

Statement of responsibility and approval by the board of directors

The board of directors is required in terms of the Co-operatives Act, No 14 of 2005 to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the board to oversee that the annual financial statements fairly present the state of affairs of the group and the co-operative as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with IFRS. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with IFRS and the requirements of the Co-operatives Act, No 14 of 2005. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The board acknowledges that it is ultimately responsible for the system of internal financial control established by the group and consider the maintaining of a strong control environment as vitally important. To effectively meet its responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

Controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that, in all reasonable circumstances, is above reproach.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all forms of material risk across the group. While operating risks cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are implemented and managed within predetermined parameters.

The board is of the opinion, based on the information and explanations presented by management and other assurance providers, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The board has reviewed the budgets and projected cash flow forecasts for the next 12 months for both the group and the co-operative. In light of this review and the current financial position, the directors are satisfied that the group and the co-operative have, or have access to, adequate resources to continue in operational existence for the foreseeable future. Consequently, the going concern basis has been adopted in preparing the annual financial statements.

The external auditors, PwC, are responsible for independently auditing and reporting on the group's and the co-operative's annual financial statements and their report is presented on pages 51 and 52.

The annual financial statements set out on pages 44 to 131, were approved by the board of directors on 16 October 2018 and were signed on its behalf by:



Temba Mvusi
Chairman



Johan Nel
Chief executive officer

The consolidated annual financial statements and the report of the external auditors for the financial year ended 31 August 2018 were considered and approved by the members at the AGM held on 30 October 2018.



Temba Mvusi
Chairman of the annual general meeting

Certificate by the co-operative secretary



I declare that, to the best of my knowledge and belief, the co-operative has lodged with the Registrar of Co-operatives all such returns as are required by the Co-operatives Act of 2005, and that all such returns are true, correct and up to date.

A handwritten signature in black ink, appearing to read 'F. van Dyk', written over a faint, illegible background.

Francois van Dyk
Co-operative secretary

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0001

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Report of the audit and risk committee

for the year ended 31 August 2018

The audit and risk committee was established with terms of reference from the board of directors of Iemas. The audit and risk committee charter was reviewed, updated and approved by the board in 2017.

The duties of the committee, other than as detailed throughout the report, principally include:

- » overseeing the integrity of internal control, financial reporting, the annual financial statements, internal audit, the finance function, external audit, risk management and compliance with legislation and regulations;
- » reviewing a documented assessment, prepared by management, of the going concern status of Iemas, including key assumptions made by management in reaching their conclusions;
- » reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, with an understanding of their impact on the annual financial statements; and
- » considering, in conjunction with the internal and external auditors, any cases of fraud and illegal acts, as well as deficiencies in internal financial controls or other similar issues related to financial reporting.

REPORTING

The audit and risk committee, as a sub-committee of the board of directors:

- » regularly reports to the board on its statutory duties and duties assigned to it by the board, and makes appropriate recommendations;
- » ensures that the board is aware of matters which may have a significant impact on the financial position or affairs of Iemas; and
- » reports material weaknesses in internal financial controls that have resulted in actual material financial loss, fraud or material errors to the board. Weaknesses are considered material when evaluated individually or in combination with other weaknesses.

The committee oversaw the annual financial reporting process and, in particular, the committee:

- » regarded major factors and risks that may impact on the integrity of the annual report, including factors that may predispose management to present a misleading picture;
- » considered significant judgements and reporting decisions made, as well as any evidence that brings into question previously published information and forward-looking statements or information;
- » reviewed the annual financial statements;
- » reviewed the disclosure of sustainability issues in the annual report to ensure that it is reliable and do not conflict with the financial information; and
- » recommended the annual report to the board who approves it and recommends it to the members at the AGM for final approval.

RISK MANAGEMENT

With regard to risk management, the responsibilities of the audit and risk committee included:

- » ensuring that risk management assessments were performed on a continuous basis;
- » ensuring that compliance formed an integral part of the risk management process;
- » ensuring that management considered and implemented appropriate risk responses; and
- » expressing the audit and risk committee's formal opinion to the board on the effectiveness of the system and process of risk management.

COMMITTEE MEMBERSHIP

During the year under review, the audit and risk committee members were Piet Botha (chairman, retired 10 October 2017), Prudence Lebina, Dashni Sinivasan (appointed 23 November 2017), Willem van Heerden (chairman) and Quintus Vorster, all of whom are independent non-executive directors.

The chief executive officer, Johan Nel, the chief financial officer, Tom O'Connell, and the head of internal audit, Sydney Maluleka, were permanent invitees to the meetings.

The meeting attendance of members is detailed on page 35 of this report.

EXTERNAL AUDIT

The audit and risk committee nominated PwC for appointment as the independent auditors to perform the 2018 audit. The appointment was approved by members at the AGM on 31 October 2017. The committee has satisfied itself, through enquiry that the auditors of Iemas are independent as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate the claim to independence.

The audit and risk committee, chief executive officer and chief financial officer, agreed to the engagement letter, terms, nature and scope of the audit function and audit plan for the 2018 financial year. The budgeted fee was considered appropriate for the work that could reasonably have been foreseen at that time. The final fee will be agreed on completion of the audit.

There is a formal policy that governs the process whereby the auditor is considered for non-audit services and each engagement letter for such work is reviewed and approved as governed by the policy.

INTERNAL AUDIT

The internal audit function operates within defined terms of reference in accordance with the internal audit charter. The head of internal audit reports to the chief executive officer on day-to-day activities and functionally to the chairman of the audit and risk committee. The internal audit plan is reviewed and adjusted on a continuous basis to ensure effectiveness and is based on the relevant area's degree of inherent risk.

In addition to scheduled committee meetings, the chairman of the audit and risk committee meets with the head of internal audit on an ad hoc basis should there be a material matter that requires his attention. The head of internal audit has unlimited access to directors, the chairman of the board, the audit and risk committee, the chief executive officer and executive management.

Internal audit provides management and the board, through the audit and risk committee, with an independent, objective consulting and assurance service that reviews matters relating to control, risk management and corporate governance. Internal audit, in consultation with management and the combined assurance forum, prepares a three-year internal audit plan that is submitted to the audit and risk committee for approval. The plan is reviewed annually, based on the annual corporate risk assessment and the scope of additional work needed to deliver on the overall plan.

During the year, the committee received regular reports from internal audit. The committee is satisfied that the head of internal audit is independent, that Iemas' internal controls are in line with best practice, and that internal audit has met its responsibilities for the year in respect of its charter.

INCIDENCES OF FRAUD

Reported information regarding fraud or suspected incidences of fraud is investigated by internal audit, who reports material findings to the audit and risk committee. All cases of fraud are reported to the South African Police Service. In one instance during the year, it was suspected that fraudulent activities were the responsibility of a syndicate, hence the Hawks were also involved.

Given the number of transactions that are processed on a daily basis, Iemas is experiencing relatively low levels of fraud. The number of fraud cases during the past financial year was 29, involving losses of R663 789, either to Iemas or its members. The majority of cases related to identity fraud and more recently, a sim swop scam.

Management has implemented the required measures to detect most of the fraudulent transactions and extensive communication was done to warn members of the sim swop scam.

In addition to normal internal reporting and escalation processes, Iemas secured the services of an external, objective service provider to administer an anonymous and independent fraud and ethics hotline.

COMPLIANCE

Based on the reports received throughout the year from the compliance department, the committee concluded that management has implemented appropriate processes for complying with regulations and legislation impacting on the group and implemented corrective measures, where required.

INTERNAL CONTROLS

The group maintains systems of internal control, which include financial, operational and compliance controls which have been in place for the year under review and up to the date of the approval of the annual financial statements.

The directors are not aware of, and there is no known material breakdown in the functioning of the internal financial controls that has occurred during the year under review to render the control environment ineffective.

Report of the audit and risk committee (continued)

for the year ended 31 August 2018

ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The audit and risk committee has reviewed the accounting policies and the annual financial statements and is satisfied that they are appropriate and comply with IFRS.

The audit and risk committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 August 2018 to the board for approval. The board approved the annual financial statements on pages 44 to 131 on 16 October 2018 and recommended the annual financial statements to be tabled at the AGM for approval.

EVALUATION OF THE CHIEF FINANCIAL OFFICER AND THE FINANCE FUNCTION

The audit and risk committee confirms that it has satisfied itself of the appropriateness of the expertise and experience of the chief financial officer, Tom O'Connell.

The audit and risk committee has considered, and has satisfied itself, of the appropriateness of the expertise in the finance function, the adequacy of resources for the finance function and the experience of the senior management members of the finance function.

ASSURANCE

A formal combined assurance framework and charter were approved by the audit and risk committee to provide the committee with an opportunity to monitor the alignment of all assurance providers and eliminate multiple approaches to risk assessment and reporting. More detail regarding combined assurance is provided on pages 26 and 27 of this report.

The audit and risk committee is satisfied that Iemas has optimised the assurance coverage obtained from management and internal and external assurance providers in accordance with the combined assurance model.

APPROVAL

The board of directors of Iemas approved the report of the audit and risk committee on 16 October 2018.

Signed for and on behalf of the audit and risk committee



Willem van Heerden

Chairman of the audit and risk committee

Directors' report

for the year ended 31 August 2018

The board of directors of Iemas takes pleasure in presenting their report, which forms part of the audited consolidated and separate financial statements for the year ended 31 August 2018. The annual financial statements set out the financial position, results of operations and cash flows of Iemas for the year ended 31 August 2018.

GROUP RESULTS SUMMARY

	2018 R'000	2017 R'000	% change
Statement of financial position			
Total assets	5 332 637	4 964 496	7,4
Total liabilities	3 709 572	3 444 595	(7,7)
Statement of comprehensive income			
Interest income	625 603	629 765	(0,7)
Net interest income after impairments of advances	274 121	263 731	3,9
Profit before income tax	128 479	146 920	(12,6)
Income tax	25 443	28 597	11,0
Total comprehensive income for the year	103 164	118 400	(12,9)
Reward allocation to members of the co-operative	109 362	109 712	0,3

REVIEW OF FINANCIAL RESULTS

Iemas' strategy for 2018 was to grow moderately – to not pursue business aggressively and to focus on preparing for the replacement of the core information technology systems. During the year under review, the group saw a stabilisation and gradual growth in its business, specifically focussing on attracting higher quality debtors, aligned to the group's longer term sustainable growth strategy. The group's profit for the year decreased by 12,9% (2017: decreased by 10,0%) to R103,0 million (2017: R118,3 million).

The total member rewards for 2018, including rewards allocated and interest accrued on the members' deferred bonus payment funds, amounted to R109,4 million (2017: R109,7 million).

Net advances increased by 5,6% (2017: 0,6%) to R5 047,8 million (2017: R4 779,5 million).

The loan impairment expense (bad debts plus provisions less recoveries) decreased by 14,5% (2017: 19,9%) to R76,8 million (2017: R89,8 million).

The impairment provision increased by R5,0 million (2017: R8,0 million), which represents 4,1% (2017: 4,2%) of the total advances, excluding pension-backed housing advances, for which no provision is made as these advances are covered by a pledge of an equal amount of members' pension fund credit.

For the year under review, capital and reserves increased by 6,8% (2017: 8,5%) to R1 623,1 million (2017: R1 519,9 million) while members' funds increased to R814,1 million (2017: R786,5 million).

SPECIAL RESOLUTIONS

There were no special resolutions for the year under review.

SECRETARY

Iemas' secretary is Francois van Dyk. Francois is part of Iemas' executive management and is not a member of the board of directors. He therefore has an arm's length relationship with the board.

DIRECTORS' EMOLUMENTS

The board approved that Iemas is not required to disclose the remuneration of each director and prescribed officers separately. Disclosure in terms of IFRS is set out in notes 24 and 32 of the annual financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No material contracts involving directors' interests were entered into during the year under review.

Directors' report (continued)

for the year ended 31 August 2018

DIRECTORS

Details regarding movements of directors during the period 1 September 2017 to 31 August 2018 are tabled below:

Member	Designation	Date of appointment
Piet Botha *	Independent non-executive director	31 Oct 2012
Len de Villiers	Independent non-executive director	31 Oct 2014
Prudence Lebina	Independent non-executive director	31 Oct 2016
Temba Mvusi	Independent non-executive director and chairman of the board	31 Oct 2011
Johan Nel	Chief executive officer	1 Apr 2010
Tom O'Connell	Chief financial officer	25 Nov 2005
Retha Piater	Independent non-executive director	10 Jul 2014
Vusi Sampula	Independent non-executive director	31 Oct 2014
Dashni Sinivasan #	Independent non-executive director	31 Oct 2017
Willem van Heerden	Independent non-executive director	6 Dec 2014
Quintus Vorster	Independent non-executive director	12 Apr 2017
Piet Wolmarans	Executive director	25 Nov 2005

* Piet Botha retired from the board at the AGM on 31 October 2017

Dashni Sinivasan was appointed to the board at the AGM on 31 October 2017

EVENTS AFTER THE REPORTING DATE

The directors are not aware of any material events which occurred between the reporting date and the date of publication of the annual report.

AUDIT AND RISK COMMITTEE

The members of the audit and risk committee are appointed by the board at the first board meeting after the AGM for a one-year term of office.

AUDITORS

The auditors, PwC, have indicated their willingness to continue in office for the ensuing year.

The audit and risk committee has satisfied itself of the independence of the auditors and a recommendation to re-appoint them will be proposed at the AGM scheduled to take place on 30 October 2018.

Independent auditor's report

To the Members of Iemas Financial Services (Co-operative) Limited

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Iemas Financial Services (Co-operative) Limited (the Co-operative) and its subsidiaries (together the Group) as at 31 August 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operatives Act of South Africa as well as the Companies Act of South Africa for the applicable subsidiaries.

What we have audited

Iemas Financial Services (Co-operative) Limited's consolidated and separate financial statements set out on pages 53 to 131 comprise:

- » the consolidated and separate statements of financial position as at 31 August 2018;
- » the consolidated and separate statements of comprehensive income for the year then ended;
- » the consolidated and separate statements of changes in equity for the year then ended;
- » the consolidated and separate statements of cash flows for the year then ended; and
- » the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, which includes the Statement of responsibility and approval by the board of directors, Certificate by the co-operative secretary, Report of the audit and risk committee, Directors' report and other information contained in the Annual Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Co-operatives Act of South Africa and the Companies Act of South Africa for the applicable subsidiaries, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report

(continued)

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Co-operative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Co-operative or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- » Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- » Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Co-operative's internal control.
- » Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- » Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Co-operative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Co-operative to cease to continue as a going concern.
- » Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- » Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers Inc.

Director: Robert Oudhof
Registered Auditor

Johannesburg
17 October 2018

Statement of financial position

at 31 August

	Note	GROUP		CO-OPERATIVE	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
ASSETS					
Non-current assets					
Property and equipment	2	40 869	39 281	40 245	38 825
Intangible assets	3	36 929	24 269	36 134	23 131
Investments in subsidiaries	4	–	–	313	312
Investments in insurance contracts	5	144 503	146 614	144 503	146 614
Deferred income tax	6	46 701	44 356	42 215	40 757
Advances receivable	7	3 740 319	3 451 981	3 740 319	3 451 981
Other non-current receivables	8	–	–	131 800	161 991
Available-for-sale assets	9	552	424	–	–
		4 009 873	3 706 925	4 135 529	3 863 611
Current assets					
Advances receivable	7	1 124 940	1 153 257	1 078 682	1 103 074
Other current receivables	8	–	–	–	47 981
Cash and cash equivalents	10	187 962	92 673	7 474	3 776
Trade and other assets	11	6 495	9 725	81 288	56 596
Derivative financial assets	18	–	257	–	–
Income tax receivable	20	3 367	1 659	126	–
		1 322 764	1 257 571	1 167 570	1 211 427
TOTAL ASSETS		5 332 637	4 964 496	5 303 099	5 075 038
EQUITY AND LIABILITIES					
Equity attributable to members of the co-operative					
Share capital	12	–	–	–	–
Other reserves	13	241 918	241 790	241 366	241 366
Retained reserves		1 381 147	1 278 111	1 274 246	1 180 149
		1 623 065	1 519 901	1 515 612	1 421 515
Non-current liabilities					
Members' funds	14	814 064	786 461	814 064	786 461
Borrowings	16	1 241 768	1 010 000	1 374 239	1 224 583
		2 055 832	1 796 461	2 188 303	2 011 044
Current liabilities					
Borrowings	16	1 453 771	1 446 164	1 458 151	1 488 359
Trade and other liabilities	17	177 946	169 948	120 726	123 813
Cash co-operative rewards payable	15	20 307	28 667	20 307	28 667
Income tax payable	20	1 716	3 355	–	1 640
		1 653 740	1 648 134	1 599 184	1 642 479
TOTAL EQUITY AND LIABILITIES		5 332 637	4 964 496	5 303 099	5 075 038

Statement of comprehensive income

for the year ended 31 August

	Note	GROUP		CO-OPERATIVE	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
<i>Continuing operations</i>					
Interest income		625 603	629 765	640 952	649 843
Interest expenditure	19	(227 249)	(230 582)	(248 024)	(262 769)
Interest credited to members' funds	33	(47 414)	(45 627)	(47 414)	(45 627)
Net interest income before impairment of advances		350 940	353 556	345 514	341 447
Impairment of advances receivable	21	(76 819)	(89 825)	(76 819)	(89 825)
Net interest income after impairment of advances		274 121	263 731	268 695	251 622
Premium income	5	98 446	110 520	98 446	110 520
Fee and commission income	22	139 571	132 392	87 453	57 371
Other operating income	23	14 666	17 537	32 491	19 506
Income from operations		526 804	524 180	487 085	439 019
Operating expenditure	24	(345 076)	(314 765)	(324 841)	(292 372)
Profit before co-operative rewards to members		181 728	209 415	162 244	146 647
Co-operative rewards to members	33	(53 249)	(62 495)	(53 249)	(62 495)
Profit before income tax		128 479	146 920	108 995	84 152
Income tax from continuing operations	26	(25 443)	(28 597)	(14 898)	(10 013)
Profit from continuing operations		103 036	118 323	94 097	74 139
<i>Discontinued operations</i>					
Profit from discontinued operations, net of tax	35	-	-	-	26 299
Profit for the year		103 036	118 323	94 097	100 438
Other comprehensive income for the year		128	77	-	-
Items that may be subsequently recycled to profit or loss					
Change in value of available-for-sale financial asset		1 925	1 710	-	-
Fair value gains recycled to profit and loss		(1 797)	(1 633)	-	-
Total comprehensive income for the year		103 164	118 400	94 097	100 438
<i>Total comprehensive income attributable to:</i>					
- Members of the co-operative		103 164	118 400	94 097	100 438

Statement of changes in equity

for the year ended 31 August

	Note	Share capital R'000	Other reserves R'000	Retained reserves R'000	Capital and reserves R'000
GROUP					
Balance at 1 September 2016		-	241 713	1 159 788	1 401 501
Profit for the year		-	-	118 323	118 323
Other comprehensive income for the year	13	-	77	-	77
Balance at 31 August 2017		-	241 790	1 278 111	1 519 901
Balance at 1 September 2017		-	241 790	1 278 111	1 519 901
Profit for the year		-	-	103 036	103 036
Other comprehensive income for the year	13	-	128	-	128
Balance at 31 August 2018		-	241 918	1 381 147	1 623 065
CO-OPERATIVE					
Balance at 1 September 2016		-	241 366	1 079 711	1 321 077
Profit for the year		-	-	100 438	100 438
Balance at 31 August 2017		-	241 366	1 180 149	1 421 515
Balance at 1 September 2017		-	241 366	1 180 149	1 421 515
Profit for the year		-	-	94 097	94 097
Balance at 31 August 2018		-	241 366	1 274 246	1 515 612

Statement of cash flows

for the year ended 31 August

	Note	GROUP		CO-OPERATIVE	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash utilised by operations	27	(678 935)	(434 142)	(701 052)	(417 422)
Interest received (excluding interest receivable)	27	623 126	632 908	637 797	651 897
Interest paid (excluding accrued interest)	27	(230 568)	(226 671)	(252 051)	(257 280)
Premium income	27	98 446	110 520	98 446	110 520
Fee and commission income	27	139 571	132 392	87 107	57 064
Other income	27	14 360	16 140	12 491	14 506
Co-operative rewards paid to members	28	(25 090)	(25 719)	(25 090)	(25 719)
Disbursements to members	14	(39 866)	(45 993)	(39 866)	(45 993)
Income tax paid	20	(31 135)	(31 404)	(18 122)	(23 007)
Net derivative income		563	1 319	-	-
Net cash flow (utilised by)/generated from operating activities		(129 528)	129 350	(200 340)	64 566
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property and equipment	2	(6 233)	(4 754)	(5 964)	(4 273)
Disposals of property and equipment		-	53	-	53
Additions to intangible assets	3	(13 755)	(19 353)	(13 755)	(19 353)
Increase in investments	4	-	-	(1)	-
Decrease/(increase) in investments in insurance contracts	5	2 111	(3 796)	2 111	(3 796)
Increase in other receivables	8	-	-	(131 800)	(5 965)
Decrease in other receivables	8	-	-	209 972	-
Dividend received	23	-	-	20 000	5 000
Net cash flow (utilised by)/generated from investing activities		(17 877)	(27 850)	80 563	(28 334)
CASH FLOW FROM FINANCING ACTIVITIES					
Increase/(decrease) in borrowings	27	76 500	269 534	123 475	(115 985)
Increase in notes	27	400 000	-	-	-
Decrease in notes	27	(233 806)	(392 067)	-	-
Net cash flow generated from/(utilised by) financing activities		242 694	(122 533)	123 475	(115 985)
Net increase/(decrease) in cash and cash equivalents		95 289	(21 033)	3 698	(79 753)
Cash and cash equivalents at beginning of the year		92 673	113 706	3 776	83 529
Cash and cash equivalents at end of the year	10	187 962	92 673	7 474	3 776

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for the year ended 31 August

1. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the annual financial statements and consolidated annual financial statements of Iemas Financial Services (Co-operative) Limited are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. References to "the group" in these accounting policies refer to the annual financial statements and consolidated financial statements.

Basis of preparation

The annual financial statements and consolidated financial statements of Iemas Financial Services (Co-operative) Limited for the year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as applicable in South Africa. These financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and investments in insurance contracts (measured as per the accounting policy).

The financial statements are prepared on the going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Management believes that the underlying assumptions are appropriate and the group's financial statements therefore present the financial position and results fairly. The area involving a degree of judgement or complexity, or area where assumptions and estimates are significant to the consolidated financial statements relate to impairment of advances (refer to notes 7 and 21) and is described below:

Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions regarding the future. The resulting accounting estimates will, by definition, seldom reflect the related actual results. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of advances

A specific impairment is raised based on the performance over the last year of advances in arrears as at the end of the previous financial year. The behaviour is determined according to the different ageing categories (0 to 30 days, 31 to 60 days, 61 to 90 days, 91 to 120 days, 121 to 150 days and over 150 days) of the advances.

A portfolio impairment is raised based on the impairment results of business conducted before the beginning of the financial year as well as business conducted during the financial year under review. The percentage of this impairment is also adjusted with the growth in the advances written off during the previous year.

No impairment is raised on pension-backed loans since history has indicated that the debt is recoverable. For more detail on the impairment policy please refer to note 7.

Post write-off recoveries are ad hoc amounts received after advances have been written off as uncollectable and are disclosed as part of impairment of advances receivable in the statement of comprehensive income.

Notes to the consolidated financial statements

for the year ended 31 August

Standards, amendments and interpretations which became effective in the 2018 financial year

The following standards, amendments and interpretations which became effective in the 2018 financial year have been adopted for the first time for the financial period beginning on or after 1 September 2017 and have an impact on the group's operations.

- » *IAS 7, 'Cash flow statements' (effective from 1 January 2017).* In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. For the application of this amendment refer to note 27.

The following standards, amendments and interpretations which became effective in the 2018 financial year are mandatory for the group's accounting periods beginning on or after 1 September 2017. Although these standards, amendments and interpretations are mandatory, they are not relevant for the current and prior financial year.

- » *IAS 12, 'Income taxes' (effective from 1 January 2017).* The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.
- » *IFRS 12 (Amendment), 'Disclosure of interests in other entities' (effective from 1 January 2017).*

Standards, interpretations and amendments to published standards that are not yet effective and possibly relevant for the group's operations

New standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 September 2018 or later periods. Of those identified as being relevant to the group's operations, the following have not been early adopted by the group. Except for the standards specifically addressed below the impact of the remaining future standards are still being assessed.

- » *IFRS 4, 'Insurance contracts' (effective from 1 January 2018).* These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.
- » *IFRS 9, 'Financial Instruments' (2009 & 2010) (effective from 1 January 2018).* This standard replaces IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. It is expected that this standard will predominantly impact the accounting and impairment of advances receivable (refer to notes 7 and 21). Given the group's business model, management is of the opinion that advances will be included in the 'amortised cost' category under the new standard. Management is still in the process of establishing the impact of the expected loss model on the impairment calculation.

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for the year ended 31 August

- » *IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2018)*. The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. It is not expected that the hedge accounting element of IFRS 9 will have a significant impact on the group's operations.
Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following:
 - own credit risk requirements for financial liabilities;
 - classification and measurement (C&M) requirements for financial assets;
 - C&M requirements for financial assets and financial liabilities;
 - the full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting).
- » *IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2019)*. The narrow-scope amendment covers two issues:
 - The amendment allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met, instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
 - The amendment clarifies how to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.
- » *IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018)*. The standard is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.
- » *IFRS 15 (Amendment), 'Revenue from contracts with customers' (effective from 1 January 2018)*. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The amendment also includes additional practical expedients related to transition to the new revenue standard.
- » *IFRS 16, 'Leases' (effective from 1 January 2019)*. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, the guidance on the definition of a lease, as well as the guidance on the combination and separation of contracts, have been updated. Lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or

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for the year ended 31 August

contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

- » *IFRS 17, 'Insurance contracts' (effective from 1 January 2021).* The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
- » *IFRIC 23, 'Uncertainty over income tax treatments' (effective from 1 January 2019).* IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management will assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

Standards, interpretations and amendments to published standards that are not yet effective and not relevant for the group's operations:

The following new standards, amendments and interpretations to standards are mandatory for accounting periods beginning on or after 1 September 2018 or later periods, but are not relevant to the group's operations:

- » *IFRS 2 (Amendment), 'Share-based payments' (effective from 1 January 2018).*
- » *IFRS 10 (Amendment), 'Consolidated financial statements' and IAS 28 (Amendment), 'Investments in associates and joint ventures' on sale or contribution of assets (Postponed – initially effective from 1 January 2016).*
- » *IAS 28 (Amendment), 'Investments in associates and joint ventures' – long-term interests in associates and joint ventures. (effective from 1 January 2019).*
- » *IAS 40 (Amendment), 'Investment property' (effective from 1 January 2018).*
- » *IFRIC 22, 'Foreign currency transactions and advance consideration' (effective from 1 January 2018).*

Notes to the consolidated financial statements

for the year ended 31 August

- » There are a number of minor amendments and improvements published in December 2016. These amendments are listed below and are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail:
 - *IFRS 1 (Amendment), 'First-time adoption of IFRS' (effective from 1 January 2018).*
 - *IAS 28 (Amendment), 'Investments in associates and joint ventures' (effective from 1 January 2018).*
- » There are a number of minor amendments and improvements published in December 2017. These amendments are listed below and are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail:
 - *IFRS 3 (Amendment), 'Business combination' (effective from 1 January 2019).*
 - *IFRS 11 (Amendment), 'Joint arrangements' (effective from 1 January 2019).*
 - *IAS 12 (Amendment), 'Income taxes' (effective from 1 January 2019).*
 - *IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2019).*

Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date on which control ceases. Investment in subsidiaries are accounted for at cost in terms of IAS 27 in the co-operative's stand-alone financial statements.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

In applying its policies on securitised financial assets, the group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the group over the other entity.

When the group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements.

Common control transactions

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same party both before and after the business combination, and control is not transitory. The consideration transferred for an acquisition of a subsidiary in a common control transaction is measured at the group carrying value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the acquisition date. The group's accounting policy for the acquiring entity would be to account for the transaction at book values as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquired's proportionate share of the net assets acquired in common control transactions, will be allocated to the common control reserve in equity of the acquiring entity.

Notes to the consolidated financial statements

for the year ended 31 August

Discontinued operations

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held-for-sale. Discontinued operations are presented on the statement of comprehensive income as a separate line and are shown net of tax.

Property and equipment

Property and equipment, excluding land, is stated at historical cost less accumulated depreciation and impairment. Land is stated at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Office furniture and equipment	10 years
Computer equipment	4 years (previously 3 years)
Motor vehicles	5 years

No depreciation is calculated on buildings where the residual amount exceeds the carrying amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. At the beginning of the reporting period the useful life of computer equipment was amended from 3 years to 4 years. Refer to note 2 for the disclosure pertaining to the change in accounting estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. For the determination of the recoverable amount refer to the accounting policy note 'Impairment of non-financial assets'.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amounts and are included in the statement of comprehensive income as part of profit before co-operative rewards to members.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment.

Computer software

Costs associated with developing or maintaining computer software programs are recognised in the statement of comprehensive income as incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the group and has a profitable benefit exceeding the cost beyond one year, are capitalised as an intangible asset.

Expenditure that enhances and extends the benefits of the computer software programs beyond their original specifications and lives is capitalised as a capital improvement and is added to the original cost of the software. Computer software development costs which are recognised as assets, are amortised using the straight-line method over the useful lives, but not exceeding seven years. Direct costs include the software development employee costs and an appropriate portion of relevant overheads levied by external parties.

Computer software comprises of the Iemas computer systems which have been developed in-house as well as off-the-shelf software, some of which have undergone customisation.

Notes to the consolidated financial statements

for the year ended 31 August

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or which are still under development are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Financial instruments

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude property and equipment, intangible assets, investments in insurance contracts and income tax payable/receivable. The group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Notes to the consolidated financial statements

for the year ended 31 August

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets

The group classifies its financial assets in the following categories:

- » Loans and receivables that consist of advances, other current receivables, other non-current receivables, trade and other assets and cash and cash equivalents (refer note 7, 8, 10 and 11).
- » Held-to-maturity financial assets that consist of other non-current receivables (refer note 8).
- » Available-for-sale financial assets (refer note 9).

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The classification, recognition and measurement and impairment of financial assets are discussed below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise of advances, other current receivables, other non-current receivables, trade and other assets and cash and cash equivalents in the statement of financial position.

» *Originated advances and provisions for advance impairment*

Loans originated by the group by providing money directly to the borrower or to a sub-participation agent at draw down, are categorised as advances originated by the group. These are measured at amortised cost, which is defined as the fair value at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loans and advances are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

All loans and advances are recognised when the entity becomes a party to the contract. A provision for loan impairment is established if there is objective evidence that the group will not be able to collect all amounts due according to the original contractual terms of loans. This is firstly considered to be when the loan or advance is in arrears. Advances are repayable by regular instalments and are considered to be in arrears if R1 is in arrears for one day or more and remains unpaid at the end of the reporting period. The amount of the impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

For loans and advances where no objective evidence in the form of default has been identified, the impairment also covers an estimation of losses incurred in the loan portfolio but not yet reported at year end. These have been estimated based on historical patterns of losses in each component and the credit ratings allocated to the borrowers, and reflect the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the respective advance. Subsequent recoveries are credited to the statement of comprehensive income.

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for the year ended 31 August

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the impairment is recognised in the statement of comprehensive income.

Loans and advances are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Included in advances are securitised assets sold to an issuer who funded the purchase by issuing notes to investors and drawing down on a subordinated loan provided by Iemas. Due to the nature of the credit enhancements provided, Iemas retained substantially all the risks and rewards of ownership and as a result the securitised assets were not derecognised (refer note 7 and 34).

» **Other current receivables and other non-current receivables**

Other current receivables are disclosed in current assets and other non-current receivables are disclosed in non-current assets in the statement of financial position and consist of investments in asset-backed notes issued by Torque Securitisation (RF) Limited.

» **Trade and other assets**

Trade and other assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. An impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment is recognised in the statement of comprehensive income.

» **Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents constitute cash on hand and deposits held at call with original maturities of three months or less. Bank overdrafts are included under current liabilities in the statement of financial position, where applicable.

» **Restricted cash**

Cash which is subject to restrictions for its utilisation is disclosed separately at carrying value.

Held-to-maturity financial assets

The held-to-maturity financial assets are disclosed in non-current assets in the statement of financial position as other non-current receivables and consist of a loan to Torque Securitisation (RF) Limited and investments in asset-backed notes issued by Torque Securitisation (RF) Limited.

Held-to-maturity financial instruments are non-derivative instruments with fixed or determinable payments and a fixed maturity where the group has a positive intention and ability to hold the instruments to such date. These instruments are held at amortised cost, using the effective interest rate and reviewed for impairment at each reporting date.

Notes to the consolidated financial statements

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Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in current assets unless management intends to dispose of the investment more than 12 months after the reporting period. The available-for-sale financial asset consists of an investment in the Hollard Insurance Company Limited cell captive.

Regular purchases and sales of the financial assets are recognised on the trade date - the date on which the group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Investment income on the available-for-sale asset is recognised in the statement of comprehensive income as part of other comprehensive income. Fair value changes on this investment are recycled to profit and loss and are realised in the statement of changes in equity.

Financial liabilities

Financial liabilities consist of borrowings and trade and other payables.

Financial liabilities are recognised initially at fair value, net of transaction costs incurred, when they become party to the contractual provisions. Financial liabilities are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings as interest. Financial liabilities are classified as current liabilities, unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

The group derecognises a financial liability (or part of the liability) from its statement of financial position, when and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

Members' funds and co-operative rewards to members

Rewards (co-operative and insurance) to members are calculated on the aggregate value of discount-bearing turnover per product relevant to each individual member and are recognised once it has been approved by the board of directors.

Depending on the member's product portfolio a portion of the co-operative rewards and all insurance rewards are paid in cash to the members during November of each year and are accrued at year-end. The cash portion of co-operative rewards is included under current liabilities in the statement of financial position. Insurance rewards are included as part of trade and other liabilities.

The remainder of co-operative rewards, that is not immediately payable, is allocated into a members' fund, the deferred bonus payment fund. The members' funds are disclosed under non-current liabilities in the statement of financial position.

Interest on the members' funds is calculated on the closing balance as at 1 August each year, before the current year's distribution of co-operative rewards is taken into account. Where funds were withdrawn by members, or appropriated by Iemas during the course of the financial year, no interest is calculated or declared.

The group adjusts the amount recognised for minor rule applications after the statement of financial position date. These adjustments are disclosed as under- or overprovisions in the statement of comprehensive income.

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Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently re-measured to fair value at each reporting date with changes in fair value recognised as profit or loss in the statement of comprehensive income for the period. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The group's policy was to use derivative instruments (primarily interest rate swaps) to convert a proportion of its JIBAR-linked debt to prime-linked debt in order to economically hedge the interest rate risk. Given the credit enhancement available the hedge agreement was cancelled (refer note 18).

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risk specific to the liability. The increase of the provision due to the passage of time is recognised as an interest expense.

Share capital

In terms of the Co-operatives Act, No 14 of 2005 and Iemas' constitution, membership of the co-operative does not require members to take up shares in the co-operative.

Investment in insurance contracts

Insurance contracts are defined as contracts containing significant insurance risk. Significant insurance risk arises if an insured event could cause an insurer to pay significantly more benefits than envisaged at the inception of the contract. Such contracts remain designated as insurance contracts until all rights and obligations are extinguished or expire.

The co-operative has entered into cell captive arrangements that are ring-fenced insurance businesses established to serve the credit life insurance needs of certain classes of members, via selected short-term insurers. The member is responsible for paying the premium and cedes the policy, underwritten by the insurers, as security on a loan. The results of the insurance business are determined in accordance with the shareholders' agreements. The cell captives therefore effectively represent separate classes of shares that offer the co-operative restricted participation in the results of the insurance business placed with the licensed insurers.

The cell captive arrangement transfers the significant insurance risk (of the policies issued to members by the cell captive insurer) from the cell captive insurer to the co-operative by requiring the co-operative to maintain the solvency of the cell captives. The cell captive arrangement therefore meets the definition of an insurance contract in IFRS 4 'Insurance contracts'. A portion of the cell captives' insurance premiums are received in conjunction with the members' loan instalments which constitutes a 'deposit component'. A 'deposit component' is defined as a contractual component that is not accounted for as a derivative under IAS 39, and would be in the scope of IAS 39 'Financial instruments: Recognition and measurement' if it was a separate component. The loan instalments are therefore unbundled from the insurance contract and measured in accordance with IAS 39. The remaining insurance contract is accounted for in accordance with the accounting policy on insurance contracts as follows.

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The results of the insurance activities are presented on a net basis in the non-current section of the statement of financial position as either a net receivable (investment in insurance contracts) or net payable (liability from insurance contracts). Movements during the year, which are included in the net returns of the investment in insurance contracts comprise the following:

- » Premiums written relate to business written during the period on the credit life risk of vehicle-, pension backed-, personal- and maxi-loan advances with the purpose of covering any credit life claims on these advances;
- » Claims incurred comprise claims that are paid in the year, prior year claim adjustments and movements in the outstanding claim accruals for example the accrual for claims incurred but not yet reported;
- » Movements in outstanding claims relate to the costs of settling all claims arising from events that have occurred up to the reporting date;

The underwriting activities are determined on an annual basis whereby the earned premiums are recognised as income and the incurred cost of claims, commission and related expenses are recognised as expenses. These underwriting activities are conducted through the financial service providers Guardrisk Insurance Company and Bryte Insurance Company Limited, on commercial terms and conditions at market prices. Both these companies are licensed insurance companies.

Leases

The group is the lessee

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessors, are classified as operating leases. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line method over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payments made to the lessor by way of a penalty, is recognised in the statement of comprehensive income during the period in which such termination takes place.

Leases of property, vehicles and equipment where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Employee benefits

Pension obligations

The group has various pension schemes in accordance with the local conditions and practices. All these schemes are classified as defined contribution plans and are generally funded through payments to the insurance companies or trustee-administered funds as determined by the periodic actuarial calculations. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity (a fund). The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods. Contributions are recognised on a monthly basis in the statement of comprehensive income as part of staff costs.

Notes to the consolidated financial statements

for the year ended 31 August

Leave benefits

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is raised for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Income recognition

Group income earned is recognised on the following basis, unless collectability is in doubt:

- » Interest income (including capitalised initiation fees) - on the time proportion basis using the effective interest rate method which is amended in the case of negotiations with members and impairment.
 - » Fee and commission income
 - Commission from contractors – as collected amounts are paid over.
 - Commission from insurers – on percentage of completion of the service rendered which is determined as premiums are paid over.
 - Life insurance commission – as policies are issued to members by life insurers.
 - Administration fees – on an accrual basis when the service is rendered.
 - » Credit life premiums
 - Premiums receivable on insurance products are shown gross of any commission due and are exclusive of insurance premium tax. Premiums are recognised over the period in which the group is liable for risk cover.
 - » Other income is recognised on the following basis, unless collectability is in doubt:
 - Investment income – on the accrual basis.
 - Petrol, diesel and oil – on the accrual basis.
-

Notes to the consolidated financial statements

for the year ended 31 August

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
2. PROPERTY AND EQUIPMENT GROUP					
At 1 September 2016					
Cost	15 246	36 495	6 782	26 800	85 323
Accumulated depreciation	(9 503)	(30 465)	(5 159)	(123)	(45 250)
Net book amount	5 743	6 030	1 623	26 677	40 073
Year ended 31 August 2017					
Opening net book amount	5 743	6 030	1 623	26 677	40 073
Additions	1 033	3 065	656	-	4 754
Disposals	(154)	(14)	-	-	(168)
Depreciation charge (note 24)	(1 131)	(3 475)	(772)	-	(5 378)
Closing net book amount	5 491	5 606	1 507	26 677	39 281
At 31 August 2017					
Cost	15 827	39 494	7 176	26 800	89 298
Accumulated depreciation	(10 336)	(33 888)	(5 669)	(123)	(50 017)
Net book amount	5 491	5 606	1 507	26 677	39 281
Year ended 31 August 2018					
Opening net book amount	5 491	5 606	1 507	26 677	39 281
Additions	1 343	4 706	184	-	6 233
Disposals	(107)	(88)	-	-	(195)
Depreciation charge (note 24)	(1 094)	(2 681)	(675)	-	(4 450)
Closing net book amount	5 633	7 543	1 016	26 677	40 869
At 31 August 2018					
Cost	16 736	43 910	7 236	26 800	94 682
Accumulated depreciation	(11 103)	(36 367)	(6 220)	(123)	(53 813)
Net book amount	5 633	7 543	1 016	26 677	40 869

Notes to the consolidated financial statements

for the year ended 31 August

2. PROPERTY AND EQUIPMENT *(continued)*

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
CO-OPERATIVE					
At 1 September 2016					
Cost	15 246	36 495	6 782	26 800	85 323
Accumulated depreciation	(9 503)	(30 465)	(5 159)	(123)	(45 250)
Net book amount	5 743	6 030	1 623	26 677	40 073
Year ended 31 August 2017					
Opening net book amount	5 743	6 030	1 623	26 677	40 073
Additions	1 032	3 065	176	-	4 273
Disposals	(154)	(14)	-	-	(168)
Depreciation charge (note 24)	(1 131)	(3 475)	(747)	-	(5 353)
Closing net book amount	5 490	5 606	1 052	26 677	38 825
At 31 August 2017					
Cost	15 827	39 494	6 697	26 800	88 818
Accumulated depreciation	(10 337)	(33 888)	(5 645)	(123)	(49 993)
Net book amount	5 490	5 606	1 052	26 677	38 825
Year ended 31 August 2018					
Opening net book amount	5 490	5 606	1 052	26 677	38 825
Additions	1 074	4 706	184	-	5 964
Disposals	(107)	(88)	-	-	(195)
Depreciation charge (note 24)	(1 089)	(2 681)	(579)	-	(4 349)
Closing net book amount	5 368	7 543	657	26 677	40 245
At 31 August 2018					
Cost	16 466	43 910	6 756	26 800	93 932
Accumulated depreciation	(11 098)	(36 367)	(6 099)	(123)	(53 687)
Net book amount	5 368	7 543	657	26 677	40 245

Notes to the consolidated financial statements

for the year ended 31 August

2. PROPERTY AND EQUIPMENT *(continued)*

Land and buildings for the group and the co-operative mainly comprise the following:

- » An office block complex, Fundu Park, was purchased in December 2006 at a cost of R4,4 million on portion 3, site 8464, Secunda, Extension 13.
- » An office block complex, Embankment Park, was purchased in August 2004 at a cost of R8,5 million on portion 2, site 1350, Zwartkop, Extension 7.
- » An office block complex, Iemas Park North, was erected during 1998 at a cost of R5,5 million on site 1350, Zwartkop, Extension 7. The land was purchased on 8 July 1998.
- » An office block complex, Iemas Park South, was erected during 1999 at a cost of R3,8 million on the remainder of portion 4, site 1350, Zwartkop, Extension 7. The land was purchased on 8 December 1998.

Lease rentals amounting to R11,8 million (2017: R11,2 million) relating to property are included in the statement of comprehensive income for both the group and the co-operative.

Change in accounting estimate

In accordance with its accounting policy, the group reviews the useful lives of assets at the end of each reporting period and makes adjustments if appropriate. This review indicated that the actual useful life of computer equipment exceeds the estimated useful life used for depreciation purposes. As a result, effective 1 September 2017, the group increased the estimated useful life of computer equipment from 3 years to 4 years to better reflect the estimated periods that these assets will remain in service. The effect of this change on the actual depreciation expense included in operating expenditure was as follows:

	GROUP	CO-OPERATIVE
	2018 R'000	2018 R'000
Decrease in depreciation	576	576

The calculation of the impact on future periods is considered impracticable and is therefore not provided.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP	CO-OPERATIVE
	R'000	R'000
3. INTANGIBLE ASSETS		
At 1 September 2016		
Cost	14 725	14 725
Accumulated amortisation	(8 735)	(8 735)
Net book amount	5 990	5 990
Year ended 31 August 2017		
Opening net book amount	5 990	5 990
Additions	19 353	19 353
Disposals	-	(1 281)
Amortisation charge – continued operations (note 24)	(1 074)	(731)
Amortisation charge – discontinued operations	-	(200)
Closing net book amount	24 269	23 131
At 31 August 2017		
Cost	34 078	31 694
Accumulated amortisation	(9 809)	(8 563)
Net book amount	24 269	23 131
Year ended 31 August 2018		
Opening net book amount	24 269	23 131
Additions	13 755	13 755
Amortisation charge (note 24)	(1 095)	(752)
Closing net book amount	36 929	36 134
At 31 August 2018		
Cost	47 833	45 449
Accumulated amortisation	(10 904)	(9 315)
Net book amount	36 929	36 134

Intangible assets mainly comprise the following:

- » The re-engineering project related to the Iemas computer system which amounted to a total cost of R6,3 million. This system was fully amortised during the 2009 financial year;
- » The Inovo Telecommunication system which was acquired at a total cost of R1,4 million during the 2010 financial year. This system was fully amortised during the 2014 financial year;
- » The Microsoft Dynamics AX system which was implemented in the financial department during the 2015 financial year at a total cost of R0,9 million. During April 2017 a further R0,3 million was capitalised for further developments done to the system;
- » The Microsoft Dynamics Customer Relationship Management system was implemented during February 2017 at a total cost of R4,0 million;

Notes to the consolidated financial statements

for the year ended 31 August

3. INTANGIBLE ASSETS *(continued)*

- » The group is in the process of developing a new loan management system. All external costs associated with the development of this system are being capitalised. As at August 2018 this totalled R32,5 million (2017: R18,8 million). The system is expected to be implemented in the 2019 financial year;
- » The Cardinal Insurance Management system was implemented in the short-term insurance division during the 2014 financial year at a total cost of R1,7 million; and
- » The Issue Insurance Software system was implemented in the financial advisory division during August 2015 at a total cost of R0,7 million.

During the previous financial year the co-operative sold the Cardinal Insurance Management system and the Issue Insurance Software system to Iemas Insurance Brokers Proprietary Limited for the net book value at the time of the sale of R0,8 million and R0,5 million respectively.

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
4. INVESTMENTS IN SUBSIDIARIES				
Shares at cost	–	–	313	312

	Number of shares	Effective holding %	Investment R
CO-OPERATIVE			
31 August 2017			
Iemtech Proprietary Limited	1 000	100	1 000
Iemark Marketing Proprietary Limited (Dormant)	120	100	120
Torque Securitisation (RF) Limited (preference shares/note 34)	100	100	100
Iemas Insurance Brokers Proprietary Limited	200	100	310 684
Iemas Financing Proprietary Limited (Dormant)	100	100	100
			312 004
31 August 2018			
Iemtech Proprietary Limited	1 000	100	1 000
Iemark Marketing Proprietary Limited (Dormant)	120	100	120
Torque Securitisation (RF) Limited (preference shares/note 34)	100	100	100
Iemas Insurance Brokers Proprietary Limited	200	100	310 684
Iemas Financing Proprietary Limited (Dormant)	100	100	100
The Cooperative Switch Proprietary Limited	50	50	1 000
			313 004

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary shares held.

Notes to the consolidated financial statements

for the year ended 31 August

4. INVESTMENTS IN SUBSIDIARIES *(continued)*

During the previous financial year the co-operative acquired 100% of the shares in Iemas Insurance Brokers Proprietary Limited for a total consideration of R135,0 million, that consisted of R1,3 million for computer systems (refer note 3), R0,7 million for a leave pay provision, R0,3 million for a deferred tax liability and a R134,7 million common control reserve. Bank accounts to the value of R22,3 million were sold to Iemas Insurance Brokers Proprietary Limited. Iemas Insurance Brokers Proprietary Limited was established by the co-operative for the purpose of selling the insurance business of the co-operative to the subsidiary. The sales transaction of the insurance divisions to Iemas Insurance Brokers Proprietary Limited was a common control transaction and was treated as discontinued operations in the co-operative (refer note 35). The investments of the co-operative in insurance contracts (note 5) were not affected by the sales transaction.

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same party both before and after the business combination, and control is not transitory. The group's accounting policy for the acquiring entity is to account for the transaction at the book values as reflected in the financial statements of the transferring entity. Any excess or deficit of the consideration transferred over the cumulative total of the net asset value at acquisition date of the acquiree, is recognised directly in equity as a common control reserve in the acquiree's reserves. From an accounting perspective the co-operative did not realise any gain or loss on the discontinued operations.

As discussed in note 34 the co-operative consolidates the security special purpose vehicle Torque Securitisation (RF) Limited. Credit enhancement is provided by means of the subordinated loan as disclosed in note 8. No additional financial support was provided during the year.

During the year a new card payment platform in partnership with another buying association, Cape Consumers Proprietary Limited, was developed. The platform is housed in a separate company, The Cooperative Switch Proprietary Limited, jointly owned by the co-operative and Cape Consumers Proprietary Limited. The co-operative acquired 50% of the shares in The Cooperative Switch Proprietary Limited. The company is only expected to become fully operational during the next financial year.

As a result of the business arrangements between Iemtech Proprietary Limited, Iemas Insurance Brokers Proprietary Limited and the co-operative, with regards to the collection and administration of salary deductions, debit orders, bank deposits and other operational functions, the entities are indebted to each other in the normal course of business during different times of the month and year. For more detail on the balances outstanding as at year-end refer to note 32.

	2018 R'000	2017 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS		
GROUP AND CO-OPERATIVE		
Iemas (Co-operative) Limited Cell "A12"	3 839	13 301
Iemas Financial Services (Co-operative) Limited Cell "00228"	127 775	125 754
Iemas Financial Services (Co-operative) Limited Cell "00072"	12 889	7 559
	144 503	146 614

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS		
<i>(continued)</i>		
GROUP		
Reconciliation of movement in investment in insurance contracts		
<i>Iemas (Co-operative) Limited Cell "A12"</i>		
At 1 September	13 301	21 842
Revenue – premiums earned	204	1 015
Revenue – investment income	577	1 434
Claims income	114	1
Reinsurance commission paid	(312)	(766)
Transactions with related parties	(10 045)	(10 225)
At 31 August	3 839	13 301
<i>Iemas Financial Services (Co-operative) Limited Cell "00228"</i>		
At 1 September	125 754	117 138
Revenue – premiums earned	84 023	97 437
Revenue – investment income	8 829	9 270
Claims costs	(13 521)	(12 712)
Reinsurance commission paid	(14 249)	(16 923)
Transactions with related parties	(63 061)	(68 456)
At 31 August	127 775	125 754
<i>Iemas Financial Services (Co-operative) Limited Cell "00072"</i>		
At 1 September	7 559	3 838
Revenue – premiums earned	14 219	12 068
Revenue – investment income	784	524
Claims costs	(1 514)	(2 464)
Reinsurance commission paid	(3 964)	(2 348)
Transactions with related parties	(4 195)	(4 059)
At 31 August	12 889	7 559

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS		
<i>(continued)</i>		
CO-OPERATIVE		
Reconciliation of movement in investment in insurance contracts		
<i>Iemas (Co-operative) Limited Cell "A12"</i>		
At 1 September	13 301	21 842
Revenue – premiums earned	204	1 015
Revenue – investment income	577	1 434
Claims income	114	1
Reinsurance commission paid	(357)	(821)
Transactions with related parties	(10 000)	(10 170)
At 31 August	3 839	13 301
<i>Iemas Financial Services (Co-operative) Limited Cell "00228"</i>		
At 1 September	125 754	117 138
Revenue – premiums earned	84 023	97 437
Revenue – investment income	8 829	9 270
Claims costs	(13 521)	(12 712)
Reinsurance commission paid	(47 310)	(30 510)
Transactions with related parties	(30 000)	(54 869)
At 31 August	127 775	125 754
<i>Iemas Financial Services (Co-operative) Limited Cell "00072"</i>		
At 1 September	7 559	3 838
Revenue – premiums earned	14 219	12 068
Revenue – investment income	784	524
Claims costs	(1 514)	(2 464)
Reinsurance commission paid	(8 159)	(4 095)
Transactions with related parties	–	(2 312)
At 31 August	12 889	7 559

The group's principal insurance contracts are contracts to underwrite the credit life risk of the vehicle-, pension-backed-, personal- and maxi-loan advances with the purpose of covering any credit life claims on these advances.

The risk under any one insurance contract is the likelihood of an insured event occurring and the financial impact thereof. The business written by the group is linked to the contract duration, however, it remains subject to some uncertainty due to its inherent nature.

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS		
<i>(continued)</i>		
GROUP		
Income and expenditure arising directly from credit life insurance contracts		
<i>Premium income in the statement of comprehensive income</i>		
Revenue – premiums earned		
» Iemas (Co-operative) Limited Cell "A12"	204	1 015
» Iemas Financial Services (Co-operative) Limited Cell "00228"	84 023	97 437
» Iemas Financial Services (Co-operative) Limited Cell "00072"	14 219	12 068
	98 446	110 520
<i>Income in other operating income</i>		
Revenue – investment income (note 23)		
» Iemas (Co-operative) Limited Cell "A12"	577	1 434
» Iemas Financial Services (Co-operative) Limited Cell "00228"	8 829	9 270
» Iemas Financial Services (Co-operative) Limited Cell "00072"	784	524
	10 190	11 228
<i>Expenditure in other operating expenses</i>		
Claims (income)/cost (note 24)		
» Iemas (Co-operative) Limited Cell "A12"	(114)	(1)
» Iemas Financial Services (Co-operative) Limited Cell "00228"	13 521	12 712
» Iemas Financial Services (Co-operative) Limited Cell "00072"	1 514	2 464
	14 921	15 175
<i>Reinsurance commission paid (note 24)</i>		
» Iemas (Co-operative) Limited Cell "A12"	312	766
» Iemas Financial Services (Co-operative) Limited Cell "00228"	14 249	16 923
» Iemas Financial Services (Co-operative) Limited Cell "00072"	3 964	2 348
	18 525	20 037

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS		
<i>(continued)</i>		
CO-OPERATIVE		
Income and expenditure arising directly from credit life insurance contracts		
<i>Premium income in the statement of comprehensive income</i>		
Revenue – premiums earned		
» Iemas (Co-operative) Limited Cell "A12"	204	1 015
» Iemas Financial Services (Co-operative) Limited Cell "00228"	84 023	97 437
» Iemas Financial Services (Co-operative) Limited Cell "00072"	14 219	12 068
	98 446	110 520
<i>Income in other operating income</i>		
Revenue – investment income (note 23)		
» Iemas (Co-operative) Limited Cell "A12"	577	1 434
» Iemas Financial Services (Co-operative) Limited Cell "00228"	8 829	9 270
» Iemas Financial Services (Co-operative) Limited Cell "00072"	784	524
	10 190	11 228
<i>Expenditure in other operating expenses</i>		
Claims (income)/cost (note 24)		
» Iemas (Co-operative) Limited Cell "A12"	(114)	(1)
» Iemas Financial Services (Co-operative) Limited Cell "00228"	13 521	12 712
» Iemas Financial Services (Co-operative) Limited Cell "00072"	1 514	2 464
	14 921	15 175
<i>Reinsurance commission paid (note 24)</i>		
» Iemas (Co-operative) Limited Cell "A12"	357	821
» Iemas Financial Services (Co-operative) Limited Cell "00228"	47 310	30 510
» Iemas Financial Services (Co-operative) Limited Cell "00072"	8 159	4 095
	55 826	35 426

The Iemas (Co-operative) Limited Cell "A12" cell captive structure is arranged by Bryte Insurance Company Limited, previously known as Zurich Insurance Company South Africa Limited. During the previous financial year Fairfax Insurance Holdings bought 100% of Zurich Insurance Group's share in the South African entity. Consequently, the South African company's name was changed to Bryte Insurance Company Limited.

Notes to the consolidated financial statements

for the year ended 31 August

5. INVESTMENTS IN INSURANCE CONTRACTS

(continued)

As a result of Zurich Insurance Company South Africa's historical decision to withdraw from all cell captive business in South Africa, no new policies are allowed in this structure. New business is conducted in the Iemas Financial Services (Co-operative) Limited Cell "00228" and Iemas Financial Services (Co-operative) Limited Cell "0072" cell captive structures, which are arranged by Guardrisk Insurance Company Limited. The credit ratings for these companies are as follows:

	Ratings 2018	Ratings 2017
Guardrisk Insurance Company Limited	Baa3 (Mar 18) (Moody's)	Baa3 (Jun 17) (Moody's)
Bryte Insurance Company Limited	A+ (Aug 18) (GCR)	A+ (Aug 17) (GCR)

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
6. DEFERRED INCOME TAX				
Deferred tax assets				
» To be recovered within 12 months	60 199	57 164	54 430	52 256
	60 199	57 164	54 430	52 256
Deferred tax liabilities				
» To be incurred after more than 12 months	(2 343)	(1 881)	(2 111)	(1 623)
» To be incurred within 12 months	(11 155)	(10 927)	(10 104)	(9 876)
	(13 498)	(12 808)	(12 215)	(11 499)
Deferred tax assets (net)	46 701	44 356	42 215	40 757
The gross movement on the deferred income tax account is as follows:				
At 1 September	44 356	40 873	40 757	38 194
Charge per statement of comprehensive income (note 26)	2 345	3 483	1 458	2 293
Investment in subsidiary (note 4)	-	-	-	270
At 31 August	46 701	44 356	42 215	40 757

Notes to the consolidated financial statements

for the year ended 31 August

6. DEFERRED INCOME TAX

(continued)

The movement in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation R'000	Prepayments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities				
GROUP				
At 31 August 2016	(1 458)	(493)	(9 030)	(10 981)
Credit/(debit) to the statement of comprehensive income	(423)	66	(1 470)	(1 827)
At 31 August 2017	(1 881)	(427)	(10 500)	(12 808)
Credit/(debit) to the statement of comprehensive income	(462)	122	(350)	(690)
At 31 August 2018	(2 343)	(305)	(10 850)	(13 498)
CO-OPERATIVE				
At 31 August 2016	(1 458)	(493)	(9 030)	(10 981)
Credit/(debit) to the statement of comprehensive income	(435)	67	(420)	(788)
Investment in subsidiary (note 4)	270	-	-	270
At 31 August 2017	(1 623)	(426)	(9 450)	(11 499)
Credit/(debit) to the statement of comprehensive income	(488)	122	(350)	(716)
At 31 August 2018	(2 111)	(304)	(9 800)	(12 215)

Notes to the consolidated financial statements

for the year ended 31 August

6. DEFERRED INCOME TAX

(continued)

	Impairment R'000	Bonus and leave pay provisions R'000	Income received in advance R'000	Other R'000	Total R'000
Deferred tax assets					
GROUP					
At 31 August 2016	38 849	6 569	6 362	74	51 854
Credit/(debit) to the statement of comprehensive income	3 151	1 258	435	466	5 310
At 31 August 2017	42 000	7 827	6 797	540	57 164
Credit/(debit) to the statement of comprehensive income	1 400	100	925	610	3 035
At 31 August 2018	43 400	7 927	7 722	1 150	60 199
CO-OPERATIVE					
At 31 August 2016	36 120	6 569	6 362	124	49 175
Credit/(debit) to the statement of comprehensive income	1 680	727	435	239	3 081
At 31 August 2017	37 800	7 296	6 797	363	52 256
Credit/(debit) to the statement of comprehensive income	1 400	(283)	925	132	2 174
At 31 August 2018	39 200	7 013	7 722	495	54 430

'Other' comprises of general provisions, the fair value movement on interest rate swaps and broker reserve funds.

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
7. ADVANCES RECEIVABLE		
GROUP		
Gross advances	6 722 678	6 297 378
Repossessed vehicles	4 333	5 070
Unearned finance charges	(1 679 177)	(1 522 937)
Net advances	5 047 834	4 779 511
Current members	4 958 963	4 653 813
Former members	88 871	125 698
Less: Impairment of advances receivable (note 21)	(155 000)	(150 000)
Net advances after impairment	4 892 834	4 629 511
Non-current portion of advances	3 758 820	3 467 513
Current portion of advances	1 134 014	1 161 998
Deferred initiation fees	(27 575)	(24 273)
Non-current portion of deferred initiation fees	(18 501)	(15 532)
Current portion of deferred initiation fees	(9 074)	(8 741)
Statement of financial position	4 865 259	4 605 238
Non-current portion of advances	3 740 319	3 451 981
Current portion of advances	1 124 940	1 153 257
	4 865 259	4 605 238

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
7. ADVANCES RECEIVABLE <i>(continued)</i>		
CO-OPERATIVE		
Gross advances	6 676 420	6 247 195
Repossessed vehicles	4 333	5 070
Unearned finance charges	(1 679 177)	(1 522 937)
Net advances	5 001 576	4 729 328
Current members	4 912 705	4 603 630
Former members	88 871	125 698
Less: Impairment of advances receivable (note 21)	(155 000)	(150 000)
Net advances after impairment	4 846 576	4 579 328
Non-current portion of advances	3 758 820	3 467 513
Current portion of advances	1 087 756	1 111 815
Deferred initiation fees	(27 575)	(24 273)
Non-current portion of deferred initiation fees	(18 501)	(15 532)
Current portion of deferred initiation fees	(9 074)	(8 741)
Statement of financial position	4 819 001	4 555 055
Non-current portion of advances	3 740 319	3 451 981
Current portion of advances	1 078 682	1 103 074
	4 819 001	4 555 055

Net advances in both the group and co-operative includes securitised assets of R466,7 million (2017: R414,9 million). The co-operative sold certain participating assets subject to eligibility criteria and portfolio covenants to Torque Securitisation (RF) Limited, a special purpose entity established by the co-operative. Torque Securitisation (RF) Limited issued various classes of notes to investors. Refer to note 16 for more details on the notes issued.

Due to the co-operative being exposed to the majority of risks and rewards of Torque Securitisation (RF) Limited, the co-operative did not derecognise the participating assets in terms of IAS 39 and is also required to consolidate Torque Securitisation (RF) Limited in terms of IFRS 10 'Consolidated financial statements'. The co-operative therefore continues to recognise the participating assets.

The net advances receivable, excluding the securitised assets of R466,7 million (2017: R414,9 million) that were sold to Torque Securitisation (RF) Limited, have been pledged as security for bank borrowing facilities (see note 16) and ceded as security for a guarantee (see note 30).

Repossessed vehicles consist of the collateral held on vehicle loans that are considered to be impaired and are valued at the second hand trade value at the point of repossession after inspection of such a vehicle.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
8 . OTHER RECEIVABLES				
Other non-current receivables				
Loan to related party	-	-	5 300	11 008
Investment in debt instruments	-	-	126 500	150 983
	-	-	131 800	161 991
Other current receivables				
Investment in debt instruments	-	-	-	47 981
	-	-	-	47 981

The co-operative provided credit enhancement in terms of a subordinated loan of R5,3 million (2017: R11,0 million) to Torque Securitisation (RF) Limited to fund the purchase of the participating assets (refer note 7). Interest of prime plus 5.0% is earned on this loan and the loan capital is repayable only after all notes in issue have been fully redeemed. Interest accrued on the subordinated loan of R 0,04 million (2017: R0,07 million) is included in trade and other assets. During May 2018 the original subordinated loan of R11,0 million was replaced by the current subordinated loan after Torque Securitisation (RF) Limited revived the securitisation programme (refer note 16).

The co-operative invested in Class D2 Secured Floating Rate asset-backed notes to the value of R48 million (2017: R0 million) issued by Torque Securitisation (RF) Limited. The notes are subordinated to the class A6, class B3 and class C3 notes issued. The notes are compulsory redeemable and bear interest at the prime rate plus 4.5%. The scheduled maturity date of the notes is 15 May 2025 and the legal maturity date is 15 May 2026. Interest accrued on the Class D2 notes of R0,3 million (2017: R0 million) is included in trade and other assets.

The co-operative invested in Class C3 Secured Floating Rate asset-backed notes to the value of R29 million (2017: R0 million) issued by Torque Securitisation (RF) Limited. The notes are compulsory redeemable and bear interest at 3-month JIBAR plus 3.0%. The scheduled maturity date of the notes is 15 May 2023 and the legal maturity date is 15 May 2026. Interest accrued on the Class C3 notes of R0,1 million (2017: R0 million) is included in trade and other assets.

The co-operative invested in Class B3 Secured Floating Rate asset-backed notes to the value of R49,5 million (2017: R0 million) issued by Torque Securitisation (RF) Limited. The notes are compulsory redeemable and bear interest at 3-month JIBAR plus 2.6%. The scheduled maturity date of the notes is 15 May 2023 and the legal maturity date is 15 May 2026. Interest accrued on the Class B3 notes of R0,2 million (2017: R0 million) is included in trade and other assets.

The fair value of the class B3, class C3 and class D2 notes closely approximates their carrying amount due to variable interest rates associated with these instruments.

At the end of the 2017 financial year the co-operative was invested in Class A3 Secured Floating Rate asset-backed notes to the value of R6 million, Class B2 Secured Floating Rate asset-backed notes to the value of R84 million, Class C2 Secured Floating Rate asset-backed notes to the value of R39 million and Class D Secured Floating Rate asset-backed notes tot the value of R 70 million. In April 2018 the co-operative invested in Class C2 Secured Floating Rate asset-backed notes to the value of R10 million. At the end of the 2017 financial year these notes were held by an external investor. The class A3, class B2 and class C2 notes were settled in May 2018 and new notes were issued as part of the revival of the securitisation programme. Refer to note 16 for more detail.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
9. AVAILABLE-FOR-SALE ASSETS				
At 1 September	424	347	-	-
Remeasurement of assets through other comprehensive income	1 925	1 710	-	-
Dividend received (note 23)	(1 797)	(1 633)	-	-
At 31 August	552	424	-	-

The available-for-sale asset represents Iemtech Proprietary Limited's investment in its Hollard Insurance Company Limited cell captive, previously known as Regent Insurance Company Limited. During the year Regent Insurance Company Limited and Hollard Insurance Company Limited entered into a transfer of business agreement for the transfer of a portion of the short-term insurance business of Regent Insurance Company Limited to Hollard Insurance Company Limited. Iemtech Proprietary Limited's investment in the cell captive is fully re-insured and therefore carries no insurance risk.

Investment income from this financial asset is recorded as part of Other comprehensive income in the statement of comprehensive income and comprises premiums received, interest income, claims paid and other expenditure incurred in the cell captive.

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
10. CASH AND CASH EQUIVALENTS				
Cash on hand	56	73	56	73
Cash at bank	171 620	74 657	7 418	3 703
Total cash and bank	171 676	74 730	7 474	3 776
Restricted cash	16 286	17 943	-	-
Cash and cash equivalents	187 962	92 673	7 474	3 776

In terms of the securitisation programme Torque Securitisation (RF) Limited is required to maintain a reserve fund equal to the lesser of the principal amount outstanding of the notes or 1% of the principal amount outstanding of the notes as at the most recent issue date. In addition, an arrears fund equal to 100% of the aggregate outstanding principal of all delinquent participating assets is required. An amount of R5,7 million (2017: R7,8 million) is included as Restricted cash in the group.

An amount of R10,6 million (2017: R10,2 million) shown as Restricted cash in the group is kept in a separate bank deposit account in Iemas Insurance Brokers Proprietary Limited. This is held to comply with the Financial Sector Conduct Authority's capital adequacy requirement of long-term insurers as prescribed in the Long-Term Insurance Act, No 52 of 1998.

Notes to the consolidated financial statements

for the year ended 31 August

10. CASH AND CASH EQUIVALENTS *(continued)*

The long-term credit ratings for the bank balances held are:

	2018		2017	
	Global credit rating	Expiry date	Global credit rating	Expiry date
Absa Bank Limited	AA	(May 19)	AA+	(May 18)
Standard Bank of South Africa Limited	AA+	(May 19)	AA+	(May 18)
FirstRand Bank Limited	AA+	(Nov 18)	AA	(Nov 18)

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
11. TRADE AND OTHER ASSETS				
Receivables from related parties (note 32)	–	–	76 482	48 618
Cash-in-transit suspense	344	794	–	–
Prepaid expenses	2 084	3 231	2 084	3 231
Other	4 067	5 700	2 722	4 747
	6 495	9 725	81 288	56 596

The carrying value of trade and other assets approximates their fair value due to the short-term maturities of these assets.

12. SHARE CAPITAL

In terms of the Co-operatives Act, No 14 of 2005 and Iemas' constitution, membership of the co-operative does not require members to take up shares in the co-operative.

Notes to the consolidated financial statements

for the year ended 31 August

	Available-for-sale reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
13. OTHER RESERVES				
GROUP				
At 1 September 2016	347	82 064	159 302	241 713
Change in fair value of available-for-sale financial asset (note 9)	1 710	-	-	1 710
Fair value gains recycled to profit and loss (note 9)	(1 633)	-	-	(1 633)
Transfer from general reserve	-	7 957	(7 957)	-
At 31 August 2017	424	90 021	151 345	241 790
At 1 September 2018	424	90 021	151 345	241 790
Change in fair value of available-for-sale financial asset (note 9)	1 925	-	-	1 925
Fair value gains recycled to profit and loss (note 9)	(1 797)	-	-	(1 797)
Transfer from general reserve	-	7 473	(7 473)	-
At 31 August 2018	552	97 494	143 872	241 918
CO-OPERATIVE				
At 1 September 2016	-	82 064	159 302	241 366
Transfer from general reserve	-	7 957	(7 957)	-
At 31 August 2017	-	90 021	151 345	241 366
At 1 September 2017	-	90 021	151 345	241 366
Transfer from general reserve	-	7 473	(7 473)	-
At 31 August 2018	-	97 494	143 872	241 366

The special reserve represents a non-distributable reserve that is set aside as required by Section 46 of the Co-operatives Act, No 14 of 2005. The Act requires that 5% of the co-operative's reserves is allocated to a separate "reserve fund", which is indivisible among its members and will only become distributable to the members when the co-operative ceases to exist.

The general reserve represents an amount that was transferred based on a historical decision by the board of directors. This is a distributable reserve and is treated as a separate portion of retained reserves.

The annual transfers are approved by the board of directors and are based on the funding requirements of the business.

Notes to the consolidated financial statements

for the year ended 31 August

	R'000
14. MEMBERS' FUNDS	
GROUP AND CO-OPERATIVE	
At 1 September 2016	770 807
Interest credited to members' funds (note 33)	45 627
Co-operative rewards credited to members' funds (note 33)	38 881
Appropriations of members' funds as collateral against advances	(21 271)
Overprovision of prior year rewards (note 33)	(1 590)
Disbursements to members	(45 993)
At 31 August 2017	786 461
At 1 September 2017	786 461
Interest credited to members' funds (note 33)	47 414
Co-operative rewards credited to members' funds (note 33)	37 207
Appropriations of members' funds as collateral against advances	(16 464)
Overprovision of prior year rewards (note 33)	(688)
Disbursements to members	(39 866)
At 31 August 2018	814 064

This liability is repayable to members in cash or is set off against any amounts owing to the co-operative at the date of resignation or death. Interest is allocated to members' funds on an annual basis at a market-related rate. For 2018, an interest rate of 6,5% (2017: 6,5%) was approved by the board of directors.

	R'000
15. CASH CO-OPERATIVE REWARDS PAYABLE TO MEMBERS	
GROUP AND CO-OPERATIVE	
At 1 September 2016	29 182
Co-operative rewards and interest accrued for the year *	109 712
	138 894
Transfer to members' funds *	(84 508)
Cash co-operative rewards paid to members (note 28)	(25 719)
At 31 August 2017	28 667
At 1 September 2017	28 667
Co-operative rewards and interest accrued for the year *	101 351
	130 018
Transfer to members' funds *	(84 621)
Cash co-operative rewards paid to members (note 28)	(25 090)
At 31 August 2018	20 307

* Included in co-operative rewards declared to members (note 33).

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. BORROWINGS				
Non-current	1 241 768	1 010 000	1 374 239	1 224 583
Standard Bank of South Africa Limited	300 000	250 000	300 000	250 000
Absa Bank Limited	400 000	400 000	400 000	400 000
First National Bank (a division of FirstRand Bank Limited)	350 000	350 000	350 000	350 000
Torque Securitisation (RF) Limited	-	-	324 239	224 583
Torque Securitisation (RF) Limited – notes issued	191 768	10 000	-	-
Current	1 453 771	1 446 164	1 458 151	1 488 359
Standard Bank of South Africa Limited	400 000	450 000	400 000	450 000
Absa Bank Limited	400 000	400 000	400 000	400 000
First National Bank (a division of FirstRand Bank Limited)	499 462	426 989	499 462	426 989
Torque Securitisation (RF) Limited	-	-	158 689	211 370
Torque Securitisation (RF) Limited – notes issued	154 309	169 175	-	-
Total borrowings	2 695 539	2 456 164	2 832 390	2 712 942

The facilities consist of:

	Review date	Expiry date	Interest rate linked to	Facility R'000
Standard Bank of South Africa Limited	n/a	Jun 2019	Prime	150 000
Standard Bank of South Africa Limited	n/a	Jun 2019	Prime	250 000
Standard Bank of South Africa Limited	n/a	Dec 2019	Prime	250 000
Standard Bank of South Africa Limited	n/a	Dec 2019	Prime	50 000
Absa Bank Limited	n/a	Dec 2018	Prime	400 000
Absa Bank Limited	n/a	Jun 2020	Prime	400 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2018	3-month JIBAR	50 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2018	3-month JIBAR	200 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Sep 2019	3-month JIBAR	100 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2019	3-month JIBAR	250 000
First National Bank (a division of FirstRand Bank Limited)	Dec 2018	n/a	*	450 000
				2 550 000

* Interest on the R450 million facility with First National Bank (a division of FirstRand Bank Limited) is calculated on a daily basis on the ruling day money rates of the money and capital markets.

Notes to the consolidated financial statements

for the year ended 31 August

16. BORROWINGS (continued)

Refer to note 7 for the advances receivable ceded as security. These facilities require that certain ratios are met in terms of the common terms agreement.

The fair value of borrowings is based on the quoted market price for the same or similar instruments, the current rates available or borrowings with the same maturity profile and effective interest rate with similar cash flows. The fair value of borrowings with variable interest rates approximate their carrying amounts.

Torque Securitisation (RF) Limited funded the borrowings by issuing notes to investors. The notes were issued to fund the purchase of participating assets from the group (refer note 7). Detail of the notes issued is presented below:

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Class A3 notes	–	44 746	–	–
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at 3-month JIBAR plus 1,59%. As of 16 August 2017 the interest rate increased with the step-up interest margin of 0,5%. The scheduled maturity date of the notes was set at 15 August 2017. In terms of a SENS announcement by the JSE on 4 August 2017, these notes were not refinanced at this date and would subsequently mature at the earlier of the capital redemptions, in terms of the early amortisation program, or its legal maturity date of 15 April 2022. The notes were settled in May 2018 as part of the restructuring.				
Class A4 notes	–	63 387	–	–
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at 3-month JIBAR plus 1,60%. The scheduled maturity date was 15 August 2019. The legal maturity date was 15 August 2025. The notes were settled in May 2018 as part of the restructuring.				
Class A5 notes	–	60 344	–	–
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at 3-month JIBAR plus 1,80%. The scheduled maturity date was 15 August 2018. The legal maturity date was 15 August 2025. The notes were settled in May 2018 as part of the restructuring.				
Sub-total	–	168 477	–	–

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. BORROWINGS <i>(continued)</i>				
Balance brought forward	-	168 477	-	-
Class A6 notes	344 671	-	-	-
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2,30%. The scheduled maturity date is 15 May 2021. The legal maturity date is 15 May 2026.				
Class B2 notes	-	-	-	-
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at 3-month JIBAR plus 2,10%. The scheduled maturity date was 15 August 2018. The legal maturity date was 15 August 2026. The notes were settled in May 2018 as part of the restructuring.				
Class B3 notes	-	-	-	-
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2,60%. The scheduled maturity date is 15 May 2023. The legal maturity date is 15 May 2026.				
Class C2 notes	-	10 000	-	-
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at 3-month JIBAR plus 3,00%. The scheduled maturity date was 15 August 2018. The legal maturity date was 15 April 2026. The notes were settled in May 2018 as part of the restructuring.				
Class C3 notes	-	-	-	-
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 3,00%. The scheduled maturity date is 15 May 2023. The legal maturity date is 15 May 2026.				
Sub-total	344 671	178 477	-	-

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. BORROWINGS <i>(continued)</i>				
Balance brought forward	344 671	178 477	-	-
Class D notes	-	-	-	-
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bore interest at prime rate plus 4,50%. As of 16 August 2017 the interest rate increased with the step-up interest margin of 1,0%. The scheduled maturity date of the notes was set at 15 August 2017. In terms of a SENS announcement by the JSE on 4 August 2017, these notes were not refinanced at this date and would subsequently mature at the earlier of the capital redemptions, in terms of the early amortisation program, or its legal maturity date of 15 April 2022. The notes were settled in May 2018 as part of the restructuring.				
Class D2 notes				
Subordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at prime rate plus 4,50%. The scheduled maturity date is 15 May 2025. The legal maturity date is 15 May 2026.				
Interest accrued	1 406	698	-	-
Loan payable to Torque Securitisation (RF) Limited	-	-	482 928	435 953
The interest payable on the loan is equal to the interest payable on the underlying securitised advances, net of impairment. The loan is repaid as the underlying securitised advances are repaid.				
At 31 August	346 077	179 175	482 928	435 953

Notes to the consolidated financial statements

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16. BORROWINGS *(continued)*

Torque Securitisation (RF) Limited issued various classes of notes to investors consisting of:

- » class A3 secured floating rate notes;
- » class A4 secured floating rate notes;
- » class A5 secured floating rate notes;
- » class A6 secured floating rate notes;
- » class B2 secured floating rate notes;
- » class B3 secured floating rate notes;
- » class C2 secured floating rate notes;
- » class C3 secured floating rate notes;
- » class D secured floating rate notes; and
- » class D2 secured floating rate notes.

The notes are backed by a pool of South African auto loan receivables originated by the co-operative. The class B, class C and class D notes are subordinated in favour of the class A notes. The class C and class D notes are subordinated in favour of the class B notes and the class D notes are subordinated in favour of the class C notes.

The co-operative invested in 100% of the class B3, class C3 and class D2 notes. The class A6 notes were taken up by an external investor.

Torque Securitisation (RF) Limited commenced with voluntary early amortisation during May 2016 and was consequently not permitted to acquire any further participating assets in terms of the Programme Memorandum. The early amortisation process required that subsequent cash generated by the structure should, except for statutory and other expenses, be utilised to repay the interest and capital of rated notes. All note repayments were paid in descending order of rank, based on the rating classes of the notes. Notes of equal ranking were paid *pari passu* until the aggregate capital and interest of ranked notes were repaid. All the notes outstanding as at the end of the 2017 financial year were settled during May 2018.

Given the stable vehicle advance growth for the co-operative for the 2017 financial year, the viability and benefits of the securitisation structure were reassessed and during the current financial year Torque Securitisation (RF) Limited was restructured to enable the purchase of additional participating assets from the co-operative and the issue of new notes to investors.

The revived securitisation structure came into effect in May 2018, which entailed a new external investor, together with a revised set of documents and updated capital structure. Consequently the programme was de-listed and it is no longer a requirement for the notes to be rated by an external rating agency. The revived structure also provides flexibility concerning the necessity for a liquidity facility and hedging arrangement. The high levels of credit enhancement currently in Torque Securitisation (RF) Limited reduced the need for these facilities and both were cancelled in May 2018. As part of the revival process, the co-operative repurchased all performing contracts from Torque Securitisation (RF) Limited in order to settle the existing notes and subsequently sold additional participating assets to Torque Securitisation (RF) Limited as security for the revived capital structure.

Capital repayments are based on the quarterly capital received on the corresponding performing advances and as such the contractual capital repayment profile of the advances as apposed to the legal maturity of the notes has been used to calculate the current versus non-current disclosure.

The fair value of the class A6, class B3, class C3 and class D2 notes closely approximates their carrying amount due to variable interest rates associated with these instruments.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
17. TRADE AND OTHER LIABILITIES				
Card merchants	43 762	43 831	43 762	43 831
Premiums payable	39 679	37 560	-	-
Unclaimed balances owed to current and former members	26 905	27 696	26 905	27 696
Insurance rewards payable	8 012	-	-	-
Accrued expenses				
» Bonuses	19 537	20 568	17 862	19 127
» Leave pay	8 072	7 373	6 484	6 220
Brokers' commission	2 205	2 522	-	-
Trade creditors	29 774	30 398	25 713	26 939
	177 946	169 948	120 726	123 813

The carrying amount approximates fair value due to the short-term in which these obligations are settled.

The balances owed to card merchants mainly represent amounts payable to suppliers in respect of Iemas purchase card purchases for the months of July and August.

The insurance rewards payable represents the rewards calculated and payable to customers on short-term insurance transactions by the customers with Iemas Insurance Brokers Proprietary Limited.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
18. DERIVATIVE FINANCIAL INSTRUMENTS				
Derivative financial assets				
Interest rate swaps	-	257	-	-
Total derivatives	-	257	-	-

The group cancelled the interest rate swap in May 2018 as a result of the Torque Securitisation (RF) Limited restructuring (refer note 16). The revised structure provides flexibility concerning the necessity for a hedging arrangement. The high levels of credit enhancement currently in Torque Securitisation (RF) Limited reduced the need for this facility. The group previously economically hedged part of its existing interest rate risk using interest rate swaps to convert a proportion of its JIBAR-linked debt to prime-linked debt. The fair value of the derivative financial asset at 31 August 2017 was R0,3 million. The fair value of the 2017 swaps related to financial instruments with a notional value of R384 million.

19. INTEREST EXPENDITURE				
Interest expenditure	227 249	230 582	256 978	273 102
Gain on finance costs	-	-	(8 954)	(10 333)
	227 249	230 582	248 024	262 769
Interest expenditure consists of:				
» Bank borrowings	210 405	194 555	210 405	194 448
» Torque Securitisation (RF) Limited	-	-	37 619	68 321
» Torque Securitisation (RF) Limited – notes issued	16 761	36 027	-	-
» Other	83	-	-	-
	227 249	230 582	248 024	262 769

In terms of IAS 39 paragraph AG8 the gain on finance costs represents a deduction in future cash flows as a result of impairments.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
20. INCOME TAX PAID				
Payable at the beginning of the year	(3 355)	(2 113)	(1 640)	(2 113)
Receivable at the beginning of the year	1 659	1 093	-	-
Normal tax (note 26)	(27 788)	(32 080)	(16 356)	(22 534)
Receivable at the end of the year	(3 367)	(1 659)	(126)	-
Payable at the end of the year	1 716	3 355	-	1 640
	(31 135)	(31 404)	(18 122)	(23 007)
21. IMPAIRMENT OF ADVANCES RECEIVABLE				
The gross movement on the impairment is as follows:				
At 1 September	150 000	142 000	150 000	142 000
Advances written off during the year as uncollectible	(82 901)	(92 285)	(82 901)	(92 285)
Impairment charge	87 901	100 285	87 901	100 285
At 31 August	155 000	150 000	155 000	150 000
Impairment of advances in the statement of comprehensive income is as follows:				
New impairment raised (note 7)	155 000	150 000	155 000	150 000
Unused amounts reversed	(67 099)	(49 715)	(67 099)	(49 715)
Impairment charge	87 901	100 285	87 901	100 285
Post write-off recoveries	(11 082)	(10 460)	(11 082)	(10 460)
Impairment of advances receivable	76 819	89 825	76 819	89 825
22. FEE AND COMMISSION INCOME				
Administration fees	66 667	65 268	71 237	45 222
Commission	72 904	67 124	16 216	12 149
	139 571	132 392	87 453	57 371
23. OTHER OPERATING INCOME				
Dividends received (note 32)	-	-	20 000	5 000
Gain on interest rate swap	306	1 397	-	-
Investment income (note 5)	10 190	11 228	10 190	11 228
Fair value gains on available-for-sale assets recycled to profit and loss (note 9)	1 797	1 633	-	-
Other income	2 373	3 279	2 301	3 278
	14 666	17 537	32 491	19 506

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
24. OPERATING EXPENDITURE				
The following items have been charged against other operating expenditure:				
Amortisation of intangible assets – continuing operations (note 3)	1 095	1 074	752	731
Auditor's remuneration	3 722	3 393	3 066	2 841
» Audit fees	3 381	3 310	2 883	2 758
» Over provision prior year	(101)	(46)	(81)	(46)
» Non-audit fees	442	129	264	129
Bank charges	2 638	3 330	1 963	2 129
Broker commissions	3 018	2 607	-	-
Computer services	23 677	23 235	20 651	20 163
Credit Bureau charges	1 618	1 551	1 618	1 551
Credit life insurance claims (note 5)	14 921	15 175	14 921	15 175
Depreciation of property and equipment (note 2)	4 450	5 378	4 349	5 353
Directors' emoluments	18 433	18 128	18 167	17 878
» Non-executive directors	2 910	2 824	2 644	2 574
» Executive directors	15 523	15 304	15 523	15 304
Salaries	9 372	8 823	9 372	8 823
Short-term incentive	6 151	6 481	6 151	6 481
Insurance	1 328	1 140	1 328	1 140
Insurance rewards	8 012	-	-	-
Marketing costs	3 226	4 119	2 857	3 968
Municipal services	5 870	5 186	5 870	5 121
Other professional services	5 126	4 301	4 992	4 218
Reinsurance commission paid (note 5)	18 525	20 037	55 826	35 426
Rentals in respect of operating leases	11 811	11 205	11 811	10 746
Repairs and maintenance	3 660	3 663	3 660	3 631
Security costs	1 262	1 045	1 262	1 044
Service provider fee	1 643	1 879	-	239
Skills development costs	2 492	1 767	2 095	1 668
Staff costs (note 25)	168 511	151 139	137 664	128 395
Stationery	3 982	4 167	3 972	4 103
Telephone and postages	6 418	6 387	6 403	6 028
Travel expenses	1 522	1 909	1 339	1 832
Vehicle running costs	6 868	7 027	6 734	6 962
Other	21 248	15 923	13 541	12 030
	345 076	314 765	324 841	292 372

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
25. STAFF COSTS				
Wages and salaries (including performance bonuses)	155 139	138 760	126 464	116 692
Pension costs – defined contribution plans	13 372	12 379	11 200	11 703
	168 511	151 139	137 664	128 395
26. INCOME TAX				
Current				
South African current tax – continuing operations	27 788	32 080	16 356	12 306
South African current tax – discontinued operations	–	–	–	10 228
Normal tax (note 20)	27 788	32 080	16 356	22 534
Deferred				
Deferred income tax (note 6)	(2 345)	(3 483)	(1 458)	(2 293)
Income tax expense	25 443	28 597	14 898	20 241
Continuing operations	25 443	28 597	14 898	10 013
Discontinued operations (note 35)	–	–	–	10 228
Tax rate reconciliation	%	%	%	%
Effective rate of tax	19,8	19,5	13,7	11,9
The tax rate has been affected by:				
Profit on insurance contracts	8,3	8,3	9,7	14,6
Dividends received	–	–	5,1	1,7
Disallowed expenditure	(0,1)	0,2	(0,5)	(0,2)
Standard rate of South African tax	28,0	28,0	28,0	28,0

Disallowed expenditure mainly consists of legal fees and certain provisions raised that are not allowed as tax deductions.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
27. STATEMENT OF CASH FLOWS				
Cash utilised by operations				
Profit before income tax from:				
- Continuing operations	128 479	146 920	108 995	84 152
- Discontinued operations (note 35)	-	-	-	36 527
Profit before income tax including discontinued operations	128 479	146 920	108 995	120 679
<i>Adjusted for:</i>				
Interest income	(623 126)	(632 908)	(637 797)	(651 897)
Interest expenditure	230 568	226 671	252 051	257 280
Interest credited to members' funds (note 14)	47 414	45 627	47 414	45 627
Impairment charge on advances receivable (note 21)	87 901	100 285	87 901	100 285
Premium income (note 5)	(98 446)	(110 520)	(98 446)	(110 520)
Fee and commission income	(139 571)	(132 392)	(87 107)	(57 064)
Other income	(14 360)	(16 140)	(12 491)	(14 506)
Fair value changes on derivatives (unrealised)	257	(79)	-	-
Depreciation of property and equipment (note 2)	4 450	5 378	4 349	5 353
Loss on disposals of property and equipment	195	115	195	115
Amortisation of intangible assets – continuing operations (note 3)	1 095	1 074	752	731
Amortisation of intangible assets – discontinued operations (note 3)	-	-	-	200
Appropriations of members' funds (note 14)	(16 464)	(21 271)	(16 464)	(21 271)
Dividends received (note 23)	-	-	(20 000)	(5 000)
Rewards to members (note 33)	53 249	62 495	53 249	62 495
Interest receivable	(2 478)	3 144	(3 155)	2 054
Accrued interest	(3 319)	6 187	(4 027)	5 489
Servicer fee receivable	-	-	(346)	(306)
Insurance rewards payable (note 17)	8 012	-	-	-
Investment in subsidiary (note 4)	-	-	-	700
Changes in working capital				
Advances (excluding impairments)	(345 445)	(124 006)	(349 369)	(73 824)
Decrease/(increase) in trade and other assets	2 666	(3 692)	(23 669)	(47 374)
(Decrease)/increase in trade and other liabilities	(12)	8 970	(3 087)	(36 668)
	(678 935)	(434 142)	(701 052)	(417 422)

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
27. STATEMENT OF CASH FLOWS				
<i>(continued)</i>				
NET DEBT RECONCILIATION				
The analysis of net debt is as follows:				
Net debt				
Cash and cash equivalents (excluding restricted cash) (note 10)	171 676	74 730	7 474	3 776
Liabilities arising from financing activities (note 16)	(2 695 539)	(2 456 164)	(2 832 390)	(2 712 942)
Borrowings repayable within one year	(1 453 771)	(1 446 164)	(1 458 151)	(1 488 359)
Borrowings repayable after one year	(1 241 768)	(1 010 000)	(1 374 239)	(1 224 583)
	(2 523 863)	(2 381 434)	(2 824 916)	(2 709 166)

The movement in net debt is as follows:

	Opening R'000	Cash flows R'000	Non-cash movement/ maturity reclassi- fication R'000	Closing R'000
GROUP				
As at 31 August 2018				
Cash and cash equivalents (excluding restricted cash) (note 10)	74 730	96 946	-	171 676
Liabilities arising from financing activities (note 16)	(2 456 164)	(242 694)	3 319	(2 695 539)
Bank borrowings due within 1 year (excluding accrued interest)	(1 271 500)	(76 500)	50 000	(1 298 000)
Bank borrowings due after 1 year	(1 000 000)	-	(50 000)	(1 050 000)
Notes due within 1 year	(168 477)	15 574	-	(152 903)
Notes due after 1 year	(10 000)	(181 768)	-	(191 768)
Accrued interest	(6 187)	-	3 319	(2 868)
Net debt	(2 381 434)	(145 748)	3 319	(2 523 863)

Notes to the consolidated financial statements

for the year ended 31 August

	Opening R'000	Cash flows R'000	Non-cash movement/ maturity reclassi- fication R'000	Closing R'000
27. STATEMENT OF CASH FLOWS				
<i>(continued)</i>				
CO-OPERATIVE				
As at 31 August 2018				
Cash and cash equivalents (excluding restricted cash) (note 10)	3 776	3 698	-	7 474
Liabilities arising from financing activities (note 16)	(2 712 942)	(123 475)	4 027	(2 832 390)
Bank borrowings due within 1 year (excluding accrued interest)	(1 271 500)	(76 500)	50 000	(1 298 000)
Bank borrowings due after 1 year	(1 000 000)	-	(50 000)	(1 050 000)
Other borrowings due within 1 year	(211 370)	52 681	-	(158 689)
Other borrowings due after 1 year	(224 583)	(99 656)	-	(324 239)
Accrued interest	(5 489)	-	4 027	(1 462)
Net debt	(2 709 166)	(119 777)	4 027	(2 824 916)

	2018 R'000	2017 R'000
28. CO-OPERATIVE REWARDS PAID TO MEMBERS		
GROUP AND CO-OPERATIVE		
Cash rewards payable at the beginning of the year	(28 667)	(29 182)
Cash portion of total rewards payable (note 33)	(16 730)	(25 204)
Cash rewards payable at the end of the year (note 15)	20 307	28 667
	(25 090)	(25 719)

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
29. COMMITMENTS		
GROUP AND CO-OPERATIVE		
Operating lease commitments		
The future minimum operating lease payments which can be terminated are as follows:		
Less than 1 year	7 074	4 934
More than 1 year but less than 5 years	6 660	1 355
	13 734	6 289

The effect of the escalation clauses for rentals on properties is detailed above as part of the straight-lining performed on these leases.

30. GUARANTEE

First National Bank (a division of FirstRand Bank Limited), on behalf of Iemas Insurance Brokers Proprietary Limited, has issued a guarantee of R60,2 million (2017: R59,1 million) in favour of the Financial Sector Conduct Authority for net premiums collected and not paid over to the different insurers.

This guarantee is secured by a cession of advances receivable (refer to note 7).

31. RETIREMENT BENEFIT INFORMATION

Independent funds provide pension and other benefits for permanent employees and their dependants. At the end of the financial year, the following funds were in existence:

- » Sanlam Umbrella Pension Fund; and
- » Sanlam Provident Fund.

Members pay a maximum contribution of 7,5%. The group's contributions are charged against the statement of comprehensive income and amounted to R12,0 million (2017: R12,5 million) for the co-operative and R14,1 million (2017: R13,1 million) for the group.

The group is under no contractual obligation to guarantee retirement benefits, as all employees are part of the defined contribution scheme. No liability is provided for in this regard.

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
32. RELATED PARTIES		
All the related parties are incorporated in South Africa. For a list and the nature of the relationship of the related parties refer to note 4 and note 5.		
GROUP		
Income and expenses		
<i>Key management personnel</i>		
Salaries	8 604	8 055
Pension costs – defined contribution plans	768	768
Short-term incentive	6 151	6 481
Interest paid	683	362
Non-executive directors: directors emoluments	2 910	2 824
Outstanding balances		
<i>Key management personnel</i>		
Advances during the year	2 537	8 570
Outstanding balance at the end of the year	2 561	7 370
Leave pay accrued	708	746
CO-OPERATIVE		
Income and expenses		
<i>Commission and administration fees received from</i>		
Iemas (Co-operative) Limited Cell "A12"	–	170
Iemas Financial Services (Co-operative) Limited Cell "00228"	–	24 869
Iemas Financial Services (Co-operative) Limited Cell "00072"	–	2 312
Iemtech Proprietary Limited	–	1 003
Torque Securitisation (RF) Limited	2 909	4 446
Iemas Insurance Brokers Proprietary Limited	27 744	11 868
<i>Dividends received from</i>		
Iemas (Co-operative) Limited Cell "A12"	10 000	10 000
Iemas Financial Services (Co-operative) Limited Cell "00228"	30 000	30 000
Iemtech Proprietary Limited	–	5 000
Iemas Insurance Brokers Proprietary Limited	20 000	–

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
32. RELATED PARTIES <i>(continued)</i>		
CO-OPERATIVE <i>(continued)</i>		
Income and expenses <i>(continued)</i>		
<i>Interest received from</i>		
Torque Securitisation (RF) Limited in respect of:		
» subordinated loan	1 409	1 700
» class D notes	7 793	10 523
» class D2 notes	2 002	-
» class B2 notes	5 448	7 924
» class B3 notes	1 355	-
» class C2 notes	2 839	4 030
» class C3 notes	827	-
» class A3 notes	209	19
Iemtech Proprietary Limited	-	3
<i>Interest paid to</i>		
Torque Securitisation (RF) Limited	37 619	68 321
<i>Key management personnel</i>		
Salaries	8 604	8 055
Pension costs – defined contribution plans	768	768
Short-term incentive	6 151	6 481
Interest paid	683	362
Non-executive directors: directors emoluments	2 644	2 574
Loan advances during the year		
<i>Loans advanced to related parties</i>		
Torque Securitisation (RF) Limited	526 531	-
<i>Loans replaced between related parties</i>		
Torque Securitisation (RF) Limited	225 531	-

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
32. RELATED PARTIES <i>(continued)</i>		
Outstanding balances		
<i>Receivable from related parties</i>		
Iemtech Proprietary Limited	21	12
Iemas Insurance Brokers Proprietary Limited	74 462	47 210
Iemas (Co-operative) Limited Cell "A12"	-	2 843
The Cooperative Switch Proprietary Limited	976	-
Torque Securitisation (RF) Limited		
» Subordinated loan	5 300	11 008
» Investment in class A3 notes	-	5 964
» Investment in class B2 notes	-	84 000
» Investment in class B3 notes	49 500	-
» Investment in class C2 notes	-	39 000
» Investment in class C3 notes	29 000	-
» Investment in class D notes	-	70 000
» Investment in class D2 notes	48 000	-
» Interest accrued related to the subordinated loan	37	74
» Interest accrued related to the investment in class A3 notes	-	24
» Interest accrued related to the investment in class B2 notes	-	337
» Interest accrued related to the investment in class B3 notes	208	-
» Interest accrued related to the investment in class C2 notes	-	172
» Interest accrued related to the investment in class C3 notes	127	-
» Interest accrued related to the investment in class D notes	-	483
» Interest accrued related to the investment in class D2 notes	305	-
» Servicer fee	346	306
<i>Payable to related parties</i>		
Iemas Financial Services (Co-operative) Limited Cell "00228"	-	6 344
Iemas Financial Services (Co-operative) Limited Cell "00072"	-	613
Iemtech Proprietary Limited	-	844
Torque Securitisation (RF) Limited		
» Non-current portion (note 16)	324 239	224 583
» Current portion (note 16)	158 689	211 370
<i>Key management personnel</i>		
Advances during the year	2 537	8 570
Outstanding balance at the end of the year	2 561	7 370
Leave pay accrued	708	746

Notes to the consolidated financial statements

for the year ended 31 August

	2018 R'000	2017 R'000
33. CO-OPERATIVE REWARDS DECLARED TO MEMBERS		
GROUP AND CO-OPERATIVE		
Cash portion of total co-operative rewards payable (note 28)	16 730	25 204
Co-operative rewards credited to members' funds (note 14)	37 207	38 881
Overprovision of prior year co-operative rewards (note 14)	(688)	(1 590)
Co-operative rewards to members	53 249	62 495
Interest credited to members' funds (note 14)	47 414	45 627
Co-operative rewards and interest accrued for the year	100 663	108 122

34. FINANCIAL RISK MANAGEMENT

The group has risk management embedded in its philosophy, practices, strategic planning, line management responsibilities and operations. Structures are in place to exercise control and oversee the risk management process towards generating continued value for members and promoting the interest of all its stakeholders. The Iemas board of directors is ultimately responsible for risk management and is supported by the audit and risk committee and the corporate risk office.

The risk management policy is based on best practices such as the International Standard ISO 31000. The process of risk analysis is conducted bi-annually, when a change in business processes or circumstances is recorded or when a new project is embarked upon. The group recognises the balance required between entrepreneurial endeavour and effective risk management practice in its quest to create long-term competitive advantage. The group's activities expose it to the following financial risks:

Credit risk

Credit risk refers to the risk of loss or of adverse change in the financial position resulting directly or indirectly from the non-performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty and debtors to which members and policyholders are exposed. It could also arise from the decrease in value of an asset subsequent to the downgrading of counterparties.

Credit risk arises from investments in available-for-sale financial assets, investment in insurance contracts and advances receivable.

Market risk

Market risk for members is the risk that the fair value on future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuers, or factors affecting all similar financial instruments traded in the market.

Liquidity risk

Liquidity risk is the risk that the group is unable to meet its financial obligations when they fall due as a result of members' reward payments, cash requirements from contractual commitments, or other cash outflows.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

The purpose of the following section is to provide information on the processes in place to manage and mitigate the financial risks inherent to the group.

CREDIT RISK

Credit risk in the group is managed in terms of the credit risk management framework, which is prepared by the credit risk management committee. The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the credit risk management committee

Credit risk governance

The credit risk management committee consists of the chief executive officer, chief financial officer, executive director and the general manager for credit and legal services. The credit risk management committee is headed by the chief executive officer.

The executive directors have approved a risk management policy and framework. The processes followed to identify, evaluate and manage risk are clearly reflected in this framework. The board of directors remains responsible for the oversight of risk, however, the board has delegated the review function to the audit and risk committee.

Managing credit risk

Management recognises and accepts that losses may occur through the inability of a counterparty to pay amounts in full when due. In order to limit this risk, the credit risk management committee has formulated guidelines regarding the assessment of customers' credit worthiness. These guidelines included the affordability assessment as required by the National Credit Act, management of credit risk associated with various customers depending on their portfolio, a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors. The credit risk management policy is reviewed at least annually and also whenever significant changes in the environment occur that require intervention to manage the risk. The policy is revised in line with the group's credit risk appetite to meet members' needs as well as to be in line with market trends, current economic circumstances, requirements of participating employers and the requirements of the National Credit Act.

The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. The co-operative performs credit evaluations of the financial position of its members and employer groups and, where appropriate, requires credit life insurance. Salary deductions are contractually negotiated with the employers before credit is granted to a member of the co-operative. At 31 August 2018 the co-operative was of the opinion that there was no significant concentration of credit risk that had not been adequately provided for. More detail on the management of credit risk of advances is presented in the accounting policies.

Credit mitigation instruments are used, where appropriate. These include collateral and guarantees. There is also a specialist asset recovery unit that is responsible for repossessions and constitutes an important part of Iemas' risk management programme.

Iemas' main business model is based on strong relationships with the employers that Iemas has contracted to provide salary deduction-backed facilities to their employees. Iemas' business could be adversely affected, should legislation be introduced that prohibits salary deductions.

Available-for-sale financial assets

The group has invested in the Hollard Insurance Company Limited cell captive, previously known as Regent Insurance Company Limited. During the year Regent Insurance Company Limited and Hollard Insurance Company Limited entered into a transfer of business agreement for the transfer of a portion of the short-term insurance business of Regent Insurance Company Limited to Hollard Insurance Company Limited. The maximum exposure to credit risk at the reporting date is the carrying value of the investment.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Transferred assets that are not derecognised

Iemas sold participating assets that complied with the eligibility criteria and portfolio covenants to an issuer (Torque Securitisation (RF) Limited). The issuer funded the purchase by issuing notes to investors and drawing down on subordinated loans provided by Iemas. A security special purpose vehicle was established for the purpose of guaranteeing the performance by the issuer of its obligation to secured creditors (which include note holders, Iemas as the subordinated lender, Iemas as the first loss loan provider and other creditors of the issuer) set out in the priority of payments. Iemas retained substantially all the risks and rewards of ownership due to the nature of the credit enhancements provided. The subordinated retained interest absorbs all the variability in the cash flows and therefore the participating assets are recognised in their entirety, as even though the transfer of cash flows has been met, Iemas still retains substantial risks and rewards of ownership. Based on the above facts, the assets are still being reflected on the co-operative's statement of financial position.

The details of Torque Securitisation (RF) Limited as a financial instrument measured at amortised cost is presented below.

	2018 R'000	2017 R'000
Torque financial instruments at amortised cost		
Carrying amount of assets	554 191	468 073
Carrying amount of liabilities	(479 586)	(391 826)

For all liabilities that have recourse only to the transferred assets, management has assessed that the fair value of assets and liabilities approximate the cost.

Credit quality

The following table sets out the group's credit ratings so far as the instrument is rated:

Available-for-sale financial assets

	Global Credit Rating 2018		Global Credit Rating 2017	
Hollard Insurance Company Limited/ Regent Insurance Company Limited	AA	(Nov 18)	AA-	(Jul 17)

The group invested in the Hollard Insurance Company Limited cell captive, previously known as Regent Insurance Company Limited. Hollard Insurance Company Limited is South Africa's largest privately-owned insurance group.

Notes to the consolidated financial statements

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
34. FINANCIAL RISK MANAGEMENT <i>(continued)</i>				
Cash and cash equivalents and funds borrowed from banks				
The balances borrowed from banks are as follows (note 16):				
Absa Bank Limited	800 000	800 000	800 000	800 000
Standard Bank of South Africa Limited	700 000	700 000	700 000	700 000
First National Bank (a division of FirstRand Bank Limited)	849 462	776 989	776 989	776 989
The balances held with banks are as follows (note 10):				
First National Bank (a division of FirstRand Bank Limited)	187 906	92 600	7 418	3 703

The long-term credit ratings for all the banks where balances are held are disclosed in note 10. Management considered the concentration risk on cash and cash equivalents and is of the opinion that the risk is adequately managed by holding funding balances at three of the major banks in South Africa.

Receivables from related parties

Included in receivables from related parties for the co-operative is a receivable of R74,5 million (2017: R47,2 million) from Iemas Insurance Brokers Proprietary Limited, a wholly owned subsidiary of the co-operative. The detail of this receivable is set out in the following table:

	2018 R'000	2017 R'000
Employer group receivables and deposits	75 417	30 750
Daily operational related transactions	(955)	16 460

Employer group receivables and deposits consist of financing transactions with employer groups that Iemas Insurance Brokers Proprietary Limited collects on behalf of the co-operative and for which the funds have not been received as at 31 August 2018. As and when funds are received in cash, it is transferred to the co-operative. If funds are not received, the financing transactions are reversed to the co-operative. These cash flows are not separately disclosed. No interest is raised on either the employer group receivables or the receivable between the co-operative and Iemas Insurance Brokers Proprietary Limited, due to the short term nature thereof. At year-end there was no employer group with funds outstanding that was considered to be irrecoverable. Iemas Insurance Brokers Proprietary Limited provided a limited guarantee, ceding this receivable as security for bank borrowings of the co-operative (note 16).

Daily operational related party transactions pertain to inter-company transactions between the co-operative and Iemas Insurance Brokers Proprietary Limited in the normal course of business. These transactions are not subject to any interest charge. Related party income and charges are included in related party disclosures.

Collateral disclosure

Credit risk in respect of the exposure of the group is mitigated by collateral such as the deferred bonus payment fund, pension fund cessions and credit life policies. Refer to the detail of collateral held in the following advances table.

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for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Advances

Advances comprise vehicle loans, pension-backed loans, maxi loans (unsecured consumer loans) and other unsecured loans (personal loans). The fair value of advances receivable approximates the carrying value in the statement of financial position, due to the term of the advances and small fluctuations observed in the interest rate and credit environment. The net advances as disclosed in note 7, represent the group and co-operative's maximum exposure to credit risk. The following collateral is held for the different advances:

	Net advances before impairment R'000	Collateral R'000	Members' funds appropriation R'000	(Over)/under collateralised R'000
GROUP				
As at 31 August 2017				
Pension-backed loans	1 214 548	1 214 548	47 473	(47 473)
Vehicle loans	2 716 681	2 285 711	73 125	357 845
Maxi loans	337 441	–	70 450	266 991
Other unsecured loans	460 658	–	92 890	367 768
Employer groups	50 183	–	–	50 183
	4 779 511	3 500 259	283 938	995 314
As at 31 August 2018				
Pension-backed loans	1 264 946	1 264 946	44 741	(44 741)
Vehicle loans	2 809 811	2 332 402	70 834	406 575
Maxi loans	430 664	–	56 569	374 095
Other unsecured loans	496 155	–	96 972	399 183
Employer groups	46 258	–	–	46 258
	5 047 834	3 597 348	269 116	1 181 370
CO-OPERATIVE				
As at 31 August 2017				
Pension-backed loans	1 214 548	1 214 548	47 473	(47 473)
Vehicle loans	2 716 681	2 285 711	73 125	357 845
Maxi loans	337 441	–	70 450	266 991
Other unsecured loans	460 658	–	92 890	367 768
	4 729 328	3 500 259	283 938	945 131
As at 31 August 2018				
Pension-backed	1 264 946	1 264 946	44 741	(44 741)
Vehicle loans	2 809 811	2 332 402	70 834	406 575
Maxi loans	430 664	–	56 569	374 095
Other unsecured loans	496 155	–	96 972	399 183
	5 001 576	3 597 348	269 116	1 135 112

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

- » *Pension-backed loans:* A portion of the member's retirement benefit is ceded to recover any bad debts on these loans.
- » *Vehicle loans:* The member's vehicle is held as security for these loans. Current market trade values have been applied to the adjusted vehicle kilometre readings in calculating the collateral value of vehicles. The kilometre readings were taken at inception of the contract and have subsequently been adjusted with a depreciation rate based on historical trends.

In the past, collateral on vehicle loans was capped per vehicle loan and similarly deferred bonus payment refund appropriations were capped per outstanding loan amount. During the year under review this calculation was extended to ensure that, in addition to the current limitation, both the vehicle and deferred bonus payment fund collateral combined does not exceed the outstanding loan amount. The 2017 numbers were accordingly restated. This adjustments indirectly impacted the deferred bonus payment fund available as collateral for the pension-backed loans, maxi loans and other unsecured loans.

Any over-collateralisation per individual loan as a result of the appropriation of members' funds is repayable to the member in accordance with the co-operative's constitution.

Arrears

Advances are repayable by regular instalments and are considered past due if R1 is in arrears for one day or more and remains unpaid as at the reporting date. In these instances, the full outstanding amount is considered overdue, even if part is not yet due.

A past due analysis is performed for advances with specific expiry or instalment repayment dates.

The following tables provide an overview of loans and advances for the group and co-operative:

Age analysis of advances

	Neither past due nor specifically impaired R'000	Past due but not specifically impaired R'000	Total: Past due and specifically impaired R'000	Past due and specifically impaired			
				0-30 days R'000	31-60 days R'000	61-90 days R'000	>90 days R'000
GROUP							
As at 31 August 2017							
Pension-backed loans	1 190 936	23 612	-	-	-	-	-
Vehicle loans	2 498 427	-	218 254	68 566	22 045	18 476	109 167
Maxi loans	323 643	-	13 798	6 176	2 426	2 243	2 953
Other unsecured loans	447 520	-	13 138	6 799	2 110	1 728	2 501
Employer groups	50 183	-	-	-	-	-	-
	4 510 709	23 612	245 190	81 541	26 581	22 447	114 621
As at 31 August 2018							
Pension-backed loans	1 243 309	21 637	-	-	-	-	-
Vehicle loans	2 595 543	-	214 268	68 079	22 116	13 003	111 070
Maxi loans	414 519	-	16 145	7 706	3 730	2 119	2 590
Other unsecured loans	482 304	-	13 851	7 462	1 920	1 689	2 780
Employer groups	46 258	-	-	-	-	-	-
	4 781 933	21 637	244 264	83 247	27 766	16 811	116 440

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

	Neither past due nor specifically impaired R'000	Past due but not specifically impaired R'000	Total: Past due and specifically impaired R'000	Past due and specifically impaired			
				0-30 days R'000	31-60 days R'000	61-90 days R'000	>90 days R'000
CO-OPERATIVE							
As at 31 August 2017							
Pension-backed loans	1 190 936	23 612	-	-	-	-	-
Vehicle loans	2 498 427	-	218 254	68 566	22 045	18 476	109 167
Maxi loans	323 643	-	13 798	6 176	2 426	2 243	2 953
Other unsecured loans	447 520	-	13 138	6 799	2 110	1 728	2 501
	4 460 526	23 612	245 190	81 541	26 581	22 447	114 621
As at 31 August 2018							
Pension-backed loans	1 243 309	21 637	-	-	-	-	-
Vehicle loans	2 595 543	-	214 268	68 079	22 116	13 003	111 070
Maxi loans	414 519	-	16 145	7 706	3 730	2 119	2 590
Other unsecured loans	482 304	-	13 851	7 462	1 920	1 689	2 780
	4 735 675	21 637	244 264	83 247	27 766	16 811	116 440

The credit quality of 'Neither past due nor impaired advances' is positively impacted if the employee is a current member and if the advances are collected by debit order or salary deduction. Further disclosure on credit quality is included in note 7 and in the accounting policies.

'Past due but not specifically impaired advances' comprise pension-backed loans. No impairment is raised on these advances as historically these advances were recoverable.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Offsetting financial assets

The following advances receivable are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amount of recognised financial assets R'000	Gross amounts of recognised financial liabilities set off in the statement of financial position R'000	Net amounts of financial assets presented in the statement of financial position R'000	Related financial instruments not set off in the statement of financial position R'000	Net amount R'000
GROUP					
As at 31 August 2017					
Pension-backed loans	1 214 548	–	1 214 548	(47 473)	1 167 075
Vehicle loans	2 716 681	–	2 716 681	(73 125)	2 643 556
Maxi loans	337 441	–	337 441	(70 450)	266 991
Other unsecured loans	460 658	–	460 658	(92 890)	367 768
Employer groups	50 183	–	50 183	–	50 183
	4 779 511	–	4 779 511	(283 938)	4 495 573
As at 31 August 2018					
Pension-backed loans	1 264 946	–	1 264 946	(44 741)	1 220 205
Vehicle loans	2 809 811	–	2 809 811	(70 834)	2 738 977
Maxi loans	430 664	–	430 664	(56 569)	374 095
Other unsecured loans	496 155	–	496 155	(96 972)	399 183
Employer groups	46 258	–	46 258	–	46 258
	5 047 834	–	5 047 834	(269 116)	4 778 718

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

	Gross amount of recognised financial assets R'000	Gross amounts of recognised financial liabilities set off in the statement of financial position R'000	Net amounts of financial assets presented in the statement of financial position R'000	Related financial instruments not set off in the statement of financial position R'000	Net amount R'000
CO-OPERATIVE					
As at 31 August 2017					
Pension-backed loans	1 214 548	–	1 214 548	(47 473)	1 167 075
Vehicle loans	2 716 681	–	2 716 681	(73 125)	2 643 556
Maxi loans	337 441	–	337 441	(70 450)	266 991
Other unsecured loans	460 658	–	460 658	(92 890)	367 768
	4 729 328	–	4 729 328	(283 938)	4 445 390
As at 31 August 2018					
Pension-backed loans	1 264 946	–	1 264 946	(44 741)	1 220 205
Vehicle loans	2 809 811	–	2 809 811	(70 834)	2 738 977
Maxi loans	430 664	–	430 664	(56 569)	374 095
Other unsecured loans	496 155	–	496 155	(96 972)	399 183
	5 001 576	–	5 001 576	(269 116)	4 732 460

Prior year numbers for related financial instruments not set off in the statement of financial position have been restated. Refer to the collateral disclosure.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Impairments

Specific impairments are raised for advances that are past due and impaired, whilst portfolio impairments are raised for advances that are neither past due nor impaired. The following table sets out the movement in specific and portfolio impairments:

	Opening R'000	Utilised R'000	Provided R'000	Closing R'000
GROUP AND CO-OPERATIVE				
As at 31 August 2017				
Specific impairment				
» Vehicle loans	62 529	(33 677)	36 429	65 281
» Maxi loans	13 773	(14 037)	11 034	10 770
» Other unsecured loans	5 508	(5 961)	7 223	6 770
	81 810	(53 675)	54 686	82 821
Portfolio impairment				
» Vehicle loans	18 327	(7 622)	3 731	14 436
» Maxi loans	29 150	(17 280)	19 035	30 905
» Other unsecured loans	12 713	(13 708)	22 833	21 838
	60 190	(38 610)	45 599	67 179
Total				
» Vehicle loans	80 856	(41 299)	40 160	79 717
» Maxi loans	42 923	(31 317)	30 069	41 675
» Other unsecured loans	18 221	(19 669)	30 056	28 608
	142 000	(92 285)	100 285	150 000
As at 31 August 2018				
Specific impairment				
» Vehicle loans	65 281	(33 938)	36 588	67 931
» Maxi loans	10 770	(6 896)	5 587	9 461
» Other unsecured loans	6 770	(6 000)	6 219	6 989
	82 821	(46 834)	48 394	84 381
Portfolio impairment				
» Vehicle loans	14 436	(7 875)	13 667	20 228
» Maxi loans	30 905	(11 868)	8 679	27 716
» Other unsecured loans	21 838	(16 324)	17 161	22 675
	67 179	(36 067)	39 507	70 619
Total				
» Vehicle loans	79 717	(41 813)	50 255	88 159
» Maxi loans	41 675	(18 764)	14 266	37 177
» Other unsecured loans	28 608	(22 324)	23 380	29 664
	150 000	(82 901)	87 901	155 000

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT (continued)

Impairments (continued)

Impairments held as percentage of gross advances are summarised below:

	Neither past due nor specifically impaired %	Past due but not specifically impaired %	Past due and specifically impaired %	Total %
GROUP AND CO-OPERATIVE				
As at 31 August 2017				
Pension-backed loans	-	-	-	-
Vehicle loans	0,6	-	29,9	2,9
Maxi loans	9,5	-	78,1	12,4
Other unsecured loans	4,9	-	51,5	6,2
Employer groups	-	-	-	-
As at 31 August 2018				
Pension-backed loans	-	-	-	-
Vehicle loans	0,8	-	31,7	3,1
Maxi loans	6,7	-	58,6	8,6
Other unsecured loans	4,7	-	50,5	6,0
Employer groups	-	-	-	-

Sensitivity analysis

In order to assess the sensitivity of the estimates and assumptions used in the calculation of the amount recognised for the impairment of advances receivable, the following sensitivity analysis has been performed in respect of both performing and non-performing loans. As the calculation of the impairment of advances receivable was based on the average net bad debt write-offs in the previous financial year as a percentage of the average outstanding advances for the same period, the sensitivity of the amounts provided for the impairment of advances receivable were tested based on changes in these percentages by the following:

	Change in the write-off percentage		Sensitivity	
	2018 %	2017 %	2018 %	2017 %
Neither past due nor specifically impaired				
Vehicle loans	0,2	0,2	5 138	4 946
Maxi loans	0,5	0,5	2 024	1 574
Other unsecured loans	0,3	0,3	1 331	1 222
			8 493	7 742
Past due and specifically impaired				
Vehicle loans	3,0	3,0	6 428	6 548
Maxi loans	3,0	3,0	484	414
Other unsecured loans	3,0	3,0	416	394
			7 328	7 356

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

MARKET RISK

The key components of market risk are price risk and interest rate risk.

Price risk

The risk of a decline in the value of a security or a portfolio.

Interest rate risk

Interest rate risk refers to the risk that the fair value of the future cash flows from a financial instrument will fluctuate as a result of changes in market interest rates.

Market risk governance

The credit risk management committee is responsible for the group's market risk management, with the audit and risk committee of the board of directors providing oversight for market risks assumed in the group's statement of financial position on behalf of members.

Interest rate risk

The group's interest rate risk arises from advances, other receivables, available-for-sale financial assets and borrowings. This exposes the group to effects of fluctuations in the prevailing levels of market interest rates, in its statements of financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce in the event that unexpected movements in interest rates occur. These assumptions are based on management's judgement. At 31 August 2017 99,96% of the advances were prime linked. The remaining 0,04% pertained to a portion of maxi loans that were granted at fixed rates that were not adjusted for any movements in the South African Reserve Bank (SARB) repurchase rate. At 31 August 2018 there were no maxi loans that were granted initially at fixed rates, therefore all advances are prime linked.

Funding for the advances consists of an appropriate mix of 64% (2017: 66%) prime-linked funding, 25% (2017: 22%) 3-month JIBAR-linked funding and 11% (2017: 12%) overnight call funding from three major South African commercial banks.

As part of the management of market risk, the group entered into interest rate swaps to match the interest rate risk associated with JIBAR-linked notes issued to the underlying prime-linked advances being financed. The group however cancelled the interest rate swap in May 2018 (note 18).

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
The exposure of the group's advances receivable to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Advances	25 008	23 636	25 008	23 636
The table is based on advances with a total carrying value of R5 001,6 million (2017: R4 727,3 million) that excludes fixed rate maxi loans of R0 million (2017: R2,0 million) and balances owed by employer groups of R46,3 million (2017: R50,2 million) which do not carry interest. This is applicable for the group and co-operative.				

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
The exposure of prime-linked other receivables to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Prime-linked other receivables	-	-	267	405
The table is based on other receivables with a total value of R53,3 million (2017: R81,0 million) for the co-operative.				
The exposure of JIBAR-linked other receivables to a 3-month JIBAR rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
JIBAR-linked other receivables	-	-	393	645
The table is based on other receivables with a total value of R78,5 million (2017: R129,0 million) for the co-operative.				
The exposure of the cash and cash equivalents to an interest rate change of 0,5% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Cash and cash equivalents	940	463	37	19
The table is based on cash and cash equivalents of the group with a total value of R188,0 million (2017: R92,7 million) and a total value of R7,5 million (2017: R3,8 million) for the co-operative.				

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
The exposure of the borrowings linked to prime rate to a change in the negotiated interest rate of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Borrowings: prime-linked (excluding notes)	5 244	5 315	5 244	5 315
The table is based on borrowings with a total value of R1 748,0 million (2017: R1 771,5 million) for the group and co-operative.				
The group's long-term borrowings linked to prime rate is partially offset by 100,00% (2017: 99,96%) of advances linked to prime.				
The exposure of the borrowings linked to a 3-month JIBAR rate to a change in the negotiated interest rate of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Borrowings: 3-month JIBAR-linked (excluding notes)	1 800	1 500	1 800	1 500
The table is based on borrowings with a total value of R600,0 million (2017: R500,0 million) for the group and co-operative.				
The exposure of the group's notes to a 3-month JIBAR rate change of 0,3% at the reporting date will have the following pre-tax impact on 'net interest income before impairment of advances' in the statement of comprehensive income over a one-year period:				
Borrowings: notes	1 034	535	-	-
The table is based on notes with a total value of R344,7 million (2017: R178,5 million) for the group.				
The notes are issued at rates linked to 3-month JIBAR.				

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

LIQUIDITY RISK

Management is responsible for the establishment and monitoring of lending and funding policies. It ensures that the statement of financial position is flexible enough to adapt to changing economic conditions and that the quality of assets is maintained. Due to the dynamic nature of the underlying business, the co-operative aims to maintain flexibility in funding by keeping committed credit lines available.

The following table presents the cash flows payable under non-derivative financial liabilities in terms of the remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, which is the manner in which the group manages its liquidity risk. The table includes all liquid assets and liabilities which consist of all financial instruments together with investments in insurance contracts.

	0 to 6 months R'000	7 to 12 months R'000	13 to 36 months R'000	Over 36 months R'000
GROUP				
As at 31 August 2017				
Due to banks and note holders	1 025 011	560 569	1 055 400	-
Due to members	-	-	-	786 461
Cash co-operative rewards to members	28 667	-	-	-
Other liabilities	156 541	1 923	13 753	-
Total liquid liabilities	1 210 219	562 492	1 069 153	786 461
Advances receivable	930 495	813 890	2 484 364	1 975 034
Investments in insurance contracts	-	-	-	146 614
Available-for-sale financial assets	-	-	-	424
Cash and cash equivalents	92 673	-	-	-
Trade and other assets	7 753	-	-	-
Total liquid assets	1 030 921	813 890	2 484 364	2 122 072
Net liquidity position	(179 298)	251 398	1 415 211	1 335 611
As at 31 August 2018				
Due to banks and note holders	1 075 371	541 772	1 298 894	-
Due to members	-	-	-	814 064
Cash co-operative rewards to members	20 307	-	-	-
Other liabilities	160 637	3 060	21 199	425
Total liquid liabilities	1 256 315	544 832	1 320 093	814 489
Advances receivable	988 929	817 191	2 649 935	2 219 656
Investments in insurance contracts	-	-	-	144 503
Available-for-sale financial assets	-	-	-	552
Cash and cash equivalents	187 962	-	-	-
Trade and other assets	7 429	-	-	-
Total liquid assets	1 184 320	817 191	2 649 935	2 364 711
Net liquidity position	(71 995)	272 359	1 329 842	1 550 222

The group actively manages its liquidity based on the liquidity brackets determined by the covenants contained in the common terms agreement. These covenants require a positive net liquidity position in the '0 to 12 month', '13 to 36 month' and 'over 36 months' brackets, which the group is in compliance with.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT (continued)

	0 to 6 months R'000	7 to 12 months R'000	13 to 36 months R'000	Over 36 months R'000
CO-OPERATIVE				
As at 31 August 2017				
Due to banks	901 907	506 974	1 044 865	-
Due to members	-	-	-	786 461
Cash co-operative rewards to members	28 667	-	-	-
Other liabilities	242 557	113 471	247 829	16 870
Total liquid liabilities	1 173 131	620 445	1 292 694	803 331
Advances receivable	930 495	813 890	2 484 364	1 975 034
Investments in insurance contracts	-	-	-	146 614
Cash and cash equivalents	3 776	-	-	-
Other non-current receivables	-	-	161 990	-
Other current receivables	-	47 981	-	-
Trade and other assets	65 337	12 200	15 643	-
Total liquid assets	999 608	874 071	2 661 997	2 121 648
Net liquidity position	(173 523)	253 626	1 369 303	1 318 317
As at 31 August 2018				
Due to banks	980 750	456 953	1 091 614	-
Due to members	-	-	-	814 064
Cash co-operative rewards to members	20 307	-	-	-
Other liabilities	226 291	98 945	299 720	105 704
Total liquid liabilities	1 227 348	555 898	1 391 334	919 768
Advances receivable	942 671	817 191	2 649 935	2 219 656
Investments in insurance contracts	-	-	-	144 503
Cash and cash equivalents	7 474	-	-	-
Other non-current receivables	-	-	36 754	95 046
Trade and other assets	85 032	7 707	31 423	11 543
Total liquid assets	1 035 177	824 898	2 718 112	2 470 748
Net liquidity position	(192 171)	269 000	1 326 778	1 550 980

The co-operative actively manages its liquidity based on the liquidity brackets determined by the covenants contained in the common terms agreement. These covenants require a positive net liquidity position in the '0 to 12 month', '13 to 36 month' and 'over 36 months' brackets, which the co-operative is in compliance with.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Members' fund liability is payable to them in cash or set off against any amount owing to the co-operative at the date of termination of membership or death. Interest is allocated to members' funds on an annual basis, at a market-related rate.

The member's funds will be repaid to a member on death, liquidation or sequestration of the member, or upon on a written request from a member after the member reached the age of 63 years or upon termination of membership. These payments are made subject to certain conditions being met and payments are made provided that the board of directors is of the opinion that the group is in a position financially to do so.

Financial instruments by category

	Deriva- tives used for hedging R'000	Loans and receiv- ables R'000	Held-to- maturity financial assets R'000	Available- for-sale financial assets R'000	Total R'000
Assets as per the statement of financial position					
GROUP					
As at 31 August 2017					
Advances receivable	-	4 605 238	-	-	4 605 238
Derivative financial instruments	257	-	-	-	257
Available-for-sale financial assets	-	-	-	424	424
Cash and cash equivalents	-	92 673	-	-	92 673
Trade and other assets excluding pre-payments	-	6 093	-	-	6 093
	257	4 704 004	-	424	4 704 685
As at 31 August 2018					
Advances receivable	-	4 865 259	-	-	4 865 259
Available-for-sale financial assets	-	-	-	552	552
Cash and cash equivalents	-	187 962	-	-	187 962
Trade and other assets excluding pre-payments	-	4 062	-	-	4 062
	-	5 057 283	-	552	5 057 835

Notes to the consolidated financial statements

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34. FINANCIAL RISK MANAGEMENT *(continued)*

	Deriva- tives used for hedging R'000	Loans and receiv- ables R'000	Held-to- maturity financial assets R'000	Available- for-sale financial assets R'000	Total R'000
Assets as per the statement of financial position					
CO-OPERATIVE					
As at 31 August 2017					
Advances receivable	-	4 555 055	-	-	4 555 055
Other non-current receivables	-	41 983	120 008	-	161 991
Other current receivables	-	47 981	-	-	47 981
Cash and cash equivalents	-	3 776	-	-	3 776
Trade and other assets excluding pre-payments	-	52 964	-	-	52 964
	-	4 701 759	120 008	-	4 821 767
As at 31 August 2018					
Advances receivable	-	4 819 001	-	-	4 819 001
Other non-current receivables	-	-	131 800	-	131 800
Cash and cash equivalents	-	7 474	-	-	7 474
Trade and other assets excluding pre-payments	-	78 854	-	-	78 854
	-	4 905 329	131 800	-	5 037 129

Notes to the consolidated financial statements

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34. FINANCIAL RISK MANAGEMENT *(continued)*

	Other financial liabilities at amortised cost R'000
Liabilities as per the statement of financial position	
GROUP	
As at 31 August 2017	
Borrowings	2 456 164
Due to members	786 461
Cash co-operative rewards to members	28 667
Trade and other liabilities excluding non-financial liabilities	142 006
	3 413 298
As at 31 August 2018	
Borrowings	2 695 539
Due to members	814 064
Cash co-operative rewards to members	20 307
Trade and other liabilities excluding non-financial liabilities	150 337
	3 680 247
CO-OPERATIVE	
As at 31 August 2017	
Borrowings	2 712 942
Due to members	786 461
Cash co-operative rewards to members	28 667
Trade and other liabilities excluding non-financial liabilities	98 465
	3 626 535
As at 31 August 2018	
Borrowings	2 832 390
Due to members	814 064
Cash co-operative rewards to members	20 307
Trade and other liabilities excluding non-financial liabilities	96 380
	3 763 141

Notes to the consolidated financial statements (continued)

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE ESTIMATION

Valuation processes

The group's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes. Selecting the most appropriate valuation methods and techniques, in terms of IFRS 13, is an outcome of internal discussion and deliberation. Changes in fair values are analysed at each reporting date.

Hierarchy of fair value of financial instruments

IFRS 13 defines a hierarchy of valuation techniques, with three levels, for fair value measurements of assets and liabilities. This hierarchy is based on the extent to which the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the group's assessment of the market's perspective. The group first considers relevant and observable market inputs, where these are available. Unobservable inputs are used in the absence of observable inputs. The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change and disclose circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

The tables below summarises the classification of the group's financial instruments and their fair values, by their IFRS 13 hierarchy.

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
GROUP				
As at 31 August 2017				
Assets				
Advances receivable	Amortised cost	4 605 238	4 605 238	Level 3
Available-for-sale financial assets ⁽¹⁾	Fair value	424	424	Level 3
Cash and cash equivalents ⁽¹⁾	Amortised cost	92 673	92 673	
Derivative financial instruments ⁽²⁾	Fair value	257	257	Level 2
Trade and other assets excluding pre-payments ⁽¹⁾	Amortised cost	6 093	6 093	
		4 704 685	4 704 685	
Liabilities				
Borrowings (excluding notes) ⁽¹⁾	Amortised cost	2 276 989	2 276 989	
Borrowings: notes	Amortised cost	179 175	179 214	Level 2
Due to members ⁽¹⁾	Amortised cost	786 461	786 461	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	28 667	28 667	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	142 006	142 006	
		3 413 298	3 413 337	

⁽¹⁾ The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments.

⁽²⁾ Interest rate swaps.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT (continued)

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
GROUP				
As at 31 August 2018				
Assets				
Advances receivable	Amortised cost	4 865 259	4 865 259	Level 3
Available-for-sale financial assets ⁽¹⁾	Fair value	552	552	Level 3
Cash and cash equivalents (note 10) ⁽¹⁾	Amortised cost	187 962	187 962	
Trade and other assets excluding pre-payments ⁽¹⁾	Amortised cost	4 062	4 062	
		5 057 835	5 057 835	
Liabilities				
Borrowings (excluding notes) ⁽¹⁾	Amortised cost	2 349 462	2 349 462	
Borrowings: notes ⁽¹⁾	Amortised cost	346 077	346 077	
Due to members ⁽¹⁾	Amortised cost	814 064	814 064	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	20 307	20 307	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	150 337	150 337	
		3 680 247	3 680 247	
CO-OPERATIVE				
As at 31 August 2017				
Assets				
Advances receivable	Amortised cost	4 555 055	4 555 055	Level 3
Other non-current receivables – loan to related party (note 8) ⁽¹⁾	Amortised cost	11 008	11 008	
Other non-current receivables – investment in debt instruments (note 8)	Amortised cost	150 983	151 903	Level 2
Other non-current receivables – investment in debt instruments (note 8)	Amortised cost	47 981	48 212	Level 2
Cash and cash equivalents ⁽¹⁾	Amortised cost	3 776	3 776	
Trade and other assets excluding pre-payments ⁽¹⁾	Amortised cost	52 964	52 964	
		4 821 767	4 822 918	

⁽¹⁾ The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments.

Notes to the consolidated financial statements (continued)

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT (continued)

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
CO-OPERATIVE				
As at 31 August 2017				
Liabilities				
Borrowings ⁽¹⁾	Amortised cost	2 712 942	2 712 942	
Due to members ⁽¹⁾	Amortised cost	786 461	786 461	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	28 667	28 667	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	98 465	98 465	
		3 626 535	3 626 535	
As at 31 August 2018				
Assets				
Advances receivable	Amortised cost	4 819 001	4 819 001	Level 3
Other non-current receivables – loan to related party (note 8) ⁽¹⁾	Amortised cost	5 300	5 300	
Other non-current receivables – investment in debt instruments (note 8) ⁽¹⁾	Amortised cost	126 500	126 500	
Cash and cash equivalents (note 10) ⁽¹⁾	Amortised cost	7 474	7 474	
Trade and other assets excluding pre-payments ⁽¹⁾	Amortised cost	78 854	78 854	
		5 037 129	5 037 129	
Liabilities				
Borrowings ⁽¹⁾	Amortised cost	2 832 390	2 832 390	
Due to members ⁽¹⁾	Amortised cost	814 064	814 064	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	20 307	20 307	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	96 380	96 380	
		3 763 141	3 763 141	

⁽¹⁾ The fair value of these assets and liabilities closely approximates their carrying amount due to their short-term or on-demand repayment terms or variable interest rates associated with these instruments.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Fair value calculation methods, inputs and techniques

Advances to members

An income approach was used to value advances to members. The expected present value technique was applied, discounting probability weighted pre-tax cash flows (i.e. expected cash flows which take account of lifetime expected bad debt experience) of the group. The equity component of the cost of capital was determined using the capital asset pricing method. The market risk premium was based on recent trade history and includes a marketability discount to address the fact that the assets, on a stand-alone basis, are not typically traded over-the-counter or on any formal exchange. The debt component referenced the government R186 as the risk-free rate. Where the fair value calculated approximate the carrying value, the carrying value has been disclosed.

Derivative financial instruments

Derivative financial instruments were valued using the income approach. The derivative comprised a JIBAR/prime interest rate swap that was fair valued on a discounted basis using forward interest rates extracted from an observable yield curve.

Available-for-sale financial assets

Fair value is driven through the net asset value of the Hollard Insurance Company Limited cell captive. For more detail refer to note 9.

Asset-backed notes

The 2017 fair value of the asset-backed notes were determined by making use of the official mark-to-market price which has not been adjusted for tradability given the run-down of the book. Due to the de-listing of the Torque Securitisation (RF) Limited notes the asset-backed notes are now measured at amortised cost.

CAPITAL RISK MANAGEMENT

The group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns and rewards for members, as well as to maintain an optimal capital structure to reduce the cost of capital. When maintaining or adjusting the capital structure, the group may adjust the amount of rewards paid or allocated to members. Externally exposed capital is managed according to the various agreements in place.

A cash amount as required by the Financial Sector Conduct Authority is kept in a separate bank deposit account in the group as restricted cash. Refer to note 10 for details of the Financial Sector Conduct Authority requirement.

The group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt divided by total capital. Net debt (refer note 27) is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents (excluding restricted cash). Total equity is calculated as 'equity' as shown in the statement of financial position plus 'members' funds' as shown in the statement of financial position. Total capital is calculated as total equity plus net debt.

Notes to the consolidated financial statements

for the year ended 31 August

34. FINANCIAL RISK MANAGEMENT *(continued)*

Debt to equity ratios at 31 August were as follow:

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Total borrowings (note 16)	2 695 539	2 456 164	2 832 390	2 712 942
Less: Cash and cash equivalents (excluding restricted cash) (note 10)	(171 676)	(74 730)	(7 474)	(3 776)
Net debt (note 27)	2 523 863	2 381 434	2 824 916	2 709 166
Total equity	2 437 129	2 306 362	2 329 676	2 207 976
Capital and reserves	1 623 065	1 519 901	1 515 612	1 421 515
Members' funds (note 14)	814 064	786 461	814 064	786 461
Total capital	4 960 992	4 687 796	5 154 592	4 917 142
Debt to equity ratio (%)	50,9	50,8	54,8	55,1

35. DISCONTINUED OPERATIONS

On 1 April 2017, the co-operative sold its short-term insurance and funeral and life insurance business to Iemas Insurance Brokers Proprietary Limited, a wholly-owned subsidiary of the co-operative (refer note 4). The board made the decision to sell the insurance divisions to Iemas Insurance Brokers Proprietary Limited to ensure compliance with the requirements of the Financial Sector Conduct Authority (Financial Services Board at the time). The sale of the divisions were reported as discontinued operations. Financial information was presented for the seven months ended 31 March 2017.

	2017 7 months R'000
The results of the discontinued operations on the statement of comprehensive income, are as follow:	
CO-OPERATIVE	
Short-term insurance income	24 429
Funeral and life insurance income	31 102
Total income	55 531
Short-term insurance expenses	(9 524)
Funeral and life insurance expenses	(9 480)
Profit before income tax	36 527
Income tax (note 26)	(10 228)
Profit from discontinued operations	26 299

Notes to the consolidated financial statements

for the year ended 31 August

35. DISCONTINUED OPERATIONS *(continued)*

	2017 7 months R'000
The results of the discontinued operations on the statement of cash flows, are as follows:	
CO-OPERATIVE	
Cash generated from operations	
Profit before income tax from discontinued operations	36 527
Changes in working capital	
Increase in trade and other liabilities	(9 753)
Net cash flow generated from operating activities	26 774