ANNUAL REPORT 2018

IEMAS
FINANCIAL SERVICES
your caring partner

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About this report

The board of directors of Iemas Financial Services (Co-operative) Ltd ("Iemas" or "the co-operative") presents the group annual report for 2018 which reflects the value creation of the business for its stakeholders and the strategy to ensure the continued sustainability of the business. Governance, compliance, management of corporate risks and ethical behaviour underpin the business and these aspects are addressed in the report.

The annual report for the year ended 31 August 2018 has been prepared in accordance with the principles and practices contained in the King Code of Governance Principles for South Africa 2009 (King III). The King IV report, released in November 2016, further advances South Africa's leadership in corporate governance. Iemas is in the process of evaluating its governance practices against those proposed in King IV, and will adopt King IV in the next financial year, to the extent practical, possible and in accordance with the co-operative model.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Co-operatives Act, No 14 of 2005. The co-operative has also taken cognisance of the recommendations contained in the International Integrated Reporting Framework published in 2013.

SCOPE AND BOUNDARY OF THE REPORT

Stakeholders and partnerships are crucial to the co-operative's business. Iemas endeavours to tell an integrated value creation story and the report is aimed at providing key stakeholders with concise and transparent feedback regarding the co-operative's strategy, performance, governance and prospects.

The scope of the report covers the main business units, subsidiaries and cell captives. It encompasses the business activities of Iemas, which are conducted exclusively within South Africa, for the period from 1 September 2017 to 31 August 2018.

The report includes information about Iemas' past, present and future strategy, stakeholder engagement initiatives, financial and non-financial performance, the most important risks that the group has to manage and mitigate, together with future opportunities. The significant risks are listed on pages 25 and 26 and are addressed throughout the report.

ASSURANCE, COMPARABILITY AND RESTATEMENTS

The consolidated financial statements have been audited by PricewaterhouseCoopers Inc. (PwC). Comparative figures, unless specifically indicated otherwise, cover the prior financial year ended 31 August 2017. There were no restatements during the year under review.

FEEDBACK REQUEST

The board of directors welcomes feedback on the annual report for 2018 from stakeholders. Please contact Madelein Barkhuizen, group manager of corporate marketing, at madelein.barkhuizen@iemas.co.za with any suggestions or enquiries.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking. Iemas believes that these statements are reasonable and take into account information available up to the date of the report. Results could, however, differ materially from those set out in the forward-looking statements due to, among other factors, changes in economic and market conditions, changes in the regulatory environment, changes in interest rates and changes in the exchange rate of the rand. The forward-looking statements are not guarantees of future performance and are based on assumptions regarding Iemas' present and future business model, strategy and the environment in which it operates. Forward-looking statements attributable to Iemas, or any member thereof, or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statements above and below.

Iemas expressly disclaims any obligation or undertaking to disseminate any updates or revisions to the forward-looking statements contained herein or to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which forward-looking statements are based. The forward-looking statements have neither been reviewed nor audited by Iemas' external auditors, PwC.

APPROVAL OF THE ANNUAL REPORT

The board of directors acknowledges its responsibility to ensure the integrity of the annual report. The board has accordingly applied its mind to the annual report and, in its opinion, the annual report addresses all material issues and fairly presents the integrated performance of the co-operative.

The annual report has been prepared in line with best practice to the extent possible in the year under review. The board authorised the annual report for release on 16 October 2018.

For and on behalf of the board

Temba Mvusi
Chairman

Johan Nel
Chief executive officer

Organisational profile

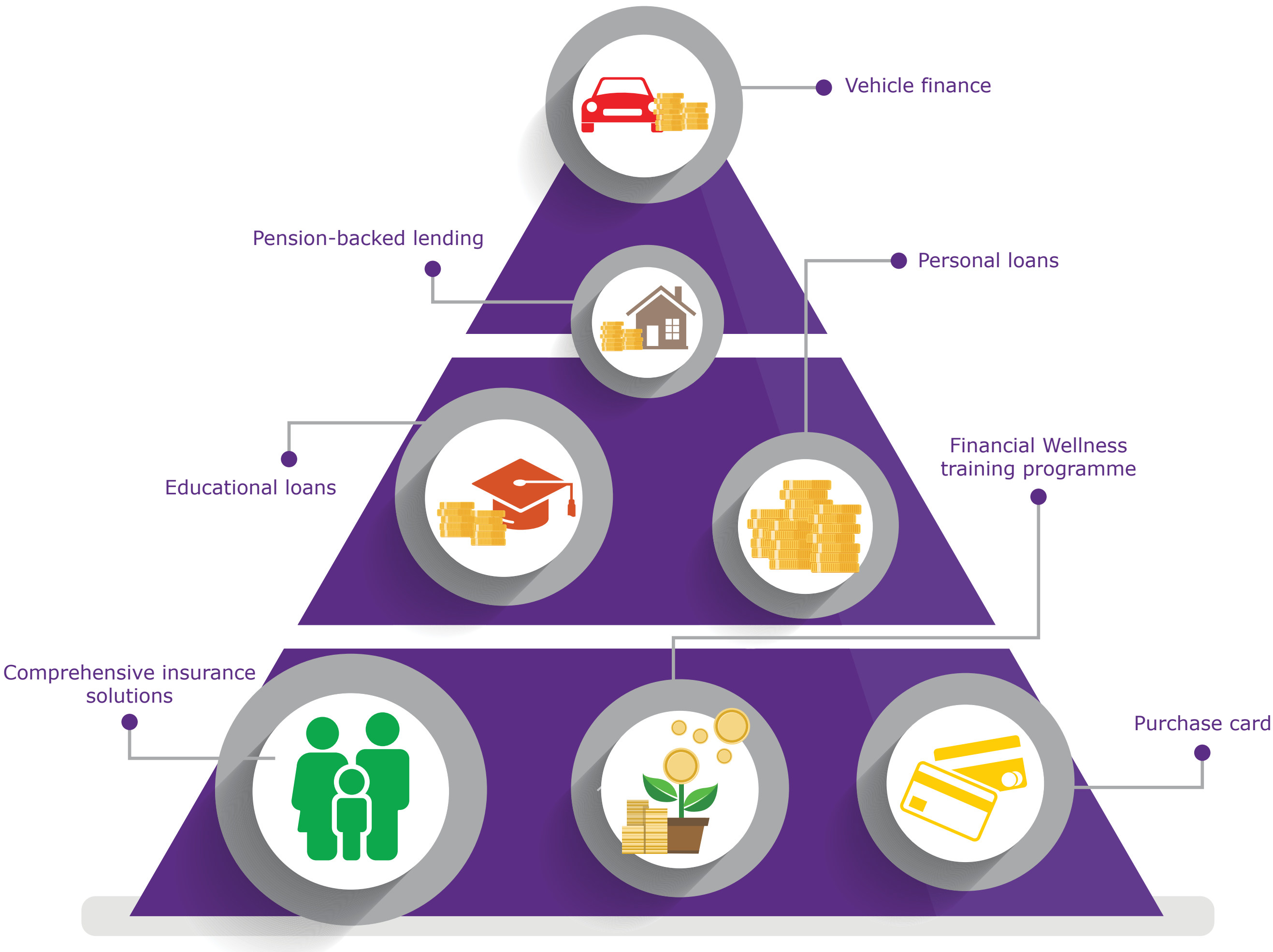
Iemas was established in 1937 and remains a sustainable member-owned co-operative with over 160 000 members, an employee complement of 602 and a comprehensive financial products and services portfolio.

The group provides financial products and services to a market that predominantly consists of employees employed at contracted organisations in different business sectors across the country.

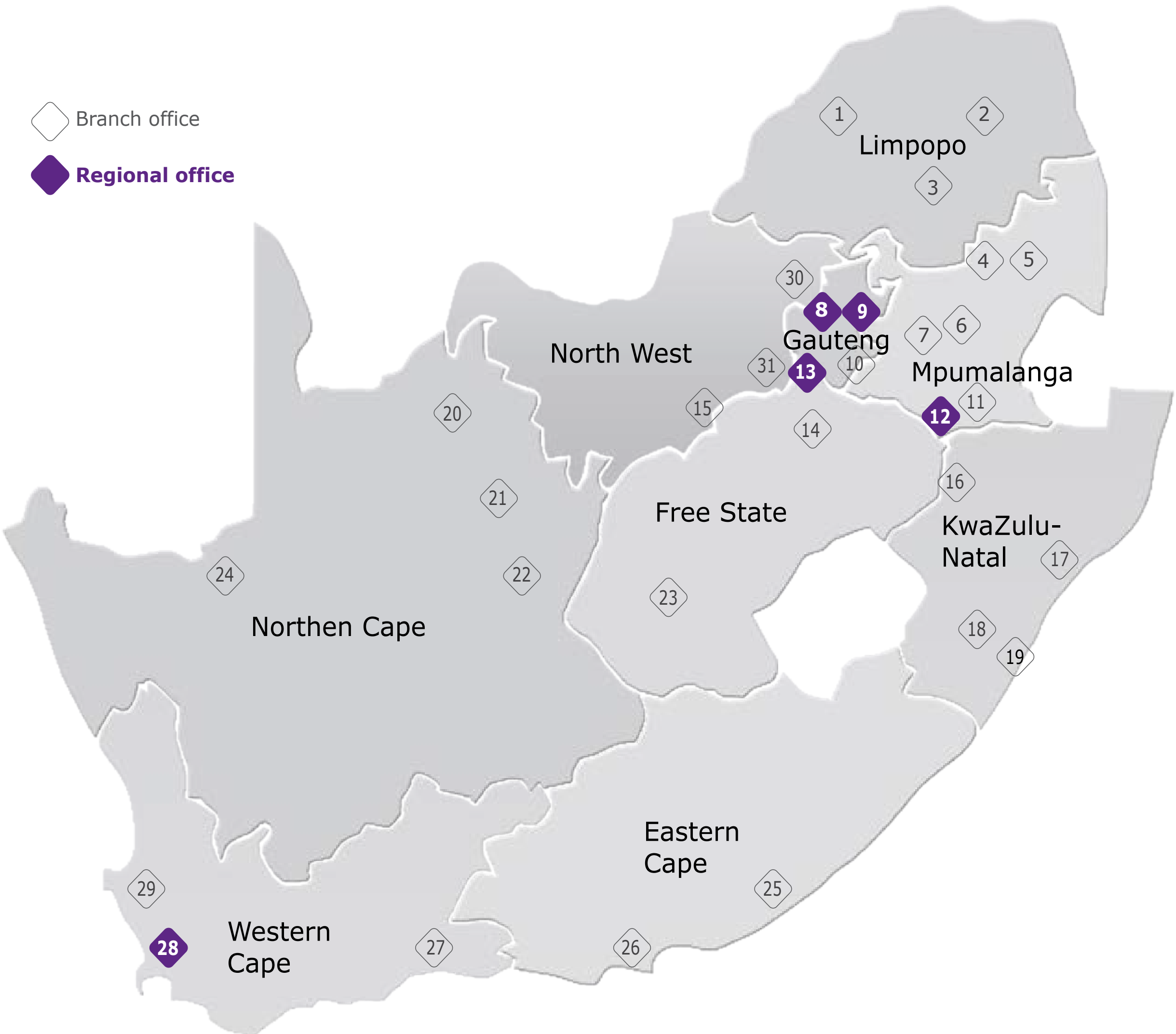
In line with co-operative principles and the brand promise of being a caring partner, people remain at the heart of the business model. Therefore, profits are shared among members in relation to the business each member conducted with Iemas during a specific financial year. Over the past ten years Iemas allocated R1,0 billion to members, with R109,4 million in 2018 alone.

Iemas further believes that financial education plays a pivotal role in cultivating a culture of financial inclusion as it enables members to make sound financial decisions and to ultimately achieve holistic financial wellness. Iemas therefore offers free financial wellness workshops at the workplace and successfully trained 7 028 employees during 2018.

Iemas' comprehensive product portfolio consists of various affordable and competitive financial solutions that include vehicle finance, secured and unsecured loan products and a purchase card. Comprehensive insurance solutions include motor and household insurance, life and funeral insurance, savings and investment products as well as will and estate planning services.



Members access Iemas' range of financial products and services via various channels including worksite service points, SMS, e-mail, phone, fax, the corporate website and/or personal visits to any of Iemas' offices across South Africa. The geographic footprint is included below:



1. Lephalale
2. Phalaborwa
3. Polokwane
4. Steelpoort
5. Nelspruit
6. Middelburg
7. Emalahleni
8. **Centurion regional office**
9. **Head office**
10. Boksburg
11. Secunda branch
12. **Secunda regional office**
13. **Vanderbijlpark regional office**
14. Sasolburg
15. Klerksdorp
16. Newcastle
17. Richards Bay
18. Pietermaritzburg
19. Durban
20. Blackrock
21. Kathu
22. Postmasburg
23. Bloemfontein
24. Aggeneys
25. East London
26. Port Elizabeth
27. Mossel Bay
28. **Bellville regional office**
29. Vredenburg
30. Rustenburg
31. Carletonville

Performance overview

TOTAL INCOME

2018: R878,3m

2017: R890,2m
2016: R966,6m
2015: R1 023,1m
2014: R973,3m

- 1,3%

PROFIT FOR THE YEAR

2018: R103,0m

2017: R118,3m
2016: R131,4m
2015: R161,4m
2014: R154,5m

- 12,9%

+ 6,2%

2018: 54,7%

2017: 48,5%
2016: 44,4%
2015: 41,5%
2014: 42,8%

COST-TO-INCOME RATIO

REWARDS ALLOCATED TO MEMBERS

2018: R109,4m

2017: R109,7m
2016: R123,5m
2015: R135,1m
2014: R127,0m

- 0,3%

+ 6,8%

2018: R1 623,1m

2017: R1 519,9m
2016: R1 401,5m
2015: R1 270,2m
2014: R1 108,6m

OWN RESERVES

+ 7,4%

2018: R5 332,6m

2017: R4 964,5m
2016: R4 937,1m
2015: R5 492,9m
2014: R5 651,5m

TOTAL ASSETS

+ 9,7%

2018: R2 695,5m

2017: R2 456,2m
2016: R2 572,5m
2015: R3 258,2m
2014: R3 624,0m

BORROWINGS

NON-FINANCIAL

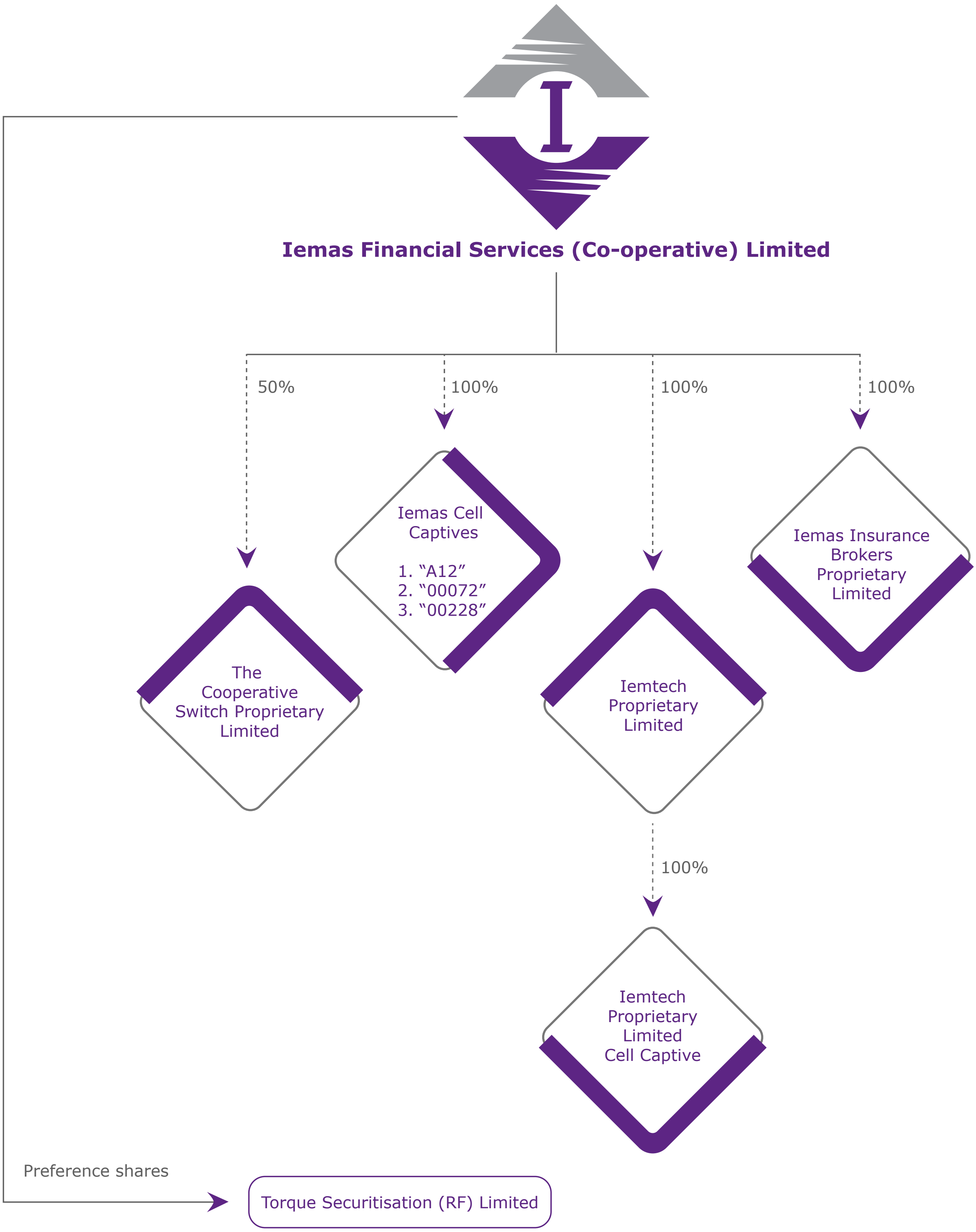
+ 8,7%

2018: 602

2017: 554
2016: 503
2015: 562
2014: 563

NUMBER OF EMPLOYEES

Group structure



*Dormant companies (wholly-owned subsidiaries)
- Iemark Marketing Proprietary Limited
- Iemas Financing Propietary Limited

Message from the chairman

Temba Mvusi

THE CO-OPERATIVE DIFFERENCE

With a rich history spanning more than 8 decades, Iemas continues to offer a comprehensive range of competitive financial products and services to its members across South Africa. Being a co-operative, Iemas is owned by, and operated for the benefit of its members and therefore a portion of its profits is allocated to members annually. I am pleased to announce that, during November 2018, members will receive R109,4 million (2017: R 109,7 million) in reward allocations. Despite challenges posed by the macro-economic environment, Iemas has been able to allocate R1,0 billion in member rewards over the past decade. This significant contribution back to our members is testament of Iemas' commitment to co-operative principles.

FINANCIAL INCLUSION

South Africa in general has a low level of financial inclusion, characterised by a relatively small percentage of low-income households that actively transact using their bank accounts while the remaining, far larger portion, withdraw the total balance from their account once available. Financial exclusion is complex and attributable to various reasons. Financial institutions should therefore promote financial inclusion and create opportunities for consumers to have access to comprehensive and affordable financial products.

Iemas endeavours to uplift its communities and contribute to financial inclusion via its unique business model, its distribution channels, financial wellness workshops, financial wellness questionnaires and by providing products and services to members whose needs are not always being met by other financial institutions.

CELEBRATING 80 YEARS

Iemas celebrated its 80th year of existence in September 2017. From modest beginnings in 1937 when the Iscor Employees Mutual Aid Society (I.E.M.A.S.) was established within the former Iscor to assist employees in getting discount on purchases of general goods, Iemas has grown to become the largest financial services co-operative in South Africa. The group's net advances amounted to R5 047,8 billion (2017: R4 779,5 million) for 2018.

Iemas remains sustainable – both in good and challenging economic times – due to the resilience and endurance of its uncomplicated and transparent business model. In line with developments in the macro-economic environment, the group's recorded a decrease in the profit for the year of 12,9% (2017: 10%).

BUILDING CAPACITY AND CAPABILITY

The challenges and opportunities presented by Iemas' external environment and, specifically those in the financial services industry are continuously evaluated. The financial services industry is experiencing increasing competitive intensity, tighter regulations, pressure on margins, slow growth in lending and consumers under financial pressure.

In reaction to these challenges and opportunities, Iemas' strategy has been affirmed as the building of capability and capacity for sustainable growth, underpinned by the co-operative model and mutually beneficial relationships with employer groups and members. Preparing for the implementation of the required systems to adequately modernise the business, and acquiring the funding that Iemas needs at competitive rates and terms, were underscored as important strategic priorities for the year under review.

Internally, Iemas also focused on acquiring the right skills and establishing a conducive culture for ensuring sustainable growth.

NEW ENTITIES CREATE OPPORTUNITIES FOR GROWTH

During the previous year, the board of directors approved the structuring of a new entity under Iemas' umbrella brand and ownership. Iemas Insurance Brokers, a wholly-owned subsidiary of the co-operative, operates with a new Financial Services Provider (FSP) license as a separate legal entity managed by Piet Wolmarans. The establishment of Iemas Insurance Brokers has enabled Iemas to intensify its focus on the insurance businesses and the unique challenges and opportunities that it presents.

During the previous year, the board also approved the development of a new card payment platform in partnership with the buying association, Cape Consumers. Historically, the buy-aids utilised the same platform provided by a single bank. Buy-aid transactions could only be facilitated via merchants that allowed for this payment platform, resulting in the exclusion of a large number of potential retailers. New developments and enhancements were limited, which constrained opportunities to grow the card business.

A new, more versatile platform was developed in the interest of both Iemas and Cape Consumers via a separate legal entity, The Cooperative Switch (Pty) Ltd, with both parties being joint equal shareholders. It is envisaged that the establishment of this new entity will create greater opportunities for growth and synergy in the card business and the larger payment space. It will also create an opportunity to extend the services of the company to other organisations.

A SKILLED BOARD OF DIRECTORS

The balance of skills and expertise of board members contributes to Iemas' sustainability. As and when vacancies arise, applicants are evaluated according to the financial, human resources (HR), information technology (IT), legal and operational aptitudes required by the board as a whole.

A staggered rotation of the members of the board ensures both the retention of valuable skills, knowledge and experience and the introduction of new members. During the year, Dr Piet Botha reached the end of his term as director and Ms Dashni Sinivasan was elected as non-executive director at the Annual General Meeting (AGM) in October 2017. Her experience, skills and expertise bring meaningful contributions to the group and the board of directors.

RISK MANAGEMENT

The board of directors has overall responsibility for the establishment and oversight of Iemas' risk management framework. In 2018, the risk areas that required additional scrutiny related to growth in the business, regulatory changes, business continuity, bad debt and arrears and the consequences of being inordinately exposed to certain business sectors. These risks are discussed in more detail on pages 25 and 26 of this report.

The board is satisfied with the soundness of Iemas' corporate governance and that management identifies, manages and mitigates the corporate risks appropriately to ensure Iemas' sustainability.

APPRECIATION

After nine years at the helm of Iemas, Johan Nel will retire at the end of December 2018. Johan was appointed on 1 October 2009 as the CEO designate, and officially as the CEO with effect from 1 April 2010. Early in Johan's tenure, a new strategy was formulated for Iemas based on the results of comprehensive market research. The strategic priorities included diversification of funding, a comprehensive brand refreshment, new corporate vision and values, modernised information technology implementations, revision of the human resources strategy, etc. Johan, together with the executive management team, successfully delivered on the strategy, including the strategic changes and additions agreed upon during the annual strategy review and feedback sessions to the board.

I thank Johan for his leadership and commitment to Iemas, its employees and stakeholders. Whilst his leadership will be sorely missed, we are looking forward to building on the successes that he has brought Iemas.

The board has confidence in the executive management team who have been involved in formulating and executing the strategy which delivered the building blocks for a sustainable future. They have been unwavering as we navigated various social, political and business challenges.

A formal recruitment process, to appoint a successor for Johan, was approved by the board. This included a detailed recruitment plan and the constitution of a selection committee (consisting of board members) who will manage the recruitment and appointment process. The board, Johan and the executive team are committed to ensure a smooth transition.

I am encouraged by my fellow directors, the people who have helped to set Iemas' strategic direction. The group benefits from the diverse perspectives that our board members bring as well as their commitment to the co-operative model that defines Iemas.

Being the preferred financial services co-operative for members and employers remains Iemas' committed vision and we wish to express our gratitude to our employer groups and members for their support and loyalty and for allowing us to serve them.

Iemas' employees contribute not only to Iemas, but also in many ways to the communities in which they live and work – we appreciate their efforts and their commitment to Iemas and the well-being of our members.

LOOKING FORWARD

During SONA (State of the Nation Address) 2018, President Cyril Ramaphosa alluded to the important role that co-operatives play in the sustainable development of communities and said that "Government will honour its undertaking to set aside at least 30 percent of public procurement to SMMEs, co-operatives and township and rural enterprises". As a group, looking into the future, we concur with the president's view and we will continue to uphold our commitment to financial inclusion and co-operative principles.

This is my last report as chairman of the board as I shall be retiring in October 2018 at the AGM, having reached the mandated tenure of 7 years as an independent non-executive director. Looking back on the 7 year journey with Iemas, I am immensely proud to have been part of the transformation of the co-operative to what it is today under the stewardship of Johan Nel. It has been a privilege to be part of the metamorphosis that made Iemas resilient, successful and trusted by its stakeholders.

On a personal note, I will forever cherish the memories of all the experiences that I had with board members, the executive management as well as employees in general, individually and collectively. Many thanks to all who have helped to make it rewarding and memorable.

Temba Mvusi
Chairman

Message from the chief executive officer

Johan Nel

The national events that transpired at the beginning of the year under review, mainly on the political front, resulted in an air of hope. These, and other proposed changes to budget and fiscal policy, averted South Africa from being downgraded to 'junk status' by Moody's in March 2018 and resulted in them improving their view of the country from a 'negative' to a 'stable' outlook.

However, economic growth for 2018 dropped below the initial expectations. The South African economy slipped into recession in the second quarter of 2018 with GDP contracting by 0,7% following a 2,6% contraction during the first quarter. Household consumption contracted by 1,3%, weighed down by a collapse in spending on durable, non-durable and semi-durable goods.

The contraction is partly due to the VAT increase that came in effect in April as well as higher fuel prices and increases in administered costs. The unemployment rate also increased to 27,2% in the second quarter. Consequently, the South African Reserve Bank lowered its growth outlook for 2018 from 1,7% to 1,2% in July.

Economic recovery for the remainder of the year is expected to be weak, especially due to the weaker consumer demand, which is a historical driver of upswings.

FINANCIAL PERFORMANCE AND RESILIENCE

Iemas' growth strategy for 2018 was to focus on good quality business – to not pursue business growth aggressively and to focus on replacing the core information technology systems. During the year under review, the group accomplished gradual growth in its business that consisted of higher quality debtors, aligned to the group's longer term sustainable growth strategy.

The profit for the year amounted to R103,0 (2017: R118,3 million). The stabilisation of its financial position enabled Iemas to create job opportunities and increase the employee compliment from 554 to 602 employees, thereby contributing to sustainable development.

The credit policy, together with its supplementing processes and procedures pertaining to credit risk and debt collection, have been stringently enforced. Solid affordability assessment standards ensured the curtailment of increases in arrear instalments and bad debts written off.

The statement of financial position reflects an increase in total assets from R4 964,5 million to R5 332,6 million (7,4%) for the year ending 31 August 2018. The consumer credit market remains characterised by high consumer debt levels and intense competition for creditworthy consumers. Advances receivable, current and non-current combined, increased from R4 605,2 million to R4 865,3 million which equates to an increase of 5,6% or R260,1 million for the year under review, mainly due to a balanced growth in both secured and unsecured advances to members who have the propensity to repay their debt.

The group's net asset value increased with 6,8% for the year, from R1 519,9 million to R1 623,1 million. Members' funds increased from R786,5 million to R814,1 million. Total borrowings, current and non-current, increased to R2 695,5 million (9,7%), ascribable to additional funding required to finance the increase in total advances.

The new credit life insurance regulations finally came into effect in August 2017 and affected all credit agreements concluded under the National Credit Act after the implementation date. Although Iemas welcomed these additional consumer protection regulations, the cap on maximum premiums resulted in lower premium income. In addition to this, the compulsory retrenchment cover also had a negative effect on the claims ratio. More information regarding the impact of these developments can be found on page 13 of the chief financial officer's report.

PROVIDING VALUABLE PRODUCTS AND SERVICE AS AN INSURANCE BROKER

From 1 April 2017, Iemas Insurance Brokers has been operating as a separate legal entity. During the year under review, its strategy, value proposition, human resources structure and remuneration models were evaluated and strengthened. In essence, the company offers clients the proposition to secure their future, their family, their belongings and their business by accessing various competitive insurance products and services. The company's marketing collateral was also redesigned and successfully rolled out to internal and external stakeholders.

Iemas Insurance Brokers recorded profit before income tax of R37,5 million (2017: R18,9 million) although its projected growth in policy units did not fully materialise. The regulatory cap placed on credit life insurance premiums also impacted negatively on commissions earned on the premiums.

SECURING CLIENTS' BELONGINGS

The intensely competitive short-term insurance industry is characterised by high levels of price-sensitivity. This results in pressure on premiums as market players lower premiums to gain market share at the expense of margin squeeze. Despite this competitive intensity, new market entrants are registered on a regular basis as the development of new insurance solutions and disruptive technological innovations create new opportunities. The number of short-term insurance policies increased by 5,9% (2017: decrease of 3,5%) with total income increasing by 10,2% (2017: 5,9%) to R48,3 million (2017: R43,8 million).

Agreements with large and well-established South African short-term insurance companies enable the brokerage to offer clients multiple quotations based on their individual risk profiles and personal needs. During the year, additional agreements were concluded with insurers to further enhance the short-term insurance value proposition and to satisfy client needs. A diversified portfolio in terms of product- and price options is available to Iemas' clients.

Employee turnover remains a challenge due to the high market demand for skilled, qualified people, especially in the short-term insurance sales environment. Various initiatives to counter this were implemented during the year, for example a youth recruitment programme where Iemas approached grade 11 and 12 learners at schools to educate them about short-term insurance and available job opportunities. This programme will continue into the next year.

The annual report of the ombudsman for short-term insurance was released during the first quarter of 2018. The ombud resolves client complaints about claim settlements and in 2017 some 80% of the cases were found in favour of the insurer. This is a reflection of a well-managed and well regulated industry. For the year under review, Iemas Insurance Brokers had one case registered with the ombud which is now closed.

SECURING CLIENTS' FUTURES AND FAMILIES

During the year, Iemas Insurance Brokers' business plan for the life division was reviewed to ensure alignment with changing operational and market needs.

Additional human resources, revised remuneration models and increased marketing spend yielded results and the total income from the division increased by 24,0% (2017: 11,2%) to R72,2 million (2017: R58,2 million).

During the next year, the division will focus on additional public relations activities, further enhancement of its digital presence, efficiency improvements and the roll-out of its financial wellness initiatives.

REPLACING CORE SYSTEMS

The replacement of Iemas' core technology systems was scheduled to be completed during the year under review. This would be the largest systems conversion in Iemas' history and will significantly shift the manner in which we work. Regrettably, given the scale and complexity of the project, the implementation date had to be postponed into the next financial year.

Systems already implemented include the first phase of a customer relationship management (CRM) system, a short-term insurance system, enterprise resource planning (ERP) system and document management system with the last phase being the implementation of loan approval, loan management, collections and card systems. The new systems will make it easier for the organisation to support its members and will further enhance efficiency, service levels and customer experiences.

The human resources division, in collaboration with corporate marketing, has commenced with the roll-out of an extensive change management programme to prepare employees for the implementation of the new systems. Change management is executed by a team consisting of both internal and external resources who focus on internal communication, optimising a learner management system, implementing blended learning, tracking and assessment to ensure organisational readiness.

Message from the chief executive officer (continued)

CARING ABOUT OUR COMMUNITIES

Iemas recognises that it functions within wider communities and the importance of providing opportunities for employees to partake in corporate social responsibility (CSR) initiatives. Therefore, employees are encouraged to donate to charity and to participate in initiatives for the benefit of local communities.

Iemas' CSR initiatives for the year encompassed a number of causes, which included continuous donations and assistance to an organisation established to assist abused and neglected girls, co-sponsoring a ladies breakfast held to raise funds for special needs children, annual donations of school shoes and school uniforms, support of national campaigns such as Tekkie Tax, CANSA Shavathon, Casual Day and Mandela Day, participation in the South African National Blood Services (SANBS) blood donation drive and an internal HIV/Aids awareness campaign focussed on Iemas employees who are directly or indirectly affected by HIV/Aids.

FINANCIAL LITERACY AND ADVICE

In line with co-operative principles, Iemas believes that financial literacy plays an important role in establishing a culture of financial inclusion. It equips employees of the contracted employers groups to make sound financial decisions and to ultimately achieve holistic financial wellness. As part of its value proposition, Iemas offers free financial wellness workshops at the workplace. Training modules include: how to budget; effective savings tips; escaping the debt spiral, the importance of having a will and a life file and what documentation to include. During the year, 7 028 employees (2017: 6 734 employees) from contracted employers nationally benefited from the workshops.

Through regular articles and tips in its newsletters, on the blog and via weekly e-mail, Iemas' members also received advice and education on savings, money management, budgeting and the repayment of their debt.

LOOKING FORWARD

Since his appointment as president, Mr Cyril Ramaphosa has pledged to reignite growth in the country. Some of his plans include creating more jobs, increased investment, containing debt and spending, and improved management of state-owned institutions.

However, although the future is looking brighter, economic improvement will not happen overnight. The economy is predicted to grow at a slow pace and will take time to reach a point where consumers can expect to start experiencing the benefits associated with an improved growth rate. South Africans need to remain focussed on achieving a healthy level of financial wellness. This includes managing debt responsibly, getting into the habit of budgeting to better manage expenses and saving for retirement or for a rainy day.

Iemas will continue to focus on steady growth in 2019, while being cognisant of the environment in which it operates. The group's products remain relevant with the focus shifting more towards delivery mechanisms and interactions with members to ensure alignment to their needs and expectations. Ensuring not to neglect its traditional market and business sectors, Iemas will continue to focus on the acquisition of members in less vulnerable business sectors and those in the middle to middle-high income categories. This is expected to result in steady growth and further improvement in the quality of the debtor's book.

The implementation and operationalisation of the new core information technology systems is one of the largest projects in our 80-year history and will be the single most important priority for the next year. The new systems will enhance Iemas' competitive position in a fast-changing technological environment. The change management programme is underway to ensure that employees are mobilised to effectively use an entirely new system, whilst maintaining service levels and minimising the impact on members.

Arrears and bad debts are an industry-wide concern and Iemas will persist in implementing the required actions to ensure that its credit management is done effectively to contain bad debts and arrears within acceptable levels. Positive feedback from members and employers confirm that efforts and initiatives to educate members in financial wellness is making a difference, and therefore Iemas will continue to support them in their journeys towards financial wellness. Coupled with these, Iemas will continue to offer affordable products and high levels of service.

THE END OF A CHAPTER

When I joined Iemas almost nine years ago, I was immediately impressed by the dedication and loyalty of the management and employees. Together, we experienced a number of very successful and also a few trying years. The economic and social environment posed many challenges that tested Iemas' resilience. However, our stakeholders, including our board, employees, members, employer groups, business partners and funders have rallied with us to navigate through the difficult times together. I have learnt not to doubt the tenacity of the Iemas spirit and its rich legacy.

The main purpose for Iemas' existence is to serve its members. Again, when joining Iemas from outside the organisation, I was astonished by the dynamics of the co-operative model and its members, as it manifested within the Iemas community. It was touching to experience the total commitment and loyalty of the members as well as the coherent spirit that prevailed among all stakeholders. We were able to capitalise on these values and qualities over the past nine years and have grown Iemas in many respects including employees, contracted employer groups, total assets, reserves and members' funds.

The group is looking forward to reap the rewards of the solid foundation that was laid through effective implementation of its strategy, and the imminent implementation of the new core systems which will position the group to grow in existing as well as new markets.

I have been blessed to end my full-time career at Iemas. I would like to express my deep gratitude to the management team, every Iemas employee and the board for their steady and unstinting support. I hope that the coming years bring good fortune and prosperity to Iemas, its members and everyone associated with Iemas.

Johan Nel
Chief executive officer

Chief financial officer's report

Tom O'Connell

GLOBAL ECONOMIC GROWTH

Lest the past two months, the two preceding years exhibited improved global economic activity, with the world's economies growing in a synchronised manner, resulting in a broad-based recovery. However, growth divergences between the United States on one side, and Europe and Japan on the other, are widening. Growth is also becoming more uneven among emerging market and developing economies, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of economies with weaker fundamentals.

As a result of these developments, the global backdrop has changed from a positive outlook to a neutral to negative outlook, exacerbated by the risks of increased protectionism, supply concerns, a generally stronger dollar and lower demand from China. Global growth is projected to reach 3,9% in 2018 and 2019, in line with the forecast of the April 2018 World Economic Outlook (WEO), although the expansion is becoming less even.

LOCAL ECONOMIC SENTIMENT

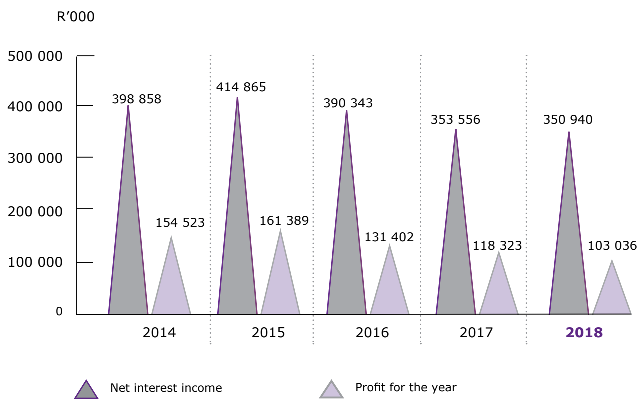
Against this backdrop, domestic weaknesses in South Africa also weigh on the outlook. Broad structural problems in the labour market, education and network industries, coupled with fiscal slippage, high unemployment, low consumption and a slow reform agenda constrained growth.

MODERATE PERFORMANCE

Concerted efforts to improve performance had a positive impact on the co-operative's performance for the year under review. The business stabilised during the first half and achieved moderate growth during the latter part of the year under review.

Profit for the year decreased by 12,9% (2017: decrease of 10,0%) to R103,0 million (2017: R118,3 million).

Performance



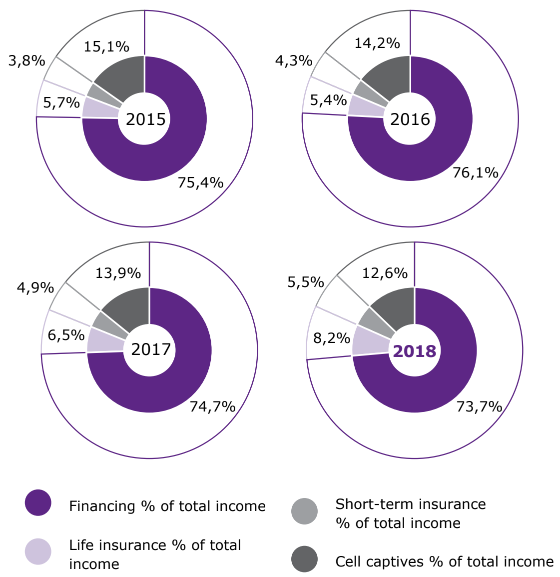
Financing, comprising mainly of vehicle advances, pension-backed housing advances and unsecured advances, remains the largest contributor to the group's income. Revenue from financing activities comprise interest received, administration fees and credit life insurance commission.

Interest income decreased by 0,7% (2017: 9,0%) from R629,8 million to R625,6 million, mainly due to the sluggish performance of the advances during previous years. Non-interest income decreased by 3,0% (2017: 5,2%) to R252,7 million (2017: R260,4 million), representing 28,8% (2017: 29,3%) of total income.

Other direct advance-related income, such as fees and commission, decreased by 1,3% (2017: 20,3%) to R51,0 million (2017: R51,7 million). The decrease in fees is mainly due to the impact of the final credit life insurance regulations, effective from August 2017, which impacted credit agreements concluded from this date under the National Credit Act.

The contributions to total income from financing, life insurance, short-term insurance and the cell captives are illustrated below.

Income contribution percentage per main product category



MAINTAINING A HEALTHY MIX OF ADVANCES

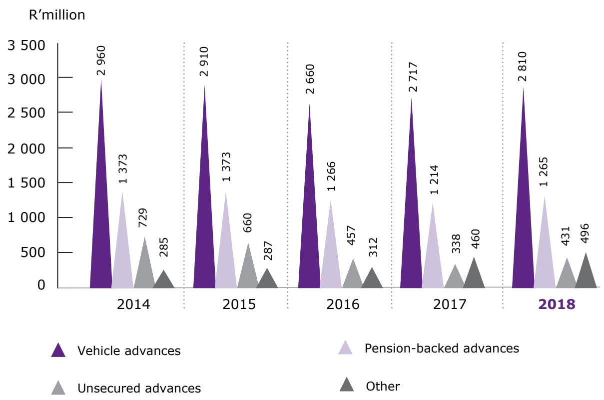
South African household debt decreased to 71.90% of gross income in 2017, from 74,40% in 2016. Since 2008, when household debt was 86,4%, there has been a downward trajectory and this metric of financial stress reached its lowest level in a decade in 2017. However, the debt level is still high when compared to other emerging countries. South African consumers remain under financial strain and it is therefore important that they have access to financial products and services that are offered in a responsible manner during times when they need assistance.

Because of the relatively high debt levels and a high number of consumers with defaults or judgements on their credit record, the credit market is characterised by strong competition to attract members with good credit profiles. In an effort to ensure the sustainability of the business, Iemas also focused on attracting members with healthy credit profiles and purposefully managed the quality and composition of its advances. As a result, the advances product mix remained well balanced.

The changes in advances per the main product categories were as follow:

- Vehicle advances increased by 3,4% (2017: 2,1%);
- Pension-backed advances increased by 4,1% (2017: decreased by 4,1%); and
- Unsecured and other advances increased by 16,1% (2017: 3,8%).

Advances per main product categories



Iemas' total net advances increased with 5,6% (2017: 0,6%) to R5 047,8 (2017: R4 779,5 million) which represented a noticeable improvement on the growth in net advances of R30,1 million recorded for the 2017 financial year. The moderate growth is mainly attributable to Iemas' large exposure to the mining and manufacturing industries which still experienced uncertainty, low business confidence and low growth.

Chief financial officer's report

(continued)

MODERATE GROWTH IN ADVANCES

The National Association of Automobile Manufacturers (Naamsa), in August 2018, stated that vehicle sales were expected to show modest improvement over the short to medium term and projected an improvement in domestic sales volumes of 2% – 3% in volume terms. Iemas' vehicle advances, which constitute the largest portion of the total advances, increased by 3,4% (2017: 2,1%) to R2 809,8 million (2017: R2 716,7 million).

Although South African household debt decreased, some cause for concern is the fact that the nature of the household debt has changed in that the portion utilised for mortgage advances decreased while the portion utilised for unsecured advances increased since 2006. However, Iemas' pension-backed housing advances, that comprise of loans utilised by members to either buy land or property or renovate their properties, increased by 4,1% (2017: decrease of 4,1%) to R1 264,9 million (2017: R1 214,5 million).

The increase of 16,1% (2017: 3,8%) in unsecured and other advances is mainly attributable to Iemas' strategy to focus on growth in the middle and middle-high income categories and a general improvement in credit market conditions.

LOW CREDIT LOSSES AMID PRUDENT CREDIT EXTENSION

There is often tension between members' financial needs and the moral and regulatory obligation on Iemas to be prudent on behalf of all members. Iemas' credit screening is done responsibly to protect members and to ensure that they do not find themselves in a situation they regret further down the road. Although unsecured advances increased during the year under review, the focus remained on advancing credit to creditworthy consumers rather than aggressively growing the book. This resulted in a shift in the risk profile of applicants.

Iemas is diligently managing the quality of both secured and unsecured advances. 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). In addition to sustained management, the decrease is attributable to a general stabilisation of business, both in Iemas and its participating employers and continuous improvement of credit control processes. The amount in arrears, classified conservatively, includes all arrears, regardless of the amount or reason and incorporates technical arrears.

The capital amount outstanding represents the total outstanding capital owed to Iemas for advances in arrears before taking into account any security, such as the value of the vehicle, a pledge on the member's pension fund credit or the member's available deferred bonus payment fund.

Capital outstanding of members under debt review increased from R76,7 million to R86,5 million, representing 1,7% (2017: 1,6%) of total advances. Considering the total number of members under debt review, R0,45 million (2017: R0,2 million) was in arrears at year-end, which represented 0,5% (2017: 0,3%) of the total capital owed by these members. The increasing trend in members under debt review is being monitored closely.

ADEQUATE PROVISION FOR IMPAIRMENT

Credit risk can be defined as the likelihood that a member will fail to meet their obligation in accordance with the agreed terms and conditions of a credit agreement. Exposure to credit risk continues to be a source of concern for financial institutions worldwide. Iemas makes adequate provision for impairment of bad debts through meticulous analysis of historic trends and projections of future market conditions. Strict adherence to credit policies and conservative credit evaluation criteria resulted in the decrease in non-performing loans and bad debts for the year under review.

The impairment provision increased by R5,0 million (2017: R8,0 million) to R155,0 million (2017: R150 million), which represented 4,1% (2017: 4,2%) of the total advances, excluding pension-backed housing advances. No provision was made for impairments on pension-backed housing advances as these advances are covered by a pledge of an equal amount of the member's pension fund credit. The positive variance is a result of both improved collection efforts and expected retrenchments at large employers which did not materialise during the year under review.

The impairment expenditure on vehicle advances increased by R0,5 million (2017: R3,4 million) to R41,8 million (2017: R41,3 million), representing 1,5% (2017: 1,5%) of the total vehicle advances. The impairment expenditure on unsecured advances decreased by

R9,9 million (2017: R16,0 million) to R41,1 million (2017: R51,0 million), representing 4,4% (2017: 6,4%) of the total unsecured advances, mainly due to the implementation of good credit practices. Post write-off recoveries increased by 5,9% (2017: decrease of 3,6%) from R10,5 million to R11,1 million.

The IFRS 9, 'financial instruments', is effective for annual periods beginning on or after 1 January 2018. Iemas will adopt IFRS 9 retrospectively in the next financial year.

CONTRIBUTION FROM THE INSURANCE BUSINESS

Iemas' primary business is financing which, as a natural value-adding process, leads to a broader value proposition that includes insurance and ancillary products offered to members. As detailed earlier in this report, Iemas Insurance Brokers was established as a wholly-owned subsidiary of the co-operative, operating with a new license as a separate legal entity, under the Iemas umbrella brand.

Iemas Insurance Brokers offers a diverse portfolio of life and non-life insurance products. The contribution to total income generated by the insurance business amounted to R120,5 million (2017: R102,0 million) of which 40,1% (2017: 42,9%) was contributed by the short-term insurance division and 59,9% (2017: 57,1%) by the life division.

The short-term insurance business is subject to intense competition, price-sensitive consumers, increasing regulations and a shortage of human resources with the required skills and qualifications. Total income increased by 10,2% (2017: 5,9%) to R48,3 million (2017: R43,8 million), while the number of policies increased by 5,9% (2017: decrease of 3,5%). Although fairly common in contact centres, high employee turnover added pressure to the business, contributing to lower-than-expected acquisition rates due to open seats in the outbound sales division.

The life division has agreements with the majority of large insurance companies in South Africa. Total income increased by 23,9% (2017: 11,2%) to R72,2 million (2017: R58,2 million) and expenditure increased by R21,8 million (2017: R6,0 million), resulting in a net income decrease of R7,8 million (2017: R0,2 million).

During the year, the business plan for the insurance business was reviewed and is expected to yield results in the next financial year, mainly through a larger and more effective sales team, repositioning of the value proposition and a complementary marketing strategy.

INCOME FROM CELL CAPTIVES

For the year ending 31 August 2018, the 'net premiums' decreased with R12,1 million (2017: R15,0 million), mainly due to the regulatory cap on credit life premiums on a portion of the unsecured advances as mentioned earlier in this review.

The 'net claims expense' was lower than expected. This was mainly due to projected retrenchment claims at large employers which did not materialise during the year.

SENSIBLE COST MANAGEMENT

There is cost associated with doing the right thing, doing things differently or doing nothing. The group's operating cost was contained well during the year and savings were realised mainly as a result of vacant positions, deferral of information technology cost owing to the inevitable postponement of the core systems' implementation date, amortisation of the loans system and the depreciation expense. The saving in the depreciation expense was realised due to a change in the accounting policy that increased the useful lives of computer equipment from 3 to 4 years, effective 1 September 2017.

Salary cost, the largest contributor to expenditure, increased by 10,4% (2017: 3,4%) to R186,9 million (2017: R169,3 million) and represents 54,2% (2017: 53,8%) of total operating cost. Iemas' total employee complement increased with 48 employees (2017: 51 employees) to 602 (2017: 554). The employee complement was strengthened mainly in the insurance business to support the product growth strategies and to ensure alignment of human resources capacity with the needs of the business.

The continued focus on the business modernisation project demanded an additional investment of R13,8 million (2017: R19,4 million) in information technology for the year under review. The business modernisation project is nearing finalisation with implementation scheduled for the next financial year.

The cost-to-income ratio increased from 48,5% to 54,7%. This was the result of an increase in net income of 0,5% (2017: decrease of 5,2%), with expenditure increasing by 10,8% (2017: 0,8%).

Chief financial officer's report

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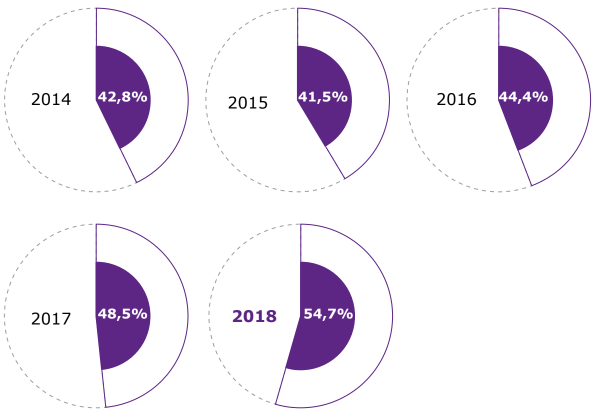
Cost-to-income ratio



MEMBERS SHARE IN THE PROFITS

The foundation of the co-operative model is that members share in the prosperity of the co-operative. Iemas' annual reward allocations to members illustrate its commitment to the co-operative principle. Total member rewards (excluding interest on the members' deferred bonus payment fund) amounted to R61,9 million (2017: R64,1 million), which represents 37,7% (2017: 35,4%) of net profit after tax before rewards.

The interest paid on members' deferred bonus payment funds amounted to R47,4 million (2017: R45,6 million), which represents a return of 6,5% (2017: 6,5%) on their funds. These returns compare favourably with savings products in the market. The total member rewards for 2018, which comprise the rewards allocated and the interest accrued on the members' deferred bonus payment funds, amounted to R109,4 million (2017: R109,7 million).

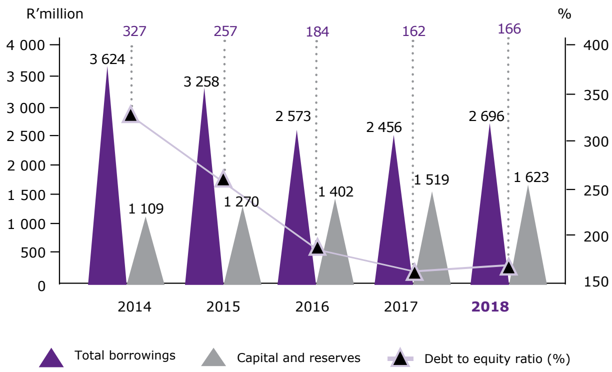
FUNDING FOR SUSTAINABLE GROWTH

The group's primary sources of funding are its retained reserves and members' deferred bonus payment funds. 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) and members' funds increased to R814,1 million (2017: R786,5 million).

The retained reserves and members' funds are complemented with funding facilities from three South African banks, which represent 87,2% (2017: 92,7%) of the group's total external funding. Funding via the securitisation structure, Torque Securitisation, represents 12,8% (2017: 7,3%) of the group's funding and is discussed in more detail further in this review.

In an effort to secure continuous access to funding at competitive terms, performance was managed within the covenants agreed with the banks. Iemas is currently well within the limits of its covenants, mainly attributable to good cash- and arrears management. Regular, pro-active engagement with funders and timely, accurate reporting further established Iemas' credibility as a sound investment.

Debt to equity



TORQUE SECURITISATION (RF) LIMITED (TORQUE)

Torque Securitisation (RF) Limited is a special-purpose securitisation vehicle that Iemas established in August 2012 to finance a portion of the vehicle advances in the capital markets. Initially, the structure obligated Iemas to sell eligible participating vehicle assets to the revolving structure on a quarterly basis.

The structure was effective in the period during which the vehicle advances recorded continuous growth as it provided longer term funding for the group. However, low growth during the 2015 and 2016 financial years, negated the necessity for high levels of funding and consequently Torque's early amortisation commenced in May 2016.

During 2017 the vehicle advances increased with R57 million (2,1%). In view of the improved performance of the vehicle advances and the value that the structure adds to the group's funding composition, the feasibility of re-establishing Torque was evaluated.

An amortised structure was proposed versus the previous revolving structure. This entailed that Iemas would not be obliged to sell vehicle advances to the structure on a continuous bases as required by the previous revolving structure. The number, value and timing of vehicle advances sold to the structure would be at management's discretion based on Iemas' funding requirements from time to time. The structure also provides the flexibility for Iemas to approach additional investors should the need arise. The board approved a proposal to re-establish Torque in April 2017.

Subsequent to the approval by the board, the structure was re-established. The previous external noteholders were redeemed and replaced by one external investor who does not require the notes to be listed or rated. This has resulted in additional long-term funding at competitive rates, with the added benefit of a simplified structure.

CONSERVATIVE PERFORMANCE EXPECTATIONS

The change in South Africa's outlook to stable reflected the view of ratings agencies that South Africa's credit metrics will remain broadly unchanged and that political instability should abate, enabling government to focus on measures to improve economic growth. However, post the 2019 election cycle, ratings agencies will reconsider South Africa's growth rate.

According to S&P, the South African banking sector is showing signs of stability for the first time since 2013. In a recent report that tracks the performance of local finance groups, the rating firm assigned a positive outlook to domestic banks because of their continued robust financial performance.

The economic growth outlook remains weak with a slow recovery projected from the latter part of 2018. The weaker currency and rising oil prices are expected to exert upwards pressure on headline inflation. The Rand is also expected to remain volatile over the next 12 months.

Concomitantly, Iemas' performance expectations are conservative with a strong focus on growing both its advances and insurance business in market segments that comprise of quality debtors who have a propensity to repay their debt and premiums.

The focus on diversifying the industries in which Iemas operates will continue to include, in particular, the knowledge economy, with specific focus on members in the middle to middle-high income groups.

In view of conservative income projections, it is important to ensure responsible cost-containment and improvement of operational efficiency. As Iemas' growth rate slowly gains momentum, more resources will be allocated into those areas that have the most benefit for members. This calls for the balancing of the income with continued discipline around cost management and improvements in the efficiency of operations, processes and procedures. A number of operational improvements are expected to materialise in the months following the roll-out of the business modernisation program during the first half of the next financial year.

Diligent management of bad debts and arrears will continue to ensure that the initiatives envisaged to improve collections, have the desired results. A new payment and collection stream, DebiCheck, has been designed in response to the terms of reference supplied to the Payments Association of South Africa (PASA) by the South African Reserve Bank. The programme aims to provide a more efficient and reliable payment and collection environment for both the creditor and debtor. It is envisaged that the implementation of this will have an operational impact, including information technology changes. Iemas has commenced with preparations for implementation.

Iemas will continue to manage its funding responsibly to ensure sufficient capital for sustainable growth. The group acknowledges and embraces its accountability to its bankers, investors, employer groups and members and will continue to nurture these relationships.

It is expected that the next year will be challenging. However, sound financial management, good corporate governance and long-standing relationships with stakeholders form a strong foundation for Iemas to remain a caring partner.

Tom O'Connell
Chief financial officer

The executive management team

Madelein Barkhuizen (44)

Group manager: corporate marketing

BCom (with distinction), BCom (Hons), Post-graduate Diploma in Integrated Reporting (with distinction), MBA

Years of service: 19

Madelein started at Iemas in October 1998 and has 20 years' experience in strategic marketing, business development, corporate communication and relationship management. She is responsible for the corporate marketing function which includes business development, marketing, corporate communication and senior relationship management. She is also responsible for managing the purchase card department.

Leonie Louw (47)

Group manager: human resources

BA (Communications), International Diploma in Advanced Training and Education, Diploma in Human Resources Management (with distinction)

Member of the South African Board for People Practices (SABPP)

Years of service: 18

Leonie had eight years' experience in communication and public relations when she joined Iemas as relationship manager in 2000. She was later appointed as skills development manager. Since 2010 she has been responsible for human resources management on executive level, including employment relations, talent management, skills development, recruitment, remuneration and employment equity.

Chris Bornman (58)

Chief information officer

BCom (Hons), Management Development Programme (MDP)

Years of service: 24

Having started at Iemas in November 1994, following a career in banking and the steel industry, Chris is responsible for IT infrastructure, system maintenance and development, enterprise architecture, business process management and the Iemas business modernisation program.

Sydney Maluleka (51)

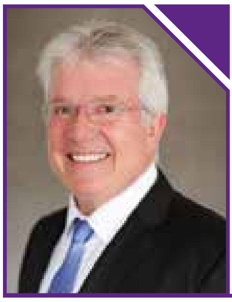
Head: internal audit

BCom, HDip Computer Auditing

Member of, and signed-up mentor at, the Institute of Internal Auditors (IIA)

Years of service: 10

Commencing his auditing career in 1994, Sydney joined Iemas in February 2008. He has extensive experience in the risk control and governance environment.



Johan Nel (60)

Chief executive officer

BCom (Hons), CTA, CA(SA)

Member of the South African Institute of Chartered Accountants (SAICA)

Years of service: 8

Prior to his appointment as CEO of Iemas on 1 April 2010, Johan served on the executive management of the University of Pretoria. In addition to his responsibilities as CFO, he was instrumental in establishing a successful private company structure through which the university conducted its continuing education, consulting and other business activities. His portfolio also included investment management which, coupled with the retirement funds, amounted to more than R8 billion. Prior to that, he was a partner at Coopers & Lybrand for a period of 12 years. Johan has vast business experience as well as experience in the fields of financial, risk and investment management and has served on various boards.

Francois van Dyk (51)

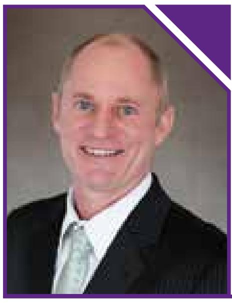
Group manager: credit and legal services and group secretary

BCompt (Hons), CTA, Management Development Programme (MDP), Advanced Project Management Certificate (APM)

Member of the Compliance Institute Southern Africa and Institute of Risk Management South Africa (IRMSA)

Years of service: 26

Francois joined Iemas as head of internal audit in 1992, after successfully completing his articles at PwC. He held this position until September 1994 when he was appointed as financial manager. Since 1998, Francois held various positions in Iemas, including head of the financing division and head of strategic planning and project management. In 2013 he was appointed as head of credit and legal services. Francois also assumes the role of risk manager at Iemas and was appointed by the board as secretary of the co-operative in 2011.



Tom O'Connell (47)

Chief financial officer

BCom (Hons), CTA, CA(SA), Management Development Programme (MDP), International Executive Programme (INSEAD)

Member of the South African Institute of Chartered Accountants (SAICA)

Years of service: 22

Prior to starting his career at Iemas in October 1995, Tom completed his articles at PwC. He was appointed as head of Iemas' finance division in October 1998 and as executive director in 2005. He also serves on the boards of Torque Securitisation (RF) Ltd, Iemtech (Pty) Ltd and Iemas Insurance Brokers (Pty) Ltd. Tom has 24 years' experience in finance, funding and audit and his responsibilities include the finance, funding and administration functions in Iemas.

Piet Wolmarans (54)

Executive director

BCom (Hons), MBA (University of Wales), Advanced Management Programme (Harvard)

Years of service: 30

Piet started his career at Iemas in 1988. Subsequent to heading up a number of business divisions, he was appointed to the main board as an executive director in 2005. Piet has broad experience of Iemas' business operations and is currently responsible, as executive director, for sales and distribution of all financing products. He is also the managing director for Iemas Insurance Brokers (Pty) Ltd and serves as a director on the board of Iemtech (Pty) Ltd.

Stakeholder engagement

Iemas acknowledges that it does not exist in isolation and that the group relies on various interdependent relationships with numerous stakeholder groups. It is an organisation where people, and not profit, is at the heart of the business. Iemas values the importance of meaningful and continued engagement, and stakeholder communication needs are evaluated and measured on a continuous basis to ensure that corrective action is taken when needed.

To continuously ensure a professional and consistent tone and message, Iemas follows a centralised insourced approach towards corporate communication, predominantly focussing on its main stakeholder groups namely members and employer groups. Other stakeholder engagement responsibilities are delegated to operational areas within Iemas.

Iemas has identified nine key stakeholder groups and the engagements during the year under review were as follow:

1. EMPLOYEES

Stakeholder group needs and interests

- Leadership communication
- Organisational performance and strategic direction information
- Positive work environment with the necessary support to work effectively
- Job satisfaction and career development
- Inclusive and diverse work environment
- Job security
- Training and upskilling

Engagement initiative

- Senior management feedback sessions
- CEO communication
- Training initiatives, including diversity and management development training
- Wellness workshops, interventions, wellness helpline and wellness survey
- Internal communication channels including intranet portal and blog
- Newsletters
- Performance reviews and feedback
- Executive management and director visits to branches and regional offices
- Employee involvement in CSR initiatives, e.g. CANSA Shavathon and Casual Day
- Exit interviews
- Social functions

1. EMPLOYEES (continued)

Feedback on engagement

- 114 (2017: 58) Employees (19% of the workforce) attended wellness workshops and 109 (2017: 166) (18%) made use of individual counselling sessions
- 15 (2017: 15) Employees attended diversity training
- Results of exit interviews are analysed and addressed
- Employee turnover at 21% (2017: 15%) with 17% being voluntary exits (2017: 13%)
- Improvement of the intranet portal
- A total of 6 e-learning training modules were deployed to 399 users via the learner management system in preparation for information technology deployments

Actions to be taken in 2019

- Continue implementing initiatives in contact centre environment to improve employee retention
- Wellness training initiatives
- Manage the impact of organisational alignment on corporate culture
- Continue with change management programme to ensure successful implementation of information technology and adoption by users

2. EMPLOYER GROUPS

Stakeholder group needs and interests

- Effective and accurate monthly administration
- Adherence to relevant legislation with no liability for the employer
- Ethical and responsible lending practices
- Employee financial wellness
- Regular interaction

2. EMPLOYER GROUPS (continued)

Engagement initiative

- Participation in employer arranged wellness days
- Financial wellness training
- Worksite marketing initiatives
- Annual brand survey
- Personal interaction with employer representatives
- Joint CSR initiatives
- Regular newsletters
- Introduced additional "life file" training initiatives

Feedback on engagement

- 7 028 (2017: 6 734) Employees attended financial wellness workshops offered free of charge at employer groups
- Increase in participation at employer wellness days

Actions to be taken in 2019

- Focus on groups in specific sectors (new and existing) and review relationship management structure
- Continue with employer engagement initiatives
- Training of relationship consultants

3. MEMBERS

Stakeholder group needs and interests

- Financial education and knowledge regarding personal financial management
- Improved brand awareness
- Annual rewards allocation
- Competitive product and service offering
- Convenient access to products and services
- Good customer service

3. MEMBERS (continued)

Engagement initiative

- Annual brand survey
- Digital platforms with strong financial education focus including website and social media
- Implemented marketing automation function to ensure member communication is accurately managed, targeted and measured
- Newsletters with strong financial education focus
- Financial wellness training at the workplace
- Worksite marketing
- Wellness days
- Service and after-sales interactions

Feedback on engagement

- Growth of 13% (2017: 20%) in Facebook likes, 17% (2017: 100%) in LinkedIn followers and 8% (2017: 6%) in Twitter followers
- Improved corporate website and social media platforms
- R109,4 million (2017: R109,7 million) allocated in member rewards

Actions to be taken in 2019

- Enhance digital channels to improve access for members
- Continue growing social media communities
- Implement business modernisation program to improve speed of service and communication during and after product applications
- Complete implementation of CRM system to effectively manage stakeholder relationships

4. BOARD OF DIRECTORS

Stakeholder group needs and interests

- Good corporate governance
- Effective risk management and reporting
- Compliance with relevant acts, codes and regulations
- Corporate strategy execution
- Pro-active, timely information and communication regarding strategic issues and priorities
- Appointment of new CEO

Stakeholder engagement

(continued)

4. BOARD OF DIRECTORS (continued)

Engagement initiative

- Corporate risks reviewed, reported and approved
- Board and committee meetings
- Ad hoc meetings and feedback
- Selection committee and formal process to ensure smooth transition to new CEO

Feedback on engagement

- Feedback regarding corporate risks, governance and compliance at board and committee meetings
- CEO appointment plan finalised

Actions to be taken in 2019

- Continue to ensure that corporate governance is in line with best practice
- Strategy review
- Evaluate governance practices against those proposed in King IV and make recommendations

5. GOVERNMENT AND REGULATORY BODIES

Stakeholder group needs and interests

- Good corporate governance
- Ethical behaviour and compliance
- Responsible business and lending practices
- Industry participation
- Payment of taxes and other statutory levies

Engagement initiative

- Monthly, quarterly and annual reporting
- Employment equity plans submitted
- Taxes, fees and levies paid

Feedback on engagement

- Strict adherence to relevant legislation and codes
- Requirements of the National Credit Amendment Act (NCAA) continuously reviewed and implemented
- Feedback on proposed regulations and legislation via industry associations

5. GOVERNMENT AND REGULATORY BODIES (continued)

Actions to be taken in 2019

- Further alignment of business to the requirements of the NCAA
- Implementation of requirements of Department of Trade and Industry regarding credit life insurance
- Managing the impact of the Broad-Based Black Economic Empowerment Amendment Act and Codes
- Managing the impact of the Retail Distribution Review (RDR)

6. BANKS AND INVESTORS

Stakeholder group needs and interests

- Return on investment
- Good corporate governance
- Management of risk exposure
- Sustainable business practices
- Compliance with covenants
- Comprehensive and accurate reporting
- Liquidity management

Engagement initiative

- Regular interaction and liaison
- Timely and accurate reporting

Feedback on engagement

- Positive relationships with banks and investors
- Continued access to funding
- Funding secured on acceptable terms
- Compliance with covenants

Actions to be taken in 2019

- Manage performance within bank covenants
- Ensure continuous access to funding at competitive rates
- Focus on liquidity and management of funding terms

7. PRODUCT AND SERVICE PROVIDERS

Stakeholder group needs and interests

- Increased sales of provider products
- Efficient administration and punctual payment
- Good corporate governance
- Responsible representation of supplier brand
- Adherence to contractual agreements
- Regular project progress meetings and feedback

Engagement initiative

- Meetings and personal visits
- Social functions
- Industry forums and functions
- Provider initiated audits
- Statutory and management reports
- Project progress meetings

Feedback on engagement

- Contracted new purchase card retailers
- Collaborated with vehicle suppliers to extend vehicle sourcing service for members
- Additional short-term insurance companies contracted
- New vehicle dealer agreements
- Reviewed existing contracts and renewed contracts with Information Technology (IT) service providers
- Project management and corrective action, where needed

Actions to be taken in 2019

- Continue with engagement initiatives
- Negotiate additional contracts with retailers, suppliers and vehicle dealers
- Manage procurement policy
- Review contracts with IT service providers to ensure that required support and expertise are available
- Implement a link to a vehicle dealer application system

8. COMMUNITIES

Stakeholder group needs and interests

- Sustainable upliftment and development
- Monetary and non-monetary donations and contributions

8. COMMUNITIES (continued)

Engagement initiative

- Joint CSR initiatives with employers
- CSR initiatives, e.g. CANSA Shavathon, Casual Day and Mandela Day
- Learnerships and internships
- Donations

Feedback on engagement

- 23 (2017: 32) Persons were involved in learnerships and internships during the year
- 3 (2017: 11) Learners were permanently employed
- Participation in CANSA Shavathon; Casual Day, Tekkie Tax and SANBS blood donation drives
- Donations of money, food, school shoes, etc.
- Employee involvement in CSR activities

Actions to be taken in 2019

- Continue with engagement initiatives in line with Iemas' corporate citizenship and sustainability guidelines
- Continue with learnership and internship programmes

9. ASSOCIATIONS

Stakeholder group needs and interests

- Active membership
- Attendance of meetings
- Active industry participation

Engagement initiative

- Membership fees paid
- Attendance of industry meetings, workshops and training
- Constructive feedback
- Active involvement at the vehicle asset finance and fraud work group of the South African Banking Risk Information Centre (SABRIC)
- Active involvement at the South African Insurance Crime Bureau

Feedback on engagement

- Regular engagement and participation

Actions to be taken in 2019

- Continue with engagement initiatives

Regulatory environment

REGULATORS

South African regulatory bodies have broad jurisdiction over the group's activities as Iemas operates in a highly regulated environment. The group engages with regulators on a continuous basis to stay abreast of developments and changes in legislation. Governance and oversight structures have been implemented to ensure compliance with regulatory requirements.

Engagement with regulatory stakeholders during the year included industry discussions with the National Credit Regulator (NCR) and interactions with the Financial Sector Conduct Authority (FSCA) previously known as the Financial Services Board (FSB).

The group's regulatory universe includes, but is not limited to, the following legislation, codes and regulations:

- Co-operatives Act, No 14 of 2005;
- Companies Act, No 71 of 2008;
- King III and the transition to comply with King IV;
- National Credit Act, No 34 of 2005 (NCA);
- Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS);
- Financial Intelligence Centre Act, No 38 of 2001 (FICA);
- Protection of Personal Information Act, No 4 of 2013 (POPIA);
- Short-Term Insurance Act, No 53 of 1998 (STIA);
- Long-Term Insurance Act, No 52 of 1998 (LTIA);
- Insurance Act, No 18 of 2017;
- Conduct of Financial Institutions Bill;
- Cybercrimes and Cybersecurity Bill;
- Pension Funds Act, No 24 of 1956;
- Outsource Directives;
- National Payment System Act, No 78 of 1998;
- Electronic Communications and Transactions Act, No 25 of 2002;
- Income Tax Act, No 58 of 1962;
- Broad-Based Black Economic Empowerment Amendment Act, No 46 of 2013;
- Financial Services Sector Code of 2017;
- Debt Collectors Act, No 114 of 1998;
- Financial Sector Regulation Act, No 9 0f 2017;
- Employment Equity Act, No 55 of 1998;
- Home Loans and Mortgage Disclosures Amendment Bill, Government Gazette No 40733;
- The International Financial Reporting Standards (IFRS);
- Occupational Health and Safety Amendment Act, No 181 of 1993.

LEGISLATIVE CHANGES

The scale of regulatory change remains challenging with continued regulatory scrutiny of the operations of the banking, financial services and consumer credit industries.

Co-operatives Amendment Act, No 6 of 2013

South African Co-operatives are governed by the Co-operatives Act, No 14 of 2005. The Co-operatives Amendment Act, No 6 of 2013, was signed by the President in August 2013, however, the commencement date is still to be gazetted. Iemas views the proposed impact of the Amendment Act, including the Principles of Good Governance for Co-operatives, as positive and will further explore the opportunities presented by this legislation when it becomes effective.

National Credit Amendment Bill, to National Credit Act, No 34 of 2005

During 2018, the Portfolio Committee on Trade and Industry published the Draft National Credit Amendment Bill and the Memorandum on the Objects of the Bill and requested comment. The Bill seeks to amend the National Credit Act and to, inter alia, provide for debt intervention for over-indebted consumers, provide relief in terms of the Act for certain consumers, enable the National Credit Regulator to suspend a credit agreement in certain instances, place additional obligations on Credit Providers and Debt Counsellors, prevent abuse of the NCA and prescribe financial literacy and budgeting skills programmes. Iemas will implement the amendments as soon as final detail is available.

Financial Intelligence Centre Amendment Act, No 1 of 2017, to the Financial Intelligence Centre Act (FICA), No 38 of 2001

The Financial Intelligence Centre Amendment Act will focus on requirements for accountable institutions to follow a risk-based approach, in addition to the compliance provisions of the Act. Iemas will comply with this Act from the effective date and is registered on the new reporting platform of the Financial Intelligence Centre (FIC). Iemas regularly submits the prescribed FICA reports.

Retail Distribution Review

The FSCA has initiated, and is implementing, a Retail Distribution Review (RDR) in an attempt to ensure fair outcomes for consumers when they conclude transactions relating to financial products and services. The review is focused on the distribution and compensation practices in the retail financial services industry. A number of draft regulatory changes have been promulgated which had an impact on the operations, fees and commission income of Iemas Insurance Brokers.

RDR changes will take place incrementally and will be implemented accordingly. Iemas Insurance Brokers is part of the Financial Intermediary Association's (FIA) short-term insurance sub-committee and provides input through the workgroup specifically focusing on RDR. Iemas also seeks legal and compliance advice where necessary to guide it through the various changes.

Risk management

The group applies a comprehensive definition for risk and regards it as an internal or external vulnerability, which, if not adequately assessed, monitored and managed, may affect its ability to achieve its business objectives. Furthermore, the definition of risk includes viable opportunities that can be pursued.

Formalisation of a risk management framework is the responsibility of the board of directors and the audit and risk committee is responsible for oversight of the risk management process. The audit and risk committee monitors the progress of risk mitigation strategies and processes and provides formal feedback to the board.

Risk management and the ongoing improvement of corresponding control structures remain a key focus of management in building a successful and sustainable business. The risk management committee is an operational committee, comprising executives and members of management, which is responsible for ensuring that risks are identified, addressed and managed across the group. This ensures that a comprehensive, robust and systematic risk management process is entrenched throughout the group.

Executive management plays an active role in the risk management process and is responsible for the implementation, ongoing maintenance of, and compliance with the risk process as it applies to each business unit.

KEY RISKS AND MITIGATION STRATEGIES

During the year, the risk management committee evaluated the corporate risk register and the associated risk treatment plans. The key risks identified are detailed below. Throughout this report, reference is made to the strategies and initiatives that Iemas implemented to mitigate these risks.

Additional information regarding mitigating actions is included below:

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
Growth constraints	
Growth constrained due to general consumer over-indebtedness, increased competition for good quality consumers and a fast changing technological environment.	» Strategies and initiatives implemented to increase growth in the middle and middle-high income categories and specific business sectors. » Implementation of new systems and processes to improve member experience and competitiveness. » Continuous revision of policies, processes and procedures to retain members.
Legislation regulating salary deductions	
Impact on operational sustainability and growth in the event of new legislation being introduced regulating salary deductions as a collection mechanism.	» Project initiated to update member bank details. » Ensure operational and technological readiness in the event that debit orders become the sole collection mechanism.
Increase in non-performing loans and bad debts	
Increase in non-performing loans and bad debts.	» Continuous review and improvement of credit policy and debt collection systems, policies and procedures to reflect changes in the credit industry. » Credit insurance enhanced to include death, disability and retrenchment. » Certain credit control functions outsourced to further improve effectiveness. » Strict adherence to regulations and internal policies regarding members' affordability evaluations prior to credit extension.

Risk management

(continued)

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
Business continuity	
Interruption of the business in the event of failure to resume critical business activities and services within a reasonable time.	» Standardised systems implemented and virtualised. » Business continuity plans compiled and tested. Reviewed and revised when required. » Disaster recovery site identified and formal disaster recovery framework in place.
Contract termination or large retrenchments at significant employers	
Impact on the business as a result of termination of contracts or retrenchments at significant employers.	» Regular interactions with key stakeholders at employers via formal, structured relationship management programmes.

The external environment and landscape in the financing and insurance industry have changed significantly during the last two years, impacting on the inherent rating and ranking of the key risks. The risk treatment plans have been reviewed and updated during the year under review to mitigate the risks included in the corporate risk register. Responsibilities have been assigned to ensure active management and control to reduce the likelihood and impact, should a risk materialise.

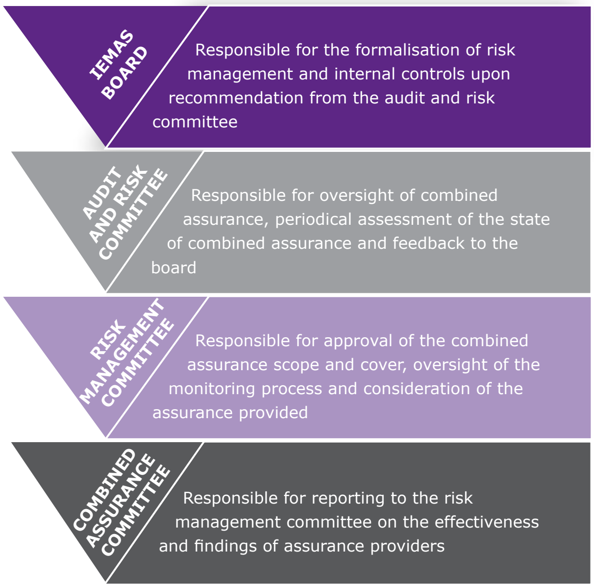
COMBINED ASSURANCE

The combined assurance committee, a non-statutory committee, is an extension of the risk management committee and is accountable to the risk management committee. The committee is responsible to oversee the implementation and maintenance of the combined assurance programme as well as the co-ordination of the actions of the various assurance providers to avoid duplication of effort.

Members of the combined assurance committee are appointed by the risk management committee and consist of internal and external assurance providers. The committee consists of six members including the head of internal audit, the compliance officer, the sales support manager, the general manager: short-term insurance, the general manager: financial advisory services and the general manager: credit and legal services, who is also the chairman of the committee.

Stakeholders in the combined assurance framework

The roles of stakeholders in the combined assurance framework are illustrated below:



Assurance providers

Financial services institutions are inherently complex in nature with a number of areas exposed to the risk of control failure. In general, most internal control systems require continuous review and refinement of business processes to ensure that best market practices are followed and to eliminate the potential for human error or deliberate manipulation of control activities. A number of assurance providers are utilised to mitigate the risk of control failure.

Management-based assurance

Iemas' internal controls and systems are relied upon to provide reasonable assurance of the integrity and reliability of the financial statements; to safeguard, verify and maintain accountability of its assets; and to prevent and detect fraud, potential liability, loss and material misstatement, while at the same time complying with applicable regulations.

Management oversight includes strategy implementation, key performance indicators and performance measurement, self-assessments and continual monitoring mechanisms and systems.

Internal assurance

Risk management (adopting an effective business-wide risk management framework), information technology, human resources and compliance functions are included in internal assurance. These functions are responsible for maintaining policies, minimum standards, oversight, risk management and reporting.

Independent assurance

Internal audit

Internal audit forms an integral part of the combined assurance process. The role of internal audit is defined in the internal audit charter.

Internal audit performs an independent assessment of Iemas' systems of internal controls, policies and procedures, and monitors whether it is adequate and effective. All of Iemas' business operations and support functions are subject to internal audit during different audit cycles.

Operational matters are reported to members of the executive management team. This reporting structure does not impair the division's independence or objectivity. All non-compliance outcomes arising from planned audits, special projects, forensic investigations and independent investigations into fraud and similar acts of dishonesty are referred to management for corrective action. Material findings are reported to the audit and risk committee.

External audit

The audit and risk committee is responsible for recommending the external auditor for approval by members at the annual general meeting (AGM). The committee also ensures that the external auditor carries out an annual audit in accordance with international auditing standards and reports on the results of the audit both to management and to the audit and risk committee. The external auditor is the main external independent assurance provider with regard to Iemas' financial results for each financial year.

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.

External assurance

Moonstone Compliance (Pty) Ltd is contracted to Iemas to provide independent compliance services required to establish and maintain compliance processes and to ensure compliance with provisions of legislation as far as reasonably possible, with specific reference to FICA and FAIS.

Oversight committees

The following committees provide assurance as stated below:

- Audit and risk committee – with regard to financial and internal controls as well as risk management, including input received from the risk management committee and the combined assurance committee.
- Information technology committee – with regard to business systems and controls.
- Human resources committee – with regard to employee and related matters.

BOARD ASSESSMENT OF IEMAS' SYSTEMS OF INTERNAL CONTROLS AND RISK MANAGEMENT

The internal control self-assessment process, internal audit and year-end external audit revealed no aspects of concern and therefore the board is of the opinion that Iemas' systems of internal controls and risk management are effective and that the internal financial controls form a sound basis for the preparation of a reliable annual report and financial statements. The board's opinion is based on the combined assurances of the external and internal auditors, management and the audit and risk committee as well as the information technology and human resources committees.

Corporate governance report

The board of directors and management are committed to leadership with integrity, responsibility, accountability and transparency and regard good corporate governance as an effective mechanism for encouraging efficiency in operations and to ensure that the needs of different stakeholder groups are balanced.

It strives to achieve compliance with the principles as set out in the Code of Corporate Practices and Conduct as defined in the King III report. The principles defined in the report are applied as far as is practical in adding value to stakeholders within the context of the group's business model. The King IV report, released in November 2016, further advances South Africa's leadership in corporate governance. Iemas is in the process of evaluating its governance practices against those proposed in King IV, and will adopt King IV in the next financial year, to the extent practical, possible and in accordance with the co-operative model.

GOVERNANCE STRUCTURE

The board has the power to appoint board committees and to delegate powers, at the discretion of the board, to such committees. The board retains ultimate accountability for performance and corporate governance. Each committee member is selected according to the skills sets required for the committee to fulfil its functions.

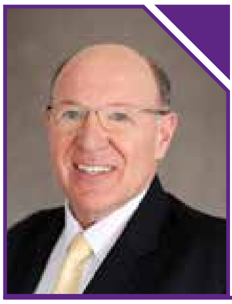
ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

The board is committed to high standards of corporate governance that are required to ensure the success and long-term sustainability of the group. It is of the opinion that effective leadership forms the foundation for good governance, as leaders define the strategy, provide the direction and establish the values and ethics that will influence and guide the practices and behaviour of the group. The group's code of conduct gives effect to Iemas' core values of integrity, teamwork, ownership and accountability, professionalism, innovation and dignity that guide its relationships with stakeholders.

Iemas is committed to sustainable development and recognises that it has social, economic and environmental responsibilities, as defined in its corporate citizenship guidelines. Sustainable financial performance, good governance, adherence to regulations and legislation, transparent stakeholder relationships, responsible and inclusive financial services provision, socio-economic development, management of its environmental impact and a strong focus on fair employee practices are guiding principles for the way in which Iemas conducts its business. The board ensures that the group is perceived to be a responsible corporate citizen and that it maintains an ethical corporate culture.

BOARD OF DIRECTORS

Independent non-executive directors



Len de Villiers (62)

DIS (Harvard), also studied at RAU, Wits and INSEAD (France)

Date appointed: 31 October 2014

Len has 30 years' experience in information technology and was group CIO of Absa Bank, Nedbank, First National Bank and Transaction Capital. He is chairman of the CIO Council of South Africa which represents the top 200 CIO's in South Africa and was voted "the most admired CIO in South Africa" by this Council in 2009. Len also serves on the boards of Moyo Business Advisory, Zambia National Commercial Bank (ZANACO) and the Advisory Board of the University of Pretoria.

Iemas committee membership

Information technology committee

Temba Mvusi (62)

BA (Unisa), ELP (Wharton), MAP (University of the Witwatersrand), PDP (University of Cape Town)

Date appointed: 31 October 2011

Temba is currently chief executive of group market development at Sanlam, chief executive officer of Sanlam Corporate, executive head of market development at Santam and a member of Sanlam's executive committee. He was appointed as executive director to the Sanlam board in December 2009 and also serves on the boards of various Sanlam subsidiaries and Vulindlela Underwriting Managers. In December 2012, Temba was appointed as chairman of Iemas' board of directors.

Iemas committee membership

Human resources committee

Prudence Lebina (37)

CA(SA), BCom, HDip Accounting, certificate in business leadership (Columbia Business School)

Member of the South African Institute of Chartered Accountants (SAICA), African Women Chartered Accountants and Business Women Association

Date appointed: 31 October 2016

Prudence is the chief executive officer of GAIA Infrastructure Capital, an infrastructure investment holding company listed on the Main Board of the JSE. Prior to this she was head of corporate development and investor relations at Atlatsa Resources Corporation. She was also an investor relations manager and corporate finance principal analyst at Exxaro Resources. From January 2006 to June 2010, Prudence was employed by Deutsche Bank SA in the global corporate finance division.

Iemas committee membership

Audit and risk committee

Retha Piater (63)

BCom (Hons), MBA, Advanced Management Programme (INSEAD)

Date appointed: 10 July 2014

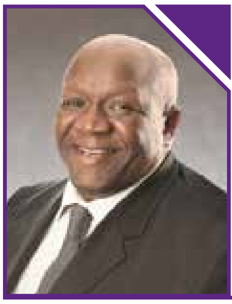
Retha has extensive experience in human resources management, including the development and execution of people strategy, managing the people life cycle, support and enabling people processes. She started her career in the human resources field in the mining industry and has experience in generalist roles at several mines and on commodity level as human resources manager and group manager remuneration, benefits and human resources systems. Retha was the executive head of human resources for the Exxaro Resources group of companies prior to her retirement in 2016.

Iemas committee membership

Human resources committee

Corporate governance report (continued)

BOARD OF DIRECTORS (continued)



Vusi Sampula (53)

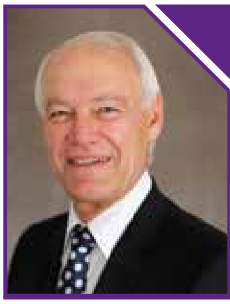
BTech Human Resources, Advanced Diploma Labour Law

Date appointed: 31 October 2014

Vusi is the vice-president of employee relations at Sibanye Gold. He has extensive experience in human resources management. Vusi previously served on the boards of directors of the Social and Labour Plan Trust Fund at Harmony Gold, Masakhane Provident Fund at Lonmin and Thusano Trust Fund at Sibanye Gold and was chairman of the board of trustees of the Lonmin Medical Scheme. Vusi is currently studying towards his BCom Honours degree in employee relations.

Iemas committee membership

Human resources committee



Willem van Heerden (68)

BCom (Hons), CA(SA), Advanced Management Programme at Darden Business School (University of Virginia)

Date appointed: 6 December 2014

Willem served as partner at PwC and moved to commerce later in his career, where he held senior positions in Iscor, Kumba Resources and Kumba Iron Ore. He currently serves on a number of company and pension fund boards.

Iemas committee membership

Audit and risk committee

Information technology committee

Dashni Sinivasan (49)

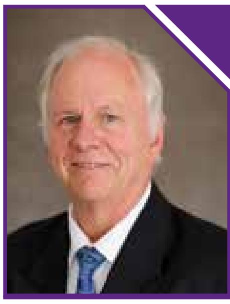
CA (SA), B.Com (Hons), CTA, BCom Economics

Date appointed: 31 October 2017

Dashni is a chartered accountant and is currently employed at Exxaro as the group financial manager responsible for reporting. She previously held positions as general manager finance, treasury controller and management accountant and has extensive experience in corporate finance and statutory financial reporting. Dashni also has experience, at senior level, in people management, statutory compliance and stakeholder relations.

Iemas committee membership

Audit and risk committee



Quintus Vorster (66)

BCom (Hons), CTA, CA(SA), MCom, PhD

Date appointed: 12 April 2017

Quintus is a chartered accountant and, prior to his retirement in April 2017, he was the director of finance at the University of Pretoria. He has extensive experience in various disciplines including corporate governance, risk management, auditing and financial management. During his career, Quintus published a number of academic articles, research reports and books and supervised a large number of student research projects.

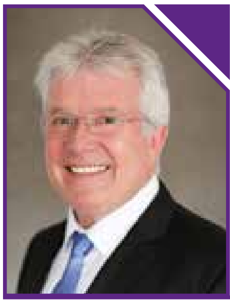
Iemas committee membership

Audit and risk committee

Information technology committee

BOARD OF DIRECTORS (continued)

Executive directors

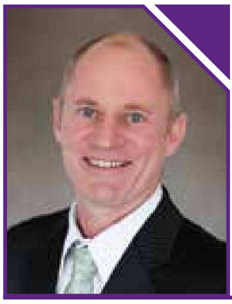


Johan Nel (60)

Chief executive officer

BCom (Hons), CTA, CA(SA)

Member of the South African Institute of Chartered Accountants (SAICA)



Tom O'Connell (47)

Chief financial officer

BCom (Hons), CTA, CA(SA), Management Development Programme (MDP), International Executive Programme (INSEAD)

Member of the South African Institute of Chartered Accountants (SAICA)

Piet Wolmarans (54)

Executive director

BCom (Hons), MBA (University of Wales), Advanced Management Programme (Harvard)

A brief curriculum vitae of each of the executive directors is disclosed on page 19 under the executive management team.

Corporate governance report

(continued)

Board composition

The board of directors is the highest decision-making body of the group. The board has 11 members including eight non-executive directors, all of whom are independent, and three executive directors.

The roles of the chairman and the chief executive officer are separate and the composition of the board ensures that there is an appropriate balance of power and authority so that no one individual or block of individuals has unfettered powers of decision-making and authority. The majority of the board is elected by the members of Iemas.

Role and functions of the board

The board provides guidance to management in formulating the group's strategic direction, objectives and values. The responsibilities of the board and its committees are directed by the Co-operatives Act, No 14 of 2005, the constitution of the co-operative, good corporate governance practices and board and committee charters.

The board and its committees are provided with complete, accurate and timely information that enables them to discharge their responsibilities. Board members have unrestricted access to group information, records, documents and property. Non-executive directors have access to management and may meet separately with them, without the attendance of executive directors.

The board meets at least quarterly to evaluate and monitor business matters that impact the group and its stakeholders. Agenda items include group strategy, policy decisions, instituting control measures and the appraisal of proposals from the executive and other board committees.

Appointment of directors and term of office

When appointing directors, the board takes cognisance of its needs in terms of skills, experience, diversity, size and knowledge. The nomination and election of members to the board are governed by the requirements of the Co-operatives Act, No 14 of 2005, as well as the requirements of the Iemas constitution. The board has also established processes and procedures to encourage and consider board member nominations from among Iemas' members.

The credentials and demographic profile of the board are reviewed by the human resources committee to ensure that the board's composition remains strategically and operationally appropriate. Directors are appointed either for a maximum term of seven years or until they reach the age of 70, whichever is the earliest.

The board established a formal orientation programme to familiarise incoming directors with the group's operations and business environment, their fiduciary duties and responsibilities and the board's expectations in respect of their commitment and ethical behaviour. The secretary of the board is responsible for the director induction programme.

A staggered rotation of directors ensures continuity of experience and knowledge. The board has implemented a board succession plan that involves preparing for future board retirements, committee composition, rotations and committee chairman nominations.

During the year under review the executive management team and board succession plans were updated and the board is confident of its ability to identify suitable short-term and long-term replacements, when the need arises.

Chairman and chief executive officer

At the first board meeting after the AGM, the directors elect, from among themselves, a chairman and vice chairman. The board is chaired by an independent non-executive director. The role of the chairman is formalised and his performance is assessed by the board. The board of directors is chaired by Temba Mvusi, who was re-appointed as chairman on 23 November 2017.

The daily management of the group's affairs is delegated to the chief executive officer, who manages the implementation of board-approved strategy through the executive management team, whose photographs and brief curricula vitae appear on pages 18 and 19 of this report. The chairman annually appraises the chief executive officer and the results of the appraisal are considered in the evaluation of the performance and remuneration of the chief executive officer.

Chief executive officer succession planning

The board appoints the chief executive officer and ensures that succession is planned. The board collaborates with the chief executive officer to develop the next generation of leaders to address both short- and long-term succession scenarios.

During the year under review, the group's CEO, Johan Nel, tendered his resignation effective 31 December 2018. The board completed extensive planning to appoint a successor, including the constitution of a Selection Committee, the appointment of a recruiting agency and a detailed recruitment plan. The board, CEO and executive team are committed to ensure a smooth transition.

Risk management

The board considers risk management to be fundamental to good management practice and sound corporate governance. Risk management is integrated into all organisational processes.

The board has ultimate responsibility for risk management and for considering the nature and extent of the risks it is prepared to take to meet the business objectives. In determining the risk profile, the board considers the dynamics of Iemas, its industry and any systemic risks. Risks are reviewed regularly in relation to the group's risk appetite and management's responses to mitigate key risks are evaluated.

The board discloses to its stakeholders, at least annually in the annual report, sufficient information to enable them to assess whether the board is executing its responsibilities effectively. The group's five most material risks are listed on pages 25 and 26 of this report and additional detail is provided throughout this report.

Board evaluation

The human resources committee is responsible for ensuring that the effectiveness of the board and its committees is evaluated. Performance evaluation is a key measure by which the board can recognise and improve corporate governance shortfalls in an effort to add real value to the group and its stakeholders.

As recommended in the King IV report and approved by the board, a review of the board's performance is conducted every alternate year. The 2018 board performance review included, in addition to board and committee evaluations, the assessment of individual board members' performance, as recommended in the King IV report and approved by the Iemas board.

Evaluations conducted for the year under review identified no material concerns in respect of the performance of the board, board committees and individual board members.

Independence assessment

The policy on the independence of directors requires all non-executive directors to complete an independence questionnaire to establish whether they meet objective independence criteria. The completed questionnaires were evaluated by the board and it was concluded that all the non-executive directors are independent.

Attendance at board meetings

Attendance by each of the directors during the year under review was as follows:

Member	Designation	17 Oct 2017	23 Nov 2017	19 Apr 2018	30 Aug 2018
Piet Botha#	Independent non-executive director	X	n/a	n/a	n/a
Len de Villiers	Independent non-executive director	√	√	√	√
Prudence Lebina	Independent non-executive director	√	√	√	√
Temba Mvusi	Independent non-executive director and chairman of the board	√	√	√	√
Johan Nel	Chief executive officer	√	√	√	√
Tom O'Connell	Chief financial officer	√	√	X	√
Retha Piater	Independent non-executive director	√	√	√	√
Vusi Sampula	Independent non-executive director	√	√	√	√
Dashni Sinivasan*	Independent non-executive director	n/a	√	√	√
Willem van Heerden	Independent non-executive director	√	√	√	√
Quintus Vorster	Independent non-executive director	√	√	√	√
Piet Wolmarans	Executive director	√	√	√	√

 # 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*

REMUNERATION

There is no legal obligation on a co-operative to disclose the remuneration per individual director and/or prescribed officer. However, the board approved for Iemas to comply with the IFRS requirements of disclosing the total expense per category in respect of directors' remuneration.

Remuneration of non-executive directors

Iemas remunerates non-executive directors at the median of the market to ensure the attraction and retention of non-executive directors with the required experience and skills set. External benchmarking of the fees is performed periodically.

Non-executive directors do not have employment contracts with the group and Iemas adopts a total fee approach consisting of a fixed retainer portion and a fee per meeting. This approach is aligned with the governance recommendation specified in King III. Remuneration is payable on a quarterly basis.

Corporate governance report

(continued)

None of the non-executive directors, by virtue of their board position, participates in any of Iemas' incentive plans or pension schemes. The chairman of the board and chairmen of board committees receive supplementary fees for their additional responsibilities and the time required to make meaningful and effective contributions to the affairs of the group.

Executive remuneration

The human resources committee approved a formal remuneration policy for the executive directors and executive management. This policy requires that the remuneration of executives should be benchmarked externally on an annual basis, before consideration and approval by the committee.

Iemas endorses reasonable, appropriately structured pay-for-performance programmes that reward executives for sustainable, superior performance over the long-term. It is the duty of the board and the human resources committee, specifically, to ensure that executive remuneration programmes are effective, reasonable and fair with respect to critical factors such as the performance of the group, industry considerations, risk considerations and remuneration paid to other employees. It is also the responsibility of the human resources committee to ensure that elements of remuneration packages are appropriately structured to enhance Iemas' short- and long-term strategic goals and to retain and motivate executives to achieve strategic goals.

The remuneration of executive directors and the executive management team comprises guaranteed pay, variable compensation and participation in a long-term incentive scheme. Iemas' executive directors and executive management team are employed under the standard employment contract.

In line with the objective to achieve the delivery of long-term value, the deferred structures depend on Iemas achieving pre-set goals and growth objectives. The deferral structures and long-term incentive vesting criteria applied to executive directors' compensation are identical to that of the executive management team.

Executive directors, who serve as directors on the board, do not receive supplementary fees.

SECRETARY OF THE BOARD

The secretary of the group is accountable directly to the board. Directors may communicate directly with the office of the secretary and vice versa. The decision to appoint or remove a secretary of the group is approved by the board.

Francois van Dyk is the duly appointed secretary of the board. He is not a director of Iemas and the board is comfortable that he maintains an arm's length relationship with the board and the individual directors. Francois has been the secretary for the past seven years and, having regard for his abilities, qualifications, experience and the level of competence he has demonstrated over this time, the board regards him as suitably qualified, competent and experienced to continue as the secretary of the board.

BOARD COMMITTEES

The board has, in accordance with the delegation of authority, delegated some of its functions to directors, managers and committees of the board. The board has audit and risk, human resources and information technology (IT) committees. Members of these committees are independent and both the committee chairmen and members are appointed annually by the board.

Specific responsibilities are formally delegated to board committees, as defined in each committee's charter, which are reviewed annually. The committees are appropriately constituted with due regard to the skills required by each committee.

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. The committee consists of at least three members, all of whom must be independent non-executive directors. The board also appoints the chairman of the committee. The chairman of the Iemas board is barred from being a member of the audit and risk committee. The chief executive officer, chief financial officer and the head of internal audit are permanent invitees to the meetings of the committee. The external auditors also attend the meetings.

The committee ensures the integrity of the financial reporting and reviews the effectiveness of the financial reporting process, the system of internal control, the management of risks, the internal audit function, the assurance process and the group's process of monitoring compliance with legislation and regulations. The report on risk management appears on pages 25 to 27 and the report of the audit and risk committee appears on pages 46 to 48 of this report.

Attendance by each of the members and the permanent invitees of the audit and risk committee during the period under review, was as follows:

Member	Designation	10 Oct 2017	28 Mar 2018	31 May 2018	23 Aug 2018
Piet Botha#	Independent non-executive director	√	n/a	n/a	n/a
Prudence Lebina	Independent non-executive director	√	√	√	√
Sydney Maluleka *	Head of internal audit	√	√	√	√
Johan Nel*	Chief executive officer	√	√	√	√
Tom O'Connell*	Chief financial officer	√	√	√	√
Dashni Sinivasan^	Independent non-executive director	n/a	√	√	√
Willem van Heerden	Independent non-executive director and chairman of the audit and risk committee	√	√	√	√
Quintus Vorster	Independent non-executive director	√	√	√	√

 # Piet Botha retired from the audit and risk committee on 10 October 2017

** Permanent invitee*

^ Dashni Sinivasan was appointed to the audit and risk committee on 23 November 2017

Human resources committee

The members of the human resources committee are appointed by the board at the first board meeting after the AGM for a one-year term of office and must consist of at least three members, all of whom must be independent non-executive directors. The chief executive officer and the group manager of human resources are permanent invitees to the meetings of the committee. The board appoints the chairman of the committee and, although the chairman of the board qualifies to be a member of the human resources committee, he is not eligible to be appointed as chairman of this committee.

The human resources committee is responsible for approving Iemas' human resources strategy, including its remuneration and reward policy, conditions of employment, development and training interventions, performance management, transformation, employment equity and skills development. It also acts as a selection committee to make recommendations on the appointment of nominated non-executive directors.

Attendance by each of the members and of the permanent invitees of the human resources committee during the period under review was as follows:

Member	Designation	27 Sept 2017	8 Mar 2018	26 July 2018
Leonie Louw*	Group manager: Human resources	√	√	√
Temba Mvusi	Independent non-executive director	X	√	√
Johan Nel*	Chief executive officer	√	√	√
Retha Piater	Independent non-executive director and chairman of the human resources committee	√	√	√
Vusi Sampula	Independent non-executive director	√	√	√

** Permanent invitee*

Information technology (IT) committee

The IT committee assists the board in fulfilling its IT governance responsibilities in order to ensure the achievement of corporate objectives. The committee comprises three non-executive directors, appointed by the board for a one-year term of office, and is complemented by two external members with expert knowledge in IT-related fields. The two external specialist members are appointed by the members of the committee on an annual basis. The chairman of the committee is appointed by the board and is an independent non-executive director. The chief executive officer, chief financial officer and chief information officer are permanent invitees to the meetings of the committee.

IT governance is implemented according to the IT governance policy and governance framework. The framework is based on the principles and controls defined in international standards. The committee oversees that the IT strategy is defined, approved, reviewed and implemented in a manner that is aligned with the business strategy.

The IT governance framework also defines the organisational structure and policies and procedures that are required to facilitate good governance and compliance in the areas of technology and information security management.

Corporate governance report

(continued)

Attendance by each of the members and the permanent invitees of the IT committee during the period under review was as follows:

Member	Designation	9 Apr 2018	20 Aug 2018
Chris Bornman*	Chief information officer	√	√
Len de Villiers	Independent non-executive director and chairman of the IT committee	√	√
Johan Nel*	Chief executive officer	√	√
Tom O'Connell*	Chief financial officer	√	√
Willem van Heerden	Independent non-executive director	√	√
Quintus Vor-ster	Independent non-executive director	X	√
Louis Fourie	Specialist adviser to IT committee	√	√
Pete Janse van Vuuren	Specialist adviser to IT committee	X	X

** Permanent invitee*

Specialist members of the IT committee

Louis Fourie (61)

BA, BTh, LTh (with distinction), MTh (with distinction), DTh, MBA (with distinction)

Professor Louis Fourie is the deputy vice-chancellor for knowledge and information technology services at the Cape Peninsula University of Technology. In addition to a distinguished academic career and notable contributions to his field of expertise, Louis has extensive consultation experience in the field of information and communication technology.

Pete Janse van Vuuren (58)

B.Sc, M.Sc, PhD information management and research

Pete has over 30 years' experience in the IT industry across technical, financial and academic verticals. His early engagements covered the full spectrum of technical development in both mainframe and client server environments. He has 25 years' experience in general and senior management positions and has set up and run three IT related businesses. Pete is currently the CEO of The Thinking Cap and was awarded a lifetime achievement award and fellowship from the Institute of IT Professionals South Africa in 2017.

SAFEGUARDING THE INTEGRITY OF CORPORATE REPORTING

Iemas subscribes to the principle that formal and rigorous processes should be implemented to independently verify and safeguard the integrity of its corporate reporting.

The board, before it approves the annual report and financial statements for a financial period, receives a declaration from the chief executive officer and chief financial officer that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards, give a true and fair view of the financial position and performance of the group and that the opinion has been formed on the basis of a sound system of risk management and effective internal control.

OUTLOOK

The board will continue to strengthen Iemas' governance processes with an emphasis on continually improving assurance processes between the board, its committees and management. The board will evaluate and adopt King IV in the next financial year to the extent practical, possible and in accordance with the co-operative model.

The board is satisfied that it, and all board committees, have complied with the requirements of their charters and that all reasonable measures have been taken to ensure that high standards of corporate governance are implemented across all operations.

Sustainability overview

Iemas' vision is to be the preferred financial services co-operative. In order to achieve its vision, it is the mission of every employee to work together as a team to the benefit of members through the provision of professional service and financial products based on innovation and integrity.

The conduct of the board, management and employees is underpinned by the corporate values of integrity, dignity, ownership and accountability, teamwork and professionalism.

ETHICS

Iemas values and protects its reputation and credibility. Acting ethically and responsibly enhances Iemas' brand and reputation and forms the foundation for establishing long-term relationships with stakeholders.

Iemas' code of conduct is a meaningful statement of its core values. It is promoted, as such, across the organisation and is reinforced by proper training and appropriate disciplinary action, if breached. The code of conduct is binding on directors, managers, employees, independent contractors, agents, service providers and business partners and compliance with the code of conduct is integrated in the operations of the group.

The board oversees that its conduct and that of management align to the corporate values and is adhered to in all aspects of its business.

Conduct

Iemas has a zero-tolerance approach towards unethical conduct and communicates openly and transparently about fraud, unethical behaviour and related dismissals. Iemas' values, and the associated behaviour expected, are continuously reinforced via communication to employees.

Whistle-blowing

Fraud and misconduct are inherent risks to most businesses, especially businesses operating in the financial services sector. Iemas has instituted various channels to enable stakeholders to report incidences and suspicions of fraud or unethical behaviour.

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. The hotline details are communicated to internal and external stakeholders through numerous communication channels.

All reported information regarding fraud or suspected incidences of fraud are investigated by internal audit, who reports material findings to the audit and risk committee. Internal audit has established relationships with other external parties and financial institutions to collaborate in addressing the increase in fraudulent behaviour.

Sustainability overview

(continued)

During the year under review, there were no significant cases that originated from the hotline. However, stakeholders reported incidences of fraud and suspicious behaviour via other channels. Please refer to page 47 for more information in the report of the audit and risk committee.

A fraud verification department has been established to follow up on any suspicious member applications and, where necessary, the relevant employer is contacted to verify members' personal and/or banking details.

VALUE CREATED FOR STAKEHOLDERS

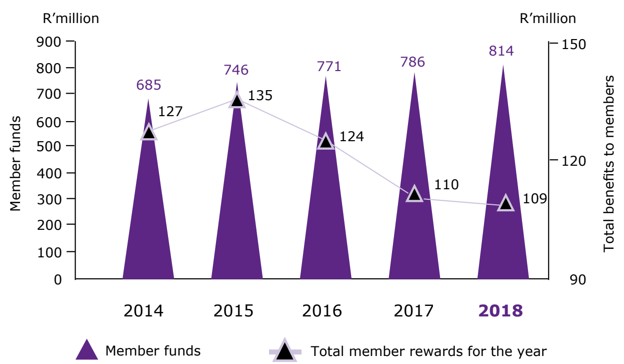
'Value added' is the measure of additional value created for stakeholders by Iemas in its operations. The statement below summarises the wealth created and details how it was shared by employees and other stakeholders that contributed to its creation.

Areas of value creation

	2015 R'million	2016 R'million	2017 R'million	**2018 R'million**
Employee training and development	2,0	4,2	3,0	**2,0**
Employee salaries and bonuses	166,7	163,8	169,3	**186,9**
Employee taxes (including UIF and skills development levies)	34,6	36,3	32,2	**31,9**
Corporate taxes	46,9	49,2	31,4	**31,1**
Value added tax	20,1	18,6	17,3	**18,3**
Annual member rewards	135,1	123,5	109,7	**109,4**

The foundation of the co-operative model is that members share in the profits. Iemas' annual reward allocations to members illustrate its commitment to co-operative principles. Total member rewards (including interest on the members' deferred bonus payment fund) amounted to R109,4 million (2017: R109,7 million).

Member reserve funds and rewards



EMPLOYEE CAPABILITY AND WELL-BEING

Employment

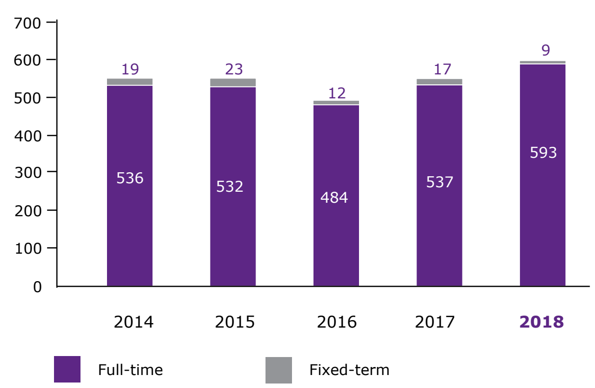
The co-operative's employment philosophy is interlinked with its strategic plan with a clear focus on attracting, engaging and retaining the best talent to deliver on its business objectives. A combination of Iemas' culture, its leadership, its product and service offerings, its employee benefits and its reputation constitute the building blocks of Iemas' employment brand. Iemas' vision of transformation is translated into strategies and specific targets and plans which are governed by the board.

Iemas' number of employees increased to 602 (2017: 554), operating through 31 offices country-wide. Benefits offered to employees include pension and provident fund contributions, group life cover, income protection, disability cover, funeral benefits and 21 leave days per annum.

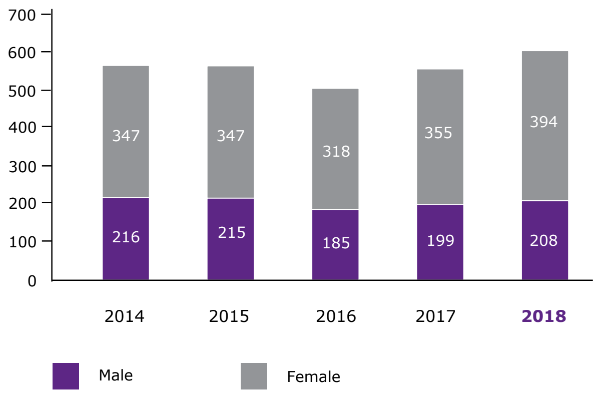
There are currently four (2017: four) employees who have been declared medically disabled in accordance with the disability cover terms and conditions and who continue to receive a portion of their income, pension and provident fund benefits although they are not actively at work.

Employee benefits and remuneration amounted to R186,9 million (2017: R169,3 million), reflecting a 10,4% increase.

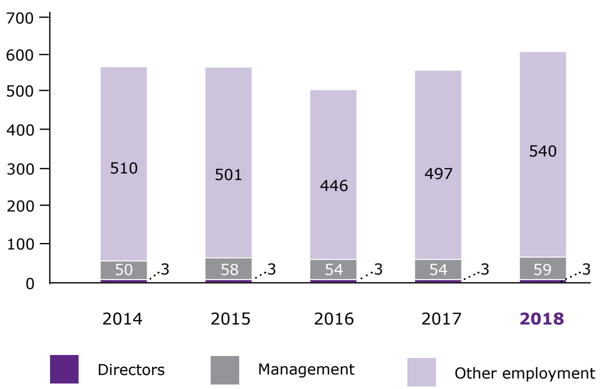
Total number of employees



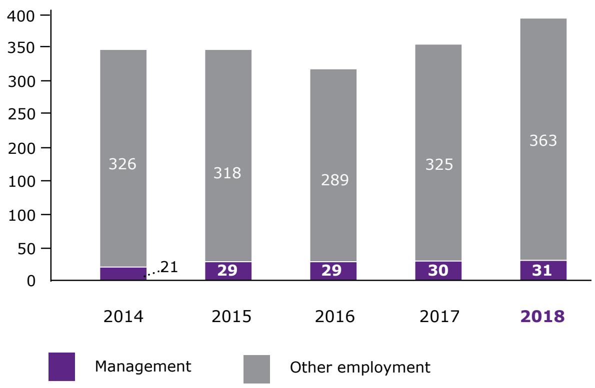
Number of employees by gender profile



Employment per management level



Female employment



Employment equity (EE)

Iemas manages its employment equity profile by embracing diversity. The employment equity and skills development forum assists the executive management with implementing employment equity in accordance with the requirements of the Employment Equity Act, No 55 of 1998, as amended. The forum represents the business, across all of its geographic regions and branches, as well as across all its business functions, including the insurance business.

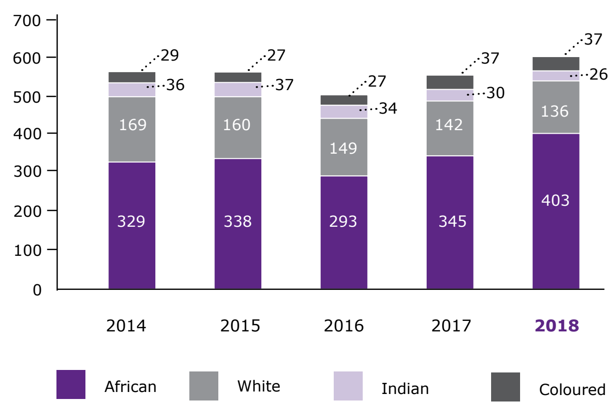
Member	African	Coloured	Indian	White	TOTAL
Top management	0	0	0	1	**1**
Senior management	0	0	0	2	**2**
Professionally qualified and experienced specialists and mid-management	24	0	5	30*	**59**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	284	29	15	90	**418**
Semi-skilled and discretionary decision-making	82	8	6	13	**109**
Unskilled and defined decision-making	13	0	0	0	**13**
Grand total	403	37	26	136*	**602**
Fixed term employment	8	0	0	1	**9**

** Foreign national employees are reported under the category "White" for EE purposes.*

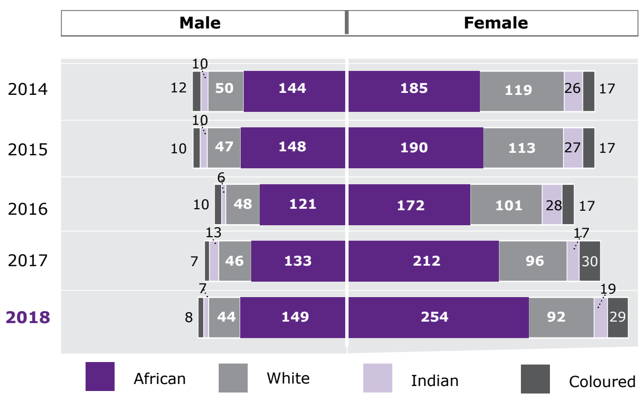
Sustainability overview

(continued)

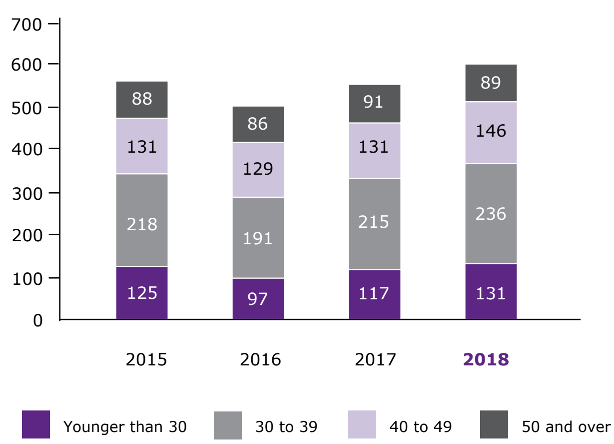
Employment equity profile by race



Employment equity profile by race and gender



Total number of employees by age group



Maternity/paternity leave

During the year under review, 23 (2017:14) female employees took maternity leave and 9 (2017: 4) male employees took paternity leave. All the employees returned to work after their leave.

Diversity and equal opportunity

A workforce that is representative of the country and the communities in which our members work and live allows us to better meet our members' needs.

Iemas endeavours to establish a culture that truly embraces all forms of diversity and has been presenting diversity integration programmes every year, since 2007. Over the years, the emphasis with this programme moved away from cultural diversity integration and is now focusing on generational and individual diversity. 14 Employees participated in the diversity integration programme during the year (2017: 15 employees). This was the twelfth group and brings the total number of employees who attended the programme since its introduction to 269, equating to approximately half of the workforce.

Performance and career development

Bi-annual performance appraisals, which form the basis for annual salary and bonus reviews, are conducted with all employees.

Talent management and retention

Annual reviews of the pool of employees, who are considered key individuals or key talent, are conducted by executive management. These employees are managed and monitored in terms of retention, wellness, development and skills transfer.

The insurance industry, in particular, is experiencing a shortage of people with the appropriate skills and required compliance credits. Iemas continuously reviews its strategies and processes to improve talent attraction and retention specific to the short-term insurance business. A formal trends analysis was conducted during the year for this purpose. The results of the analysis provides valuable input to recruitment, retention and people development strategies in this particular area of the business.

Employee wellness programme

Iemas has an extensive employee wellness programme in place which consists of:

- pro-active workshops to emotionally equip and empower people;
- a confidential helpline for support or referral to individual coaching or counselling; and
- individual and confidential coaching or counselling with a professionally qualified counsellor.

During the year 114 (2017: 58) employees (19% of the workforce) attended the wellness workshops, 109 (2017: 166) employees (18% of the workforce) made use of individual wellness counselling sessions and 166 (2017: 165) (28% of the workforce) utilised the wellness helpline.

Exit interviews

Iemas conducts exit interviews as a standard human resources management practice. Where trends become apparent in the reasons for resignation, it is addressed by means of human resources strategies and action plans that are developed and implemented in collaboration with the relevant line managers.

TRAINING AND DEVELOPMENT

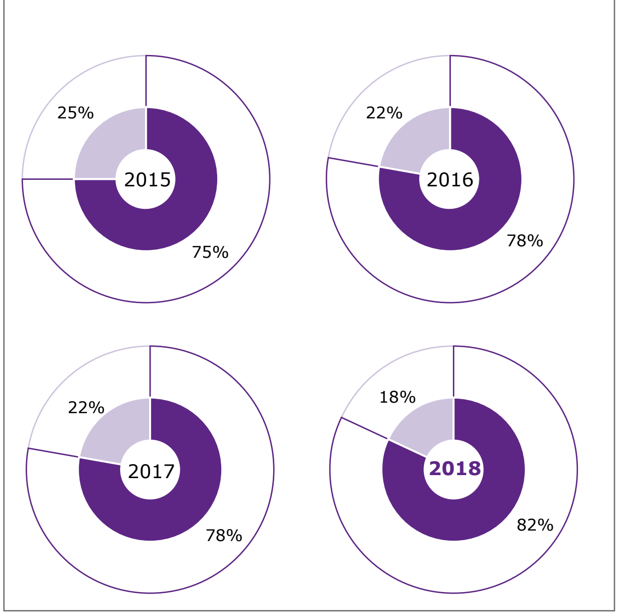
Iemas has a detailed human resources management strategy that is reviewed annually and approved by the human resources committee. Iemas aims to establish a performance-oriented organisational culture by developing high performing individuals through its human resources policies and practices.

In an effort to develop, grow and empower employees, training and development plans are executed to ensure employees achieve their full potential. Iemas' total expenditure on the training and development of employees was R2,0 million (2017: R3 million) for the year. The average training spend per employee trained was R2 074 (2017: R5 445), excluding skills development levies and learnership expenses for unemployed learners.

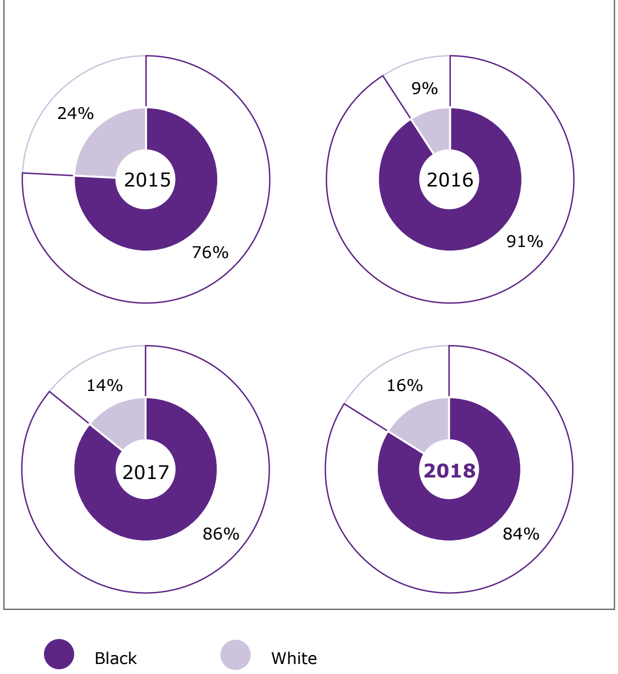
For the year under review, the main training priority was to prepare employees for the new loan origination, loan management and debt collection systems. A total of 6 e-learning training modules were deployed to 399 users. The learning process was tracked and managed by the human resources management team with the aid of an electronic learner management system. Throughout the training process, a number of change readiness interventions were executed, including roadshows to demonstrate the new system to all users and to facilitate job-specific questions and answers sessions.

The demographics of training beneficiaries during the year under review are summarised as follows:

Demographics of employees trained



Expenditure by demographic grouping



Sustainability overview

(continued)

Leadership development

The development of leadership capabilities remains an important human resources and corporate priority. During 2018 a 4-module in-house management orientation course was presented to 11 junior managers and the Milpark Business School's higher certificate in management will be obtained by another 7 junior managers in the next year. Participation in the Milpark Business School's study programme was funded by the Bankseta.

Compliance-related training

Compliance-related training was conducted on an ad-hoc basis during the year under review and included:

- an Employment Equity Act awareness DVD which forms part of induction training;
- training in terms of the Occupational Health and Safety Act;
- regulatory examinations and training for sales people rendering financial advisory and intermediary services in terms of the requirements of the FCSA; and
- wealth management training (full qualification) for Financial Advisory and Intermediary Services credits as required by the FAIS and FCSA regulations.

Bursaries

26 (2017: 29) Employees are currently studying with Iemas bursaries towards tertiary qualifications. For the year under review, Iemas contributed R155 211 (2017: R149 365) towards study bursaries.

SOCIO-ECONOMIC DEVELOPMENT INITIATIVES

Iemas remains cognisant of its responsibility to provide opportunities for its employees to participate in initiatives aimed at assisting the under-served and impoverished parts of the community in which it operates. The co-operative's CSR strategy therefore includes various national and regional initiatives, which employees can support and donate to:

These causes include:

- various educational-related initiatives whereby school uniforms and shoes are donated; career expos; fundraising for a mentally disabled adult educational centre; sponsorships and donations to a school for visually impaired children;
- supporting various national fundraising days including CANSA Shavathon, Casual Day and Tekkie Tax Day;
- continuous donations and assistance to a transitional residential facility for young girls at risk in the Pretoria city centre;
- ongoing SANBS blood donor drives;
- participating in Mandela Day; and
- an HIV/AIDS awareness campaign.

In line with the principles of being a co-operative, Iemas further believes that financial education enables members to make sound financial decisions and to ultimately achieve holistic financial wellness. Iemas therefore offers free financial training at the workplace to employees of contracted employers. Training modules include: how to budget; effective savings tips; escaping the debt spiral, the importance of having a life file and what documentation to include. During the 2018 financial year Iemas trained 7 028 (2017: 6 734) employees at contracted employers nationally.

Skills development in the industry

During the year, 23 (2017: 32) learners participated in Iemas' learnership programmes, and three were permanently employed. Learnerships and internships are offered in short-term insurance, internal audit, retail insurance (life and funeral insurance), human resources management and marketing.

OCCUPATIONAL HEALTH AND SAFETY

The purpose of the safety management system is to:

- formalise the rights and responsibilities of both Iemas as an employer and Iemas employees;
- ensure that all employees become familiar with the Occupational Health and Safety Amendment Act, No 181 of 1993;
- identify and mitigate, as far as reasonably possible, all health and safety risks to employees, business associates and members;
- enable all employees to be responsible and pro-active when making critical decisions regarding health and safety in the workplace;
- communicate the health and safety programme to employees and relevant stakeholders; and
- facilitate the collection, analysis, critical evaluation and amendment of health and safety information and standards.

All contractors are made aware of the safety regulations. Health and safety representatives at branches communicate directly with contractors on any matters regarding safety to ensure that contractors are fully conversant with safety requirements. The right to inspect any contractor equipment, and to reject it, is retained.

Each office has a health and safety plan and monthly safety reports are compiled and evaluated to address any areas of non-conformance.

The following actions took place during the year under review:

- A pro-active management system was maintained;
- 13 (2017: 12) Health and safety representatives received training;
- 78 (2017: 21) Health and safety training courses were presented;
- 11 (2017: 16) Offices conducted their annual emergency drills;
- Initiated a process to identify and train an additional person as a Level 3 First-Aider for advanced first aid at the Centurion head-office;
- New occupational health & safety legal wall charts were distributed to all offices;
- Indemnity signs were updated at all offices;
- Development and dissemination of video clips explaining emergency procedures at Centurion;
- Existing security measures, such as building and fire alarms, safety signage and first-aid kits were updated; and
- Internal audit representatives visited five offices and audited the emergency procedures, safety signage, fire protection, health and safety structures and internal security.

A total of 40 (2017: 26) health and safety-related incidents were recorded during the year, with 0 (2017: 10) incidents of injury on duty reported to the Department of Labour. Other incidents were minor and related to vehicle damage, water damage and theft with no fatalities or serious injuries. The increase in reportable safety-related incidents can be ascribed to increased levels of employee awareness about the need to report incidents and complete accident reports.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

On 1 December 2017, the Department of Trade and Industry published the long-awaited amended financial sector code of good practice on Broad-Based Black Economic Empowerment (B-BBEE). The amended code became effective on the same date and allowed for no transitional period for implementation.

In prior years, Iemas was rated according to the Codes of Good Practice in terms of Section 9 of the Broad-Based Black Economic Empowerment Act, no 53 of 2003, resulting in a B-BBEE status of a Level 3 contributor.

The rating for the year under review was conducted in accordance with the new codes. This resulted in a rating of "non-compliant" under the new code. Iemas is committed to actively participate in the transformation and creation of a competitive financial sector that reflects the demographics of South Africa. Management and the board is formulating a B-BBEE strategy that will ensure the achievement of an acceptable rating according to the new codes within the next two to three years. The focus for the next year will be to improve the score.

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.

Francois van Dyk
Co-operative secretary

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Pretoria
0001

Iemas Park
1249 Embankment Road
Zwartkop X7
Centurion

Tel: 012 674 7074
Fax: 086 520 6556

Email: thesecretariat@iemas.co.za

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.

PricewaterhouseCoopers Inc.

Director: Robert Oudhof
Registered Auditor

Johannesburg
17 October 2018

Statement of financial position

at 31 August

	Note	GROUP 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 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

		GROUP		CO-OPERATIVE	
	Note	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
Continuing operations					
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
Discontinued operations					
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
Total comprehensive income attributable to:					
– 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 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 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

Notes to the consolidated financial statements

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.

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

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).*

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- 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.

Notes to the consolidated financial statements

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

for the year ended 31 August

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.

Notes to the consolidated financial statements

for the year ended 31 August

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.

Notes to the consolidated financial statements

for the year ended 31 August

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.

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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.

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for the year ended 31 August

2. PROPERTY AND EQUIPMENT

GROUP

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
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 impracticle and is therefore not provided.

Notes to the consolidated financial statements

for the year ended 31 August

3. INTANGIBLE ASSETS

	GROUP R'000	CO-OPERATIVE R'000
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

5. INVESTMENTS IN INSURANCE CONTRACTS

(continued)

GROUP

Reconciliation of movement in investment in insurance contracts

	2018 R'000	2017 R'000
Iemas (Co-operative) Limited Cell "A12"		
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
Iemas Financial Services (Co-operative) Limited Cell "00228"		
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
Iemas Financial Services (Co-operative) Limited Cell "00072"		
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

5. INVESTMENTS IN INSURANCE CONTRACTS

(continued)

CO-OPERATIVE

Reconciliation of movement in investment in insurance contracts

	2018 R'000	2017 R'000
Iemas (Co-operative) Limited Cell "A12"		
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
Iemas Financial Services (Co-operative) Limited Cell "00228"		
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
Iemas Financial Services (Co-operative) Limited Cell "00072"		
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

5. INVESTMENTS IN INSURANCE CONTRACTS

(continued)

GROUP

	2018 R'000	2017 R'000
Income and expenditure arising directly from credit life insurance contracts		
Premium income in the statement of comprehensive income		
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
Income in other operating income		
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
Expenditure in other operating expenses		
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
Reinsurance commission paid (note 24)		
» 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 *(continued)*		
CO-OPERATIVE		
Income and expenditure arising directly from credit life insurance contracts		
Premium income in the statement of comprehensive income		
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
Income in other operating income		
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
Expenditure in other operating expenses		
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
Reinsurance commission paid (note 24)		
» 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)

6. DEFERRED INCOME TAX

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
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 *(continued)*		
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)

11. TRADE AND OTHER ASSETS

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
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

13. OTHER RESERVES

	Available-for-sale reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
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

14. MEMBERS' FUNDS

	R'000
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.

15. CASH CO-OPERATIVE REWARDS PAYABLE TO MEMBERS

	R'000
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

16. BORROWINGS

	GROUP 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 2017 R'000
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	–	–

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for the year ended 31 August

16. BORROWINGS *(continued)*

	GROUP 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 2017 R'000
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

16. BORROWINGS *(continued)*

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
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

for the year ended 31 August

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

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17. TRADE AND OTHER LIABILITIES

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
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 revived 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.

	GROUP		CO-OPERATIVE	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000
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
Adjusted for:				
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

27. STATEMENT OF CASH FLOWS

(continued)

NET DEBT RECONCILIATION

The analysis of net debt is as follows:

	GROUP 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 2017 R'000
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 reclassification 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)**

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for the year ended 31 August

27. STATEMENT OF CASH FLOWS

(continued)

	Opening R'000	Cash flows R'000	Non-cash movement/ maturity reclassi-fication R'000	Closing R'000
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)**

28. CO-OPERATIVE REWARDS PAID TO MEMBERS

	2018 R'000	2017 R'000
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

29. COMMITMENTS

	2018 R'000	2017 R'000
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

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.

	2018 R'000	2017 R'000
GROUP		
Income and expenses		
Key management personnel		
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		
Key management personnel		
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		
Commission and administration fees received from		
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
Dividends received from		
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

32. RELATED PARTIES *(continued)*

	2018 R'000	2017 R'000
CO-OPERATIVE (continued)		
Income and expenses (continued)		
Interest received from		
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
Interest paid to		
Torque Securitisation (RF) Limited	**37 619**	68 321
Key management personnel		
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		
Loans advanced to related parties		
Torque Securitisation (RF) Limited	**526 531**	–
Loans replaced between related parties		
Torque Securitisation (RF) Limited	**225 531**	–

Notes to the consolidated financial statements

for the year ended 31 August

32. RELATED PARTIES *(continued)*

	2018 R'000	2017 R'000
Outstanding balances		
Receivable from related parties		
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
Payable to related parties		
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
Key management personnel		
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

33. CO-OPERATIVE REWARDS DECLARED TO MEMBERS

	2018 R'000	2017 R'000
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

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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.

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34. FINANCIAL RISK MANAGEMENT *(continued)*

	GROUP 2018 R'000	GROUP 2017 R'000	CO-OPERATIVE 2018 R'000	CO-OPERATIVE 2017 R'000
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.

Notes to the consolidated financial statements

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 appro-priation R'000	(Over)/ under colla-teralised 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 instru-ments 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 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

	Derivatives used for hedging R'000	Loans and receivables 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)*

	Derivatives used for hedging R'000	Loans and receivables 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

for the year ended 31 August

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

Corporate information

IEMAS FINANCIAL SERVICES (CO-OPERATIVE) LIMITED

Iemas Financial Services (Co-operative) Limited is a registered credit provider NCRCP 1332 and Iemas Insurance Brokers (Pty) Ltd is an authorised financial services provider FSP 47563

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Co-operative secretary

Francois van Dyk

Executive management team

Madelein Barkhuizen
Group manager: corporate marketing

Chris Bornman
Chief information officer

Leonie Louw
Group manager: human resources

Sydney Maluleka
Head: internal audit

Johan Nel
Chief executive officer

Tom O'Connell
Chief financial officer

Francois van Dyk
Group manager: credit and legal services and group secretary

Piet Wolmarans
Executive director

Board of directors as at 31 August 2018

Len de Villiers * +

Prudence Lebina * ^

Temba Mvusi (chairman) * "

Johan Nel (chief executive officer)

Tom O'Connell (chief financial officer)

Retha Piater * "

Vusi Sampula * "

Dashni Sinivasan *^

Willem van Heerden * ^ +

Quintus Vorster * ^ +

Piet Wolmarans *(executive director)*

** Independent non-executive*
^ Audit and risk committee
+ Information technology committee
" Human resources committee

Auditors

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