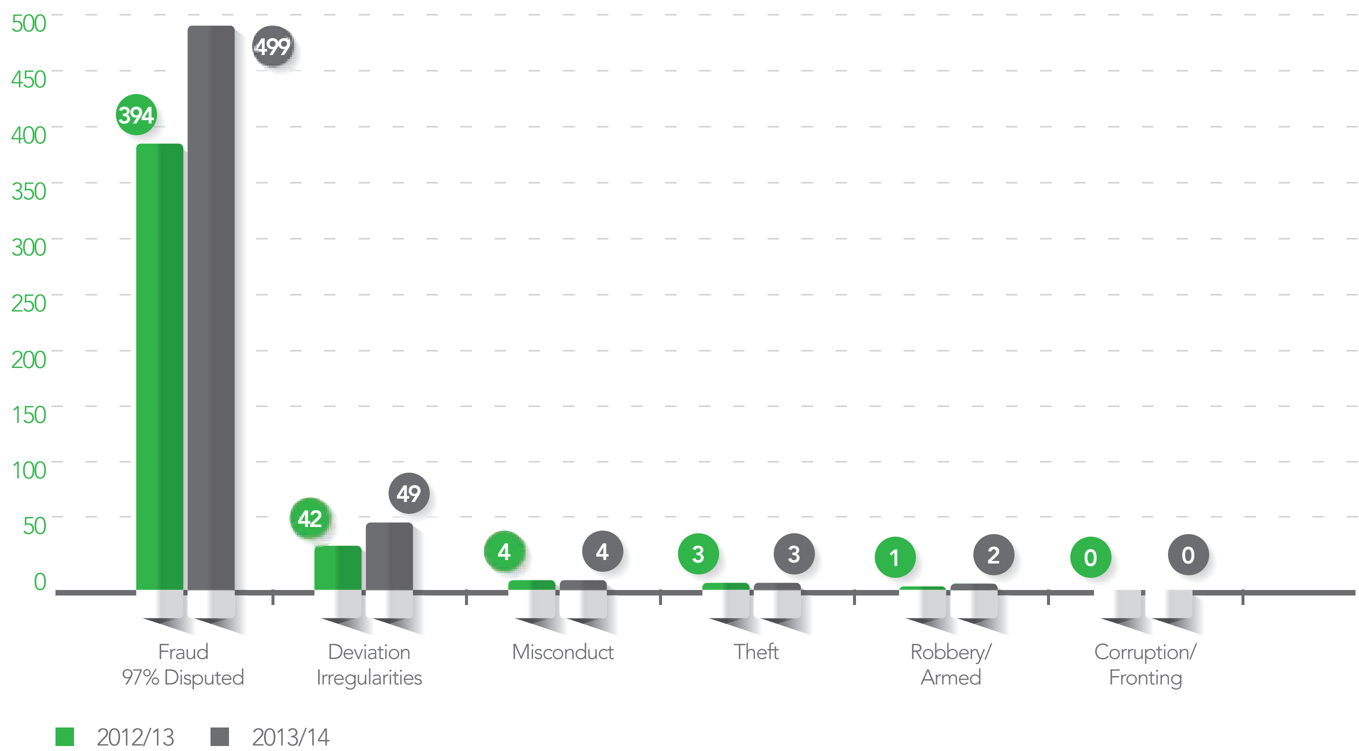
The anti-fraud and ethics framework outlines the Company's four-pronged approach to anti-fraud and corruption, namely fraud prevention, detection, deterrence and investigation.

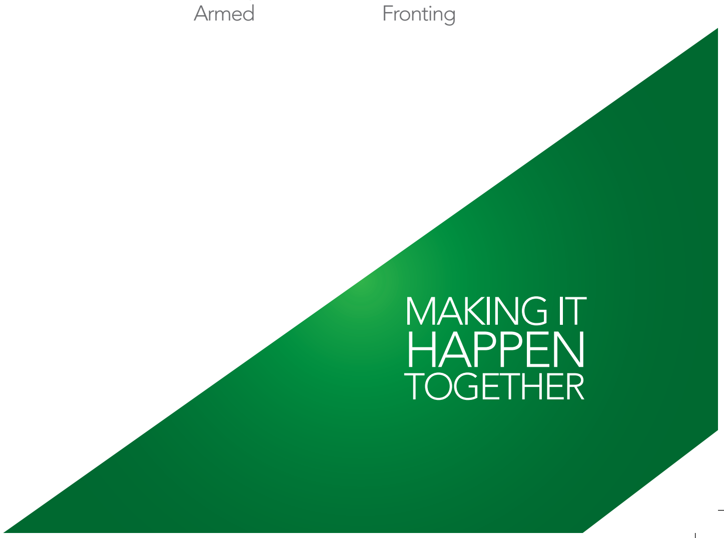
The Chief Executive, together with the Company's management and employees, have signed and committed to an anti-fraud declaration as a pledge to zero tolerance against fraud and corruption.

The Anti-Fraud and Ethics Committee, an Executive oversight structure chaired by the Group Chief Finance Officer, safeguards employees from occupational detriment should they 'blow the whistle' on fraud and corruption, as well as assisting management in identifying and managing fraud risk in order to protect the reputation of the Company.

To assist in addressing any fraud and corrupt activities, the Forensic Investigation team works in collaboration with various law enforcement agencies, as well as service providers, such as Tip-Offs Anonymous.

INCIDENTS OF FRAUD AND CORRUPTION





STRENGTHENING GOVERNANCE

BOARD COMMITTEES

The Board has established four committees to focus on key functional areas where specialist expertise is required. All the committees are chaired by an Independent Non-Executive Director.

With the exception of the Audit and Compliance Committee which comprises only Independent Non-Executive Directors, all other committees' comprise both Non-Executive and Executive Directors.

AUDIT AND COMPLIANCE COMMITTEE

Objectives

The Audit and Compliance Committee Charter sets out the function and responsibilities, including management's processes.

The objectives include:

- Examining and reviewing financial statements, the accompanying reports or other financial information prior to approval by the Board and, where necessary, introducing measures that may, in the Committee's opinion, serve to enhance the credibility and objectivity of financial statements;
- Assisting the Board in discharging its duties relating to the safe-guarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards;
- Assisting the Board in evaluating the adequacy and efficiency of internal control systems, accounting practices, information systems and auditing processes applied within the Company or, in the day-to-day management of its business;
- Assisting the Board to facilitate and promote communication, between the Board of Directors and the Executive Officers and the internal and external auditors;
- Considering any problems identified in the going concern or statement of internal controls;
- Reviewing the overall operational and financial reporting environment and ensure management maintains proper and adequate accounting records;
- Ensuring that a risk management strategy is in place, which includes a fraud prevention plan;
- Setting out the roles, duties and responsibilities of the External and Internal Auditors and Compliance for reporting purposes to the Audit and Compliance Committee;
- Meeting the Auditor-General and the Head of Internal Audit regularly in the absence of management; and
- Reviewing the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) or any instances of non-compliance.

Audit and Compliance Committee composition and meeting procedure

All members of the committee are Independent Non-Executive Directors.

Both External and Internal Auditors have unrestricted access to the Chairman and may meet with the committee without any Executive Director's presence when required, but formally at least once a year. It meets at least four times a year.

Attendance at the Audit and Compliance Committee meetings was as per the table below:

	May	July	Aug	Nov	Jan	Mar
Members						
B Ngonyama - Chairperson	√√	√	√	√	√√	√
M Mia	√√	√	A	√	√√	√
L Van Lelyveld	A	√	√	√	A	√

√ = Present **A** = Absent with apology √√ = Special Meeting

Governance of Information Technology
A sub-committee to the Audit and Compliance Committee has been established to oversee Information Technology governance. The Terms of Reference for this committee are in the process of being formalised. Ithala SOC Limited is also setting-up a separate decentralised Information Technology Division.

RISK AND CAPITAL MANAGEMENT COMMITTEE

Objectives
The Risk and Capital Management Committee provides objective oversight of risk and capital management. On 26 July 2013, the Board approved the name change of the Enterprise Risk Committee to the Risk and Capital Management Committee.

Its main responsibilities are reviewing the Enterprise Risk Management framework and recommending this for Board approval and assisting the Board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the Company in the day-to-day management of its business. Its key activities are to:

- Monitor liquidity risk and interest rate risk;
- Review and monitor credit risk;
- Review and monitor solvency risk;
- Review and monitor operational and technology risk;
- Review and monitor risks relating to the going concern; and
- Review continously and enhance the adequacy and efficiency of risk management policies, procedures and practices.

Composition
The Risk and Capital Management Committee comprises three Independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors. Attendance at the the Risk and Capital Management Committee meetings was as per the table below:

	May	Oct	Nov	Jan	Mar
Members					
L van Lelyveld - Acting Chairperson	√	√	√	√	√
GNJ White	A	√	√	√	√
M Mia	√	√	A	√	√
B Ngonyama	√	√	√	√	√
YEN Zwane	√	√	A	√	√
SV Khoza	√	√	A	√	√
PA Ireland	√	√	√	√	√

√ = Present **A** = Absent with apology

HUMAN RESOURCES, SOCIAL AND ETHICS COMMITTEE

Objectives

- To develop and implement a competitive Human Resources strategy to ensure that the Company is able to attract, retain and develop competent and talented staff to support superior business performance;
- To create an organisational culture, structure and process that ensures the development of people and the optimisation of their potential;
- To improve organisational efficiency by setting measurable employment targets and monitoring statutory compliance relating to employment matters; and
- In line with the Companies' Act, this Committee will additionally focus on providing strategic guidelines with regard to Ithala SOC Limited's social and ethics performance aspects to the Company, notably social and economic development, corporate citizenship, managing the Company's environmental impact, health and public safety, consumer relationships and labour and employment.

Composition
The Human Resources, Social and Ethics Committee comprises two Independent Non-Executive Directors and two Non-Executive Directors. Attendance at the Human Resources, Social and Ethics Committee's meetings was as per the table overleaf:

BANKING THE UNBANKED

	June	Aug	Nov	Feb
Members				
SC Ngidi - Chairperson	√√	√	√	√
M Mia	√√	√	√	A
GNJ White**			√	√
YEN Zwane	√√	√	√	√

√ = Present **A** = Absent with apology √√ = Special Meeting ** = New appointment

DIRECTORS' AFFAIRS COMMITTEE

This committee is chaired by the Chairman of the Board and its main function is to identify and make recommendations to the Board and shareholders concerning the appointment of Directors with suitable skills and expertise and to monitor Board performance and effectiveness. The committee also considers the composition and performance of Board committees.

The Chief Executive, where appropriate, is invited to attend meetings of this committee. Attendance at the Directors' Affairs Committee meetings during the year was as per the table below:

	April	June	Aug
Members			
MF Kekana** - Chairperson		√	√
GNJ White - Deputy Chairperson	√√	√	√
SC Ngidi	√√	√	√
B Ngonyama	√√	√	√
M Mia	A	√	√
L Van Lelyveld	√√	√	√
YEN Zwane	√√	√	√

√ = Present **A** = Absent with apology √√ = Special Meeting ** = New appointment

REMUNERATION OF THE BOARD

The Independent Non-Executive Directors' remuneration is determined at the Annual General Meeting, in line with the provisions of the Treasury guidelines on remuneration for Independent Non-Executive Directors of state-owned entities. The Directors are remunerated on the basis of a monthly retainer and Board/Committee meeting attendance.

Declaration of interest

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

INTERNAL AUDIT

The Internal Audit Division is responsible for providing independent, objective assurance on the adequacy and effectiveness of the Company's system of governance, risk management and internal control to Executive Management and the Board of Directors and, in so doing, enhance the controls culture within Ithala SOC Limited. The Board is ultimately responsible for governance, risk management and internal control. Management is accountable to the Board of Directors for designing, implementing and monitoring the effectiveness of internal financial controls, general control environment and compliance requirements.

The independence and objectivity of the Internal Audit Division is underpinned by the functional reporting by the Internal Audit Division to the Audit and Compliance Committee of the Board and, administratively, to the Chief Executive. Internal Audit's mandate is contained in the Internal Audit Charter submitted to and approved annually by the Audit and Compliance Committee, in line with the requirements of International Standards for the Professional Practice of Internal Auditing, as well as Treasury Regulations.

Effective from April 2014, Ithala SOC Limited will have its own independent internal audit capability and no longer utilise the services of Ithala Group Internal Audit and Risk Assurance Services, except for forensic investigation services which will still be outsourced to Group. During the current financial year the process of establishing the internal audit function within Ithala SOC Limited commenced with the appointment of a Head of Internal Audit.

We also appointed external consultants to assist with the establishment of the internal audit function, as well as other areas of governance, including risk management and compliance and we now have a roadmap with targets for the short, medium and long-term.

While the function was being established, Ithala Group Internal Audit and Risk Assurance Services continued to provide services to ensure that audits planned for the 2013/14 financial year were conducted.

Ithala SOC Limited's Internal Audit Division submitted its Internal Audit Charter for approval, in compliance with the necessary standards and regulations. The annual audit plan was also prepared independently of the Group and submitted for approval to the Audit and Compliance Committee.

To ensure that the Internal Audit Division continues to provide a service in conformance to its approved Charter and the International Standards for the Professional Practices of Internal Auditing, as well as the Code of Ethics, the quality assurance and improvement programme applied to the function covers all aspects of internal audit activity.

The programme includes internal and external evaluations which assess the effectiveness and efficiency of the internal audit activity.

HIGHLIGHTS

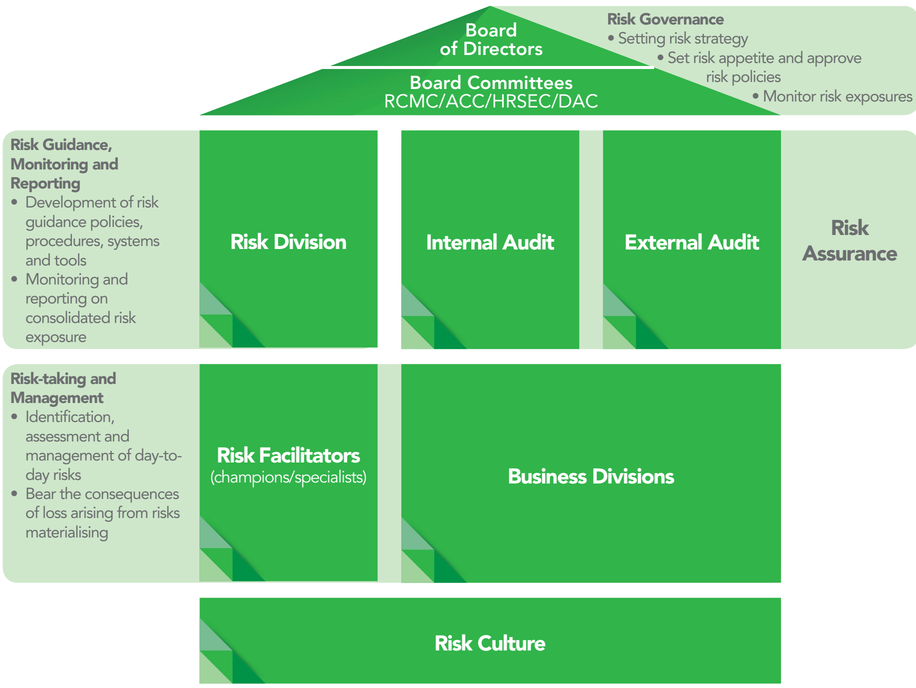
Building internal audit capacity

MANAGING RISK

THE INTER-RELATIONSHIPS OF THE RISKS FACING THE ORGANISATION NECESSITATE THAT THEY **BE VIEWED HOLISTICALLY**

RISK GOVERNANCE

Risk governance is the management of risk with the responsibility for oversight at Board and Board committees, namely Risk and Capital Management (RCMC), Audit and Compliance (ACC), Human Resources, Social and Ethics (HRSEC) and Directors' Affairs (DAC) Committees and the operational issues to be managed at the management committees being Executive, Management Asset and Liability, Management Credit and Operations Committees.



Risk management activities take place simultaneously at different levels. At a strategic level, risk management functions are performed by the Board of Directors and management. These include definition of risk, determining risk appetite, formulating strategies and policies for managing risk and developing adequate systems and controls to ensure that overall risk remains within an acceptable level. At a macro level, risk management activities are performed by units devoted to risk monitoring and reviews, namely, the risk and compliance functions and at a micro level risk management activities are performed within a business area, where risks originate. Risk management in these areas is embedded through adherence to operational procedures and guidelines set by management.

Risk tolerance levels are set-out in the policies, including exposure limits per product and party or group of related parties. While risk accompanies innovation, during the year under review there were no material deviations from the approved limits.

Risk management strategies and policies are used in conjunction with delegated powers of authority, which detail the authority levels for various transactions.

Risk categories

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

The Company is exposed to the following risks:

Solvency risk
Solvency is the ability to meet external liabilities in full by realising assets at current value. Solvency is always at risk because losses incurred may necessitate writing down of assets.

Capital risk
Inadequate composition of own funds or inability to raise additional capital, especially if required immediately or during unfavourable market conditions. The risk of operating in a situation where Ithala SOC Limited's issued primary and secondary share capital and its primary and secondary unimpaired reserve funds (as defined in Section 70(1) of the Banks Act) falls below an amount representing a prescribed limit and buffer (currently 10% of the risk weighted assets).

Liquidity risk
Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayments structures of assets and liabilities resulting in the organisation not being able to meet its financial obligations.

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

Interest rate risk
Interest rate risk is the potential loss the organisation is exposed to as a result of changes in interest rates. It is the risk associated with the margin between the interest rates earned on assets and paid on deposits and the repricing gap between assets and liabilities.

Counterparty risk
Counterparty risk is the potential cost of replacing the cash flow, if the counterparty to a transaction fails to perform in terms of the contract and such non-performance results in a financial loss to the Company.

ENABLING DREAMS

MANAGING RISK

Concentration risk
Any single exposure or a group of exposures with the potential to produce losses large enough (relative to capital, total assets, or overall risk level) to threaten an organisation's health or ability to maintain its core operations.

Technological risk
This is the risk of failure in system support, including errors in the development of programmes, inadequate or untimely management information and inadequate security and contingency planning.

Operational risk
The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events, including legal risk, such as exposure to fines, penalties, or punitive damages resulting from settlements, but does not include strategic or reputational risk.

Compliance risk
Compliance risk relates to financial loss, damage to the Company's reputation due to failure to comply with applicable laws and regulations or supervisory requirements.

Reputational risk
Damage to Ithala SOC Limited's image which could result in loss of business/clients or inability to attract new business/clients.

Strategic risk
This is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

Governance
Risks relating to ineffective governance structures, non-adherence to governance processes and unauthorised activities.

Stakeholder expectation
Risks relating to misalignment between stakeholder expectations and business performance and inability to meet stakeholder expectations.

INTEGRATION OF RISK MANAGEMENT

Risks are viewed and assessed holistically and not in isolation because a single transaction might have a number of risks and one type of risk can trigger other risks. Since interaction of various risks could result in diminution or increase in risk, the risk management processes recognise and reflect risk interactions in all business activities as appropriate. While assessing and managing risk, Management will seek to obtain an overall view of risks the Company is exposed to as set-out in risk category.

Risk evaluation and measurement
Risk evaluation and measurement gives a clear view of the Company's exposure and assists in deciding on the relevant action plan. Existing controls are evaluated for effectiveness and whether amendments or additional controls are required.

RISK AND CAPITAL MANAGEMENT

Risk is inherent in any business, more so in the business of banking. Risk management has become a key business driver influencing both success and failure.

The responsibility for risk management rests with the Board. The Risk and Capital Management Committee assists the Board in discharging its risk management responsibility, whilst the Audit and Compliance Committee has an oversight responsibility. The inter-relationships of the risks facing the organisation necessitate that they be viewed holistically. In this regard, the Board has adopted an integrated risk management strategy in which risk management, compliance and internal audit operate within a common risk-based framework.

CAPITAL MANAGEMENT

We maintain capital above minimum regulatory requirements. There are no known restrictions or major impediments to transfer funds from the holding company to Ithala SOC Limited. However, transfer of funds from the subsidiary to the holding company is limited to 10% of the qualifying capital and reserves.

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

- Current and future minimum capital requirements in accordance with Pillar I of Basel III;
- Additional capital requirements for risks not fully covered by Pillar I (credit, operational and market risk) and risks not covered by Pillar II (systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk, which the accord combines under the title of residual risk);
- Available capital against required capital; and
- Ability to raise additional capital.

An Internal Capital Adequacy Assessment Process is conducted to assess capital requirements against available capital. The process is forward-looking and takes into account budgeted growth, risk exposures and anticipated losses. In addition, stress testing is conducted to test the capacity to absorb unexpected losses.

Capital requirements are calculated using the standardised approach for credit risk and basic indicator approach for operational risk. 'Other' relates to other assets which, in terms of Regulation 23 of the Banks Act, are grouped with credit risk for the purposes of calculating regulatory capital,

effectively using the same approach as for credit risk.
(Refer to page 120 the Annual Financial Statements)

Capital Adequacy as at 31 March 2014	Minimum Capital requirements	Actual 2014	Actual 2013
	%	%	%
Capital Adequacy ratio	>=10,0%	12,23	11,06
Common Equity Tier 1	>= 7,0%	11,81	10,26
Total risk weighted assets (R'000)		1 570 912	1 447 212

CAPITAL STRUCTURE

Common Equity Tier I capital is made up of issued ordinary shares, share premium and retained income. Tier II capital comprises secondary unimpaired reserve funds, made-up of general allowance for credit impairment. (Refer to page 120 the Annual Financial Statements).

Annual Financial Statements

While our capital is in excess of minimum regulatory requirements, the current level of capital and the fact that we have not come out of the loss-making situation impacts negatively on growth opportunities and our sustainability. Capital is required for investment in information technology and to facilitate business growth and profitability. In addition, Basel III raised the quality and quantity of capital requirements. Additional capital requirements were phased in from 1 January 2013 and are expected to be fully implemented on 1 January 2019. R105 million capital funding from the shareholder was approved in May 2013 and was phased in during 2013. A capital injection of R50 million is scheduled for 2014.

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

BASEL III

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

- Liquidity Coverage Ratio which sets out minimum requirements to ensure short-term resilience of liquidity risk profile i.e. maintenance of an adequate level of unencumbered level one and level two high-quality liquid assets that can be converted into cash to meet the bank's liquidity needs over a 30 calendar day time horizon under a significantly severe liquidity stress scenario; and
- Net Stable Funding Ratio sets out minimum requirements to promote resilience over a one-year time horizon and ensures continuous maintenance of a specified amount of stable sources of funding relative to the liquidity profile of the assets and the potential for contingent liquidity needs, arising from off balance sheet commitments.

For the period 1 January 2013 to 31 December 2014, the requirements of the Banks Act Regulation 26(12) relating to Liquidity Coverage Ratio are applied to allow us to monitor our readiness to implement and fully comply with the requirements and any subsequent amendments thereto as a minimum standard from 1 January 2015. We are monitoring these ratios and necessary action will be taken to ensure compliance when they become effective.

CREDIT RISK

Credit risk arises from the potential that a borrower is either unwilling to perform on an obligation or the ability to perform such an obligation is impaired resulting in economic loss to the Company.

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

DELIVERING DEVELOPMENT IMPACT

MANAGING RISK

Credit risk management: organisation and structure
Credit risk constitutes the Company's primary source of risk. Effective management of credit risk is essential and is underpinned by the credit risk management policy, which is subject to periodic review and approval by the Board. The Risk and Capital Management Committee assists the Board in discharging its responsibility regarding credit risk. The Management Credit Committee ensures that credit risk management strategies and policies are implemented. The committees are also responsible for approving material exposures.

The Management Credit Committee is chaired by the Chief Executive. The committee approves loans which are considered to be significant.

In the completed financial year, the credit risk function was unbundled, resulting in the segregation of the Credit and Collections Division. The credit risk function has been incorporated in the wider risk management function. It shall maintain an oversight and monitoring role over credit activities. Within the Credit and Collections Division, the responsibilities are as follows:

- Credit assessment and approval of loan applications and monitoring of application scorecards, as is relevant;
- Monitoring of significant exposures and the various loan portfolios;
- Collections including exposures which are past due; and
- Monthly internal reporting.

The following will form part of the credit risk management function:

- Monthly credit impairment calculations, in conjunction with the Finance Department;
- Completion of credit risk returns due to the South African Reserve Bank; and
- Credit risk modeling and monitoring performance of the credit scorecards.

Credit risk reporting
Reports are submitted regularly to the Management Credit Committee on portfolio analysis, status of significant exposures as well as those meeting pre-defined criteria, credit impairments and related matters. This committee meets monthly and is an Executive Committee sub-committee. The following categories of reports are covered in committee structures within the Company:

- Credit granting statistics;
- Asset growth by product line;
- Portfolio analysis, including trends;
- Individually significant exposures, including large exposures and watch list exposures;
- Details of distressed loans;
- Credit impairment details; and
- Other related reports.

Credit risk management policy
The credit risk management policy sets out the product limits, concentration limits, product pricing details, as well as general aspects relating to credit risk management. This policy is approved by the Board and is reviewed annually. The policy forms the framework for the granting as well as the monitoring of credit exposures.

At the lending stage, the applicant's repayment ability, cash flows, source of income and credit history is assessed. In addition, emphasis is placed on early identification of loans that pose high credit risk. Payment arrangements and strategies are used to cure the high risk loans.

Geographical distribution of credit exposures
The Company operates solely in the Province of KwaZulu-Natal and lends mainly to individuals in the mortgage sector. All exposures are within KwaZulu-Natal, South Africa.

Credit risk mitigation
Securities taken to mitigate credit risk:
In respect of home, commercial property and property development loans, mortgage bonds over properties and life insurance policies represent security.

For home improvement loans, the employee's pension amount represents security and all cash loans are secured through deposits or investments.

The nature of security that is held by the Company in respect of loans and advances to customers is set out below:

Product	Type of security
Housing loans, excluding Permission to Occupy	Mortgage bond
Home improvement loans	Pledge of pension fund
Cash loans	Cession of term investment
Vehicle and taxi finance	Cession of moveable assets
Commercial loans and property development loans	Mortgage bonds, cession of income, key man insurance policies, suretyships

On balance sheet netting
Term deposits, namely, fixed deposit and target save placed with the Company are considered eligible financial security. On balance sheet netting is used only on cash loans which are secured by a term investment. In cases where customers do not make regular payments, the term deposits are netted off against loan balances, on maturity.

Credit risk exposures
Credit risk exposures relating to interbank (deposits with banks) are risk weighted with reference to Fitch International ratings. The international ratings are mapped to risk weightings to determine capital requirements for these exposures. Banks with high ratings attract low risk weightings and consequently low capital requirements.

The table below shows Fitch International ratings for South Africa and the related risk weightings as at 31 March 2014;

Exposure	Short-term	Long-term	Risk Weightings
Interbank	F2		50%
	F3		100%
		A-	50%
		BBB	50%
		BBB-	50%

LIQUIDITY RISK

The nature of our business activities exposes us to liquidity risk exposure which is due to contractual differences in maturity dates of assets and liabilities. Liabilities are short-term with the major part maturing contractually within six months and assets are long-term with the major part falling within the greater than 1 year maturity category. However, under normal circumstances adequate liquidity is maintained as deposits are rolled-over and not withdrawn on maturity. Liquidity risk management falls within the scope of the Asset and Liability Management Committee.

Liquidity risk management strategies and processes include:

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

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. Our liquidity position is continuously monitored by the Asset and Liability Management Committee which reports to the Executive Committee on a monthly basis and to all Risk and Capital Management Committee Meetings.

INTEREST RATE RISK

Interest rate risk emanates from the repricing gap between assets and liabilities resulting from changes in the prime interest rate. It is the potential loss of income resulting from interest rate changes.

We are exposed to interest rate risk due to deposit-taking and lending activities. Balance sheet items, namely assets and liabilities, are both impacted by changes to interest rates irrespective of whether pricing is prime interest rate-linked or not as they all change with interest rate changes, save for fixed rate products which reprice on maturity.

Interest rate risk is the responsibility of the Asset and Liability Management Committee at management level and Risk and Capital Management Committee at Board level.

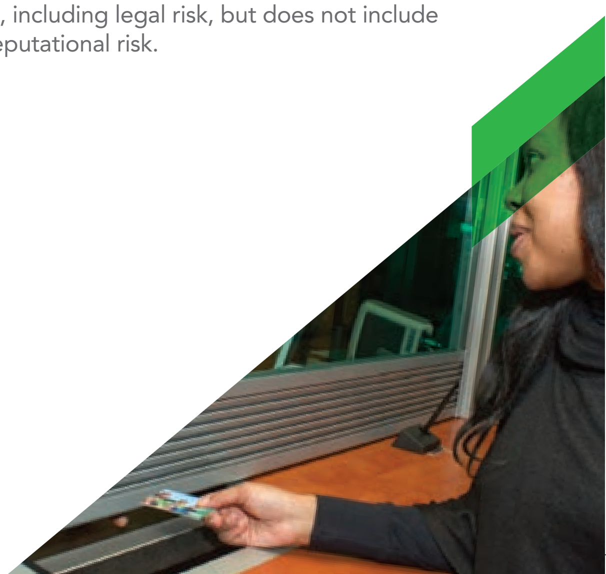
Interest rate risk management strategy and processes include collaboration between the Finance and the Treasury function which manages placement of funds and the balance between risk and return, taking into account our view on interest rates. Medium to long-term strategy return include initiatives to reduce exposure to interest rate risk.

Sensitivity analysis measures exposure to interest rate risk and is conducted on a monthly basis. Sensitivity analysis measures the impact of a shock increase or decrease in interest rates. For regulatory purposes an interest rate shock of 200 basis points is used and, for business purposes, it is aligned to the expected basis points increase/decrease per economists' view, for the year under review being 50 basis points. The prime overdraft rate changed from 8,5% to 9,0% in January 2014 and remained constant for the balance of the 2013/14 financial year.

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

OPERATIONAL RISK

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



MANAGING RISK

The Risk and Capital Management Committee assists the Board in discharging this responsibility. Each and every individual within the organisation is responsible for managing operational risk as it exists in all products and business activities.

Line managers and their teams are responsible for day-to-day management of operational risk. The Management Operations Committee is responsible for ensuring that operational risk is managed to an acceptable level in line with approved parameters.

Framework
The operational risk management framework involves risk identification, assessment and measurement. Various methods are used to identify areas of risk and vulnerability.

Risk assessment is conducted to determine the impact such events could have on us.

Regulatory capital
The Basic Indicator Approach was adopted upon Basel lll implementation. Measurement of the Regulatory Capital requirement for operational risk is computed using the following formula:
$KBIA = [\sum(GI_{1\ldots n}\ Xa)]/n$

Whereas:
KBIA - is the relevant required amount of capital and reserve funds under the Basic Indicator Approach;

GI - is the relevant annual positive gross income amount derived during the preceding three-year period;

n - is the relevant number of the previous three years in respect of which gross income was positive; and

a - is a fixed percentage, equal to 15 percent.

Management and monitoring
Operational risk is managed through the implementation of appropriate internal control systems, supported by staff training. In addition, key controls and procedural manuals, as well as delegated powers of authority, are in place to assist staff in the execution of their duties. These are regularly reviewed.

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

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

Business continuity management
The Company maintains business continuity plans at organisational and business/branch levels.

Technology risk
Technology risk is the risk of failures in systems, errors in the development of programmes, inadequate or inaccurate management information, as well as inadequate security and contingency planning.

Technology is the key enabler for conducting business, resulting in increased reliance thereon which, in turn, has increased the need for sound management of risks inherent in automated systems. To this end, disaster recovery plans are subject to review on an ongoing basis, thus ensuring that risks are mitigated. The business continuity programme aims to enhance our ability to respond to emergencies and disasters, as well as to facilitating the resumption of critical business activities under abnormal circumstances.

COMPLIANCE

Compliance is the thread that runs through all strategic plans and initiatives driven by Ithala SOC Limited's Board and Executive management. For this reason, all applicable legislative and regulatory requirements are considered when strategy is set for each financial year. Compliance is also strategically important as it protects our reputation, minimises our operational risk and sets the standard for a strong compliance culture throughout all of our business activities.

The Code of Banking Practice forms the basis of all our customer interactions and sets the standard for doing business with our clients and various stakeholders.

Additionally, various pieces of legislation have been identified as forming the regulatory framework under which we operate.

Non-compliance to these pieces of legislation may carry penalties ranging from fines to imprisonment or even both.

See pages 12 and 13

ANNUAL **FINANCIAL** STATEMENTS

CONTENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the Annual Financial Statements of Ithala SOC Limited, comprising the statement of financial position at 31 March 2014, the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended and the notes to the Annual Financial Statements, which include a summary of significant accounting policies and other explanatory notes and the directors' report, in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) as prescribed by the Accounting Standards Board.

To enable the Directors to meet these responsibilities:

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

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

- The Audit and Compliance Committee, together with the Internal Audit department, 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 controls and procedures has occurred during the year under review.

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

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

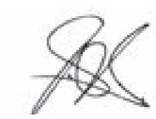
The Directors have made an assessment of the Company's ability to continue as a going concern and have included appropriate disclosure in the Directors' report. The basis of accounting has been adopted by the Board of Directors after having made enquires of management and given due consideration to information presented to the Board, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto. Accordingly, the Directors have no reason to believe that the Company will not continue as a going concern in the year ahead.

The Auditor-General was appointed, as independent auditor, in terms of the Public Audit Act 2004 (Act No. 25 of 2004) and the Public Finance Management Act (Act No. 1 of 1999) and has audited the Company's Annual Financial Statements. The Auditor-General's report is presented on pages 61 to 62.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements of Ithala SOC Limited, as identified in the first paragraph, was approved by the Board of Directors on 28 July 2014 and are signed on their behalf by:

MF Kekana
Chairman



SV Khoza
Chief Executive Officer

ENABLING DREAMS

COMPANY SECRETARY'S STATEMENT

I hereby confirm, in my capacity as Company Secretary of Ithala SOC Limited, that for the year ended 31 March 2014, 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.

M Sajiwan
Company Secretary

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA STATE-OWNED COMPANY (SOC) LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Ithala SOC Limited set out on pages 66 to 121, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with South African Statements of Generally Accepted Accounting Practices (SA Statements of GAAP), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and the Banks Act of South Africa, 2008 (Act No. 94 of 1990) (Banks Act) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ithala SOC Limited as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Statements of GAAP, the requirements of the PFMA, Companies Act and the Banks Act.

Emphasis of matters

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

Financial sustainability

8. As disclosed in note 1 to the financial statements, Ithala SOC Limited incurred a net loss of R69,98 million (2013: R24,38 million) for the year ended 31 March 2014. The holding company has agreed to provide additional share capital amounting to R50 million during the 2014/15 financial year to recapitalise Ithala SOC Limited and to ensure that it meets its regulatory minimum capital adequacy ratio and its financial obligations in the ordinary course of business.

Banking licence exemption

9. As disclosed in note 1 to the financial statements, the Minister of Finance initially extended the entity's exemption for a period of one year ending 31 December 2014. Subsequent to further consultation, the Minister of Finance agreed that the entity will be granted an exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by the entity.

Significant uncertainty

10. As disclosed in note 26 to the financial statements, the entity is the defendant in various claims at 31 March 2014. The ultimate outcome of these matters cannot currently be determined and therefore no provision for any liability has been made in the financial statements.

Material losses

11. As disclosed in note 27.2 to the financial statements, material losses of R6,82 million were reported by the entity as a result of the write-off of previously impaired loans and advances. A further R1,20 million loss was incurred as a result of theft at branches.

Additional matters

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

Other reports required by the Companies Act

13. As part of my audit of the financial statements for the year ended 31 March 2014, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on my review of these reports I have not identified material inconsistencies between these reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

DELIVERING DEVELOPMENT IMPACT

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA STATE-OWNED COMPANY (SOC) LIMITED

Financial reporting framework

14. As a result of the new Companies Act, SA Statements of GAAP have been withdrawn for financial years commencing on or after 1 December 2012. The Accounting Standards Board is currently researching and re-evaluating the appropriate reporting framework for schedule 2, 3B and 3D public entities, but in the interim has approved that entities that previously applied SA Statements of GAAP should continue to apply SA Statements of GAAP as at 1 April 2012.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation, as well as internal control. The objective of my tests was to identify reportable findings as described under each sub-heading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the entity for the year ended 31 March 2014:
    - Programme 1: Market share and revenue enhancement on pages 22 to 23;
    - Programme 2: Accessible financial services on page 23;
    - Programme 4: Operational excellence (including human resources, information technology and marketing) on pages 24 to 25.

17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

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

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

20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

Additional matter

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

Achievement of planned targets

22. Refer to the annual performance report on pages 22 to 26; for information on the achievement of planned targets for the year.

Compliance with legislation

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

Internal control

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

OTHER REPORTS

Investigations

25. Ithala Group Audit and Risk Assurance Services (IGARAS) conducted investigations into allegations of teller shortages, theft at branches and disputed bank withdrawals. The results of these investigations and the progress made were tabled by IGARAS at the entity's audit committee meetings.

Agreed-upon procedures engagement

As requested by the entity, engagements were conducted during the year under review on the following areas:

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

27. A report was issued to the National Credit Regulator relating to form 40 (annual financial return).

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

Auditor-General

Auditor-General
Pietermaritzburg
31 August 2014

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence

DIRECTORS' REPORT

The Directors of Ithala SOC Limited have pleasure in presenting their report, for the year ended 31 March 2014.

INTRODUCTION

Ithala SOC Limited is wholly-owned by Ithala Development Finance Corporation Limited which, in turn, is wholly-owned, by the KwaZulu-Natal Provincial Government. 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 Old Mutual Building, 303 Dr Pixley KaSeme Street, Durban, South Africa.

Ithala SOC Limited was established in 2001 to "ring-fence" the deposit-taking activities of the Group into a separately incorporated entity, which has operated under an exemption granted by the Minister of Finance from certain provisions of the Banks Act.

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

TAXATION

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

CHANGES IN DIRECTORS

A full list of Directors is included in the corporate governance report. The following changes to the Board were made during the period under review:

- Appointments:
  - Mr MF Kekana - 7 May 2013
- Resignations:
  - Ms L Van Lelyveld - 31 March 2014

The Board thanks the outgoing Director, Ms L Van Lelyveld for her dedicated service.

CHANGE IN STATUS

The Company's sole shareholder (Ithala Development Finance Corporation Limited) has approved a new Memorandum of Incorporation via special resolution on 27 June 2013 in terms of the Companies Act, 2008 (Act No. 71 of 2008). The notice of amendment and consequent change in status was lodged with the Companies and Intellectual Properties Commission of South Africa (CIPC) on 8 July 2013. The status of the Company has since been amended in terms of the Companies Act, 2008 (Act No. 71 of 2008) and the Ithala Development Finance Corporation Act, 2013 (Act No. 05 of 2013) and is now referred to as "Ithala SOC Limited".

SHARE CONVERSION

The Company approved a conversion of all par value shares to no par value shares, on a one-for-one basis via special resolution on 27 June 2013 in terms of the Companies Act, 2008 (Act No. 71 of 2008). The notice of amendment and consequent change in value was lodged with the Companies and Intellectual Properties Commission of South Africa (CIPC) on 8 July 2013.

FINANCIAL RESULTS

The results of Ithala SOC Limited for the year ended 31 March 2014 are disclosed in the Annual Financial Statements, as set out on pages 66 to 121.

DIVIDENDS

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

DIRECTORS AND COMPANY SECRETARY

Information relating to the Directors is included on pages 42 and 43. Information relating to the Company Secretary is included on page 60 of the integrated report.

The Directors' interest in share capital and contracts and Directors' remuneration are disclosed in the Notes to the Annual Financial Statements

MATERIAL EVENTS AFTER BALANCE SHEET DATE

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

MAKING IT HAPPEN TOGETHER

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee presents its report for the financial year ended 31 March 2014 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [In terms of section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act of 1999 as amended] and section 94(7)(f) of the Companies Act. The Audit and Compliance Committee has been constituted in accordance with applicable legislation and regulations.

PURPOSE OF THE AUDIT AND COMPLIANCE COMMITTEE

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

TERMS OF REFERENCE

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

MEMBERSHIP AND ATTENDANCE

The Audit and Compliance Committee comprises three members who are all Independent Non-Executive Directors. The committee meets at least four times per financial and calendar year. The names of the members and attendance at meetings are recorded in the corporate governance section of the integrated report.

The Chief Executive Officer, the Finance Director, Senior Executives of the Company and representatives from the Internal and External Auditors attend committee meetings by invitation only. The Internal and External Auditors have unrestricted access to the Audit and Compliance Committee.

STATUTORY DUTIES

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

- Believes that the appointment of the Auditor-General (South Africa ("A-G(SA)")) as auditor complies with the relevant provisions of the Companies Act and the Public Finance Management Act;
- Determined the fees to be paid to the A-G (SA) as disclosed in Note 13 of the Annual Financial Statements;
- Determined the terms of engagement of the A-G (SA);
- Reviewed the quality of financial information;
- Reviewed the Annual Report and Financial Statements;
- Received no complaints relating to the accounting practices and internal audit of the Company, the content or auditing of its financial statements, the internal financial controls of the Company and any other related matters;
- Made submission to the Board on matters concerning the Company's accounting policies, financial control, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

OVERSIGHT OF RISK MANAGEMENT

The Audit and Compliance Committee has:

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

INTERNAL FINANCIAL CONTROLS

The Audit and Compliance Committee has:

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

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

REGULATORY COMPLIANCE

The Audit and Compliance Committee has:

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

EXTERNAL AUDIT

The Audit and Compliance Committee has:

- Reviewed the external audit scope to ensure that the critical areas of the business are being addressed; and

- Reviewed the external auditor's report, including issues arising from the external audit.

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

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

INTERNAL AUDIT

The Audit and Compliance Committee has:

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

COMBINED ASSURANCE MODEL

In addition to its normal activities, the committee dealt with the introduction of a combined assurance model for the Company. The committee has determined that a process of co-ordinating all assurance activities are appropriate to address the significant risks facing the Company for each principal risk and business area. The model will be owned and managed by Internal Audit with Risk and Compliance, being an integral part of the process. The committee recognises that there will be continuous strengthening and enhancing of both the process and its activities as it matures the approach to full integrated reporting, particularly on non-financial issues.

FINANCE FUNCTION

The Audit and Compliance Committee believes that the Finance Director, Mr PA Ireland, possesses the appropriate expertise and experience to meet his responsibilities in that position. The committee is furthermore satisfied with the expertise and adequacy of resources within the finance function. Based on the processes and assurances obtained, the Audit and Compliance Committee believes that the accounting practices are effective.

INTEGRATED REPORT

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

On behalf of the Audit and Compliance Committee:

Mrs B Ngonyama
Chairperson
24 July 2014

BANKING
THE
UNBANKED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014	2013
		R'000	R'000
Interest earned on loans and advances to customers	17	144 701	124 083
Interest expenditure	18	(55 654)	(54 024)
Net margin		89 047	70 059
Interest on held to maturity investments	17	33 088	38 736
Net interest income		122 135	108 795
Fees and other income	19	112 832	136 904
Net income		234 967	245 699
Credit impairment charges		(31 595)	(16 709)
Loans and advances to customers	6	(29 671)	(14 945)
Properties in possession	8	(1 511)	(452)
Trade and other receivables	7	(413)	(1 312)
Operating income		203 372	228 990
Operating expenditure	20	(273 350)	(253 372)
Impairment of intangible assets	10	-	-
Loss and total comprehensive expense for the year		(69 978)	(24 382)
Attributable to:			
Equity holders of the shareholder		(69 978)	(24 382)

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	Note	2014	2013
		R'000	R'000
Assets			
Cash	3	**54 723**	42 107
Statutory investments	4	**146 205**	218 037
Deposits with banks	5	**476 445**	414 934
Loans and advances to customers	6	**1 505 875**	1 297 762
Trade and other receivables	7	**5 681**	11 938
Properties in possession	8	**7 955**	7 149
Equipment	9	**46 779**	53 025
Intangible assets	10	**7 306**	2 769
Total assets		**2 250 969**	2 047 721
Liabilities			
Customer deposits	11	**1 973 429**	1 803 457
Trade and other payables	12	**40 399**	38 064
Provisions	13	**15 089**	14 484
Loan account with holding Company	14	**10 153**	15 954
Retirement benefit obligations	15.1	**25 510**	23 289
Defined benefit provident fund shortfall	15.2.2	-	1 106
Total liabilities		**2 064 580**	1 896 354
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	16	**295 000**	190
Issued share premium	16	-	189 810
Accumulated loss		**(108 611)**	(38 633)
Total equity		**186 389**	151 367
Total liabilities and equity		**2 250 969**	2 047 721

ENABLING DREAMS

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2014

	Note	Attributable to equity holders of the shareholder			
		Issued share capital	Issued share premium	Accumulated loss	Total equity
		R'000	R'000	R'000	R'000
2013					
Balance as at 31 March 2013	16	190	189 810	(14 251)	175 749
Loss and total comprehensive expense for the year		-	-	(24 382)	(24 382)
Balance as at 31 March 2013	16	190	189 810	(38 633)	151 367
2014					
Balance as at 31 March 2013		**190**	**189 810**	**(38 633)**	**151 367**
Conversion of shares to no par value		**189 810**	**(189 810)**	-	-
Share issue		**105 000**	-	-	**105 000**
Loss and total comprehensive expense for the year		-	-	**(69 978)**	**(69 978)**
Balance as at 31 March 2014		**295 000**	-	**(108 611)**	**186 389**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014	2013
		R'000	R'000
Loss and total comprehensive expense for the year		**(69 978)**	(24 382)
Operating activities			
Adjustments for:			
Non-cash items included in profit	22	**38 797**	12 882
Increase in operating liabilities	23	**168 226**	25 486
Increase in operating assets	23	**(229 300)**	(89 183)
Proceeds from sale of properties in possession		**1 960**	2 002
Net cash flow utilised in operating activities		**(90 295)**	(73 195)
Investing activities			
Acquisition of equipment	9	**(6 925)**	(5 386)
Acquisition of intangible assets	10	**(5 485)**	(28)
Proceeds from sale of equipment		**-**	508
Net cash flow utilised in investing activities		**(12 410)**	(4 906)
Financing activities			
Proceeds from shares issued	16	**105 000**	-
Net cash flow utilised in financing activities		**105 000**	-
Net movement in cash for the year		**2 295**	(78 101)
Cash and cash equivalents at the beginning of the year	3	**675 078**	753 179
Cash and cash equivalents at the end of the year	3	**677 373**	675 078

DELIVERING DEVELOPMENT IMPACT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

CORPORATE INFORMATION

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP) as prescribed by the Accounting Standards Board, which are based on the International Financial Reporting Standards (IFRS), with the exception of four IFRSs (IFRS10,11,12 and13), 11 Amendments to IFRSs including amendments made under the annual improvements process (namely, amendments to IFRS1,7,9 and 10 and amendments to IAS1,16,19, 27, 28, 32 and 34) and 1 IFRC (IFRIC 20) which have not been included in GAAP due to a joint announcement by the Accounting Practices Board and the Financial Reporting Council to withdraw SA GAAP, which will cease to apply from financial years commencing on or after 1 December 2012.

The Annual Financial Statements for the year ended 31 March 2014 were authorised for issue in accordance with a resolution of the Board of Directors (Board) on 26 July 2014.

Basis of preparation

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

Financial sustainability

The Company incurred a net loss for the year ended 31 March 2014 of R69,9 million (2013 net loss: R24,4 million). As at 31 March 2014 the Company's total assets exceeded total liabilities by R186,3 million (2013: R151,3 million) and total cash resources were R531,2 million (2013: R457,0 million). As at statement of financial position date, the capital adequacy ratio of the Company was 12,23% (2013: 11,06%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 10%. In keeping with the financial support provided in previous years, Ithala Development Finance Corporation Limited intends providing additional share capital amounting to R50 million during the 2014/15 financial year to recapitalise the Company, on mutually agreed terms and conditions.

The capital is anticipated to be sufficient to ensure that the South African Reserve Bank's regulatory prescribed minimum ratios are met as well as to ensure future growth of the Company based on the Board-approved strategy. Based on these circumstances, the Board expects all obligations to be settled in the normal course of business and have accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

Banking licence exemption

The Minister of Finance initially extended the Company's exemption for a period of one year ending 31 December 2014. Subsequent to further consultation, the Minister of Finance agreed that the Company will be granted an exemption until 30 June 2015 and then annually for the years commencing 1 July 2015 and 1 July 2016, subject to the Minister of Finance, in consultation with the Registrar of Banks, being satisfied that certain agreed performance obligations have been met by the Company. The Board believes that these performance obligations will be met and is confident that the exemption will apply for the three years to 30 June 2017.

The Board believes that these performance obligations will be met and are confident that the exemption will apply for the three years to 31 December 2017.

Functional and presentation currency

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

The preparation of financial statements in conformity with SA GAAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant accounting policies

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

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for the combination of entities or businesses under common control which are accounted for in terms of the consideration paid. Business combination involving entities or businesses under common control is defined in IFRS3: Business Combinations as a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory.

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

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

The Company classifies its financial assets as loans and receivables or held-to-maturity financial assets. The Company does not hold financial assets at fair value through comprehensive income or expense or available-for-sale assets. The Company's financial liabilities include trade and other payables, provisions and the inter-Company loan.

They are not entered into with the intention of immediate or short-term resale. All financial liabilities are held at amortised cost.

Initial recognition
Financial instruments are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Financial instruments are recognised on the date that the Company commits to purchase or sells the instruments (trade date).

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

Subsequent measurement
Financial assets that are classified as loans and receivables for measurement purposes are held at amortised cost. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. South African Reserve Bank debentures are classified as held-to-maturity financial assets as the debentures are non-derivative financial assets with fixed or determinable payments and fixed maturity. The Company has the positive intention and ability to hold these assets to maturity. Held to maturity assets are carried at amortised cost using the effective interest rate method, less any impairments.

All financial liabilities are classified as non-trading financial liabilities and are measured at amortised cost. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. They are not entered into with the intention of immediate or short-term resale.

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

MAKING IT HAPPEN TOGETHER

b. Financial instruments (continued)

Amortised cost

Amortised cost is calculated by taking into account any discount or premium on acquisition or issue including fees and costs that are an integral part of the effective interest rate. The amortisation is accounted for as 'Interest and similar income or interest expenditure and similar charges' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income as 'Credit impairment charges'.

Effective interest rate method

The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The effective interest rate method takes into account all contractual terms of the financial instrument and includes any fees or incremental costs which are directly attributable to the instrument and is an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial instrument is adjusted if the Company revises its estimate of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Impairment of financial assets

Loans and advances are assessed at each reporting date to determine whether there is objective evidence of impairment. Impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition but before the reporting date that indicates that it is probable that the Company will be unable to collect all amounts due. Losses expected as a result of future events, no matter how likely, are not recognised.

The impairment of non-performing advances is based on periodic objective evaluations of advances and takes into account past loss experiences adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Company's criteria in the determination of impairment of a financial asset or group of assets include observable data that comes to the attention of the holder of the asset about the following loss events:

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

The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount through the provision of an allowance. The estimated recoverable amount of the advance is calculated as the present value of expected future cash flows discounted at the effective interest rate. In estimating the expected future cash flows from the realisation of "permission to occupy" security, past experience in realising this type of security has been taken into account.

When a loan carried at amortised cost has been identified as impaired, the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of the security, discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as credit impairment in the statement of comprehensive income.

In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions develop after initial recognition which may impact on future cash flows.

Once all reasonable attempts have been made at collection and there is no realistic prospect of recovering outstanding amounts, the advance is written-off against the related allowance account. When the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in previous years. A reversal of an impairment loss is immediately recognised in the statement of comprehensive income. Impairment provisions raised during the year, less recovery of advances previously written-off, are charged to the statement of comprehensive income. Subsequent to impairment, the effects of discounting unwind over time as interest income.

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

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

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

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

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

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

Borrowed funds
Borrowed funds arise from contractual arrangements which result in the Company having an obligation either to deliver cash or another financial asset to the holder. Borrowed funds are recognised initially at fair value of proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings as interest.

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

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

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

The Company is firmly committed to the sale of these assets with various initiatives implemented to ensure transfer of these properties. No depreciation is charged on these assets. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the statement of comprehensive income, as 'Operating expenditure'. Any subsequent increase in the fair value less costs to sell, to the extent that this does not exceed the cumulative write-down is also recognised as 'Credit impairment charge' and any realised gains and losses on disposal recognised in 'Fees and other income'.

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

Other receivables are deferred assets which arise as a result of the Company having paid an amount in advance, for which the benefit of the corresponding goods and/or services will only be received within the course of the next 12 months from reporting date.

f. Equipment

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

Equipment, furniture, vehicles and other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses, whilst capital work in progress is not subject to depreciation. Cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

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

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

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

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

The carrying value of assets are reviewed at each statement of financial position date to assess whether there is any indication of impairment and in instances where the carrying amounts are greater than their estimated recoverable amounts; the assets are written down immediately to these recoverable amounts. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to operating expenses during the financial period in which they are incurred.

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

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

g. Intangible assets

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

Intangible assets comprise computer software licenses and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite life are not amortised.

At each date of the statement of financial position, intangible assets are reviewed for indications of impairments or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

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

(a) Computer software and licences

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

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software   2 - 5 Years

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

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

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

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

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

h. Impairment of tangible and intangible assets other than goodwill
At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets in order to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of individual assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i. Provisions and contingent liabilities
A provision is a liability of uncertain timing or amount which will be recognised when:

- The Company has a present obligation (legal or constructive) as a result of a past event; and
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

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

If these conditions are not met, no provision will be recognised. The Company recognises no provisions for future operating losses.

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

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i. Provisions and contingent liabilities (continued)

Contingent liabilities which include certain guarantees other than financial guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events, not wholly within the Company's control.

Contingent liabilities are not recognised in the financial statements but are disclosed in the Notes to the Financial Statements unless they are remote.

j. Retirement benefit obligations
The Ithala Group provides for retirement benefits of employees by means of a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. All employees of the Company are entitled to membership of one of these plans which are governed by the Pensions Fund Act of 1956.

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

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

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

Cumulative unrecognised actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets of the defined benefit obligation were charged or credited to the statement of comprehensive income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in administration expenses.

Defined contribution plans:
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs as a charge to the statement of comprehensive income in the period to which they relate.

Post-retirement medical obligations
Eligible employees and pensioners are entitled to certain post-retirement medical benefits in the form of medical aid contribution subsidies. Employees who commenced service after 1 August 2000 are not entitled to post-retirement medical benefits. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

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

Long service award benefits
Employees are entitled to a long-term benefit based on various periods of long service to the Company. The long service award liability is calculated by independent actuaries using the projected unit credit method.

The long service award liability is an unfunded liability in that there are no separate plan assets out of which obligations are to be settled. The amount recognised as a long service award liability is therefore the present value of the defined benefit obligation at the end of the reported period. Current service costs and interest costs are recognised as expenses. All actuarial gains and losses and past service costs are recognised immediately as expenses.

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

l. Interest income and interest expense
Interest income is considered the most appropriate equivalent of revenue. Interest income and expenses are recognised in the statement of comprehensive income on

the accrual basis using the effective interest rate method for all interest-bearing financial instruments.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

Other income includes amounts recognised for dormant accounts which are greater than five years and efforts have been exhausted to contact the customer to refund the balances. The method of recognition is consistent with the proposed treatment as recommended by the Banking Association of South Africa. The Company maintains records of dormant accounts recognised as income in line with the Banking Association of South Africa's guidelines. Amounts disclosed are net of amounts refunded to customers who were able to validate their dormant accounts.

n. Operating leases
Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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

o. 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).

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

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

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

Restructuring activities include extended payment arrangements and deferral of payments.

Following restructuring, a previously overdue advance is managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

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

r. New standards and interpretations not yet adopted
Below are new standards, amendments to standards and interpretations not yet effective for the year ended 31 March 2014, these have not been applied in preparing these financial statements:

r. New standards and interpretations not yet adopted (continued)

Standard	Description	Annual Periods Beginning On or After
IFRS 1 (AC 138) amendment	First-time adoption of International Financial Reporting Standards	
	Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to Government loans existing at the date of transition to IFRSs.	1 January 2013
	Annual Improvements 2009–2011 Cycle amendments clarify the options available to users when repeated application of IFRS 1 is required and to add relevant disclosure requirements.	1 January 2013
	Annual Improvements 2009–2011 Cycle amendments to borrowing costs.	1 January 2013
	The Company will have to apply IFRS 1 in the 2014 AFS should the APB determine that public entities should comply with IFRS for accounting periods effective on or after 1 December 2012.	
IFRS 7 (AC 144) (amendment not adopted into SA GAAP)	Financial Instruments: Disclosures • Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.	1 January 2013
	• Based on the new disclosure requirements, the adoption of the amendment to IFRS 7 requires more extensive disclosures about rights to set-off. The Company will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting or similar arrangement.	1 January 2013

Standard	Description	Annual Periods Beginning On or After
IFRS 9 (AC 146) (amendment not adopted into SA GAAP)	Financial Instruments: Classification and Measurement • New standard split into a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement • The IFRS 9 (2009) requirements represent a significant change from the existing requirements of IAS 39 in respect of financial assets. There are two primary measurement categories in the standard, namely, amortised cost and fair value. A financial asset will be measured at amortised cost if it is held to collect contractual cash flows and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. All other financial assets will be measured at fair value. The existing IAS 39 categories of held to maturity, available for sale and loans and receivables will be eliminated. • IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to present fair value changes attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Except for this change, IFRS 9 (2010) largely carries forward the guidance on classification and measurement of financial liabilities from IAS 39. • Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Group's Annual Financial Statements.	1 January 2015
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. • Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities already required, the adoption of IFRS 13 will require the Company 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 January 2013

MAKING IT HAPPEN TOGETHER

r. New standards and interpretations not yet adopted (continued)

Standard	Description	Annual Periods Beginning On or After
IAS 1 (AC 101) (amendment not adopted into SA GAAP)	Presentation of Financial Statements Annual Improvements 2009–2011 Cycle: Amendments clarifying the requirements for comparative information including minimum and additional comparative information required.	1 January 2013
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. The Company may need to assess the impact of the change in measurement principles of the expected return on plan assets.	1 January 2013
IAS 32 (AC 125) (amendment not adopted into SA GAAP)	Financial Instruments: Presentation 1. Amendment clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set – of and when gross settlement is equivalent to net settlement. 2. Annual Improvements 2009–2011 Cycle: Amendments to clarify the tax effect of distribution to holders of equity instruments. 3. Based on an initial assessment, the Company is not expecting a significant impact from the adoption of the amendments to IAS 32.	1 January 2013 1 January 2013

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).

s. Comparative figures

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Estimates and assumptions made predominantly relate to going concern, impairment of loans and advances, disclosed in Note 6 and determination of the useful lives, residual values as well as depreciation methods for equipment as disclosed in Note 9. Other judgements made relate to classifying financial assets and liabilities into their relevant categories. Management has made an assessment of the Company's ability to continue as a going concern and is

satisfied that the Company has the resources to continue in business for the foreseeable future. Management's consideration for preparing the financial statements on the going concern basis is disclosed in Note 1.

A change in accounting estimate is defined as an adjustment to the carrying value of an asset, liability or the amount of the periodic consumption of an asset that results from new information or new developments. In certain instances, changes in accounting estimates are recognised in the statement of comprehensive income during the period in which the change is made.

Assumptions are used in the calculation of fair values in properties in possession, which is disclosed in Note 8 including "permission to occupy" and "bond boycott" loans. Historical realisation values are used as part of a back-testing exercise to estimate the recoverable amount of properties in possession. For permission to occupy and bond boycott properties, the subsidy value received from the Department of Human Settlements is used to estimate the fair value.

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

Impairment of loans and advances and properties in possession

The credit impairment allowance represents management's best estimate of losses incurred in the loan portfolios at the statement of financial position date.

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

The Company arrives at the credit impairment allowance using the following factors:

- Default rates;
- Ratio of accounts that remained non-performing over the back-testing period;
- Estimated cash flows; and
- Time taken to realise security.

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

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

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

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

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

Impairment of assets

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

Furniture and fittings in branches are estimated to be replaced in line with the branch refurbishment programme. Management expects this programme to be executed as scheduled. However, any changes in the programme will affect the impairment of the related assets.

Defined benefit pension plan

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 15 for the assumptions used.

Asset lives and their residual values

Equipment is depreciated over its estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets and residual values are assessed annually. The effect of the change in estimate during the current year is disclosed in Note 30.1.

BANKING THE UNBANKED

3. CASH AND CASH EQUIVALENTS	Note	2014	2013
		R'000	R'000
Cash		**54 723**	42 107
Statutory investments	4	**146 205**	218 037
Deposits with banks	5	**476 445**	414 934
Total		**677 373**	675 078

Included in cash is an amount of R9,4 million (2013: R11,2 million) relating to cash in transit at year-end.

4. STATUTORY INVESTMENTS	2014	2013
	R'000	R'000
South African Reserve Bank (SARB) debentures	**-**	117 175
Treasury bill	**146 205**	100 862
Total	**146 205**	218 037

The treasury bill yields interest at 5,8%. This instrument matures on 18 June 2014 and its maturity value is R148 million.

The Company invests in statutory investments to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2014 exceed the minimum reserve requirements by R27,8 million and are invested in terms of the Company's capital management strategy.

5. DEPOSITS WITH BANKS	2014	2013
	R'000	R'000
Deposits with banks	**476 445**	414 934
Deposits with banks is analysed, as follows:		
Fixed-term funds	**406 632**	323 098
Call funds	**69 813**	91 836
Maturity analysis of fixed-term funds		
Maturing up to 1 month	**208 946**	174 487
Maturing after 1 month but within 3 months	**70 243**	30 138
Maturing after 3 months but within 6 months	**50 268**	30 141
Maturing after 6 months but not exceeding 1 year	**75 164**	88 332
Maturing after 1 year	**2 011**	-
Total	**406 632**	323 098

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings ranging from AA- to AAA+. These financial institutions are Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank and ABSA Bank Limited. Due to investments being held in institutions that are highly-rated, these instruments are neither past due nor impaired. Funds on fixed deposit at ABSA Bank Limited are subject to a general cession in its favour up to an amount of R20 million for electronic banking facilities granted to the Company and R3 million for a guarantee issued on behalf of the Company in favour of the South African Insurance Association. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R273,8 million (2013: R28 million).

6. LOANS AND ADVANCES TO CUSTOMERS

	2014	2013
	R'000	R'000
Housing loans	**1 485 618**	1 322 253
Micro finance – secured loans	**50 802**	23 164
Commercial property loans	**20 254**	23 529
Micro finance – unsecured loans	**73 059**	29 824
	1 629 733	1 398 770
Credit impairments for loans and advances	**(123 858)**	(101 008)
Loans and advances net of impairment	**1 505 875**	1 297 762
Maturity analysis		
On demand	**-**	8 546
Maturing from 1 month to 6 months	**53 794**	38 447
Maturing from 6 months to 1 year	**51 212**	42 972
Maturing from 1 year to 5 years	**378 370**	309 908
Maturing after 5 years	**1 146 357**	998 897
Total	**1 629 733**	1 398 770

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	2014	2013
	R'000	R'000
Balance at beginning of the year	**101 008**	104 549
Amounts written off against specific credit impairment	**(6 821)**	(18 486)
Impairments raised	**29 671**	14 945
Balance at end of the year	**123 858**	101 008
Comprising:		
Impairments for performing loans	**45 297**	32 205
Impairments for non-performing loans	**78 561**	68 803
Total credit impairments for loans and advances	**123 858**	101 008

ENABLING DREAMS

6. LOANS AND ADVANCES TO CUSTOMERS
(continued)

Credit impairment analysis in respect of performing and non-performing loans	2014	2013
	R'000	R'000
Non-performing loans		
Balance at beginning of the year	68 803	76 911
Impaired accounts written off	(6 821)	(18 486)
Net impairments raised	16 579	10 378
Balance at end of the year	78 561	68 803
Performing loans		
Balance at beginning of the year	32 205	27 638
Net impairments raised	13 092	4 567
Balance at end of the year	45 297	32 205
Total	123 858	101 008

Segmental analysis by industry of impairments in respect of non-performing loans	2014	2013
	R'000	R'000
Real estate	6 663	7 638
Construction	5 803	6 733
Retail - mortgage	41 422	39 730
Retail - other	24 673	14 702
Total	78 561	68 803

Concentration of credit risk	2014	2013
	R'000	R'000
Loans granted within the boundaries of KwaZulu-Natal	1 629 733	1 398 770
Total	1 629 733	1 398 770

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

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

Portfolio credit impairment

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

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

Age analysis of assets past due but not impaired	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**	**Net realisable amount of security**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2014						
Housing loans	**27 108**	**9 209**	**7 708**	**34 399**	**78 424**	**69 214**
Micro finance – unsecured loans	**397**	**262**	**475**	**5 363**	**6 497**	**-**
Commercial property loans	**800**	**115**	**-**	**-**	**915**	**2 751**
Vehicle and taxi finance	**-**	**168**	**-**	**1 411**	**1 579**	**1 573**
Total	**28 305**	**9 754**	**8 183**	**41 173**	**87 415**	**73 538**

Age analysis of assets past due but not impaired	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total	Net realisable amount of security
	R'000	R'000	R'000	R'000	R'000	R'000
2013						
Housing loans	5 533	9 421	7 287	27 761	50 002	50 423
Micro finance – unsecured loans	102	85	19	1 121	1 327	-
Commercial property loans	-	-	-	849	849	3 000
Total	5 635	9 506	7 306	29 731	52 178	53 423

At statement of financial position date, the value of non-performing loans was R154,2 million (2013: R124,5 million) against which credit impairments of R78,5 million (2013: R68,8 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 2014. The net realisable amount refers to the fair value of the security and expected cash flows discounted to its present value.

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

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

DELIVERING DEVELOPMENT IMPACT

7. TRADE AND OTHER RECEIVABLES	2014	2013
	R'000	R'000
Trade and other receivables	**7 204**	12 255
Less: provision for trade and other receivables	**(3 650)**	(3 237)
Sub-total	**3 554**	9 018
Pre-payments	**2 127**	2 920
Total	**5 681**	11 938
Credit impairments movement		
Balance at beginning of the year	**3 237**	1 925
Additional provisions made during the year	**1 704**	2 037
Unused amounts reversed during the period	**(1 291)**	(725)
Balance at end of the year	**3 650**	3 237
Amounts released during the financial year	**(102)**	(154)
Amounts expected to be recovered after more than 12 months from reporting date	**2 894**	613

The amount of R2,9 million (2013: R0,6 million) represents the amount expected to be received after more than 12 months from reporting date whilst the aging of trade and other receivables, as disclosed in Note 28.1 represents the contractual maturity.

Analysis of trade and other receivables	2014	2013
	R'000	R'000
Accrued fees	-	292
Properties in possession debtors	**127**	857
Service deposits	**179**	179
VAT apportionment	-	454
Service fees	**1 274**	1 311
Net refunds due from insurance underwriters	**133**	1 509
Outstanding deposits	**343**	2 974
Other	**1 498**	1 442
Total	**3 554**	9 018

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

8. PROPERTIES IN POSSESSION	2014	2013
	R'000	R'000
Gross amount at beginning of the year	11 132	10 636
Additions	4 181	2 269
Disposals	(1 864)	(1 773)
Gross amount at end of the year	13 449	11 132
Fair value decrease	(5 494)	(3 983)
Carrying amount	7 955	7 149
Fair value decrease		
Balance at beginning of the year	3 983	3 531
Increase/(decrease) for the year	1 511	452
Balance at end of the year	5 494	3 983

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

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

9. EQUIPMENT	2014	2013
	R'000	R'000
Cost		
Computer equipment	45 236	42 267
Furniture and fittings	21 662	18 950
Office equipment	19 588	20 196
Leasehold improvements	53 036	56 934
Work in progress	680	-
Total	140 202	138 347
Accumulated depreciation		
Computer equipment	29 673	25 390
Furniture and fittings	15 176	12 004
Office equipment	11 418	11 917
Leasehold improvements	37 156	36 011
Total	93 423	85 322
Net book value	46 779	53 025

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9. EQUIPMENT
(continued)

Movement in equipment	**Computer equipment**	**Furniture & fittings**	**Office equipment**	**Leasehold improvements**	**Work in progress**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2014						
Net carrying value at beginning of the year	**16 873**	**4 994**	**8 260**	**22 898**	**-**	**53 025**
Additions	**3 153**	**972**	**2 120**	**-**	**680**	**6 925**
Disposals	**(36)**	**(98)**	**(270)**	**-**	**-**	**(404)**
Net WIP movement transfers	**-**	**-**	**-**	**-**	**-**	**-**
Impairment	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation	**(4 448)**	**(1 842)**	**(1 968)**	**(4 509)**	**-**	**(12 767)**
Net carrying value at end of the year	**15 542**	**4 026**	**8 142**	**18 389**	**680**	**46 779**

Movement in equipment	Computer equipment	Furniture & fittings	Office equipment	Leasehold improvements	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2013						
Net carrying value at beginning of the year	15 898	9 167	8 084	22 898	6 248	62 295
Additions	635	2 831	1 920	-	-	5 386
Disposals	(133)	(273)	(102)	-	-	(508)
Net WIP movement transfers	6 244	(145)	149	-	(6 248)	-
Impairment	-	(127)	-	-	-	(127)
Depreciation	(5 771)	(6 459)	(1 791)	-	-	(14 021)
Net carrying value at end of the year	16 873	4 994	8 260	22 898	-	53 025

The aggregate gross carrying amount of fully depreciated property, plant and equipment still in use amounts to R10,2 million (2013: R11,2 million).

10. INTANGIBLE ASSETS	2014	2013
	R'000	R'000
Intangible assets		
Cost		
Computer software	12 307	7 709
Work in progress	33 670	32 787
Total	45 977	40 496
Accumulated amortisation		
Computer software	6 267	5 323
Accumulated impairment		
Work in progress	32 404	32 404
Net book value	7 306	2 769

Movement in intangible assets	Computer software	Work in progress	Total
	R'000	R'000	R'000
2014			
Net carrying value at beginning of the year	2 386	383	2 769
Additions	4 602	883	5 485
Transfers	-	-	-
Amortisation	(948)	-	(948)
Net carrying value at end of the year	6 040	1 266	7 306

Movement in intangible assets	Computer software	Work in progress	Total
	R'000	R'000	R'000
2013			
Net carrying value at beginning of the year	3 097	384	3 481
Additions	28	-	28
Transfers	1	(1)	-
Amortisation	(740)	-	(740)
Net carrying value at end of the year	2 386	383	2 769

BANKING THE UNBANKED

10. INTANGIBLE ASSETS
(continued)

An amount of R32,4 million had been recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010. Testing conducted by the Company revealed significant deficiencies which led to the Board of Directors delaying the "go live" decision. The impairment was recognised due to rectification efforts by the vendor failing to produce the desired result and significant uncertainty as to the implementation of the system. Subsequent negotiations with the vendor relating to the rectification of the deficiencies and the continuation of the project on amended terms and conditions were not successful. The Company is pursuing a claim against Temenos MCB through arbitration and has lodged a request to the International Chamber of Commerce for the nomination and appointment of an arbitrator.

The recoverable amount from the asset can only be reassessed based on the outcome of the arbitration case above. Furthermore, the long-term strategy of the Company includes the implementation of a bespoke banking system and, as such, certain intrinsic value may exist within the capitalised amount from the previous project which may be realised on the implementation of any new system.

11. CUSTOMER DEPOSITS

	2014	2013
	R'000	R'000
Call deposit accounts	151 433	44 594
Savings accounts	795 492	745 511
Term deposits	1 026 504	1 013 352
Total deposits	1 973 429	1 803 457
Maturity analysis		
On demand	993 974	796 470
Maturing up to 1 month	107 349	159 042
Maturing after 1 month but within 6 months	516 726	501 265
Maturing after 6 months but within 1 year	313 372	320 936
Maturing after 1 year but within 5 years	42 008	25 744
	1 973 429	1 803 457

The maturity analysis is based on the remaining periods to contractual maturity from year-end. At 31 March 2014, the balance of funds deposited by various trusts for land restoration compensation exceeded 5% of total deposits. The Department of Land Affairs disburses these funds to community trusts for land restitution. The current condition of this disbursement is that the funds are placed with the Company.

Savings accounts are further analysed as follows:	2014	2013
	R'000	R'000
Pass book *	573 179	523 811
Trust	90 621	95 291
Debit card	94 459	84 742
Corporate	37 233	41 667
Total savings	795 492	745 511
Term deposits are further analysed as follows:		
Retail accounts	840 105	782 648
Corporate accounts	186 399	230 704
Total term deposits	1 026 504	1 013 352

* A passbook is a paper book used to record bank transactions on a depositor's account and is an alternative means of banking for customers who 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.

12. TRADE AND OTHER PAYABLES	2014	2013
	R'000	R'000
Trade creditors	3 077	4 515
Accruals	8 589	6 843
Operating leases – accrued expenditure	761	910
South African Revenue Service – VAT	173	309
Loans and advances reflecting credit balances	990	1 717
Stale cheques	1 219	1 085
VAT apportionment	947	-
Accrual for leave pay	12 249	10 407
Outstanding cheques	3 636	3 506
Sundry payables	8 758	8 772
Total	40 399	38 064
Amounts expected to be settled more than 12 months from reporting date	10 597	15 401

The amount of R10,6 million (2013: R15,4 million) represents the amount expected to be settled more than 12 months from the reporting date, while the ageing of trade and other payables, as disclosed in Note 28.3 represents the contractual maturity.

ENABLING DREAMS

13. PROVISIONS	2014	2013
	R'000	R'000
Provisions comprise:		
Provision for audit fees	**3 384**	3 473
Provision for bonuses	**1 764**	1 553
Provision for long service awards	**9 941**	9 458
Total	**15 089**	14 484
Provision for audit fees		
Carrying amount at the beginning of the year	**3 473**	2 336
Additional provisions during the year	**3 758**	3 641
Amounts utilised during the year	**(3 847)**	(2 504)
Carrying amount at the end of the year	**3 384**	3 473

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

Provision for bonuses	2014	2013
	R'000	R'000
Carrying amount at the beginning of the year	**1 552**	1 448
Additional provisions during the year	**4 993**	4 652
Amounts utilised during the year	**(4 781)**	(4 548)
Carrying amount at the end of the year	**1 764**	1 552

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

Provision for long service awards	2014	2013
	R'000	R'000
Balance at beginning of the year	**9 458**	8 681
Expensed during the year	**998**	2 012
Benefits vesting during the year	**(515)**	(1 235)
Balance at end of the year	**9 941**	9 458
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	**9 941**	9 458
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	**1 009**	1 298
Interest costs	**664**	565
Net actuarial (gain)/loss recognised during the year	**(675)**	149
Total included in staff costs	**998**	2 012

	Change	2014	2013
		R'000	R'000
Sensitivity analysis			
Assumption			
Present value of obligations		**9 941**	9 458
Average salary inflation	+1%	**10 658**	10 252
	-1%	**9 269**	8 745
Withdrawal rates	-50%	**12 302**	12 272
Average retirement age	-2 years	**8 891**	8 476
	+2 years	**10 998**	10 470

The Company provides long service awards to permanent employees in the form of cash from 10 years of continuous service and every five years thereafter.

An actuarial valuation of the provision for long service awards at 31 March 2014 quantified the present value of obligations at R9,9 million (2013: R9,4 million). These actuarial valuations are conducted annually at statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial years by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 8,5% (2013: 6,5%) and an average salary inflation of 7,3% (2013: 5,8%).

14. LOAN ACCOUNT WITH HOLDING COMPANY

	2014	2013
	R'000	R'000
Loan account with holding Company	**10 153**	15 954

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

15. RETIREMENT BENEFIT OBLIGATIONS

15.1 Post-retirement medical benefits
The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date.120 current and retired employees (2013:122) are currently covered under the scheme.

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

The principal actuarial assumptions used included a discount rate of 9,10% (2013: 8,60%) and a health-care cost inflation rate of 8,60% (2013: 8,30%). The movement in the liability annualised in the statement of financial position is as follows:

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15. RETIREMENT BENEFIT OBLIGATIONS

(continued)

Post-retirement medical benefits	2014	2013
	R'000	R'000
Movement in the defined benefit obligation, is as follows:		
Balance at beginning of the year	**23 289**	21 374
Expensed during the year	**2 762**	2 403
Contributions paid	**(541)**	(488)
Balance at end of the year	**25 510**	23 289
Amounts recognised in the statement of financial position, are as follows:		
Present value of unfunded obligations	**27 315**	22 967
Unrecognised actuarial (loss)/gain	**(1 805)**	322
Net liability in the statement of financial position	**25 510**	23 289

Post-retirement medical benefits		2014	2013
		R'000	R'000
Amounts recognised in the statement of comprehensive income, are as follows:			
Current service costs		**812**	759
Interest costs		**1 950**	1 644
Net actuarial (gain)/loss recognised during the year		**-**	-
Total included in staff costs		**2 762**	2 403
Sensitivity analysis – unfunded accrued liability			
Assumption	**Change**		
Present value of obligation		**27 315**	22 967
Health-care cost inflation	+1%	**27 337**	26 967
	+1,5%	**27 375**	29 320
	+1,75%	**27 322**	30 599
	-1%	**27 284**	20 090
Post-retirement mortality	-2 years	**27 315**	25 052
Expected retirement age	-1 year	**29 050**	21 662

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 2014 showed that in respect of both the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

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

15.2.1 Defined benefit pension fund

Defined benefit pension fund	2014	2013
	R'000	R'000
Present value of funded obligations	15 371	24 272
Fair value of plan assets	(18 130)	(24 556)
	(2 759)	(284)
Unrecognised actuarial gain	2 759	284
Liability at end of the year	-	-

It was resolved during the 2012 financial year to close the defined benefit pension fund. All active members of the fund have been transferred to a defined contribution fund of the Company as at 31 December 2011. The approval for closure of the fund in terms of section 14 of the Pensions Fund Act of 1956 is still outstanding from the Financial Services Board. Accordingly, the trustees have not yet apportioned the surplus in the fund.

	2014	2013
	R'000	R'000
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of the year	24 272	22 124
Interest cost	1 300	2 284
Current service cost	-	-
Benefits paid	(8 677)	(16 799)
Contributions by plan participants (employees)	-	-
Actuarial loss/(gain) on obligation	(1 524)	16 663
Balance at end of the year	15 371	24 272
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	24 556	23 763
Expected return on assets	1 306	2 816
Contributions received	-	-
Benefits paid	(8 677)	(16 799)
Investment gain on assets	945	14 776
Balance at end of the year	18 130	24 556

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15. RETIREMENT BENEFIT OBLIGATIONS
(continued)

15.2.1 Defined benefit pension fund (continued)

	2014	2013
	R'000	R'000
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	-	-
Interest cost	**1 300**	2 284
Expected return on plan assets	**(1 306)**	(2 816)
Recognised actuarial loss	**6**	532
Total included in staff costs	-	-

	2014	2013	2012	2011	2010
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	**15 371**	24 272	22 124	22 140	16 882
Fair value of fund assets	**(18 130)**	(24 556)	(23 763)	(23 027)	(19 941)
Surplus	**(2 759)**	(284)	1 639	887	3 059
Experience loss/(gain) on fund liabilities	**(1 524)**	16 663	(542)	5 039	(1 621)
Experience loss/(gain) on fund assets	**945**	14 776	61	2 502	(3 035)
Plan asset portfolio					
Investment assets	**18 085**	23 384			
Current assets/(liabilities)	**45**	1 172			
Total	**18 130**	24 556			
Effective rate of return on plan assets (actual)	**19,77%**	7,21%			

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 8,5%, whereas the expected rate of return in the prior year of 9% is a weighted average of the various categories of fund assets held. This is a result of the change in the prescribed methodology.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages):	2014	2013
	%	%
Discount rate (annualised yield on R208)	**8,5**	6,5
Expected rate of return on plan assets	**8,5**	9,0
Future salary increases (inflation plus 1%)	**7,6**	7,4
Inflation	**6,6**	6,4
Sensitivity Analysis - Fund Liability		
At valuation assumptions:	**15 371**	24 272

*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	2014	2013
	R'000	R'000
Amounts recognised in the statement of financial position, are as follows:		
Present value of funded obligations	22 303	25 628
Fair value of plan assets	(27 919)	(24 522)
	(5 616)	1 106
Unrecognised actuarial gain	5 616	-
Liability at end of the year	-	(1 106)
The movement in the defined benefit obligation over the year, is as follows:		
Balance at beginning of the year	25 628	17 866
Interest cost	1 542	1 583
Current service cost	737	802
Benefits paid	(2 488)	(2 151)
Contributions by plan participants (employees)	299	312
Actuarial (gain)/loss on obligation	(3 415)	7 216
Balance at end of the year	22 303	25 628
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	24 522	20 773
Expected return on assets	1 466	2 074
Contributions received	796	1 001
Benefits paid	(2 488)	(2 151)
Investment gain on assets	3 623	2 825
Balance at end of the year	27 919	24 522
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service cost	737	802
Interest cost	1 543	1 583
Expected return on plan assets	(1 466)	(2 074)
Recognised actuarial (gain)/loss	(2 588)	2 510
Total included in staff costs	(1 774)	2 821

BANKING THE UNBANKED

15. RETIREMENT BENEFIT OBLIGATIONS
(continued)

15.2.2 Defined benefit provident fund (continued)

	2014	2013	2012	2011	2010
	R'000	R'000	R'000	R'000	R'000
Present value of obligation	**22 303**	25 628	17 866	18 977	17 998
Fair value of fund assets	**(27 919)**	(24 522)	(20 773)	(20 142)	(20 431)
Surplus	**5 616**	(1 106)	2 907	1 165	2 433
Experience loss/(gain) on fund liabilities	**(3 415)**	7 216	(734)	860	1 207
Experience gain/(loss) on fund assets	**3 623**	2 825	1 197	(429)	1 411
Plan asset portfolio					
Investment assets	**27 145**	28 828			
Current assets/(liabilities)	**774**	(191)			
Total	**27 919**	28 637			
Effective rate of return on plan assets (actual)	**19,77%**	7,21%			

The expected rate of return on plan assets in the current year has been set equal to the discount rate of 8,5%, whereas the expected rate of return in the prior year of 9% is a weighted average of the various categories of fund assets held. This is a result of the change in the prescribed methodology.

The principal actuarial assumptions at the reporting date were (expressed as weighted averages)	2014	2013
	%	%
Discount rate (annualised yield on R208)	**8,5**	6,5
Expected rate of return on plan assets	**8,5**	9,5
Future salary increases (inflation plus 1%)	**7,6**	7,4
Inflation	**6,6**	6,4

Sensitivity analysis - fund liability	Change	2014	2013
		R'000	R'000
At valuation assumptions:		**22 303**	25 628
Discount rate	+1%	**21 269**	24 278
	-1%	**22 801**	26 552
Expected rate of salary increases	+1%	**22 564**	26 253
	-1%	**21 483**	24 526
No salary increases		**19 111**	20 731

The Company expects to make a contribution of R592 705 (2013: R648 513) to the Ithala Defined Benefit Provident Fund.

16. STATED CAPITAL	2014	2013
	R'000	R'000
Authorised share capital		
191 million ordinary shares of 0,1 cent each	-	191
191 million ordinary shares of no par value	**191**	-
Issued share capital and premium		
190 million ordinary shares of 0,1 cent each issued and fully paid for	-	190
Share premium	-	189 810
190 million ordinary shares of no par value issued and fully paid for	**190 000**	-
10 500 ordinary shares of no par value issued and fully paid for in current year	**105 000**	-
Total	**295 000**	190 000

In terms of the new Companies Act, 2008 as amended, the Company has converted all par value shares to shares with no par value, on a one-to-one basis. The conversion was approved by a special resolution at the Company's Annual General Meeting held on 27 June 2013. This was subsequently registered with the Companies and Intellectual Property Commission on 8 July 2013. We confirm that the requirements of Regulation 31 of the Companies Act were complied with in this regard.

ENABLING DREAMS

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

	2014	2013
	R'000	R'000
Revenue arising from held to maturity investments		
Interest received on call accounts	**1 306**	1 797
Interest received on fixed deposit accounts	**21 998**	29 693
Interest income on treasury bills and debentures	**9 784**	7 246
Total interest received from deposits with banks and from statutory investments	**33 088**	38 736

	2014	2013
	R'000	R'000
Revenue arising from loans and advances to customers		
Home improvement loans	**9 574**	9 248
"Cash-backed" loans	**2 717**	2 721
Interest on rural property loans	**8 042**	9 166
Interest on personal loans	**9 464**	5 968
Housing loans	**107 829**	93 913
Property development loans	**876**	1 045
Commercial loans	**1 626**	1 924
Debt consolidation	**3 579**	98
Vehicle finance	**798**	-
Taxi finance	**196**	-
Total interest earned on loans and advances to customers	**144 701**	124 083
Total interest on loans and advances and surplus funds	**177 789**	162 819

18. INTEREST EXPENDITURE

	2014	2013
	R'000	R'000
Interest paid on customer deposits	**(55 588)**	(53 975)
Loan account with holding Company	**(66)**	(49)
Total	**(55 654)**	(54 024)

19. FEES AND OTHER INCOME	2014	2013
	R'000	R'000
Commission and fee income comprises the following significant categories of revenue:		
Revenue generated by Insurance Division	**16 953**	16 817
Rebates received	**101**	130
Commission income	**13 761**	12 423
Administration fees	**1 354**	2 114
Development fees	**143**	609
Funeral cover commission and other fees	**1 594**	1 541
Commission and fee income	**88 396**	110 117
Investigation and initiation fees from "cash-backed" loans	**1 935**	1 969
Investigation and initiation fees from housing loans	**4 426**	3 898
Other investigation and initiation fees income	**7 015**	5 796
Service fees received from business accounts	**4 304**	3 769
Service fees received from pass book-based accounts	**25 316**	31 029
Service fees received from club accounts	**3 488**	3 600
Service fees received from debit card-based savings accounts	**35 451**	53 615
Other service fee income	**5 977**	5 513
Electronic fund transfer fee income	**451**	834
Valuation fee income	**33**	94
Other income	**7 483**	9 970
Dormant account balances recognised in income	**3 580**	3 383
Bad debts recovered	**319**	180
Value Added Taxation	**172**	2 563
Recovery of operating expenses from holding Company	**2 289**	2 390
Insurance settlement	**-**	1 046
Sundry income	**1 123**	408
Total fees and other income	**112 832**	136 904

DELIVERING DEVELOPMENT IMPACT

20. OPERATING EXPENDITURE	2014	2013
	R'000	R'000
Operating expenditure is stated after the following items:		
Auditors' remuneration	3 792	3 641
Audit fees	3 758	3 687
Prior year (over)/under provision	34	(46)
Fees for other services	-	-
Amortisation of intangible assets	948	740
Depreciation of equipment	12 767	14 021
Impairment of equipment	-	127
Profit on disposal of properties in possession	(96)	(229)
Loss on disposal of equipment	404	-
Proceeds on insurance claims	(62)	-
Professional fees	2 106	960
Operating leases	18 946	18 524
Personnel costs (excluding Directors' and key management remuneration)	120 028	116 863
Included in personnel costs above are contributions to retirement benefit schemes:	9 400	8 897
Defined benefit plans	497	678
Defined contribution plans	8 903	8 219
Write-off of equipment	-	-
Directors' emoluments		
Emoluments paid to Non-Executive Directors - Directors' fees	2 489	1 768
PD Christianson (resigned 17 September 2012)	-	189
MF Kekana (appointed 7 May 2013)	714	-
M Mia	356	312
B Ngonyama	339	213
SC Ngidi	292	262
SC Nzuza (resigned 30 January 2013)	-	263
L Van Lelyveld (resigned 31 March 2014)	315	146
G White*	473	383

The Non-Executive Directors do not have service contracts.

* These Directors are also Directors on Board Committees of the holding Company. Their remuneration for these services is disclosed in the Annual Financial Statements of the holding Company.

	2014	2013
	R'000	R'000
Executive Directors' remuneration		
Y Dockrat – Finance Director (resigned 4 October 2012)	-	879
PA Ireland – Finance Director (appointed 1 October 2012)	**1 620**	769
SV Khoza – Chief Executive Officer (appointed 1 November 2012)	**1 872**	1 550
BTT Mathe – Acting Chief Executive Officer*	-	1 056
*Mr BTT Mathe was appointed as the Acting Chief Executive Officer on 18 April 2011. His remuneration was paid by the holding Company and is further disclosed in the holding Company annual report. Mr Mathe Resigned as the Acting Chief Executive Officer on 31 October 2012		
VP Misra – Chief Executive Officer	-	667
On 7 April 2012, Mr VP Misra was suspended with remuneration pending the outcome of disciplinary action instituted against him. Mr Misra was subsequently dismissed on 16 May 2012		
Key management remuneration		
PN Baloyi – Compliance Officer (resigned 10 May 2012)	-	295
ZK Beshe – Divisional Manager: Insurance (appointed 1 January 2012)	**924**	872
P Bowden – Divisional Manager: Channels (appointed 17 September 2012; resigned 15 October 2013)	**553**	453
NM Dlamini – Divisional Manager: Risk	**1 104**	1 050
NF Ngobese – Acting Divisional Manager Channels (1 February 2012 to 16 September 2012)	-	254
B Ntshangase – Divisional Manager: Housing (Re-assigned on 30 November 2013)	**555**	788
P Nzimande – Acting Divisional Manager: Channels (15 October 2013 to 28 February 2014)	**285**	-
M Sajiwan – Company Secretary (appointed 1 October 2012)	**885**	430
PN Salanje – Divisional Manager: Internal Audit	**1 040**	986

21. TAXATION

There is no provision for normal taxation as the Company has been granted an income tax exemption in accordance with Section 10(1)(cA)(ii) of the Income Tax Act.

22. OPERATING ACTIVITIES	2014	2013
	R'000	R'000
Non-cash items included in comprehensive expense		
Depreciation of equipment	**12 767**	14 021
Amortisation of intangible assets	**948**	740
Fair value increase on properties in possession	**1 511**	452
Loss on disposal of equipment	**404**	-
Write-off of equipment	**-**	-
Impairment of equipment	**-**	127
Profit on disposal of properties in possession	**(96)**	(229)
Credit impairment in loans and advances	**22 850**	(3 541)
Credit impairment in trade and other receivables	**413**	1 312
Total	**38 797**	12 882

23. CHANGES IN OPERATING FUNDS	Note	2014	2013
		R'000	R'000
Increase in operating liabilities			
Increase in deposits		**169 972**	28 074
Increase in trade and other payables and provisions		**2 940**	2 426
Increase in retirement benefit obligations and defined benefit provident fund shortfall		**1 115**	3 021
(Decrease)/increase in loan account with holding Company		**(5 801)**	(8 035)
Total		**168 226**	25 486
Increase in operating assets			
Increase in loans and advances	6	**(230 963)**	(90 157)
Increase in properties in possession	8	**(4 181)**	(2 269)
Decrease/(increase) in trade and other receivables	7	**5 844**	3 243
Total		**(229 300)**	(89 183)

24. COMMITMENTS	2014	2013
	R'000	R'000
Capital expenditure		
Authorised and contracted for	**19 068**	3 495
Comprising:		
Acquisition of equipment	**2 205**	1 277
Development of intangible assets	**16 863**	2 218
Capital expenditure will be financed from internal resources		

Amounts previously disclosed as 'Authorised but not yet contracted for' has been removed as it is not an IAS 16 requirement

Operating lease commitments	2014	2013
	R'000	R'000
Non-cancellable operating lease commitments are as follows:		
Not later than one year	**17 015**	12 777
Later than one year and not later than five years	**15 231**	8 732
Total	**32 246**	21 509

The Company as a lessee has entered into 16 (2013:16) related party lease agreements with the holding Company. These contracts, in aggregate, amount to R12,9 million (2013: R2,1 million).

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

Unutilised facilities on advances at statement of financial position date was R37,55 million (2013: R25,02 million).

25. RELATED PARTIES

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

The following are identified as related parties of the Company:

BANKING THE UNBANKED

25. RELATED PARTIES
(continued)

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	2014	2013
	R'000	R'000
Outstanding balance on savings and fixed deposits	**63 337**	2 929
Loan account with holding Company	**(10 152)**	(15 954)

Savings and fixed deposit agreements entered into with the holding Company are done so in the ordinary course of business and under terms no more favourable to those entered into with third parties at arm's length. The transactions with the holding Company during the financial year have been analysed below:

Transactions with the holding Company	2014	2013
	R'000	R'000
Transactions with the holding Company		
Bank charges received	**(80)**	(51)
Interest paid on customer deposits and loan account	**135**	49
Shared services	**18 785**	-
Rental paid	**3 976**	3 871
Recovery of operating expenses	**(2 289)**	(2 390)
Insurance recovery	**(2 496)**	-
Insurance commission	**-**	(2 500)
Total	**18 031**	(1 021)

During the prior year, the Company received "services in kind" from the holding Company which were estimated at R17,2 million. In the current year, for the first time, the Company was charged by the holding Company for these services rendered in the amount of R18,8 million.

25.2 KZN Growth Fund Managers (Proprietary) Limited
The nature of the relationship between KZN Growth Fund Managers (Proprietary) Limited and the Company is that of fellow subsidiaries of Ithala Development Finance Corporation Limited.

	2014 Deposits due	2014 Interest expense	2013 Deposits due	2013 Interest expense
	R'000	**R'000**	R'000	R'000
Deposit funds	**-**	**611**	20 131	267

25.3 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	2014 Deposits due	2014 Interest expense	2013 Deposits due	2013 Interest expense
	R'000	R'000	R'000	R'000
KwaZulu-Natal Local Government	**26 030**	**1 273**	24 154	1 407
Department of Agriculture and Environmental Affairs	**1 116**	**17**	1 100	18
Department of Human Settlements	**12 431**	**192**	12 287	201
KwaZulu-Natal Health	**1 402**	**5**	2 254	3

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

25.4.1 Key management personnel - Directors of the Company and/or holding Company
Directors of the Company and holding Company are the individuals responsible for planning, directing and controlling the activities of the Company.

Loans granted to Executive Management and Directors of the holding Company	Outstanding balance	Net realisable amount of security	Interest received
	R'000	R'000	R'000
2014	**5 294**	**5 340**	**204**
2013	1 203	1 730	92

Loans granted to Executive Management and Directors of the Company	Outstanding balance	Net realisable amount of security	Interest received
	R'000	R'000	R'000
2014	**4 791**	**5 499**	**271**
2013	2 577	2 670	170

Impairment and terms of business relating to related party loans.
No specific credit impairments (2013: Nil) have been recognised in respect of loans to Executive and Non-Executive Directors. These loans are secured by mortgage bonds over properties for housing loans and the market value of the asset for vehicle and asset finance.

The Company, in the ordinary course of business, entered into various transactions with related parties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length, except for housing loans where all full-time employees qualify for the prime overdraft rate less 1,75% and vehicle and asset finance where all full-time employees qualify for the prime overdraft rate less 2,00% .

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

ENABLING DREAMS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

26. CONTINGENT LIABILITY	**2014**	2013
	R'000	R'000
The Company is a defendant in the following matters which may result in possible loss to the Company:		
KZN Security Services	**2 843**	2 843
Eskom guarantees	**81**	81
Mr PR Bele	**325**	325
Mpikwana Co-operative	**900**	-
Mist of Gold Investment 23 CC	**4 296**	-
South African Insurance Association	**3 000**	-

26.1 KZN Security Services

A claim was instituted against the Company by KZN Security Services during the 2009/10 financial year based on early termination of a written Service Level Agreement between both parties which was due to expire on 31 March 2009. KZN Security Services has further alleged that the agreement was to have been extended, based on a verbal agreement between the holding Company and KZN Security Services for a further three years until 31 March 2012. The claim has been quantified by the applicant at an amount of R2,8 million. The matter has been in court before, but was adjourned sine die with an adverse order of costs on an attorney and client scale because the claimant was not ready. The claimant will have to reinstate the matter in court. At year-end the outcome of this legal matter is still uncertain.

26.2 Eskom guarantees

The Company has issued guarantees totalling R0,08 million (2012: R0,08 million) in favour of Eskom.

26.3 Mr PR Bele

A claim was instituted against the Company by Mr PR Bele. The claim is for damages allegedly resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R0,3 million. The claim is disputed and defended by the Company, on the basis that no such advice was provided. Pleadings have closed and the claimant must set the matter down for hearing. At year-end the outcome of this legal matter is still uncertain.

26.4 Legal dispute with an ex-employee

The Company is currently a co-defendant in a disputed dismissal case being arbitrated at the CCMA. In addition, the Company is the defendant in a disputed leave pay case with the same employee at the Labour Court. The Company is opposing both the disputes, the outcomes of which are still uncertain at the date of this report. Due to the sensitive nature of the cases, further disclosures may be prejudicial to the outcome of the cases.

26.5 Mpikwana Co-operative

A claim was instituted against the Company by Mpikwana Co-operative for monies attached from its bank account and returned to the KZN Department of Health, which according to the latter were fraudulently obtained. The Company is defending the claim and has joined the Department of Health which has also instituted criminal charges against the members of the Co-operative. The claim has been quantified by the applicant to an amount of R0,9million. The matter is still at pleading stage. At year-end the outcome of this legal matter is uncertain.

26.6 Mist of Gold Investment 23 CC

A claim was instituted against the Company by Mist of Gold Investment 23 CC for damages in respect of a failed development project on the grounds that the Company did not advance the loan applied for. The Company is defending the matter on the basis that the claimant failed to meet the conditions of the loan including pre-sales. The claim has been quantified by the applicant to an amount of R4,2million. At year-end the outcome of this legal matter is uncertain.

26.7 South African Insurance Guarantee

The Company has issued a guarantee of R3 million (2012: R0) in favour of the South African Insurance Association.

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

27.1 Fruitless and wasteful expenditure
There was no fruitless and wasteful expenditure incurred during the year (2013: R0,765 million)

27.2 Material losses incurred
As disclosed in Note 6, loans and advances to the amount of R6,8 million (2013: R18,4 million) was written-off during the financial year.

The Company has suffered losses from theft due to break-ins at branches during the year amounting to R1,2 million. No amount was recovered from insurance for the events.

27.3 Irregular expenditure
An amount of R421 588 (2013: R176 358) which relates to irregular expenditure was incurred in the current financial year as a result of not complying with the Company's Supply Chain Management Policy. The table below reflects a summary of expenditure incurred and condoned by the Accounting Authority:

	2014	2013
	R'000	R'000
Opening Balance	-	-
Add: irregular expenditure – current year	**421**	176
Less: amount condoned	-	(176)
Less: amount recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	**421**	-
Analysis of expenditure awaiting condonation per age classification		
Current year	**421**	-
Prior years	-	-
Total	**421**	-

Details of irregular expenditure – current year

Incident	**Disciplinary steps taken/criminal proceedings**		
Non-compliance with supply chain management policies	None	**421**	176
Total		**421**	176

Incident	**Condoned by (condoning authority)**		
Non-compliance with supply chain management policies	Accounting Authority	-	176
Total		-	176

DELIVERING DEVELOPMENT IMPACT

28. FINANCIAL RISK MANAGEMENT

The core function of the Company's Risk Management Department is to identify all key risks impacting the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

The Company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Company's primary financial risks are:
- Credit risk;
- Liquidity risk;
- Market risk;

The Board takes overall responsibility for risk management and approves risk management strategies and policies. Senior management is responsible for its implementation and creation of a risk management culture within the Company through communication, education and training.

The risk management policies are designed to set appropriate limits and controls. These are reviewed at least annually.

The table below displays an explanation of the classes of financial instruments held and their related measurement categories.

	Note	Financial asset and liabilities at amortised cost	Non-financial instruments at fair value	Total	Fair value
		R'000	R'000	R'000	R'000
2014					
Cash	3	**54 723**	-	**54 723**	**54 723**
Statutory investments	4	**146 205**	-	**146 205**	**146 205**
Deposits with banks	5	**476 445**	-	**476 445**	**476 445**
Loans and advances to customers	6	**1 629 733**	-	**1 629 733**	**1 629 733**
Trade and other receivables	7	**7 204**	**2 127**	**9 331**	**9 331**
Customer deposits and trade and other payables	11 & 12	**(2 012 609)**	**(1 219)**	**(2 013 828)**	**(2 013 828)**
Loan account with holding Company	14	**(10 153)**	-	**(10 153)**	**(10 153)**
2013					
Cash	3	42 107	-	42 107	42 107
Statutory investments	4	218 037	-	218 037	218 037
Deposits with banks	5	414 934	-	414 934	414 934
Loans and advances to customers	6	1 398 770	-	1 398 770	1 297 762
Trade and other receivables	7	12 255	2 920	15 175	11 938
Customer deposits and trade and other payables	11 & 12	(1 840 436)	(1 085)	(1 841 521)	(1 841 521)
Loan account with holding Company	14	(15 954)	-	(15 954)	(15 954)

28.1. Credit Risk
Credit risk is the risk of suffering financial loss, should any customers or market counterparties fail to fulfill their contractual obligations to the Company. Credit risk arises mainly from commercial and consumer loans and advances.

Credit risk is a significant risk resulting in management carefully managing its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

In terms of Basel III, the Standardised Approach has been adopted in the management of credit risk. It is well suited to the Company's size and level of complexity. Capital requirements for credit risk are determined based on the total risk weighted assets. The assets are assigned different weightings based on their level of risk.

28.1.1 Credit portfolio analysis
The credit quality of the Company's advances is presented in the table below:

Category of Assets	**Assets that are neither past due nor impaired**	**Assets that are past due but not yet impaired**	**Assets that are impaired**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
As at 31 March 2014				
Housing loans	**1 307 540**	**78 424**	**99 654**	**1 485 618**
Cash loans	**22 420**	**-**	**-**	**22 420**
Commercial property loans	**10 370**	**915**	**8 969**	**20 254**
Micro-finance – unsecured loans	**49 304**	**6 497**	**17 258**	**73 059**
Vehicles	**26 804**	**1 579**	**-**	**28 383**
Trade and other receivables	**5 681**	**-**	**3 650**	**9 331**
Total	**1 422 119**	**87 415**	**129 531**	**1 639 065**

Category of Assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Assets that are impaired	Total
	R'000	R'000	R'000	R'000
As at 31 March 2013				
Housing loans	1 172 487	50 002	99 764	1 322 253
Cash loans	23 164	-	-	23 164
Commercial property loans	14 235	849	8 445	23 529
Micro-finance – unsecured loans	21 754	1 327	6 743	29 824
Trade and other receivables	11 938	-	3 237	15 175
Total	1 243 578	52 178	118 189	1 413 945

MAKING IT
HAPPEN
TOGETHER

28. FINANCIAL RISK MANAGEMENT
(continued)

IAS 39 Financial instruments: recognition and measurement
The Company regularly undertakes a back-testing exercise to analyse customer behaviour during a specified period. This information is then collated and used to project the future performance of loans and advances.

The time period selected is based on the following factors:
- The consistency of the base period in relation to the current financial period; and
- Consideration of the prevailing economic conditions.

The data used in the credit impairment model draws from the following factors, determined through back-testing:
- Defaults rates;
- Ratio of accounts that remained non–performing over the back-testing period;
- Cash flows; and
- Time to realise security.

For the purposes of determining the credit impairment, the security value is reduced by the estimated selling costs and in the event that the net realisable security value is lower than the carrying amount, a further credit impairment, based on the difference is raised.

The credit impairment for non-performing loans is determined based on the present value of projected cash flows and net realisable security.

28.1.2 Credit risk measurement
Maximum exposure to credit risk
The maximum exposure is the full amount exposed to credit risk without taking into account any form of security.

The table below shows the maximum exposure to credit risk for the relevant component, as disclosed in the statement of financial position.

Credit risk exposures relating to statement of financial position assets:	**Note**	**2014**	2013
		R'000	R'000
Statutory investments	4	**146 205**	218 037
Deposits with banks	5	**476 445**	414 934
Loans and advances to customers	6	**1 629 733**	1 398 770
Trade and other receivables	7	**9 331**	15 175
Total assets subject to credit risk		**2 261 714**	2 046 916
Letters of undertaking issued		**37 550**	25 027

Maturity analysis of credit risk exposures

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

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2014							
Statutory investments	4	-	146 205	-	-	-	146 205
Deposits with banks	5	278 759	120 511	75 164	2 011	-	476 445
Loans and advances to customers	6	9 387	44 407	51 212	378 370	1 146 357	1 629 733
Trade and other receivables	7	9 152	179	-	-	-	9 331
Total assets subject to credit risk		297 298	311 302	126 376	380 381	1 146 357	2 261 714
Letters of undertaking issued		37 550	-	-	-	-	37 550

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2013							
Statutory investments	4	100 862	117 175	-	-	-	218 037
Deposits with banks	5	266 323	60 279	88 332	-	-	414 934
Loans and advances to customers	6	8 546	38 447	42 972	309 908	998 897	1 398 770
Trade and other receivables	7	14 997	178	-	-	-	15 175
Total assets subject to credit risk		390 728	216 079	131 304	309 908	998 897	2 046 916
Letters of undertaking issued		25 027	-	-	-	-	25 027

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

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

BANKING THE UNBANKED

28. FINANCIAL RISK MANAGEMENT
(continued)

Total gross exposures	Amount outstanding 2014	Impairment 2014	Net carrying amount 2014	Net realisable value of security 2014	Amount outstanding 2013	Impairment 2013	Net carrying amount 2013	Net realisable value of security 2013
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Major types of credit exposures: total gross exposure								
Commercial loans	20 254	6 804	13 450	26 795	23 529	7 809	15 720	32 948
Property development loans	11 423	5 804	5 619	6 752	10 476	6 733	3 743	6 500
Housing loans > R500 000	460 744	31 375	429 369	365 626	342 384	23 609	318 775	291 516
Sub-total	492 421	43 983	448 438	399 173	376 389	38 151	338 238	330 964
Other loans	1 137 312	79 875	1 057 437	1 232 997	1 022 381	62 857	959 524	1 226 707
Total	1 629 733	123 858	1 505 875	1 632 170	1 398 770	101 008	1 297 762	1 557 671

Net realisable amount relates to security provided for these exposures.

Average gross exposures	Amount outstanding 2014	Impairment 2014	Net carrying amount 2014	Net realisable value of security 2014	Amount outstanding 2013	Impairment 2013	Net carrying amount 2013	Net realisable value of security 2013
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Major types of credit exposures: average gross exposure								
Commercial loans	2 025	680	1 345	2 679	1 810	600	1 210	2 534
Property development loans	3 808	1 935	1 873	2 251	3 492	2 244	1 248	2 167
Housing loans > R500 000	715	49	666	568	736	51	685	627
Sub-total	6 548	2 664	3 884	5 498	6 038	2 895	3 143	5 328
Other loans	59	4	55	63	53	3	50	63
Total	6 607	2 668	3 939	5 561	6 091	2 898	3 193	5 391

The average amount of gross exposure is determined as the year-end balance over the number of loan exposures outstanding as at the end of the reporting period. The nature of security that is held by the Company in respect of loans and advances to customers is set out as follows:

Product	Type of security
Housing loans	Mortgage bond
Home improvement loans	Pledge of pension and provident fund assets
Micro-finance – secured loans	Cession of term deposit
Vehicle and taxi finance	Cession of moveable asset
Commercial loans and property development loans	Mortgage bonds, cession of income, suretyships and, where appropriate, key man insurance policies

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

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

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which has been ceded to the Company. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant.

28.2.2 Enforcement of security
In the event of a defaulter failing to rehabilitate an overdue loan, the Company will follow due legal process to attach and perfect the security. Properties are repossessed and made available for sale.

28.2.3 Credit risk concentration
Credit risk concentration occurs when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market conditions.

The Company operates solely in the Province of KwaZulu-Natal and lends mainly to individuals in the housing mortgage sector. The Company has set a limit of 10% of the qualifying capital and reserves as the maximum exposure to an individual client or group of related clients. This limit is closely monitored by the Risk and Capital Management Committee.

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

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

Sectoral analysis of loans and advances	2014	2014	2013	2013
	%	R'000	%	R'000
Sectoral analysis				
Real estate	1	20 254	2	23 529
Construction	1	11 423	1	10 476
Retail - mortgage	79	1 280 000	80	1 116 870
Retail - other	19	318 056	17	247 895
Total	100	1 629 733	100	1 398 770

ENABLING DREAMS

28. FINANCIAL RISK MANAGEMENT
(continued)

Category of Assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
As at 31 March 2014					
Real estate	**10 370**	**915**	**8 969**	**20 254**	**6 804**
Construction	**-**	**-**	**11 423**	**11 423**	**5 804**
Retail - mortgage	**1 131 741**	**67 574**	**80 685**	**1 280 000**	**71 909**
Retail - other	**274 326**	**18 926**	**24 804**	**318 056**	**39 341**
Total	**1 416 437**	**87 415**	**125 881**	**1 629 733**	**123 858**

Category of Assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
As at 31 March 2013					
Real estate	14 235	849	8 445	23 529	7 809
Construction	93	-	10 383	10 476	6 734
Retail - mortgage	990 210	45 151	81 509	1 116 870	65 176
Retail - other	227 103	6 177	14 615	247 895	21 289
Total	1 231 641	52 177	114 952	1 398 770	101 008

Credit Impairment Reconciliation	31 March 2013	Impaired accounts written-off	Net impairments raised/(released)	**31 March 2014**
	R'000	R'000	R'000	**R'000**
Category of assets				
Real estate	7 809	-	(1 005)	**6 804**
Construction	6 734	(1 024)	94	**5 804**
Retail - mortgage	65 176	(2 021)	8 754	**71 909**
Retail - other	21 289	(3 776)	21 828	**39 341**
Total	101 008	(6 821)	29 671	**123 858**

Credit Impairment Reconciliation	31 March 2012	Impaired accounts written-off	Net impairments raised	31 March 2013
	R'000	R'000	R'000	R'000
Category of assets				
Real estate	6 480	-	1 329	7 809
Construction	9 897	(1 378)	(1 785)	6 734
Retail - mortgage	59 181	(11 463)	17 458	65 176
Retail - other	28 991	(5 645)	(2 057)	21 289
Total	104 549	(18 486)	14 945	101 008

28.3 Liquidity risk
Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayment structures of assets and liabilities resulting in the Company not being able to meet its financial obligations.

Liquidity risk management
The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. The tables below represent the contractual and expected maturities of financial liabilities as at the reporting date:

Contractual maturity analysis of financial liabilities	Note	On demand	Up to 1 month	1–6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2014							
Deposits from customers	11	993 974	107 349	516 726	313 372	42 008	1 973 429
Trade creditors	12	-	3 077	-	-	-	3 077
Accruals and accrual for leave pay	12	-	20 838	-	-	-	20 838
Loans and advances with credit balances	12	990	-	-	-	-	990
Other payables and sundry payables	12	12 253	3 242	-	-	-	15 495
Provision for audit fees	13	-	251	3 133	-	-	3 384
Provision for bonuses	13	-	-	-	1 764	-	1 764
Provision for long service awards	13	-	42	210	252	9 436	9 940
Loan account with holding Company	14	10 153	-	-	-	-	10 153
Retirement benefit obligations	15.1	-	26	131	158	25 195	25 510
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	-	-
Total		1 017 370	134 825	520 200	315 546	76 639	2 064 580
% of weighting		49%	7%	25%	15%	4%	100%

DELIVERING DEVELOPMENT IMPACT

28. FINANCIAL RISK MANAGEMENT

(continued)

Contractual maturity analysis of financial liabilities	Note	On demand	Up to 1 month	1–6 months	6-12 months	More than 1 year	Total
		R'000	R'000	R'000	R'000	R'000	R'000
31 March 2013							
Deposits from customers	11	796 470	159 042	501 265	320 936	25 744	1 803 457
Trade creditors	12	-	4 515	-	-	-	4 515
Accruals and accrual for leave pay	12	-	17 250	-	-	-	17 250
Loans and advances with credit balances	12	1 717	-	-	-	-	1 717
Other payables and sundry payables	12	11 531	3 051	-	-	-	14 582
Provision for audit fees	13	-	258	3 215	-	-	3 473
Provision for bonuses	13	-	-	-	1 553	-	1 553
Provision for long service awards	13	-	40	200	240	8 978	9 458
Loan account with holding Company	14	15 954	-	-	-	-	15 954
Retirement benefit obligations	15.1	-	24	120	144	23 001	23 289
Defined benefit provident fund shortfall	15.2.2	-	-	-	-	1 106	1 106
Total		825 672	184 180	504 800	322 873	58 829	1 896 354
% of weighting		43,5%	9,7%	26,6%	17,0%	3,2%	100%

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

28.4 Market risk

28.4.1 Interest rate risk

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

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

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

The adjacent 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% (2013: 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 has been presented on a net interest income basis to reflect the operations of the Company.

Projected impact on statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates	2014	2013
	R'000	R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	42 214	38 303
Increased net interest income percentage	35%	35%
Impact of increase in cost of funds on comprehensive income	(27 248)	(24 606)
Decreased net interest income percentage	(22%)	(23%)
Decrease:		
Impact of decrease in yield on assets on comprehensive income	(42 448)	(38 787)
Decreased net interest income percentage	(35%)	(36%)
Impact of decrease in cost of funds on comprehensive income	17 766	16 008
Increased net interest income percentage	15%	15%

As the Company has no assets or liabilities subject to adjustments resultant from market rate fluctuations, equity change is limited to the above changes.

Changes from the previous year to this forecast are mainly due to changes in interest rates and the related strategy in application, changes to volume, differing maturities and hence terms of re-pricing.

29. CAPITAL MANAGEMENT

Capital requirements

Tier I and Tier II capital comprises issued ordinary shares, share premium, (accumulated loss)/retained income and other regulatory adjustments, such as deduction of intangible assets. (Accumulated loss)/retained income is appropriated to reserves in July annually and, as such, the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets. The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

The primary objective of the Company's capital management strategy is to ensure compliance with the Regulator's requirements, as well as the maintenance of a strong credit rating and healthy capital adequacy ratios required in order to support its business, maximise shareholder value and instil market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 12,23% (2013: 11,06%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank (SARB).

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

MAKING IT HAPPEN TOGETHER

29. CAPITAL MANAGEMENT
(continued)

Capital adequacy	Regulatory limit	Actual 2014	Actual 2013
Capital adequacy ratio	≥10%	**12,23%**	11,06%
Primary share capital and reserve funds adequacy ratio	≥7%	**11,40%**	10,26%
Total risk weighted assets (R'000)		**1 570 912**	1 447 212

Risk weighted assets	2014	2013
	R'000	R'000
Credit risk weighted assets	**1 046 331**	918 163
Other risk weighted assets	**79 422**	88 954
Operational risk	**445 159**	440 095
Total	**1 570 912**	1 447 212

Capital structure	Note	2014	2013
		R'000	R'000
Share capital	16	**295 000**	190
Share premium	16	**-**	189 810
Reserves		**(108 611)**	(38 633)
Prescribed deductions against capital and reserve funds		**(7 306)**	(2 769)
Total tier I capital		**179 083**	148 598
General provisions		**13 079**	11 477
Total tier II capital		**13 079**	11 477
Total		**192 158**	160 075

30. CHANGE IN ESTIMATES

30.1 Asset lives
Equipment is depreciated over its estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:

	2014	2013
	R'000	R'000
Decrease in depreciation	**692**	704
Increase in net book value of fixed assets	**692**	704

31. 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.

BANKING THE UNBANKED

NOTES

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ENABLING DREAMS

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MAKING IT HAPPEN TOGETHER

We would welcome your feedback and comments on this report.
Please contact us at: nshezi@ithala.co.za

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