ANNUAL FINANCIAL STATEMENTS

Statement of responsibility and approval by the Board of Directors

The Board of Directors is required in terms of the Co-operatives Amendment Act, No 14 of 2005, as amended, 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. The Board of Directors need to ensure that the results of its operations and cash flows for the period ended conforms to IFRS. 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 Amendment Act, No 14 of 2005, as amended. 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 considers 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 62 to 64.

The annual financial statements set out on pages 65 to 160, were approved by the Board of Directors on 17 October 2019 and were signed on its behalf by:

Willem van Heerden
Chairman

Banie van Vollenhoven
Group Chief Executive Officer

The consolidated annual financial statements and the report of the external auditors for the financial year ended 31 August 2019 were considered and approved by the members at the AGM held on 31 October 2019.

Willem van Heerden
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 Amendment Act, No 6 of 2013, and that all such returns are true, correct and up to date.

Francois van Dyk
Co-operative Secretary

Private Bag X924
Pretoria
0001

Iemas Park
1249 Embankment Road
Zwartkop X7
Centurion

Tel: 012 674 7074
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Email: thesecretary@iemas.co.za

Report of the Audit and Risk Committee

for the year ended 31 August 2019

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 2019.

COMMITTEE MEMBERSHIP

During F2019, the Audit and Risk Committee members were Quintus Vorster (Chairman), Prudence Lebina, Dashni Sinivasan, all of whom are independent non-executive directors. Quintus Vorster was appointed as Chairman of the Audit and Risk Committee on 22 November 2018, following the appointment of Willem van Heerden, the previous Chairman of the Audit and Risk Committee, as Chairman of the Board. In terms of the Audit and Risk Committee Charter, the Chairman of the Board is not allowed to serve on the Audit and Risk Committee.

The Group Chief Executive Officer, Banie van Vollenhoven, 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.

DUTIES ASSIGNED BY THE BOARD

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 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.

COMMITTEE PERFORMANCE DURING THE REPORTING PERIOD

The Committee has met periodically to consider and to act upon its statutory duties and functions and the Board confirms that the Committee has, during the reporting period, performed the duties mandated to it by the Board.

for the year ended 31 August 2019

AUDIT

External audit

- The Committee nominated PwC for appointment as the independent auditors to perform the 2019 audit. The appointment was approved by members at the AGM on 30 October 2018.
- 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 Committee, Group 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 2019 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.
- With regard to the appropriateness of the re-appointment of PwC and the designated audit partner, Robert Oudhof has assessed information provided by PwC and the external auditor's performance during the 2019 audit. The Committee, having satisfied itself of the suitability of the external auditors, has again nominated PwC as external auditor for the 2020 reporting period. A resolution to this effect will be presented to members at the AGM to be held on 31 October 2019.
- In line with proper governance, a formal request for proposal (RFP) will be conducted in F2021 for the external audit services. PwC won't automatically be excluded due to their direct involvement and will be allowed to participate in the RFP process.

AUDIT continued

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 Group 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 Group Chief Executive Officer and the Executive Committee.
- 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, compliance 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.
- Iemas appointed an external, independent service provider to assist with the internal audit processes and a co-sourcing model has been applied to the functioning of Iemas' Internal Audit and the service provider.
- 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.

for the year ended 31 August 2019

AUDIT continued

Internal control

- 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 Audit and Risk Committee and 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 reporting period to render the control environment ineffective.

REPORTING

Evaluation of the Chief Financial Officer, finance function and financial reporting

- 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 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.
- The Committee has established that Iemas has appropriate financial reporting procedures in place and that those procedures are operating and operated satisfactorily during the reporting period.

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. There have been no changes in the accounting policies, except for the first-time adoption of IFRS 9: Financial Instruments.
- The Audit and Risk Committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 August 2019 to the Board for approval.
- The Board approved the annual financial statements on page 54 on 17 October 2019 and recommended the annual financial statements to be tabled at the AGM for approval.

REPORTING continued

Annual report reporting process

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 does 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

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.
- Disclosure in respect of the risk management framework and key risks identified, together with mitigating strategies, are disclosed on pages 25 to 27 of the annual report.

for the year ended 31 August 2019

RISK continued	
Fraud prevention	• 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. • 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 reporting period was 12 (2018: 29), involving losses of R728 258 (2018: R663 789), either to Iemas or its members. • Management has implemented the required measures to detect most of the fraudulent transactions and extensive communication was done to warn members of those transactions.
Whistle-blowing	• 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. • 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.

ASSURANCE	
Combined 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.
COMPLIANCE	
Legal and regulatory compliance	• Based on the compliance 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. • Information pertaining to the regulatory environment is disclosed on page 24 of this report.

ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

Following the review by the Committee of the accounting policies and annual financial statements of Iemas for the year ended 31 August 2019, the Committee is of the view that, in all material aspects, it complies with the relevant provisions of the Co-operatives Amendment Act, No 6 of 2013 and IFRS and fairly presents the financial position at that date and the results of its operations and cash flows for the reporting period.

Having achieved its objectives for the reporting period, the Committee recommended the consolidated and separate annual financial statements and annual report for the year ended 31 August 2019 for approval to the Board on 17 October 2019.

APPROVAL

The Audit and Risk Committee fulfilled its mandate during the reporting period and accordingly the annual financial statements have been approved for recommendation to the Board.

The Board has subsequently approved the annual financial statements on pages 65 to 160 on 17 October 2019 and recommended the annual financial statements to be tabled at the AGM for approval.

The Board of Directors of Iemas approved the Report of the Audit and Risk Committee on 17 October 2019.

Signed for and on behalf of the Audit and Risk Committee

Quintus Vorster

Chairman of the Audit and Risk Committee

Directors' report

for the year ended 31 August 2019

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 2019. The annual financial statements set out the financial position, results of operations and cash flows of Iemas for the year ended 31 August 2019.

GROUP RESULTS SUMMARY

	2019 R'000	2018 R'000	% change
Statement of Financial Position			
Total assets	**5 640 342**	5 332 637	5,8
Total liabilities	**3 929 669**	3 709 572	(5,9)
Statement of Comprehensive Income			
Interest income	**696 106**	625 603	11,3
Net interest income after impairments of advances	**310 962**	274 121	13,4
Profit before income tax	**117 486**	128 479	(8,6)
Income tax	**24 281**	25 443	4,6
Total comprehensive income for the year	**93 688**	103 164	(9,2)
Reward allocation to members of the Co-operative	**109 909**	109 362	0,5

REVIEW OF FINANCIAL RESULTS

Concerted efforts to improve performance continued, rendering results ahead of a budget which projected a decline, but with performance remaining below that of F2018. Profit for the year decreased by 9,5% (2018: decrease of 12,9%) to R93,2m (2018: R103,0m).

The total member rewards for 2019, including rewards allocated and interest accrued on the members' deferred bonus payment funds, amounted to R109,9m (2018: R109,4 million).

Net advances increased by 6,4% (2018: 5,6%) to R5 368,9m (2018: R5 047,8m).

The loan impairment expense (bad debts plus provisions less recoveries) increased by 14,6% (2018: 14,5%) to R88,0m (2018: R76,8m).

The impairment provision increased by R13,0 million (2018: R5,0 million), which represents 4,1% (2018: 4,1%) 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 5,4% (2018: 6,8%) to R1 710,7m (2018: R1 623,1m) while members' funds increased to R848,3m (2018: R814,1m).

SPECIAL RESOLUTIONS

There were no special resolutions for the year under review.

SECRETARY

Iemas' secretary is Francois van Dyk 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 23 and 31 of the annual financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

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

for the year ended 31 August 2019

DIRECTORS

Details regarding movements of directors during the period 1 September 2018 to 31 August 2019 are tabled below:

Member	Designation	Date of appointment
Anton Buthelezi	Independent non-executive director	31 October 2018
Len de Villiers	Independent non-executive director	31 October 2014
Prudence Lebina	Independent non-executive director	31 October 2016
Temba Mvusi *	Independent non-executive director and Chairman of the Board	31 October 2011
Johan Nel #	Chief Executive Officer	1 April 2010
Retha Piater	Independent non-executive director	10 July 2014
Vusi Sampula	Independent non-executive director	31 October 2014
Willem van Heerden ^	Independent non-executive director and Chairman of the Board	6 December 2014
Dashni Sinivasan	Independent non-executive director	31 October 2017
Quintus Vorster	Independent non-executive director	12 April 2017
Banie van Vollenhoven ``	Group Chief Executive Officer	1 January 2019
Tom O'Connell	Chief Financial Officer	25 November 2005

* *Temba Mvusi retired from the Board at the AGM on 30 October 2018*

\# *Johan Nel retired from the Board and as Chief Executive Officer on 31 December 2018*

^ *Appointed as Chairman of the Board at the AGM on 30 October 2018*

`` *Appointed as Group Chief Executive Officer on 1 January 2019*

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 31 October 2019.

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 2019, 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 Cooperatives Act of South Africa.

What we have audited

Iemas Financial Services (Co-operative) Limited’s consolidated and separate financial statements set out on pages 65 to 160 comprise:

- the consolidated and separate statements of financial position as at 31 August 2019;
- 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 document titled “Annual Report”, which includes the Social Report and Management Decision Report as required by the Co-Operatives Act, 2005 (Act No. 14 of 2005) as amended by the Co-Operatives Amendment Act, 2013 (Act No. 6 of 2013). The other information does not include the consolidated or 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 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.

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.

Report on other legal and regulatory requirements

In terms of Section 47(1)(c) of the Co-operative’s Act, 2005 we report that, based on our audit, nothing has come to our attention that cause us to believe that the assets and facilities of the Co-operative are not being properly managed and the operations of the Co-operative are not being conducted in accordance with Co-operative principles.

In accordance with our responsibilities in terms of section 31(1)(a) of the Co-Operatives Act, 2005 (Act No. 14 of 2005) as amended by the Co-operatives Amendment Act, 2013 (Act No.6 of 2013) (the “Act”), we report that the certificate as required by section 31(1)(a) has been submitted by Iemas Financial Services (Co-operative) Limited.

PRICEWATERHOUSE COOPERS INC.

PricewaterhouseCoopers Inc.

Director: Robert Oudhof
Registered Auditor

Waterfall City
Date: 18 October 2019

Statement of financial position

at 31 August

	Note	GROUP 2019 R'000	GROUP 2018 R'000	CO-OPERATIVE 2019 R'000	CO-OPERATIVE 2018 R'000
ASSETS					
Non-current assets					
Property and equipment	2	**42 266**	40 869	**40 881**	40 245
Intangible assets	3	**52 344**	36 929	**51 892**	36 134
Investments in subsidiaries	4	**–**	–	**313**	313
Investments in insurance contracts	5	**145 963**	144 503	**145 963**	144 503
Deferred income tax	6	**53 102**	46 701	**48 217**	42 215
Advances receivable	7	**4 029 502**	3 740 319	**4 029 502**	3 740 319
Other non-current receivables	8	**–**	–	**131 800**	131 800
Investment securities	9	**3 035**	–	**2 000**	–
Available-for-sale assets	9	**–**	552	**–**	–
		4 326 212	4 009 873	**4 450 568**	4 135 529
Current assets					
Advances receivable	7	**1 131 062**	1 124 940	**1 086 357**	1 078 682
Cash and cash equivalents	10	**170 216**	187 962	**25 017**	7 474
Trade and other assets	11	**10 772**	6 495	**110 153**	81 288
Income tax receivable	19	**2 080**	3 367	**–**	126
		1 314 130	1 322 764	**1 221 527**	1 167 570
TOTAL ASSETS		**5 640 342**	5 332 637	**5 672 095**	5 303 099
EQUITY AND LIABILITIES					
Equity attributable to members of the Co-operative					
Share capital	12	**–**	–	**–**	–
Other reserves	13	**242 401**	241 918	**241 366**	241 366
Retained reserves		**1 468 272**	1 381 147	**1 429 013**	1 274 246
		1 710 673	1 623 065	**1 670 379**	1 515 612
Non-current liabilities					
Members' funds	14	**848 335**	814 064	**848 335**	814 064
Borrowings	16	**1 577 638**	1 241 768	**1 712 245**	1 374 239
		2 425 973	2 055 832	**2 560 580**	2 188 303
Current liabilities					
Borrowings	16	**1 298 167**	1 453 771	**1 294 583**	1 458 151
Trade and other liabilities	17	**184 467**	177 946	**126 156**	120 726
Cash co-operative rewards payable	15	**18 163**	20 307	**18 163**	20 307
Income tax payable	19	**2 899**	1 716	**2 234**	–
		1 503 696	1 653 740	**1 441 136**	1 599 184
TOTAL EQUITY AND LIABILITIES		**5 640 342**	5 332 637	**5 672 095**	5 303 099

Statement of comprehensive income

for the year ended 31 August

	Note	GROUP		CO-OPERATIVE	
		2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Interest income		**696 106**	625 603	**703 966**	640 952
Interest expenditure	18	**(249 701)**	(227 249)	**(266 728)**	(248 024)
Interest credited to members' funds	32	**(47 412)**	(47 414)	**(47 412)**	(47 414)
Net interest income before impairment losses		**398 993**	350 940	**389 826**	345 514
Impairment of advances receivable	20	**(88 031)**	(76 819)	**(88 031)**	(76 819)
Net interest income after impairment losses		**310 962**	274 121	**301 795**	268 695
Premium income	5	**94 815**	98 446	**94 815**	98 446
Fee and commission income	21	**128 935**	139 571	**74 130**	87 453
Other operating income	22	**16 479**	14 666	**109 061**	32 491
Income from operations		**551 191**	526 804	**579 801**	487 085
Operating expenditure	23	**(377 687)**	(345 076)	**(348 512)**	(324 841)
Profit before co-operative rewards to members		**173 504**	181 728	**231 289**	162 244
Co-operative rewards to members	32	**(56 018)**	(53 249)	**(56 018)**	(53 249)
Profit before income tax		**117 486**	128 479	**175 271**	108 995
Income tax	25	**(24 281)**	(25 443)	**(14 424)**	(14 898)
Profit for the year		**93 205**	103 036	**160 847**	94 097
Other comprehensive income for the year		**483**	128	**–**	–
Items that will not be classified to profit and loss					
Net gains on investments in equity instruments designated at FVOCI		**483**	–	**–**	–
Change in value of available-for-sale financial asset		**–**	1 925	**–**	–
Fair value gains recycled to profit and loss		**–**	(1 797)	**–**	–
Total comprehensive income for the year		**93 688**	103 164	**160 847**	94 097
Total comprehensive income attributable to:					
– Members of the Co-operative		**93 688**	103 164	**160 847**	94 097

FVOCI – financial assets at fair value through other comprehensive income

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 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
Balance at 1 September 2018		**–**	**241 918**	**1 381 147**	**1 623 065**
Impact of initial application of IFRS 9 at 1 September 2018	1.16	**–**	**–**	**(6 080)**	**(6 080)**
Restated balance at 1 September 2018		**–**	**241 918**	**1 375 067**	**1 616 985**
Profit for the year		**–**	**–**	**93 205**	**93 205**
Other comprehensive income for the year	13	**–**	**483**	**–**	**483**
Balance at 31 August 2019		**–**	**242 401**	**1 468 272**	**1 710 673**
CO-OPERATIVE					
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
Balance at 1 September 2018		**–**	**241 366**	**1 274 246**	**1 515 612**
Impact of initial application of IFRS 9 at 1 September 2018	1.16	**–**	**–**	**(6 080)**	**(6 080)**
Restated balance at 1 September 2018		**–**	**241 366**	**1 268 166**	**1 509 532**
Profit for the year		**–**	**–**	**160 847**	**160 847**
Balance at 31 August 2019		**–**	**241 366**	**1 429 013**	**1 670 379**

Statement of cash flows

for the year ended 31 August

	Note	GROUP		CO-OPERATIVE	
		2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash utilised by operations	26	**(766 134)**	(678 935)	**(760 937)**	(701 052)
Interest received (excluding interest receivable)	26	**691 233**	623 126	**695 600**	637 797
Interest paid (excluding accrued interest)	26	**(249 416)**	(230 568)	**(266 377)**	(252 051)
Premium income	26	**94 815**	98 446	**94 815**	98 446
Fee and commission income	26	**128 935**	139 571	**73 789**	87 107
Other income	26	**16 479**	14 360	**14 061**	12 491
Co-operative rewards paid to members	27	**(15 431)**	(25 090)	**(15 431)**	(25 090)
Disbursements to members	14	**(45 508)**	(39 866)	**(45 508)**	(39 866)
Income tax paid	19	**(25 847)**	(31 135)	**(15 701)**	(18 122)
Net derivative income		**–**	563	**–**	–
Net cash flow utilised by operating activities		**(170 874)**	(129 528)	**(225 689)**	(200 340)
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property and equipment	2	**(6 886)**	(6 233)	**(5 888)**	(5 964)
Disposals of property and equipment		**25**	–	**25**	–
Additions to intangible assets	3	**(16 533)**	(13 755)	**(16 533)**	(13 755)
Increase in investments in subsidiaries	4	**–**	–	**–**	(1)
(Increase)/decrease in investments in insurance contracts	5	**(1 460)**	2 111	**(1 460)**	2 111
Increase in other receivables	8	**–**	–	**–**	(131 800)
Decrease in other receivables	8	**–**	–	**–**	209 972
Increase in investment securities	9	**(2 000)**	–	**(2 000)**	–
Dividend received	22	**–**	–	**95 000**	20 000
Net cash flow (utilised by)/generated from investing activities		**(26 854)**	(17 877)	**69 144**	80 563
CASH FLOW FROM FINANCING ACTIVITIES					
Increase in borrowings	26	**181 800**	76 500	**174 088**	123 475
Increase in notes	26	**199 112**	400 000	**–**	–
Decrease in notes	26	**(200 930)**	(233 806)	**–**	–
Net cash flow generated from financing activities		**179 982**	242 694	**174 088**	123 475
Net (decrease)/increase in cash and cash equivalents		**(17 746)**	95 289	**17 543**	3 698
Cash and cash equivalents at beginning of the year		**187 962**	92 673	**7 474**	3 776
Cash and cash equivalents at end of the year	10	**170 216**	187 962	**25 017**	7 474

1. ACCOUNTING POLICIES

1.1 INTRODUCTION

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 (Iemas) 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.

1.1.1 Basis of preparation

The annual financial statements and consolidated financial statements of Iemas for the year 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as applicable in South Africa. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These financial statements have been prepared under the historical cost convention, except for certain assets and liabilities measured at fair value and investments in insurance contracts (measured as per the accounting policy).

The financial statements are prepared on the going concern basis.

1.1.2 Standards, amendments and interpretations which became effective in the 2019 financial year

The following standards, amendments and interpretations which became effective in the 2019 financial year have been adopted for the first time for the financial period beginning on or after 1 September 2018 and have an impact on the Group's operations.

- *IFRS 4, 'Insurance contracts' (effective from 1 January 2018)* These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard:
  - gives 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
  - gives 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.

The Group opted for the latter when evaluating its insurance contracts.

- *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 loss model that replaces the current incurred loss impairment model. The revised classification and measurement have been applied prospectively together with the IFRS expected credit loss methodology. Detail disclosures with regards to the impact of this standard are presented in note 1.16.

- *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 transfers to a customer. The Group assessed the impact of this standard and concluded that the standard did not have a material impact on revenue recognition for the Group.
- *IFRS 15 (Amendment), 'Revenue from contracts with customers' (effective from 1 January 2018).* The IASB amended IFRS 15 to clarify the guidance, however, there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses 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. This amendment to IFRS 15 did not have a material impact on revenue recognition for the Group.

The following standards, amendments and interpretations, which became effective in the 2019 financial year, are mandatory for the Group's accounting periods beginning on or after 1 September 2018. Although these standards, amendments and interpretations are mandatory, they are not relevant for the current and prior financial year.

- *IFRS 2 (Amendment), 'Share-based payments' (effective from 1 January 2018).*
- *IFRS 9 (Amendment), 'Financial instruments' – hedge accounting (effective from 1 January 2018).*
- *IAS 40 (Amendment), 'Investment property' (effective from 1 January 2018).*
- *IFRIC 22, 'Foreign currency transactions and advance consideration' (effective from 1 January 2018).*
- *Annual improvements cycle 2014 – 2016.*

  There are a number of minor amendments and improvements published in December 2016. These amendments are listed below:

  - *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).*

1.1.3 Standards, amendments and interpretations not yet effective in the 2019 financial year

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 2019 or later periods. Of those identified as possibly 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 9 (Amendment), 'Financial instruments' (effective from 1 January 2019).* The narrow-scope amendment covers two issues:
  - The amendment allows companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income (FVOCI) if a specified condition is met, instead of at fair value through profit or loss (FVPL). 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 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, has been updated. 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 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'.* Management is in the process of assessing the impact of this standard.
- *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. Management is in the process of assessing the impact of this standard.

- *IAS 1 (Amendment), 'Presentation of financial statements' and IAS 8 (Amendment), 'Accounting policies, changes in accounting estimates and errors' on the definition of material (effective from 1 January 2020).* These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

  – use a consistent definition of materiality through IFRSs and the conceptual framework for financial reporting;

  – clarify the explanation of the definition of material; and

  – incorporate some of the guidance in IAS 1 about immaterial information.

  The amended definition is:

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

- *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 2019 or later periods, but are not relevant to the Group's operations:

- *IFRS 3 (Amendment), 'Business combinations' (effective from 1 January 2020).*
- *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 19 (Amendment), 'Employee benefits' – on plan amendment, curtailment or settlement (effective from 1 January 2019).*
- *IAS 28 (Amendment), 'Investments in associates and joint ventures' – long-term interests in associates and joint ventures (effective from 1 January 2019).*
- *Annual improvements cycle 2015 to 2017.*

  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).*

1.2 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 is the impairment of advances (refer to notes 7, 20 and 33).

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 is the impairment of advances that is detailed below.

Measurement of the expected credit losses (ECL) allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 33, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL (including assessment of probability of default and loss given default);
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

1.3 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's 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.

1.4 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
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.

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 accounting policy note 1.6.

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.

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

1.6 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.

1.7 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.

1.8 FINANCIAL INSTRUMENTS

The following section sets out the accounting policies that were applied under *IAS 39, Financial Instruments: Recognition and Measurement (IAS 39)* in the 2018 financial year, together with those that are applied under *IFRS 9, Financial Instruments (IFRS 9)* during the 2019 financial year.

IFRS 9 has been adopted by the Group on 1 September 2018, and replaces IAS 39. As permitted under IFRS 9, the Group has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2018 financial year has, therefore, been prepared under the framework for financial instruments accounting within IAS 39. Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2018 have been clearly distinguished from the current financial year.

Financial instruments carried on the statement of financial position include all assets and liabilities, however, exclude property and equipment, intangible assets, investments in subsidiaries, investments in insurance contracts, deferred tax 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.

1.8.1 Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance). The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset of financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVPL are expensed in profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.8.2 Financial assets under IFRS 9 (2019)

1.8.2.1 Classification and subsequent measurement

From 1 September 2018, the Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- FVOCI; or
- FVPL.

The classification and subsequent measurement of financial assets depend on:

- the business model within which the financial assets are managed; and
- the contractual cash flow characteristics of the asset (that is, whether the cash flows represent 'solely payments of principal and interest').

Business model assessment

The business model reflects how the Group manages the financial assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be measured at FVPL.

1.8.2.2 Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans. The Group classifies its debt instruments into the amortised cost measurement category:

Amortised cost – Financial assets are classified within this measurement category if they are held for the collection of contractual cash flows, where those cash flows represent SPPI, and that are not designated at FVPL. These financial assets are subsequently measured at amortised cost where interest income from these financial assets is included in 'Interest income' in the statement of comprehensive income using the effective interest rate method. The carrying amount of these assets is adjusted by the expected credit loss recognised. The Group's financial assets classified in this category comprise advances, other non-current receivables, trade and other assets and cash and cash equivalents in the statement of financial position (refer notes 7, 8, 10 and 11).

Financial assets classified within the amortised cost measurement category

- *Originated advances*

  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.

  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 notes 7 and 33).

- *Other non-current receivables*

  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. Trade and other assets are disclosed in current assets in the statement of financial position.

- *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.

1.8.2.3 Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Group subsequently measures all equity instruments at FVPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Realised returns on such investments, continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established. The Group's financial assets classified as equity instruments designated at FVOCI comprise of investment securities in the statement of financial position (refer note 9).

1.8.2.4 Expected credit losses on financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and FVOCI. The Group recognises a credit impairment loss for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 requires entities to recognise ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12-month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL).

The Group has elected to apply IFRS 9's simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade receivables.

More detail is provided in section 1.2 on critical accounting estimates and assumptions and in note 33.

1.8.3 Financial assets under IAS 39 (2018)

1.8.3.1 Classification and subsequent measurement

The Group classifies its financial assets in the following categories:

- Loans and receivables that consist of advances, trade and other assets and cash and cash equivalents (refer notes 7, 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 advances, 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.

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.

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 notes 7 and 33).

- *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.

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 FVPL.

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.

1.8.3.2 Impairment of financial assets

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.

1.8.4 Financial liabilities (2019 and 2018)

Classification and subsequent measurement

Financial liabilities consist of borrowings and trade and other payables.

In both the current and prior financial year, financial liabilities are subsequently measured at amortised cost. Interest expense is recognised as interest expenditure in the statement of comprehensive income. 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.

1.8.5 Derecognition of financial assets and liabilities

1.8.5.1 Derecognition of financial assets

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Group transfers substantially all the risks and rewards of ownership, or the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

1.8.5.2 Derecognition of financial liabilities

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.

1.8.6 Modification of financial assets and financial liabilities

1.8.6.1 Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of advances to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' financial asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Difference in the carrying amount is also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows or the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

1.8.6.2 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.8.7 Offsetting of financial assets and liabilities

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.

1.9 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.

1.10 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.

1.11 SHARE CAPITAL

In terms of the Co-operatives Amendment Act, No 6 of 2013 (2018: 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.

1.12 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 is received in conjunction with the members' loan instalments, which constitute 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 set out below.

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; and
- 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 Limited and Bryte Insurance Company Limited, on commercial terms and conditions at market prices. Both these companies are licensed insurance companies.

1.13 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, are 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.

1.14 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.

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.

1.15 REVENUE RECOGNITION

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

1.15.1 Net interest income

Interest income (including capitalised initiation fees) and interest expenditure are calculated on the time proportion basis using the effective interest rate method which is amended in the case of negotiations with members and impairment. Interest income and interest expenditure are separately presented on the face of the statement of comprehensive income. Effective interest is calculated on loans and advances which are classified at amortised cost. Interest expenditure is calculated on financial liabilities held at amortised cost.

Impact of IFRS 9 ECL on interest recognition

IFRS 9 requires that interest income is calculated on financial assets by multiplying the effective interest rate by the gross carrying amount of such assets, except for financial assets that have subsequently become credit-impaired (or stage 3) for which interest income is calculated by applying the effective interest rate to their amortised cost, that is, the gross carrying value less the ECL allowance. This exception is only applicable under IFRS 9 and has, therefore, been applied in 2019.

1.15.2 Fee and commission income

Under *IFRS 15, Revenue from Contracts with Customers,* entities are required to recognise revenue in a manner which depicts the transfer of promised goods or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Fees and commission income earned in respect of services rendered are recognised on an accrual basis when the service is rendered. Fees earned on the execution of a significant act are recognised when the significant act has been completed.

Fee and commission income relates to revenue earned for the rendering of services and is recognised on the following basis:

- 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.

When the Group is acting as an agent, amounts collected on behalf of the principal are not income. Only the net commission retained by the Group is, in this case, recognised as income.

1.15.3 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.

1.15.4 Other income

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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1.16 FINANCIAL IMPACT OF REPORTING CHANGES IN 2018

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 September 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous years.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7, Financial Instruments: Disclosures.*

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 September 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount R'000**	**Measurement category**	**Carrying amount R'000**
FINANCIAL ASSETS				
GROUP				
Advances receivable	Amortised cost (Loans and receivables)	4 865 259	Amortised cost	4 856 814
Investment securities/available-for-sale financial assets	Available-for-sale	552	Equity instrument designated at FVOCI	552
Cash and cash equivalents	Amortised cost (Loans and receivables)	187 962	Amortised cost	187 962
Trade and other assets excluding pre-payments	Amortised cost (Loans and receivables)	4 062	Amortised cost	4 062
CO-OPERATIVE				
Advances receivable	Amortised cost (Loans and receivables)	4 819 001	Amortised cost	4 810 556
Other non-current receivables	Amortised cost (Held-to-maturity financial assets)	131 800	Amortised cost	131 800
Cash and cash equivalents	Amortised cost (Loans and receivables)	7 474	Amortised cost	7 474
Trade and other assets excluding pre-payments	Amortised cost (Loans and receivables)	78 854	Amortised cost	78 854

There were no changes to the classification and measurement of financial liabilities.

1.16 FINANCIAL IMPACT OF REPORTING CHANGES IN 2018 (continued)

The following table summarises the total impact of IFRS 9 for the Group on the statement of financial position as at 1 September 2018.

	31 August 2018 R'000	Reclassifi-cations R'000	IFRS 9 ECL R'000	1 September 2018 R'000
ASSETS				
Non-current assets				
Property and equipment	40 869	–	–	40 869
Intangible assets	36 929	–	–	36 929
Investments in insurance contracts	144 503	–	–	144 503
Deferred income tax	46 701	–	2 365	49 066
Advances receivable	3 740 319	–	–	3 740 319
Investment securities	–	552	–	552
Available-for-sale assets	552	(552)	–	–
	4 009 873	–	2 365	4 012 238
Current assets				
Advances receivable	1 124 940	–	(8 445)	1 116 495
Cash and cash equivalents	187 962	–	–	187 962
Trade and other assets	6 495	–	–	6 495
Income tax receivable	3 367	–	–	3 367
	1 322 764	–	(8 445)	1 314 319
TOTAL ASSETS	5 332 637	–	(6 080)	5 326 557
EQUITY AND LIABILITIES				
Equity attributable to members of the Co-operative				
Share capital	–	–	–	–
Other reserves	241 918	–	–	241 918
Retained reserves	1 381 147	–	(6 080)	1 375 067
	1 623 065	–	(6 080)	1 616 985
Non-current liabilities				
Members' funds	814 064	–	–	814 064
Borrowings	1 241 768	–	–	1 241 768
	2 055 832	–	–	2 055 832
Current liabilities				
Borrowings	1 453 771	–	–	1 453 771
Trade and other liabilities	177 946	–	–	177 946
Cash co-operative rewards payable	20 307	–	–	20 307
Income tax payable	1 716	–	–	1 716
	1 653 740	–	–	1 653 740
TOTAL EQUITY AND LIABILITIES	5 332 637	–	(6 080)	5 326 557

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1.16 FINANCIAL IMPACT OF REPORTING CHANGES IN 2018 (continued)

The following table summarises the total impact of IFRS 9 for the Co-operative on the statement of financial position as at 1 September 2018.

	31 August 2018 R'000	Reclassifi-cations R'000	IFRS 9 ECL R'000	1 September 2018 R'000
ASSETS				
Non-current assets				
Property and equipment	40 245	–	–	40 245
Intangible assets	36 134	–	–	36 134
Investments in subsidiaries	313	–	–	313
Investments in insurance contracts	144 503	–	–	144 503
Deferred income tax	42 215	–	2 365	44 580
Advances receivable	3 740 319	–	–	3 740 319
Other non-current receivables	131 800	–	–	131 800
	4 135 529	–	2 365	4 137 894
Current assets				
Advances receivable	1 078 682	–	(8 445)	1 070 237
Cash and cash equivalents	7 474	–	–	7 474
Trade and other assets	81 288	–	–	81 288
Income tax receivable	126	–	–	126
	1 167 570	–	(8 445)	1 159 125
TOTAL ASSETS	5 303 099	–	(6 080)	5 297 019
EQUITY AND LIABILITIES				
Equity attributable to members of the Co-operative				
Share capital	–	–	–	–
Other reserves	241 366	–	–	241 366
Retained reserves	1 274 246	–	(6 080)	1 268 166
	1 515 612	–	(6 080)	1 509 532
Non-current liabilities				
Members' funds	814 064	–	–	814 064
Borrowings	1 374 239	–	–	1 374 239
	2 188 303	–	–	2 188 303
Current liabilities				
Borrowings	1 458 151	–	–	1 458 151
Trade and other liabilities	120 726	–	–	120 726
Cash co-operative rewards payable	20 307	–	–	20 307
	1 599 184	–	–	1 599 184
TOTAL EQUITY AND LIABILITIES	5 303 099	–	(6 080)	5 297 019

1.16 FINANCIAL IMPACT OF REPORTING CHANGES IN 2018 (continued)

The investment in the Hollard Insurance Company Limited cell captive that was previously classified as an available-for-sale financial asset is now disclosed as investment securities that is classified as an equity instrument designated at FVOCI as permitted under IFRS 9. The changes in fair value of this investment will no longer be recycled to profit or loss when it is disposed of.

Other non-current receivables, previously classified as held-to-maturity financial assets, are now classified in the amortised cost measurement category under IFRS 9, as the previous category under IAS 39 was retired. There has been no changes in the measurement basis.

The following table reconciles the prior financial year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 September 2018.

	31 August 2018	IFRS 9 – 1 September 2018				
	Impairment of advances receivable (IAS 39) R'000	**Stage 1 R'000**	**Stage 2 R'000**	**Stage 3 R'000**	**Total IFRS 9 impairment of advances receivable R'000**	**IFRS 9 transition adjustment R'000**
Advances receivable						
Pension-backed loans	–	–	–	–	–	–
Vehicle loans	88 159	31 367	30 646	32 506	94 519	6 360
Maxi loans	37 177	14 684	5 423	14 322	34 429	(2 748)
Other unsecured loans	29 664	11 115	4 583	11 354	27 052	(2 612)
	155 000	57 166	40 652	58 182	156 000	1 000

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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 2017					
Cost	15 827	39 494	7 176	26 800	89 297
Accumulated depreciation	(10 336)	(33 888)	(5 669)	(123)	(50 016)
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 23)	(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
Year ended 31 August 2019					
Opening net book amount	**5 633**	**7 543**	**1 016**	**26 677**	**40 869**
Additions	**1 008**	**4 911**	**967**	**–**	**6 886**
Disposals	**(139)**	**(243)**	**–**	**–**	**(382)**
Depreciation charge (note 23)	**(1 073)**	**(3 455)**	**(579)**	**–**	**(5 107)**
Closing net book amount	**5 429**	**8 756**	**1 404**	**26 677**	**42 266**
At 31 August 2018					
Cost	**17 121**	**47 048**	**8 202**	**26 800**	**99 171**
Accumulated depreciation	**(11 692)**	**(38 292)**	**(6 798)**	**(123)**	**(56 905)**
Net book amount	**5 429**	**8 756**	**1 404**	**26 677**	**42 266**

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 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 23)	(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
Year ended 31 August 2019					
Opening net book amount	**5 368**	**7 543**	**657**	**26 677**	**40 245**
Additions	**1 008**	**4 880**	**–**	**–**	**5 888**
Disposals	**(139)**	**(243)**	**–**	**–**	**(382)**
Depreciation charge (note 23)	**(1 045)**	**(3 455)**	**(370)**	**–**	**(4 870)**
Closing net book amount	**5 192**	**8 725**	**287**	**26 677**	**40 881**
At 31 August 2019					
Cost	**16 852**	**47 017**	**6 756**	**26 800**	**97 425**
Accumulated depreciation	**(11 660)**	**(38 292)**	**(6 469)**	**(123)**	**(56 544)**
Net book amount	**5 192**	**8 725**	**287**	**26 677**	**40 881**

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

Lease rentals amounting to R12,2m (2018: R11,8m) 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 performed at the end of the 2017 financial year 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 three years to four 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 the previous financial year's operating expenditure was as follows:

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

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

	GROUP	CO-OPERATIVE
	R'000	R'000
3. INTANGIBLE ASSETS		
At 1 September 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	(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
Year ended 31 August 2019		
Opening net book amount	**36 929**	**36 134**
Additions	**16 533**	**16 533**
Amortisation charge (note 23)	**(1 118)**	**(775)**
Closing net book amount	**52 344**	**51 892**
At 31 August 2019		
Cost	**64 366**	**61 982**
Accumulated amortisation	**(12 022)**	**(10 090)**
Net book amount	**52 344**	**51 892**

Intangible assets mainly comprise the following:

- The re-engineering project related to the Iemas computer system, which amounted to a total cost of R6,3m. This system was fully amortised during the 2009 financial year;
- The Inovo Telecommunication system, which was acquired at a total cost of R1,4m 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 R0,9m. During April 2017, a further R0,3m 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 R4,0m;
- 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 2019, this totaled R49,0m (2018: R32,5m). The system is expected to be implemented in the 2020 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 R1,7m; and
- The Issue Insurance Software system was implemented in the Financial Advisory Division during August 2015 at a total cost of R0,7m.

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
4. INVESTMENTS IN SUBSIDIARIES				
Shares at cost	**–**	–	**313**	313

	Number of shares	Effective holding %	Investment R
CO-OPERATIVE 2018/2019			
Iemtech Proprietary Limited	**1 000**	**100**	**1 000**
Iemark Marketing Proprietary Limited (Dormant)	**120**	**100**	**120**
Torque Securitisation (RF) Limited (preference shares/note 33)	**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.

During the 2017 financial year the Co-operative acquired 100% of the shares in Iemas Insurance Brokers Proprietary Limited for a total consideration of R135,0m, that consisted of R1,3m for computer systems, R0,7m for a leave pay provision, R0,3m for a deferred tax liability and a R134,7m common control reserve. Bank accounts to the value of R22,3m 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.

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 31.

As discussed in note 33, 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 previous 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 Co-operative Switch Proprietary Limited, jointly owned by the Co-operative and Cape Consumers Proprietary Limited. The Co-operative acquired 50% of the shares in The Co-operative Switch Proprietary Limited in the prior financial year.

5. INVESTMENTS IN INSURANCE CONTRACTS

	2019 R'000	2018 R'000
GROUP AND CO-OPERATIVE		
Iemas (Co-operative) Limited Cell "A12"	**1 442**	3 839
Iemas Financial Services (Co-operative) Limited Cell "00228"	**126 885**	127 775
Iemas Financial Services (Co-operative) Limited Cell "00072"	**17 636**	12 889
	145 963	144 503
GROUP		
Reconciliation of movement in investment in insurance contracts		
Iemas (Co-operative) Limited Cell "A12"		
At 1 September	**3 839**	13 301
Revenue – premiums earned	**83**	204
Revenue – investment income	**316**	577
Claims income	**48**	114
Reinsurance commission paid	**(176)**	(312)
Transactions with related parties	**(2 668)**	(10 045)
At 31 August	**1 442**	3 839
Iemas Financial Services (Co-operative) Limited Cell "00228"		
At 1 September	**127 775**	125 754
Revenue – premiums earned	**78 028**	84 023
Revenue – investment income	**8 725**	8 829
Claims costs	**(18 995)**	(13 521)
Reinsurance commission paid	**(12 955)**	(14 249)
Transactions with related parties	**(55 693)**	(63 061)
At 31 August	**126 885**	127 775
Iemas Financial Services (Co-operative) Limited Cell "00072"		
At 1 September	**12 889**	7 559
Revenue – premiums earned	**16 704**	14 219
Revenue – investment income	**924**	784
Claims costs	**(4 017)**	(1 514)
Reinsurance commission paid	**(3 934)**	(3 964)
Transactions with related parties	**(4 930)**	(4 195)
At 31 August	**17 636**	12 889

for the year ended 31 August

5. INVESTMENTS IN INSURANCE CONTRACTS
(continued)

CO-OPERATIVE

Reconciliation of movement in investment in insurance contracts

	2019 R'000	2018 R'000
Iemas (Co-operative) Limited Cell "A12"		
At 1 September	**3 839**	13 301
Revenue – premiums earned	**83**	204
Revenue – investment income	**316**	577
Claims income	**48**	114
Reinsurance commission paid	**(194)**	(357)
Transactions with related parties	**(2 650)**	(10 000)
At 31 August	**1 442**	3 839
Iemas Financial Services (Co-operative) Limited Cell "00228"		
At 1 September	**127 775**	125 754
Revenue – premiums earned	**78 028**	84 023
Revenue – investment income	**8 725**	8 829
Claims costs	**(18 995)**	(13 521)
Reinsurance commission paid	**(38 648)**	(47 310)
Transactions with related parties	**(30 000)**	(30 000)
At 31 August	**126 885**	127 775
Iemas Financial Services (Co-operative) Limited Cell "00072"		
At 1 September	**12 889**	7 559
Revenue – premiums earned	**16 704**	14 219
Revenue – investment income	**924**	784
Claims costs	**(4 017)**	(1 514)
Reinsurance commission paid	**(8 864)**	(8 159)
At 31 August	**17 636**	12 889

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.

5. INVESTMENTS IN INSURANCE CONTRACTS

(continued)

GROUP

	2019 R'000	2018 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"	**83**	204
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**78 028**	84 023
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**16 704**	14 219
	94 815	98 446
Income in other operating income		
Revenue – investment income (note 22)		
• Iemas (Co-operative) Limited Cell "A12"	**316**	577
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**8 725**	8 829
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**924**	784
	9 965	10 190
Expenditure in other operating expenses		
Claims (income)/cost (note 23)		
• Iemas (Co-operative) Limited Cell "A12"	**(48)**	(114)
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**18 995**	13 521
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**4 017**	1 514
	22 964	14 921
Reinsurance commission paid (note 23)		
• Iemas (Co-operative) Limited Cell "A12"	**176**	312
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**12 955**	14 249
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**3 934**	3 964
	17 065	18 525

for the year ended 31 August

5. INVESTMENTS IN INSURANCE CONTRACTS
(continued)

CO-OPERATIVE

	2019 R'000	2018 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"	**83**	204
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**78 028**	84 023
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**16 704**	14 219
	94 815	98 446
Income in other operating income		
Revenue – investment income (note 22)		
• Iemas (Co-operative) Limited Cell "A12"	**316**	577
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**8 725**	8 829
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**924**	784
	9 965	10 190
Expenditure in other operating expenses		
Claims (income)/cost (note 23)		
• Iemas (Co-operative) Limited Cell "A12"	**(48)**	(114)
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**18 995**	13 521
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**4 017**	1 514
	22 964	14 921
Reinsurance commission paid (note 23)		
• Iemas (Co-operative) Limited Cell "A12"	**194**	357
• Iemas Financial Services (Co-operative) Limited Cell "00228"	**38 648**	47 310
• Iemas Financial Services (Co-operative) Limited Cell "00072"	**8 864**	8 159
	47 706	55 826

5. INVESTMENTS IN INSURANCE CONTRACTS (continued)

The Iemas (Co-operative) Limited Cell "A12" cell captive structure is arranged by Bryte Insurance Company Limited. As a result of the insurance company'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 "00072" cell captive structures, which are arranged by Guardrisk Insurance Company Limited. The credit ratings for these companies are as follows:

	Ratings 2019	Ratings 2018
Guardrisk Insurance Company Limited	**Baa3 (Mar 18) (Moody's)**	Baa3 (Mar 18) (Moody's)
Bryte Insurance Company Limited	**A+ (Aug 18) (GCR)**	A+ (Aug 18) (GCR)

The dates in the above table represent the date of the latest significant change of the credit rating.

6. DEFERRED INCOME TAX

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Deferred tax assets				
• To be recovered within 12 months	**68 307**	60 199	**62 146**	54 430
	68 307	60 199	**62 146**	54 430
Deferred tax liabilities				
• To be incurred after more than 12 months	**(2 892)**	(2 343)	**(2 736)**	(2 111)
• To be incurred within 12 months	**(12 313)**	(11 155)	**(11 193)**	(10 104)
	(15 205)	(13 498)	**(13 929)**	(12 215)
Deferred tax assets (net)	**53 102**	46 701	**48 217**	42 215
The gross movement on the deferred income tax account is as follows:				
At 1 September	**46 701**	44 356	**42 215**	40 757
Charge per statement of comprehensive income (note 25)	**4 036**	2 345	**3 637**	1 458
Impact of initial application of IFRS 9 at 1 September 2018 (note 1.16)	**2 365**	–	**2 365**	–
At 31 August	**53 102**	46 701	**48 217**	42 215

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:

	Section 12J investment R'000	Accelerated tax depreciation R'000	Prepayments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities					
GROUP					
At 31 August 2017	–	(1 881)	(427)	(10 500)	(12 808)
(Debit)/credit to the statement of comprehensive income	–	(462)	122	(350)	(690)
At 31 August 2018	**–**	**(2 343)**	**(305)**	**(10 850)**	**(13 498)**
Debit to the statement of comprehensive income	**(448)**	**(100)**	**(249)**	**(910)**	**(1 707)**
At 31 August 2019	**(448)**	**(2 443)**	**(554)**	**(11 760)**	**(15 205)**
CO-OPERATIVE					
At 31 August 2017	–	(1 623)	(426)	(9 450)	(11 499)
(Debit)/credit to the statement of comprehensive income	–	(488)	122	(350)	(716)
At 31 August 2018	**–**	**(2 111)**	**(304)**	**(9 800)**	**(12 215)**
Debit to the statement of comprehensive income	**(448)**	**(177)**	**(249)**	**(840)**	**(1 714)**
At 31 August 2019	**(448)**	**(2 288)**	**(553)**	**(10 640)**	**(13 929)**

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 2017	42 000	7 827	6 797	540	57 164
Credit 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**
Credit to the statement of comprehensive income	**3 360**	**411**	**705**	**1 267**	**5 743**
Impact of initial application of IFRS 9 at 1 September 2018 (note 1.16)	**280**	**–**	**–**	**2 085**	**2 365**
At 31 August 2019	**47 040**	**8 338**	**8 427**	**4 502**	**68 307**
CO-OPERATIVE					
At 31 August 2017	37 800	7 296	6 797	363	52 256
Credit 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**
Credit to the statement of comprehensive income	**3 080**	**384**	**705**	**1 182**	**5 351**
Impact of initial application of IFRS 9 at 1 September 2018 (note 1.16)	**280**	**–**	**–**	**2 085**	**2 365**
At 31 August 2019	**42 560**	**7 397**	**8 427**	**3 762**	**62 146**

'Other' comprises of general provisions, broker reserve funds and interest in suspense.

for the year ended 31 August

	2019 R'000	2018 R'000
7. ADVANCES RECEIVABLE		
GROUP		
Gross advances	**7 225 718**	6 722 678
Repossessed vehicles	**5 437**	4 333
Unearned finance charges	**(1 862 233)**	(1 679 177)
Net advances	**5 368 922**	5 047 834
Current members	**5 285 791**	4 958 963
Former members	**83 131**	88 871
Less: Interest in suspense	**(10 265)**	–
Less: Impairment of advances receivable (note 20)	**(168 000)**	(155 000)
Net advances after impairment	**5 190 657**	4 892 834
Non-current portion of advances	**4 050 031**	3 758 820
Current portion of advances	**1 140 626**	1 134 014
Deferred initiation fees	**(30 093)**	(27 575)
Non-current portion of deferred initiation fees	**(20 529)**	(18 501)
Current portion of deferred initiation fees	**(9 564)**	(9 074)
Statement of financial position	**5 160 564**	4 865 259
Non-current portion of advances	**4 029 502**	3 740 319
Current portion of advances	**1 131 062**	1 124 940
	5 160 564	4 865 259

7. ADVANCES RECEIVABLE (continued)

CO-OPERATIVE

	2019 R'000	2018 R'000
Gross advances	**7 181 013**	6 676 420
Repossessed vehicles	**5 437**	4 333
Unearned finance charges	**(1 862 233)**	(1 679 177)
Net advances	**5 324 217**	5 001 576
Current members	**5 241 086**	4 912 705
Former members	**83 131**	88 871
Less: Interest in suspense	**(10 265)**	-
Less: Impairment of advances receivable (note 20)	**(168 000)**	(155 000)
Net advances after impairment	**5 145 952**	4 846 576
Non-current portion of advances	**4 050 031**	3 758 820
Current portion of advances	**1 095 921**	1 087 756
Deferred initiation fees	**(30 093)**	(27 575)
Non-current portion of deferred initiation fees	**(20 529)**	(18 501)
Current portion of deferred initiation fees	**(9 564)**	(9 074)
Statement of financial position	**5 115 859**	4 819 001
Non-current portion of advances	**4 029 502**	3 740 319
Current portion of advances	**1 086 357**	1 078 682
	5 115 859	4 819 001

Net advances in both the Group and Co-operative include securitised assets of R458,0m (2018: R466,7m). 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 IFRS 9 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 R458,0m (2018: R466,7m) that were sold to Torque Securitisation (RF) Limited, have been pledged as security for bank borrowing facilities (see note 16).

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.

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8. OTHER NON-CURRENT RECEIVABLES

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Loan to related party	**–**	–	**5 300**	5 300
Investment in debt instruments	**–**	–	**126 500**	126 500
	–	–	**131 800**	131 800

The Co-operative provided a credit enhancement in terms of a subordinated loan of R5,3m (2018: R5,3m) 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 R0,03m (2018: R0,04m) is included in trade and other assets.

The Co-operative invested in Class D2 Secured Floating Rate asset-backed notes to the value of R48,0m (2018: R48,0m) 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 2028 (2018: 15 May 2026). Interest accrued on the Class D2 notes of R0,3m (2018: R0,3m) is included in trade and other assets.

The Co-operative invested in Class C3 Secured Floating Rate asset-backed notes to the value of R29,0m (2018: R29,0m) 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 2028 (2018: 15 May 2026). Interest accrued on the Class C3 notes of R0,1m (2018: R0,1m) is included in trade and other assets.

The Co-operative invested in Class B3 Secured Floating Rate asset-backed notes to the value of R49,5m (2018: R49,5m) 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 2028 (2018: 15 May 2026). Interest accrued on the Class B3 notes of R0,2m (2018: R0,2m) 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.

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
9. INVESTMENT SECURITIES				
Investment in Hollard Insurance Company Limited cell captive				
At 1 September	**–**	–	**–**	–
Reclassify asset from available-for-sale to investment securities	**552**	–	**–**	–
Fair value remeasurement	**483**	–	**–**	–
At 31 August	**1 035**	–	**–**	–
Investment in nReach One Proprietary Limited				
At 1 September	**–**	–	**–**	–
Increase in investment	**2 000**	–	**2 000**	–
At 31 August	**2 000**	–	**2 000**	–
Investment securities	**3 035**	–	**2 000**	–

The investment in Hollard Insurance Company Limited cell captive represents Iemtech Proprietary Limited's investment in its Hollard Insurance Company Limited cell captive. Iemtech Proprietary Limited's investment in the cell captive is fully re-insured and therefore carries no insurance risk.

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

The Co-operative invested R2,0m (2018: Rnil) for a period of five years in shares issued at R1 per share by nReach One Proprietary Limited. nReach One Proprietary Limited is classified as a venture capital company in terms of section 12J of the Income Tax Act, No 58 of 1962. The company utilises the investment made by the Co-operative to fund small- and medium-sized enterprises.

The investment in Hollard Insurance Company Limited cell captive was previously classified as available-for-sale financial assets.

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
AVAILABLE-FOR-SALE ASSETS				
At 1 September	**552**	424	**–**	–
Reclassify asset from available-for-sale to investment securities	**(552)**	–	**–**	–
Remeasurement of asset through other comprehensive income	**–**	1 925	**–**	–
Dividend received (note 22)	**–**	(1 797)	**–**	–
At 31 August	**–**	552	**–**	–

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000

10. CASH AND CASH EQUIVALENTS

	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Cash on hand	**58**	56	**58**	56
Cash at bank	**154 742**	171 620	**24 959**	7 418
Total cash and bank	**154 800**	171 676	**25 017**	7 474
Restricted cash	**15 416**	16 286	**–**	–
Cash and cash equivalents	**170 216**	187 962	**25 017**	7 474

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 R9,3m (2018: R5,7m) is included as restricted cash in the Group.

An amount of R6,1m (2018: R10,6m), 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.

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

	2019		2018	
	Global credit rating	**Latest significant change date**	**Global credit rating**	**Expiry date**
Absa Bank Limited	**AA**	**(May 18)**	AA	(May 19)
Standard Bank of South Africa Limited	**AA+**	**(May 18)**	AA+	(May 19)
FirstRand Bank Limited	**AA+**	**(Dec 18)**	AA+	(Nov 18)

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
11. TRADE AND OTHER ASSETS				
Receivables from related parties (note 31)	**–**	–	**103 766**	76 482
Cash-in-transit suspense	**610**	344	**–**	–
Prepaid expenses	**2 744**	2 084	**2 744**	2 084
Other	**7 418**	4 067	**3 643**	2 722
	10 772	6 495	**110 153**	81 288

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 Amendment Act, No 6 of 2013 (2018: 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.

13. OTHER RESERVES

	Investment securities reserve/ available-for-sale reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
GROUP				
At 1 September 2017	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
At 1 September 2018	**552**	**97 494**	**143 872**	**241 918**
Net gains on investments in equity instruments designated at FVOCI (note 9)	**483**	**–**	**–**	**483**
Transfer from general reserve	**–**	**(82 137)**	**82 137**	**–**
At 31 August 2019	**1 035**	**15 357**	**226 009**	**242 401**
CO-OPERATIVE				
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
At 1 September 2018	**–**	**97 494**	**143 872**	**241 366**
Transfer from general reserve	**–**	**(82 137)**	**82 137**	**–**
At 31 August 2019	**–**	**15 357**	**226 009**	**241 366**

The special reserve represents a non-distributable reserve that is set aside as required by Section 33 of the Co-operatives Amendment Act, No 6 of 2013. The Act requires that every year a co-operative must retain indivisible reserves equal to such amount as may be determined by its constitution. As per resolution at the annual general meeting, 1% of the Co-operative's net asset value 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 and legal requirements of the business.

14. MEMBERS' FUNDS

	R'000
GROUP AND CO-OPERATIVE	
At 1 September 2017	786 461
Interest credited to members' funds (note 32)	47 414
Co-operative rewards credited to members' funds (note 32)	37 207
Appropriations of members' funds as collateral against advances	(16 464)
Overprovision of prior year rewards (note 32)	(688)
Disbursements to members	(39 866)
At 31 August 2018	814 064
At 1 September 2018	**814 064**
Interest credited to members' funds (note 32)	**47 412**
Co-operative rewards credited to members' funds (note 32)	**42 332**
Appropriations of members' funds as collateral against advances	**(10 364)**
Underprovision of prior year rewards (note 32)	**399**
Disbursements to members	**(45 508)**
At 31 August 2019	**848 335**

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 2019, an interest rate of 6,25% (2018: 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 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 27)	(25 090)
At 31 August 2018	20 307
At 1 September 2018	**20 307**
Co-operative rewards and interest accrued for the year *	**104 394**
	124 701
Transfer to members' funds *	**(89 744)**
Cash co-operative rewards paid to members (note 27)	**(15 431)**
Overprovision of prior year cash co-operative rewards (note 32)	**(1 363)**
At 31 August 2019	**18 163**

* *Included in co-operative rewards declared to members (note 32).*

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000

16. BORROWINGS

	GROUP 2019 R'000	GROUP 2018 R'000	CO-OPERATIVE 2019 R'000	CO-OPERATIVE 2018 R'000
Non-current	**1 577 638**	1 241 768	**1 712 245**	1 374 239
Standard Bank of South Africa Limited	**500 000**	300 000	**500 000**	300 000
Absa Bank Limited	**500 000**	400 000	**500 000**	400 000
First National Bank (a division of FirstRand Bank Limited)	**400 000**	350 000	**400 000**	350 000
Torque Securitisation (RF) Limited	**–**	–	**312 245**	324 239
Torque Securitisation (RF) Limited – notes issued	**177 638**	191 768	**–**	–
Current	**1 298 167**	1 453 771	**1 294 583**	1 458 151
Standard Bank of South Africa Limited	**300 376**	400 000	**300 376**	400 000
Absa Bank Limited	**400 212**	400 000	**400 212**	400 000
First National Bank (a division of FirstRand Bank Limited)	**431 024**	499 462	**431 024**	499 462
Torque Securitisation (RF) Limited	**–**	–	**162 971**	158 689
Torque Securitisation (RF) Limited – notes issued	**166 555**	154 309	**–**	–
Total borrowings	**2 875 805**	2 695 539	**3 006 828**	2 832 390

The facilities consist of:

	Review date	Expiry date	Interest rate linked to	Facility R'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**
Standard Bank of South Africa Limited	**n/a**	**Jun 2021**	**3-month JIBAR**	**250 000**
Standard Bank of South Africa Limited	**n/a**	**Jun 2021**	**3-month JIBAR**	**250 000**
Absa Bank Limited	**n/a**	**Jun 2020**	**Prime**	**400 000**
Absa Bank Limited	**n/a**	**Nov 2020**	**Prime**	**500 000**
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)	**n/a**	**Dec 2020**	**3-month JIBAR**	**300 000**
First National Bank (a division of FirstRand Bank Limited)	**n/a**	**Sep 2021**	**3-month JIBAR**	**100 000**
First National Bank (a division of FirstRand Bank Limited)	**Dec 2019**	**n/a**	*****	**450 000**
				2 800 000

* *Interest on the R450m 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.*

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 or on 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 approximates 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	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Class A6 notes	**342 853**	344 671	**–**	–
Unsubordinated, secured, compulsory redeemable, asset-backed notes of R1 000 000 each. The notes bear interest at 3-month JIBAR plus 2,08% (2018: 2,30%). The scheduled maturity date is 15 May 2021. The legal maturity date is 15 May 2028 (2018: 15 May 2026). The amounts disclosed are the total notes in issue for this class.				
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 2028 (2018: 15 May 2026). The total notes in issue for this class amount to R49,5m (2018: R49,5m).				
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 2028 (2018: 15 May 2026).The total notes in issue for this class amount to R29,0m (2018: R29,0m).				
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 2028 (2018: 15 May 2026).The total notes in issue for this class amount to R48m (2018: R48m).				
Sub-total	**342 853**	344 671	**–**	–

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16. BORROWINGS (continued)

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Balance brought forward	**342 853**	344 671	**–**	–
Interest accrued	**1 340**	1 406	**–**	–
Loan payable to Torque Securitisation (RF) Limited	**–**	–	**475 216**	482 928
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	**344 193**	346 077	**475 216**	482 928

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

- class A6 secured floating rate notes;
- class B3 secured floating rate notes;
- class C3 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.

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 opposed to the legal maturity of the notes, has been used to calculate the current versus non-current disclosure. In June 2019, an additional R199,1m class A6 notes were issued. The additional funds were utilised to purchase qualifying assets from the Co-operative. Consequently, the legal maturity dates of every class of note was updated to 15 May 2028.

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.

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17. TRADE AND OTHER LIABILITIES

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Card merchants	**43 941**	43 762	**43 941**	43 762
Premiums payable	**41 946**	39 679	**–**	–
Unclaimed balances owed to current and former members	**27 046**	26 905	**27 046**	26 905
Insurance rewards payable	**6 131**	8 012	**–**	–
Accrued expenses				
• Bonuses	**20 603**	19 537	**18 852**	17 862
• Leave pay	**8 478**	8 072	**6 866**	6 484
Brokers' commission	**2 641**	2 205	**–**	–
Pay as you earn	**2 268**	2 233	**1 938**	1 895
Audit fee accrual	**2 092**	3 018	**1 865**	2 865
Dealers	**12 482**	12 893	**12 482**	12 893
Trade creditors	**16 839**	11 630	**13 166**	8 060
	184 467	177 946	**126 156**	120 726

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

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18. INTEREST EXPENDITURE

	GROUP 2019 R'000	GROUP 2018 R'000	CO-OPERATIVE 2019 R'000	CO-OPERATIVE 2018 R'000
Interest expenditure	**249 701**	227 249	**272 447**	256 978
Gain on finance costs	**–**	–	**(5 719)**	(8 954)
	249 701	227 249	**266 728**	248 024
Interest expenditure consists of:				
• Bank borrowings	**221 192**	210 405	**221 192**	210 405
• Torque Securitisation (RF) Limited	**–**	–	**45 536**	37 619
• Torque Securitisation (RF) Limited – notes issued	**28 509**	16 761	**–**	–
• Other	**–**	83	**–**	–
	249 701	227 249	**266 728**	248 024

In terms of IFRS 9 the gain on finance costs represents a deduction in future cash flows as a result of impairments.

19. INCOME TAX PAID

	GROUP 2019 R'000	GROUP 2018 R'000	CO-OPERATIVE 2019 R'000	CO-OPERATIVE 2018 R'000
Payable at the beginning of the year	**(1 716)**	(3 355)	**–**	(1 640)
Receivable at the beginning of the year	**3 367**	1 659	**126**	–
Normal tax (note 25)	**(28 317)**	(27 788)	**(18 061)**	(16 356)
Receivable at the end of the year	**(2 080)**	(3 367)	**–**	(126)
Payable at the end of the year	**2 899**	1 716	**2 234**	–
	(25 847)	(31 135)	**(15 701)**	(18 122)

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
20. IMPAIRMENT OF ADVANCES RECEIVABLE				
The gross movement on the impairment is as follows:				
At 31 August (IAS 39)	**155 000**	150 000	**155 000**	150 000
Impact of initial application of IFRS 9 at 1 September	**1 000**	–	**1 000**	–
Restated balance at 1 September	**156 000**	150 000	**156 000**	150 000
Advances written off during the year as uncollectible	**(87 993)**	(82 901)	**(87 993)**	(82 901)
Impairment charge	**99 993**	87 901	**99 993**	87 901
At 31 August	**168 000**	155 000	**168 000**	155 000
Impairment of advances in the statement of comprehensive income is as follows:				
New impairment raised (note 7)	**168 000**	155 000	**168 000**	155 000
Unused amounts reversed	**(68 007)**	(67 099)	**(68 007)**	(67 099)
Impairment charge	**99 993**	87 901	**99 993**	87 901
Post write-off recoveries	**(11 962)**	(11 082)	**(11 962)**	(11 082)
Impairment of advances receivable	**88 031**	76 819	**88 031**	76 819
21. FEE AND COMMISSION INCOME				
Administration fees	**52 159**	66 667	**58 443**	71 237
Commission	**76 776**	72 904	**15 687**	16 216
	128 935	139 571	**74 130**	87 453
22. OTHER OPERATING INCOME				
Dividends received (note 31)	**–**	–	**95 000**	20 000
Gain on interest rate swap	**–**	306	**–**	–
Investment income (note 5)	**9 965**	10 190	**9 965**	10 190
Realised return on investment securities	**2 341**	–	**–**	–
Fair value gains on available-for-sale assets recycled to profit and loss (note 9)	**–**	1 797	**–**	–
Other income	**4 173**	2 373	**4 096**	2 301
	16 479	14 666	**109 061**	32 491

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23. OPERATING EXPENDITURE

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
The following items have been charged against other operating expenditure:				
Amortisation of intangible assets (note 3)	**1 118**	1 095	**775**	752
Auditor's remuneration	**5 394**	3 722	**4 713**	3 066
• Audit fees	**4 040**	3 381	**3 412**	2 883
• Overprovision prior year	**(110)**	(101)	**(163)**	(81)
• Non-audit fees	**1 464**	442	**1 464**	264
Bank charges	**2 747**	2 638	**1 891**	1 963
Broker commissions	**3 895**	3 018	**–**	–
Computer services	**24 924**	23 677	**21 569**	20 651
Credit Bureau charges	**2 042**	1 618	**2 042**	1 618
Credit life insurance claims (note 5)	**22 964**	14 921	**22 964**	14 921
Depreciation of property and equipment (note 2)	**5 107**	4 450	**4 870**	4 349
Directors' emoluments	**21 400**	18 433	**21 190**	18 167
• Non-executive directors	**3 345**	2 910	**3 135**	2 644
• Executive directors	**18 055**	15 523	**18 055**	15 523
– Salaries	**13 224**	9 372	**13 224**	9 372
– Short-term incentive	**4 831**	6 151	**4 831**	6 151
Insurance	**1 548**	1 328	**1 548**	1 328
Insurance rewards	**5 507**	8 012	**–**	–
Marketing costs	**2 884**	3 226	**2 523**	2 857
Municipal services	**6 777**	5 870	**6 777**	5 870
Other professional services	**5 415**	5 126	**4 981**	4 992
Reinsurance commission paid (note 5)	**17 065**	18 525	**47 706**	55 826
Rentals in respect of operating leases	**12 294**	11 811	**12 294**	11 811
Repairs and maintenance	**4 836**	3 660	**4 835**	3 660
Security costs	**1 368**	1 262	**1 368**	1 262
Service provider fee	**1 658**	1 643	**–**	–
Skills development costs	**2 396**	2 492	**1 914**	2 095
Staff costs (note 24)	**181 855**	168 511	**147 476**	137 664
Stationery	**4 080**	3 982	**4 080**	3 972
Telephone and postages	**6 702**	6 418	**6 701**	6 403
Travel expenses	**1 751**	1 522	**1 470**	1 339
Vehicle running costs	**10 478**	6 868	**10 253**	6 734
Other	**21 482**	21 248	**14 572**	13 541
	377 687	345 076	**348 512**	324 841

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	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
24. STAFF COSTS				
Wages and salaries (including performance bonuses)	**168 182**	155 139	**136 248**	126 464
Pension costs – defined contribution plans	**13 673**	13 372	**11 228**	11 200
	181 855	168 511	**147 476**	137 664
25. INCOME TAX				
Current				
South African current tax	**28 317**	27 788	**18 061**	16 356
Normal tax (note 19)	**28 317**	27 788	**18 061**	16 356
Deferred				
Deferred income tax (note 6)	**(4 036)**	(2 345)	**(3 637)**	(1 458)
Income tax expense	**24 281**	25 443	**14 424**	14 898
Tax rate reconciliation	**%**	%	**%**	%
Effective rate of tax	**20,7**	19,8	**8,2**	13,7
The tax rate has been affected by:				
Profit on insurance contracts	**8,1**	8,3	**5,4**	9,7
Dividends received	**–**	–	**15,2**	5,1
Disallowed expenditure	**(0,8)**	(0,1)	**(0,8)**	(0,5)
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.

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26. STATEMENT OF CASH FLOWS

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Cash utilised by operations				
Profit before income tax	**117 486**	128 479	**175 271**	108 995
Adjusted for:				
Interest income	**(691 233)**	(623 126)	**(695 600)**	(637 797)
Interest expenditure	**249 416**	230 568	**266 377**	252 051
Interest credited to members' funds (note 14)	**47 412**	47 414	**47 412**	47 414
Impairment charge on advances receivable (note 20)	**99 993**	87 901	**99 993**	87 901
Premium income (note 5)	**(94 815)**	(98 446)	**(94 815)**	(98 446)
Fee and commission income	**(128 935)**	(139 571)	**(73 789)**	(87 107)
Other income	**(16 479)**	(14 360)	**(14 061)**	(12 491)
Fair value changes on derivatives (unrealised)	**–**	257	**–**	–
Depreciation of property and equipment (note 2)	**5 107**	4 450	**4 870**	4 349
Loss on disposals of property and equipment	**357**	195	**357**	195
Amortisation of intangible assets (note 3)	**1 118**	1 095	**775**	752
Appropriations of members' funds (note 14)	**(10 364)**	(16 464)	**(10 364)**	(16 464)
Dividends received (note 22)	**–**	–	**(95 000)**	(20 000)
Rewards to members (note 32)	**56 018**	53 249	**56 018**	53 249
Interest receivable	**(4 873)**	(2 478)	**(5 545)**	(3 155)
Accrued interest	**283**	(3 319)	**351**	(4 027)
Interest in suspense	**2 820**	–	**2 820**	–
Servicer fee receivable	**–**	–	**(340)**	(346)
Insurance rewards payable (note 17)	**6 131**	8 012	**–**	–
Changes in working capital:				
Advances (excluding impairments)	**(401 689)**	(345 445)	**(403 243)**	(349 369)
(Increase)/decrease in trade and other assets	**(4 278)**	2 666	**(27 854)**	(23 669)
Increase/(decrease) in trade and other liabilities	**391**	(12)	**5 430**	(3 087)
	(766 134)	(678 935)	**(760 937)**	(701 052)

26. STATEMENT OF CASH FLOWS (continued)

NET DEBT RECONCILIATION

The analysis of net debt is as follows:

	GROUP 2019 R'000	GROUP 2018 R'000	CO-OPERATIVE 2019 R'000	CO-OPERATIVE 2018 R'000
Net debt				
Cash and cash equivalents (excluding restricted cash) (note 10)	**154 800**	171 676	**25 017**	7 474
Liabilities arising from financing activities (note 16)	**(2 875 805)**	(2 695 539)	**(3 006 828)**	(2 832 390)
Borrowings repayable within one year	**(1 298 167)**	(1 453 771)	**(1 294 583)**	(1 458 151)
Borrowings repayable after one year	**(1 577 638)**	(1 241 768)	**(1 712 245)**	(1 374 239)
	(2 721 005)	(2 523 863)	**(2 981 811)**	(2 824 916)

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)

26. STATEMENT OF CASH FLOWS (continued)

	Opening R'000	Cash flows R'000	Non-cash movement/ maturity reclassi-fication R'000	Closing R'000
GROUP				
As at 31 August 2019				
Cash and cash equivalents (excluding restricted cash) (note 10)	**171 676**	**(16 876)**	**–**	**154 800**
Liabilities arising from financing activities (note 16)	**(2 695 539)**	**(179 982)**	**(284)**	**(2 875 805)**
Bank borrowings due within 1 year (excluding accrued interest)	**(1 298 000)**	**68 200**	**100 000**	**(1 129 800)**
Bank borrowings due after 1 year	**(1 050 000)**	**(250 000)**	**(100 000)**	**(1 400 000)**
Notes due within 1 year	**(152 903)**	**1 818**	**(14 130)**	**(165 215)**
Notes due after 1 year	**(191 768)**	**–**	**14 130**	**(177 638)**
Accrued interest	**(2 868)**	**–**	**(284)**	**(3 152)**
Net debt	**(2 523 863)**	**(196 858)**	**(284)**	**(2 721 005)**

	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)

26. 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 2019				
Cash and cash equivalents (excluding restricted cash) (note 10)	**7 474**	**17 543**	**–**	**25 017**
Liabilities arising from financing activities (note 16)	**(2 832 390)**	**(174 088)**	**(350)**	**(3 006 828)**
Bank borrowings due within 1 year (excluding accrued interest)	**(1 298 000)**	**68 200**	**100 000**	**(1 129 800)**
Bank borrowings due after 1 year	**(1 050 000)**	**(250 000)**	**(100 000)**	**(1 400 000)**
Other borrowings due within 1 year	**(158 689)**	**(4 282)**	**–**	**(162 971)**
Other borrowings due after 1 year	**(324 239)**	**11 994**	**–**	**(312 245)**
Accrued interest	**(1 462)**	**–**	**(350)**	**(1 812)**
Net debt	**(2 824 916)**	**(156 545)**	**(350)**	**(2 981 811)**

27. CO-OPERATIVE REWARDS PAID TO MEMBERS

	2019 R'000	2018 R'000
GROUP AND CO-OPERATIVE		
Cash rewards payable at the beginning of the year	**(20 307)**	(28 667)
Cash portion of total rewards payable (note 32)	**(14 650)**	(16 730)
Overprovision of prior year cash co-operative rewards (note 15)	**1 363**	–
Cash rewards payable at the end of the year (note 15)	**18 163**	20 307
	(15 431)	(25 090)

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	2019 R'000	2018 R'000
28. COMMITMENTS		
GROUP AND CO-OPERATIVE		
Operating lease commitments		
The future minimum operating lease payments which can be terminated are as follows:		
Less than 1 year	**9 014**	7 074
More than 1 year but less than 5 years	**12 920**	6 660
	21 934	13 734

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

29. GUARANTEE

First National Bank, a division of FirstRand Bank Limited, on behalf of Iemas Insurance Brokers Proprietary Limited, has issued a guarantee of R60,2m (2018: R60,2m) in favour of the Financial Sector Conduct Authority for net premiums collected and not paid over to the different insurers. The short-term insurance regulations, published on 28 September 2018, provided that from 31 March 2019 the guarantee is no longer required, however, a common law prescription period of three years will apply.

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

30. RETIREMENT BENEFIT INFORMATION

Independent funds provide pension and other benefits for permanent employees and their dependents. 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 amounts to R12,5m (2018: R12,0m) for the Co-operative and R15,0m (2018: R14,1m) 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.

31. 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.

Key management personnel

The Executive Committee has the responsibility for planning, directing and controlling the activities of the Group and is consequently classified as key management personnel. Before restructuring the Committee in May 2019, it solely consisted of the executive directors. The restructured committee comprises the executive directors, Managing Executive: Financing Business, Chief Information Officer, Group Manager: Human Resources and Managing Director: Iemas Insurance Brokers. Compensation is included as related party transactions for the duration of membership of the Executive Committee.

All non-executive directors, including the entity that provides director services to the Group, are classified as key management personnel.

	2019 R'000	2018 R'000
GROUP		
Income and expenses		
Key management personnel		
Salaries	**15 262**	8 604
Pension costs – defined contribution plans	**1 290**	768
Short-term incentive	**5 000**	6 151
Interest paid	**210**	683
Non-executive directors – directors' emoluments	**3 345**	2 910
Outstanding balances		
Key management personnel		
Advances during the year	**2 626**	2 537
Outstanding balance at the end of the year	**1 741**	2 561
Leave pay accrued	**699**	708

31. RELATED PARTIES (continued)

	2019 R'000	2018 R'000
CO-OPERATIVE		
Income and expenses		
Commission and administration fees received from		
Torque Securitisation (RF) Limited	**3 167**	2 909
Iemas Insurance Brokers Proprietary Limited	**29 026**	27 744
Dividends received from		
Iemas (Co-operative) Limited Cell "A12"	**2 650**	10 000
Iemas Financial Services (Co-operative) Limited Cell "00228"	**30 000**	30 000
Iemtech Proprietary Limited	**5 000**	–
Iemas Insurance Brokers Proprietary Limited	**25 000**	20 000
Torque Securitisation (RF) Limited	**65 000**	–
Interest received from		
Torque Securitisation (RF) Limited in respect of:		
• subordinated loan	**801**	1 409
• class D notes	**–**	7 793
• class D2 notes	**7 020**	2 002
• class B2 notes	**–**	5 448
• class B3 notes	**4 789**	1 355
• class C2 notes	**–**	2 839
• class C3 notes	**2 922**	827
• class A3 notes	**–**	209
Interest paid to		
Torque Securitisation (RF) Limited	**45 536**	37 619
System development expenditure paid to		
Cape Consumers Proprietary Limited	**664**	–
Card transaction fees paid to		
The Cooperative Switch Proprietary Limited	**562**	–
Key management personnel		
Salaries	**15 262**	8 604
Pension costs – defined contribution plans	**1 290**	768
Short-term incentive	**5 000**	6 151
Interest paid	**210**	683
Non-executive directors – directors' emoluments	**3 135**	2 644
Loan advances during the year		
Loans advanced to related parties		
Torque Securitisation (RF) Limited	**199 114**	526 531
Loans replaced between related parties		
Torque Securitisation (RF) Limited	**597**	225 531

31. RELATED PARTIES (continued)

	2019 R'000	2018 R'000
Outstanding balances		
Current receivable from related parties		
Iemtech Proprietary Limited	**50**	21
Iemas Insurance Brokers Proprietary Limited	**99 191**	74 462
The Cooperative Switch Proprietary Limited	**3 513**	976
Torque Securitisation (RF) Limited		
• Interest accrued related to the subordinated loan	**37**	37
• Interest accrued related to the investment in class B3 notes	**205**	208
• Interest accrued related to the investment in class C3 notes	**125**	127
• Interest accrued related to the investment in class D2 notes	**305**	305
• Servicer fee	**340**	346
Non-current receivable from related parties		
Torque Securitisation (RF) Limited		
• Subordinated loan	**5 300**	5 300
• Investment in class B3 notes	**49 500**	49 500
• Investment in class C3 notes	**29 000**	29 000
• Investment in class D2 notes	**48 000**	48 000
Payable to related parties		
Torque Securitisation (RF) Limited		
• Non-current portion (note 16)	**312 245**	324 239
• Current portion (note 16)	**162 971**	158 689
Key management personnel		
Advances during the year	**2 626**	2 537
Outstanding balance at the end of the year	**1 741**	2 561
Leave pay accrued	**699**	708

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32. CO-OPERATIVE REWARDS DECLARED TO MEMBERS

	2019 R'000	2018 R'000
GROUP AND CO-OPERATIVE		
Cash portion of total co-operative rewards payable (note 27)	**14 650**	16 730
Co-operative rewards credited to members' funds (note 14)	**42 332**	37 207
Under/(over) provision of prior year co-operative rewards (note 14)	**399**	(688)
Overprovision of prior year cash co-operative rewards (note 15)	**(1 363)**	–
Co-operative rewards to members	**56 018**	53 249
Interest credited to members' funds (note 14)	**47 412**	47 414
Co-operative rewards and interest accrued for the year	**103 430**	100 663

33. 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 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 suffering financial loss should any of the Group's members, employer groups or counterparties fail to fulfil their contractual obligations to the Group due to deterioration in the financial status of the counterparty and any 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 investment securities, investment in insurance contracts, other non-current receivables, trade receivables 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.

33. 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 in the Group.

33.1 CREDIT RISK

Credit risk in the Group is managed in terms of the Credit Risk Policy. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of Directors. The Chief Financial Officer has been mandated with the management and execution of the credit granting function and is accountable to ensure that a governance framework system and processes are in place, including the establishment of structures and forums required.

Credit risk governance

The Group Credit Committee consist of three *ex officio* members namely the Chief Financial Officer, the Group Manager: Strategy, Assurance and Compliance and the Managing Executive: Financing Business. The Chief Financial Officer is the Chairperson of the Committee. The Group Credit Committee may co-opt members with appropriate expertise and experience to assist in the assessment of a credit application or the revision of Group’s credit appetite.

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 Group Credit 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 Group Credit Committee periodically, but not less than once every 24 months, reviews the credit policy and guidelines to ensure it is in line with market trends and the Group’s strategy. Proposed changes to the credit policy are submitted for consideration and approval by the Executive Committee.

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. The Co-operative performs credit evaluations of the financial position of its members and, where appropriate, requires credit life insurance. At 31 August 2019, 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 the credit risk on advances is presented in the accounting policies.

33.1.1 Credit risk measurement

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using probability of default (PD) and loss given default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

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 facilities to their employees. Iemas’ business could be adversely affected, should legislation be introduced that prohibits salary deductions.

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33. FINANCIAL RISK MANAGEMENT (continued)

33.1.1 Credit risk measurement (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 a subordinated loan 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 are presented below.

	2019 R'000	2018 R'000
Torque financial instruments at amortised cost		
Carrying amount of assets	**490 060**	554 191
Carrying amount of liabilities	**(477 738)**	(479 586)

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

33.1.2 Credit quality

Cash and cash equivalents and funds borrowed from banks

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
The balances borrowed from banks are as follows (note 16):				
Absa Bank Limited	**900 212**	800 000	**900 212**	800 000
Standard Bank of South Africa Limited	**800 376**	700 000	**800 376**	700 000
First National Bank (a division of FirstRand Bank Limited)	**831 024**	849 462	**831 024**	776 989
The balances held with banks are as follows (note 10):				
First National Bank (a division of FirstRand Bank Limited)	**170 158**	187 906	**24 959**	7 418

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.

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.2 Credit quality (continued)

Receivables from related parties

Included in receivables from related parties for the Co-operative is a receivable of R99,2m (2018: R74,5m) 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:

	2019 R'000	2018 R'000
Employer group receivables and deposits	**91 290**	75 417
Daily operational related transactions	**7 901**	(955)

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 2019. 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.

33.1.3 Expected credit loss measurement (2019)

IFRS 9 outlines a three-stage model for impairment, based on changes in credit quality since initial recognition as summarised below:

i) A financial instrument that is not credit-impaired on initial recognition is classified in stage 1 and has its credit risk continuously monitored by the Group.

ii) If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to stage 2 but is not yet deemed to be credit-impaired. The Group considers a financial instrument to have experienced a SICR when one or more of the following qualitative criteria has been met:

- The instrument is in arrears for a period greater than 30 days up to 90 days.
- The instrument entered into a greater than 30-day arrear category and cured to a performing loan, three times or more in the financial year.
- The status of the member linked to the instrument is updated as either being deceased, under administration, debt rehabilitation, debt review or debt rescheduling.
- The collection method for the instrument was amended from a salary deduction or debit order to NAEDO collection, cash or electronic transfer payments (EFT). If the instrument is an unsecured loan, a collection method of cash or EFT will result in the instrument being classified as credit-impaired.
- The member linked to the instrument left a contracted employer group and did not apply for continued membership. The system then programmatically updates the status of the member to 'discontinued membership'.

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.3 Expected credit loss measurement (2019) (continued)

iii) If the financial instrument is credit-impaired, the financial instrument is then moved to stage 3. The Group considers a financial instrument as credit-impaired when one or more of the following quantitative criteria has been met:

- The instrument is in arrears for a period greater than 90 days.
- Legal action has been taken against the member or the vehicle held as collateral has been handed over for repossession.
- For unsecured loans, the collection method for the instrument was amended from a salary deduction or debit order to cash or EFT.

iv) Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on ECL on a lifetime basis. Please refer to 33.1.3.1 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

v) A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Refer to 33.1.3.2 for an explanation on how the Group has incorporated this in its ECL models.

33.1.3.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the probability of default (PD) and loss given default (LGD), defined as below:

- The PD represents the likelihood of a member defaulting on its financial obligation, either over the next 12 months (12-month PD), or over the remaining lifetime (lifetime PD) of the obligation.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by product and the collateral available. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is effectively determined by multiplying the PD and LGD with the exposure at the date of default, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month PD is developed by applying a maturity profile. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. The lifetime PD is calculated based on the write-off history of loans in stages 2 and 3. Both the 12-month and lifetime PD are supported by historical analysis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. This vary by product type and is determined based on historical recovery data presented as a percentage of the loan exposure at date of default, expressed monthly over the full recovery period.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by product type. Refer to note 33.1.3.2 for detail on the forward-looking information and the inclusion in the ECL calculations.

No significant changes in estimation techniques or significant assumptions were made during the reporting period.

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.3 Expected credit loss measurement (2019) (continued)

33.1.3.2 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Group has identified, based on historical experience, the key economic variables impacting credit risk and ECL per product. The sensitivity of the PD and LGD to these economic variables also vary per product. Forecasts of these economic variables are based on a mixture of external economic forecasting data available and management's judgements. A base economic scenario, together with an upside, mid-point and downside were calculated.

The most significant period-end assumptions used for the ECL estimate at year-end are set out in the table below:

	Base %	Upside %	Mid-point %	Downside %
Prime interest rate	10,00	9,75	10,00	10,25
Inflation	4,40	4,50	4,80	5,00
GDP growth	0,50	2,00	1,00	0,70
Unemployment	27,20	27,00	27,80	29,00

Sensitivity analysis

The most significant assumption affecting the ECL allowance for all products is the unemployment rate. Set out below are the changes to the ECL at reporting date that would result from a 0,25% change in the unemployment rate per economic scenario.

2019	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Vehicle loans				
Original ECL	103 187	89 233	100 340	114 013
ECL after 0,25% increase in unemployment rate	103 187	91 882	102 799	116 289
Sensitivity (%)	–	3,0	2,5	2,0
Maxi loans				
Original ECL	37 806	31 141	39 544	47 854
ECL after 0,25% increase in unemployment rate	37 806	33 029	41 082	49 335
Sensitivity (%)	–	6,1	3,9	3,1
Other unsecured loans				
Original ECL	25 366	20 326	28 116	37 341
ECL after 0,25% increase in unemployment rate	25 366	21 969	29 810	39 032
Sensitivity (%)	–	8,1	6,0	4,5
Total				
Original ECL	166 359	140 700	168 000	199 208
ECL after 0,25% increase in unemployment rate	166 359	146 880	173 691	204 656
Sensitivity (%)	–	4,4	3,4	2,7

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.4 Credit risk exposure

Maximum exposure to credit risk on loans and advances subject to impairment

The gross carrying amount of financial assets below represents the maximum exposure to credit risk on loans and advances for the Group and the Co-operative. The following tables contain an analysis of the credit risk exposure of these assets:

	Net advances before impair-ment R'000	ECL staging		
		Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000
GROUP				
As at 31 August 2018				
Pension-backed loans	1 264 946	1 264 946	–	–
Vehicle loans	2 809 811	2 451 136	242 496	116 179
Maxi loans	430 664	404 479	7 867	18 318
Other unsecured loans	496 155	465 130	10 220	20 805
Employer groups	46 258	46 258	–	–
	5 047 834	4 631 949	260 583	155 302
As at 31 August 2019				
Pension-backed loans	**1 307 947**	**1 307 947**	**–**	**–**
Vehicle loans	**2 931 665**	**2 548 958**	**260 231**	**122 476**
Maxi loans	**534 099**	**492 411**	**11 386**	**30 302**
Other unsecured loans	**550 506**	**509 841**	**13 280**	**27 385**
Employer groups	**44 705**	**44 705**	**–**	**–**
	5 368 922	**4 903 862**	**284 897**	**180 163**
CO-OPERATIVE				
As at 31 August 2018				
Pension-backed loans	1 264 946	1 264 946	–	–
Vehicle loans	2 809 811	2 451 492	242 496	115 823
Maxi loans	430 664	404 479	7 867	18 318
Other unsecured loans	496 155	465 130	10 220	20 805
	5 001 576	4 586 047	260 583	154 946
As at 31 August 2019				
Pension-backed loans	**1 307 947**	**1 307 947**	**–**	**–**
Vehicle loans	**2 931 665**	**2 548 958**	**260 231**	**122 476**
Maxi loans	**534 099**	**492 411**	**11 386**	**30 302**
Other unsecured loans	**550 506**	**509 841**	**13 280**	**27 385**
	5 324 217	**4 859 157**	**284 897**	**180 163**

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.4 Credit risk exposure (continued)

Maximum exposure to credit risk – financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment:

	2019 R'000	2018 R'000
GROUP		
As at 31 August		
Investment securities	**3 035**	552
Cash and cash equivalents	**170 216**	187 962
Trade and other assets excluding pre-payments	**8 028**	4 062
	181 279	192 576

	2019 R'000	2018 R'000
CO-OPERATIVE		
As at 31 August		
Other non-current receivables	**131 800**	131 800
Investment securities	**2 000**	–
Cash and cash equivalents	**25 017**	7 474
Trade and other assets excluding pre-payments	**107 409**	78 854
	266 226	218 128

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

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. The Group obtains collateral as part of the loan origination process. The principal collateral types for loans and advances are:

- *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.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.4 Credit risk exposure (continued)

Advances – collateral

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 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
As at 31 August 2019				
Pension-backed loans	**1 307 947**	**1 307 947**	**43 502**	**(43 502)**
Vehicle loans	**2 931 665**	**2 390 890**	**61 583**	**479 192**
Maxi loans	**534 099**	**–**	**60 592**	**473 507**
Other unsecured loans	**550 506**	**–**	**104 852**	**445 654**
Employer groups	**44 705**	**–**	**–**	**44 705**
	5 368 922	**3 698 837**	**270 529**	**1 399 556**
CO-OPERATIVE				
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
	5 001 576	3 597 348	269 116	1 135 112
As at 31 August 2019				
Pension-backed loans	**1 307 947**	**1 307 947**	**43 502**	**(43 502)**
Vehicle loans	**2 931 665**	**2 390 890**	**61 583**	**479 192**
Maxi loans	**534 099**	**–**	**60 592**	**473 507**
Other unsecured loans	**550 506**	**–**	**104 852**	**445 654**
	5 324 217	**3 698 837**	**270 529**	**1 354 851**

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.4 Credit risk exposure (continued)

The calculation of collateral on vehicle loans as well as deferred bonus payment refund appropriations are extended to ensure that in addition to the current limitation, both the vehicle and deferred bonus payment fund collateral combined do not exceed the outstanding loan amount.

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.

33.1.5 Impairment loss allowance (2019)

The impairment loss allowance is raised for advances, based on a stage allocation methodology (refer to section 1.8.2.4 of the accounting policies and note 33.1.3). 12-month ECL is calculated on stage 1 advances; lifetime ECL is calculated on stage 2 and stage 3 advances.

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between stage 1 and stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month ECL and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables set out the movement in the gross carrying amount per product to help explain their significance in calculating the impairment loss allowance under IFRS 9:

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
GROUP AND CO-OPERATIVE				
Pension-backed loans				
At 1 September 2018	1 264 946	–	–	1 264 946
New advances originated	333 506	–	–	333 506
Collections received including interest adjustment	(290 442)	–	–	(290 442)
Write-offs	(63)	–	–	(63)
At 31 August 2019	1 307 947	–	–	1 307 947

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.5 Impairment loss allowance (2019) (continued)

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
GROUP AND CO-OPERATIVE				
Vehicle loans				
At 1 September 2018	2 451 492	242 496	115 823	2 809 811
Transfers				
• Transfer from stage 1 to stage 2	(191 584)	191 584	–	–
• Transfer from stage 1 to stage 3	(42 786)	–	42 786	–
• Transfer from stage 2 to stage 3	–	(28 618)	28 618	–
• Transfer from stage 3 to stage 2	–	7 644	(7 644)	–
• Transfer from stage 2 to stage 1	15 513	(15 513)	–	–
• Transfer from stage 3 to stage 1	176	–	(176)	–
New advances originated	1 226 920	–	–	1 226 920
Collections received including interest adjustment	(901 439)	(131 723)	(31 497)	(1 064 659)
Write-offs	(9 334)	(5 639)	(25 434)	(40 407)
At 31 August 2019	2 548 958	260 231	122 476	2 931 665
Maxi loans				
At 1 September 2018	404 479	7 867	18 318	430 664
Transfers				–
• Transfer from stage 1 to stage 2	(10 099)	10 099	–	–
• Transfer from stage 1 to stage 3	(32 304)	–	32 304	–
• Transfer from stage 2 to stage 3	–	(981)	981	–
• Transfer from stage 3 to stage 2	–	1 102	(1 102)	–
• Transfer from stage 2 to stage 1	1 888	(1 888)	–	–
• Transfer from stage 3 to stage 1	1 021	–	(1 021)	–
New advances originated	290 895	–	–	290 895
Collections received including interest adjustment	(145 850)	(3 316)	(11 090)	(160 256)
Write-offs	(17 619)	(1 497)	(8 088)	(27 204)
At 31 August 2019	492 411	11 386	30 302	534 099

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.5 Impairment loss allowance (2019) (continued)

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
GROUP AND CO-OPERATIVE				
Other unsecured loans				
At 1 September 2018	465 130	10 220	20 805	496 155
Transfers				–
• Transfer from stage 1 to stage 2	(12 907)	12 907	–	–
• Transfer from stage 1 to stage 3	(23 645)	–	23 645	–
• Transfer from stage 2 to stage 3	–	(2 085)	2 085	–
• Transfer from stage 3 to stage 2	–	946	(946)	–
• Transfer from stage 2 to stage 1	1 018	(1 018)	–	–
• Transfer from stage 3 to stage 1	1 301	–	(1 301)	–
New advances originated	226 389	–	–	226 389
Collections received including interest adjustment	(137 680)	(5 316)	(8 723)	(151 719)
Write-offs	(9 765)	(2 374)	(8 180)	(20 319)
At 31 August 2019	509 841	13 280	27 385	550 506
Total				
At 1 September 2018	4 586 047	260 583	154 946	5 001 576
Transfers				
• Transfer from stage 1 to stage 2	(214 590)	214 590	–	–
• Transfer from stage 1 to stage 3	(98 735)	–	98 735	–
• Transfer from stage 2 to stage 3	–	(31 684)	31 684	–
• Transfer from stage 3 to stage 2	–	9 692	(9 692)	–
• Transfer from stage 2 to stage 1	18 419	(18 419)	–	–
• Transfer from stage 3 to stage 1	2 498	–	(2 498)	–
New advances originated	2 077 710	–	–	2 077 710
Collections received including interest adjustment	(1 475 411)	(140 355)	(51 310)	(1 667 076)
Write-offs	(36 781)	(9 510)	(41 702)	(87 993)
At 31 August 2019	4 859 157	284 897	180 163	5 324 217
GROUP				
Employer groups				
At 1 September 2018	46 258	–	–	46 258
New advances originated	2 756 523	–	–	2 756 523
Collections received including interest adjustment	(2 758 076)	–	–	(2 758 076)
At 31 August 2019	44 705	–	–	44 705

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33. FINANCIAL RISK MANAGEMENT (continued)

33.1.5 Impairment loss allowance (2019) (continued)

	Opening 2018 R'000	Utilised R'000	Provided R'000	Closing 2019 R'000
GROUP AND CO-OPERATIVE				
Stage 1				
• Pension-backed loans	–	(63)	63	–
• Vehicle loans	31 367	(9 334)	6 490	28 523
• Maxi loans	14 684	(17 619)	13 349	10 414
• Other unsecured loans	11 115	(9 765)	6 192	7 542
	57 166	(36 781)	26 094	46 479
Stage 2				
• Vehicle loans	30 646	(5 639)	10 428	35 435
• Maxi loans	5 423	(1 497)	2 655	6 581
• Other unsecured loans	4 583	(2 374)	3 692	5 901
	40 652	(9 510)	16 775	47 917
Stage 3				
• Vehicle loans	32 506	(25 434)	29 310	36 382
• Maxi loans	14 322	(8 088)	16 315	22 549
• Other unsecured loans	11 354	(8 180)	11 499	14 673
	58 182	(41 702)	57 124	73 604
Total				
• Pension-backed loans	–	(63)	63	–
• Vehicle loans	94 519	(40 407)	46 228	100 340
• Maxi loans	34 429	(27 204)	32 319	39 544
• Other unsecured loans	27 052	(20 319)	21 383	28 116
	156 000	(87 993)	99 993	168 000

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.6 Arrears (2018)

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 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
CO-OPERATIVE							
As at 31 August 2019							
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 all of these advances were recoverable.

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.7 Impairments (2018)

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				
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

Impairments held as percentage of gross advances are summarised below:

	Neither past due nor specifically impaired %	Past due but not specifically impaired %	Past due and specifically impaired %	Total %
GROUP AND CO-OPERATIVE				
As at 31 August 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	–	–	–	–

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.8 Sensitivity analysis (2018)

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:

	2018	
	Change in the write-off %	**Sensitivity R'000**
Neither past due nor specifically impaired		
Vehicle loans	0,2	5 138
Maxi loans	0,5	2 024
Other unsecured loans	0,3	1 331
		8 493
Past due and specifically impaired		
Vehicle loans	3,0	6 428
Maxi loans	3,0	484
Other unsecured loans	3,0	416
		7 328

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.9 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 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
As at 31 August 2019					
Pension-backed loans	**1 307 947**	**–**	**1 307 947**	**(43 502)**	**1 264 445**
Vehicle loans	**2 931 665**	**–**	**2 931 665**	**(61 583)**	**2 870 082**
Maxi loans	**534 099**	**–**	**534 099**	**(60 592)**	**473 507**
Other unsecured loans	**550 506**	**–**	**550 506**	**(104 852)**	**445 654**
Employer groups	**44 705**	**–**	**44 705**	**–**	**44 705**
	5 368 922	**–**	**5 368 922**	**(270 529)**	**5 098 393**

** Deferred bonus payment appropriations.*

33. FINANCIAL RISK MANAGEMENT (continued)

33.1.9 Offsetting financial assets (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 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
As at 31 August 2019					
Pension-backed loans	**1 307 947**	**–**	**1 307 947**	**(43 502)**	**1 264 445**
Vehicle loans	**2 931 665**	**–**	**2 931 665**	**(61 583)**	**2 870 082**
Maxi loans	**534 099**	**–**	**534 099**	**(60 592)**	**473 507**
Other unsecured loans	**550 506**	**–**	**550 506**	**(104 852)**	**445 654**
	5 324 217	**–**	**5 324 217**	**(270 529)**	**5 053 688**

33. FINANCIAL RISK MANAGEMENT (continued)

33.2 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.

33.2.1 Price risk

Investment securities

The Group has invested in the Hollard Insurance Company Limited cell captive and in nReach One Proprietary Limited. The maximum exposure to price risk at the reporting date is the carrying value of the investments.

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

	Global Credit Rating 2019	Global Credit Rating 2018
Hollard Insurance Company Limited	**AA (Nov19)**	AA (Nov18)

- The Group invested in the Hollard Insurance Company Limited cell captive. Holland Insurance Company Limited is South Africa's largest privately-owned insurance group.
- nReach One Proprietary Limited is a venture capital company in terms of section 12J of the Income Tax Act. In order to maintain its 12J status the entity is subject to strict compliance requirements from the South African Revenue Service and the Financial Sector Conduct Authority.

For more details on the above investments refer to note 9.

33. FINANCIAL RISK MANAGEMENT (continued)

33.2.2 Interest rate risk

The Group's interest rate risk arises from advances, other non-current receivables 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. All the advances are prime linked.

Funding for the administered rate products consists of an appropriate mix of 47% (2018: 64%) prime-linked funding, 46% (2018: 25%) 3-month JIBAR-linked funding and 7% (2018: 11%) overnight call funding from three major South African commercial banks.

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 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	**26 621**	25 008	**26 621**	25 008
The table is based on advances with a total carrying value of R5 324,2m (2018: R5 001,6m) that excludes balances owed by employer groups of R44,7m (2018: R46,3m) which do not carry interest. This is applicable for the Group and Co-operative.				
The exposure of prime-linked other non-current 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 non-current receivables	**–**	–	**267**	267
The table is based on other non-current receivables with a total value of R53,3m (2018: R53,3m) for the Co-operative.				

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33. FINANCIAL RISK MANAGEMENT (continued)

33.2.2 Interest rate risk (continued)

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
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 non-current receivables	**–**	–	**393**	393
The table is based on other non-current receivables with a total value of R78,5m (2018: R78,5m) 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	**851**	940	**125**	37
The table is based on cash and cash equivalents of the Group with a total value of R170,2m (2018: R188,0m) and a total value of R25,0m (2018: R7,5m) for the Co-operative.				
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)	**4 139**	5 244	**4 139**	5 244
The table is based on borrowings with a total value of R1 379,8m (2018: R1 748,0m) for the Group and Co-operative. The Group's long-term borrowings linked to prime rate is partially offset by advances linked to prime.				

33. FINANCIAL RISK MANAGEMENT (continued)

33.2.2 Interest rate risk (continued)

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
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)	**3 450**	1 800	**3 450**	1 800
The table is based on borrowings with a total value of R1 150,0m (2018: R600,0m) 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	**1 029**	1 034	**–**	–
The table is based on notes with a total value of R342,9m (2018: R344,7m) for the Group. The notes are issued at rates linked to 3-month JIBAR.				

33.3 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 are 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 and insurance contracts.

33. FINANCIAL RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK (continued)

	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 2018				
Due to banks and note holder	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
As at 31 August 2019				
Due to banks and note holder	**930 808**	**554 399**	**1 650 948**	**–**
Due to members	**–**	**–**	**–**	**848 335**
Cash co-operative rewards to members	**18 163**	**–**	**–**	**–**
Other liabilities	**169 186**	**4 314**	**25 461**	**1 861**
Total liquid liabilities	**1 118 157**	**558 713**	**1 676 409**	**850 196**
Advances receivable	**1 028 616**	**863 633**	**2 870 118**	**2 416 321**
Investment in insurance contracts	**–**	**–**	**–**	**145 963**
Investment securities	**–**	**–**	**–**	**3 035**
Cash and cash equivalents	**170 216**	**–**	**–**	**–**
Trade and other assets	**10 108**	**–**	**–**	**–**
Total liquid assets	**1 208 940**	**863 633**	**2 870 118**	**2 565 319**
Net liquidity position	**90 783**	**304 920**	**1 193 709**	**1 715 123**

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 currently in compliance with.

33. FINANCIAL RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK (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 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
Investment 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
As at 31 August 2019				
Due to banks	**825 011**	**469 927**	**1 460 623**	**–**
Due to members	**–**	**–**	**–**	**848 335**
Cash co-operative rewards to members	**18 163**	**–**	**–**	**–**
Other liabilities	**239 656**	**99 381**	**299 116**	**97 091**
Total liquid liabilities	**1 082 830**	**569 308**	**1 759 739**	**945 426**
Advances receivable	**983 911**	**863 633**	**2 870 118**	**2 416 321**
Investment in insurance contracts	**–**	**–**	**–**	**145 963**
Cash and cash equivalents	**25 017**	**–**	**–**	**–**
Other non-current receivables	**–**	**–**	**52 474**	**79 326**
Investment securities	**–**	**–**	**–**	**2 000**
Trade and other assets	**107 409**	**7 638**	**33 247**	**7 593**
Total liquid assets	**1 116 337**	**871 271**	**2 955 839**	**2 651 203**
Net liquidity position	**33 507**	**301 963**	**1 196 100**	**1 705 777**

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 currently in compliance with.

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33. FINANCIAL RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK (continued)

Members' fund liability is payable to members 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 based 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.

33.4 FINANCIAL INSTRUMENTS BY CATEGORY (2019)

	Debt instruments at amortised cost R'000	Equity instruments designated at FVOCI R'000	Total R'000
Assets as per the statement of financial position			
GROUP			
As at 31 August 2019			
Advances receivable	5 160 564	–	5 160 564
Investment securities	–	3 035	3 035
Cash and cash equivalents	170 216	–	170 216
Trade and other assets excluding pre-payments	8 028	–	8 028
	5 338 808	3 035	5 341 843

CO-OPERATIVE

	Debt instruments at amortised cost R'000	Equity instruments designated at FVOCI R'000	Total R'000
As at 31 August 2019			
Advances receivable	5 115 859	–	5 115 859
Other non-current receivables	131 800	–	131 800
Investment securities	–	2 000	2 000
Cash and cash equivalents	25 017	–	25 017
Trade and other assets excluding pre-payments	107 409	–	107 409
	5 380 085	2 000	5 382 085

33. FINANCIAL RISK MANAGEMENT (continued)

33.4 FINANCIAL INSTRUMENTS BY CATEGORY (2019) (continued)

	Financial liabilities at amortised cost R'000
Liabilities as per the statement of financial position	
GROUP	
As at 31 August 2019	
Borrowings	**2 875 805**
Due to members	**848 335**
Cash co-operative rewards to members	**18 163**
Trade and other liabilities excluding non-financial liabilities	**155 386**
	3 897 689

	Financial liabilities at amortised cost R'000
CO-OPERATIVE	
As at 31 August 2019	
Borrowings	**3 006 828**
Due to members	**848 335**
Cash co-operative rewards to members	**18 163**
Trade and other liabilities excluding non-financial liabilities	**100 438**
	3 973 764

33. FINANCIAL RISK MANAGEMENT (continued)

33.5 FINANCIAL INSTRUMENTS BY CATEGORY (2018)

	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 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

CO-OPERATIVE

	Loans and receivables R'000	Held-to-maturity financial assets R'000	Available-for-sale financial assets R'000	Total R'000
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

33. FINANCIAL RISK MANAGEMENT (continued)

33.5 FINANCIAL INSTRUMENTS BY CATEGORY (2018) (continued)

	Other financial liabilities at amortised cost R'000
Liabilities as per the statement of financial position	
GROUP	
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 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

33.6 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 in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the year.

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33. FINANCIAL RISK MANAGEMENT (continued)

33.6 FAIR VALUE ESTIMATION (continued)

The tables below summarise 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 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	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	

[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.*

33. FINANCIAL RISK MANAGEMENT (continued)

33.6 FAIR VALUE ESTIMATION (continued)

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
GROUP				
As at 31 August 2019				
Assets				
Advances receivable	**Amortised cost**	**5 160 564**	**5 239 020**	**Level 3**
Investment securities [1]	**Fair value**	**3 035**	**3 035**	**Level 3**
Cash and cash equivalents (note 10) [1]	**Amortised cost**	**170 216**	**170 216**	
Trade and other assets excluding pre-payments [1]	**Amortised cost**	**8 028**	**8 028**	
		5 341 843	**5 420 299**	
Liabilities				
Borrowings (excluding notes) [1]	**Amortised cost**	**2 531 612**	**2 531 612**	
Borrowings notes [1]	**Amortised cost**	**344 193**	**344 193**	
Due to members [1]	**Amortised cost**	**848 335**	**848 335**	
Cash co-operative rewards to members [1]	**Amortised cost**	**18 163**	**18 163**	
Trade and other liabilities excluding non-financial liabilities [1]	**Amortised cost**	**155 385**	**155 385**	
		3 897 688	**3 897 688**	

CO-OPERATIVE

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
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)	Amortised cost	126 500	126 500	
Cash and cash equivalents [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	

[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.*

33. FINANCIAL RISK MANAGEMENT (continued)

33.6 FAIR VALUE ESTIMATION (continued)

	Measured at	Carrying amount R'000	Fair value disclosed R'000	Hierarchy of valuation technique R'000
CO-OPERATIVE				
As at 31 August 2018				
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	
As at 31 August 2019				
Assets				
Advances receivable	**Amortised cost**	**5 115 859**	**5 239 020**	**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**	
Investment securities [1]	**Fair value**	**2 000**	**2 000**	**Level 3**
Cash and cash equivalents (note 10) [1]	**Amortised cost**	**25 017**	**25 017**	
Trade and other assets excluding pre-payments [1]	**Amortised cost**	**107 409**	**107 409**	
		5 382 085	**5 505 246**	
Liabilities				
Borrowings [1]	**Amortised cost**	**3 006 828**	**3 006 828**	
Due to members [1]	**Amortised cost**	**848 335**	**848 335**	
Cash co-operative rewards to members [1]	**Amortised cost**	**18 163**	**18 163**	
Trade and other liabilities excluding non-financial liabilities [1]	**Amortised cost**	**100 438**	**100 438**	
		3 973 764	**3 973 764**	

[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.*

33. FINANCIAL RISK MANAGEMENT (continued)

33.6 FAIR VALUE ESTIMATION (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.

Investment securities/available-for-sale financial assets

Investment in Hollard Insurance Company Limited cell captive

Fair value is driven through the net asset value of the company invested in. For more detail refer to note 9.

Investment in nReach One Proprietary Limited

This investment provides funding to small- and medium-sized entities over its five-year tenure. These entities do not value their businesses on a regular basis, therefore, the value can only be determined upon the realisation thereof.

33. FINANCIAL RISK MANAGEMENT (continued)

33.7 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 in order 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 (borrowings – note 16) 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 (note 26) 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.

Debt to equity ratios at 31 August were as follow:

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
Total borrowings (note 16)	**2 875 805**	2 695 539	**3 006 828**	2 832 390
Less: Cash and cash equivalents (excluding restricted cash) (note 10)	**(154 800)**	(171 676)	**(25 017)**	(7 474)
Net debt (note 26)	**2 721 005**	2 523 863	**2 981 811**	2 824 916
Total equity	**2 559 008**	2 437 129	**2 518 714**	2 329 676
Capital and reserves	**1 710 673**	1 623 065	**1 670 379**	1 515 612
Members' funds (note 14)	**848 335**	814 064	**848 335**	814 064
Total capital	**5 280 013**	4 960 992	**5 500 525**	5 154 592
Debt to equity ratio (%)	**51,5**	50,9	**54,2**	54,8