IEMAS
FINANCIAL SERVICES
your caring partner

ANNUAL REPORT 2019

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IEMAS' JOURNEY

About this report

The Board of Directors of Iemas Financial Services (Co-operative) Ltd ("Iemas" or "the Co-operative") presents the annual report of Iemas and its subsidiaries ("the Group") for 2019, which reflects the value creation of the business for its stakeholders and the strategy to ensure the continued sustainability of the business. Governance, compliance, management of corporate risks and ethical behaviour underpin the business and these aspects are addressed in the report.

The annual report for the year ended 31 August 2019 has been prepared in accordance with the principles and practices contained in the King III and King IV™ reports of good governance. Iemas is continuously assessing its governance practices against those proposed in King IV™ and actively seek to align them, where practically possible.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Co-operatives Act, No 14 of 2005, as amended. It also takes cognisance of and incorporates the recommendations contained in the International Integrated Reporting Framework published in 2013.

SCOPE AND BOUNDARY OF THE REPORT

Stakeholders and strategic partnerships are crucial to the Co-operative's business. Iemas aims to deliver on an integrated value creation basis and the report is aimed at providing key stakeholders with concise and transparent feedback regarding the Co-operative's strategy, performance, governance and prospects.

The scope of the report covers the main business activities of the Group, which are conducted within South Africa, for the year ended 31 August 2019.

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

ASSURANCE, COMPARABILITY AND RESTATEMENTS

The consolidated financial statements have been audited by PricewaterhouseCoopers Inc. ("PwC"). Comparative figures, unless specifically indicated otherwise, cover the prior financial year ended 31 August 2018. The initial application requirements of *IFRS 9, 'Financial Instruments',* were adopted by the Group in F2019. For more detail on the adoption of IFRS 9, refer to note 1.16 of the financial statements. There were no other restatements during the reporting period.

FEEDBACK REQUEST

The Board of Directors welcomes feedback on the annual report for 2019 from stakeholders. Please submit any suggestions or enquiries to thesecretary@iemas.co.za.

FORWARD-LOOKING STATEMENTS

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

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

APPROVAL OF THE ANNUAL REPORT

The Board of Directors acknowledges its responsibility to ensure the integrity of the annual report. The Board has accordingly applied its mind to the annual report and, in its opinion, the annual report addresses all material issues and fairly presents the consolidated performance of the Group.

The annual report has been prepared in line with best practice to the extent possible reflecting on the reporting period. The Board authorised the annual report for release on 17 October 2019.

For and on behalf of the Board

Willem van Heerden
Chairman

Banie van Vollenhoven
Group Chief Executive Officer

Iemas was established in 1937 and remains a sustainable member-owned co-operative with more than 620 participating employer groups, over 200 000 members, an employee complement of 552 and a comprehensive financial products and services portfolio.

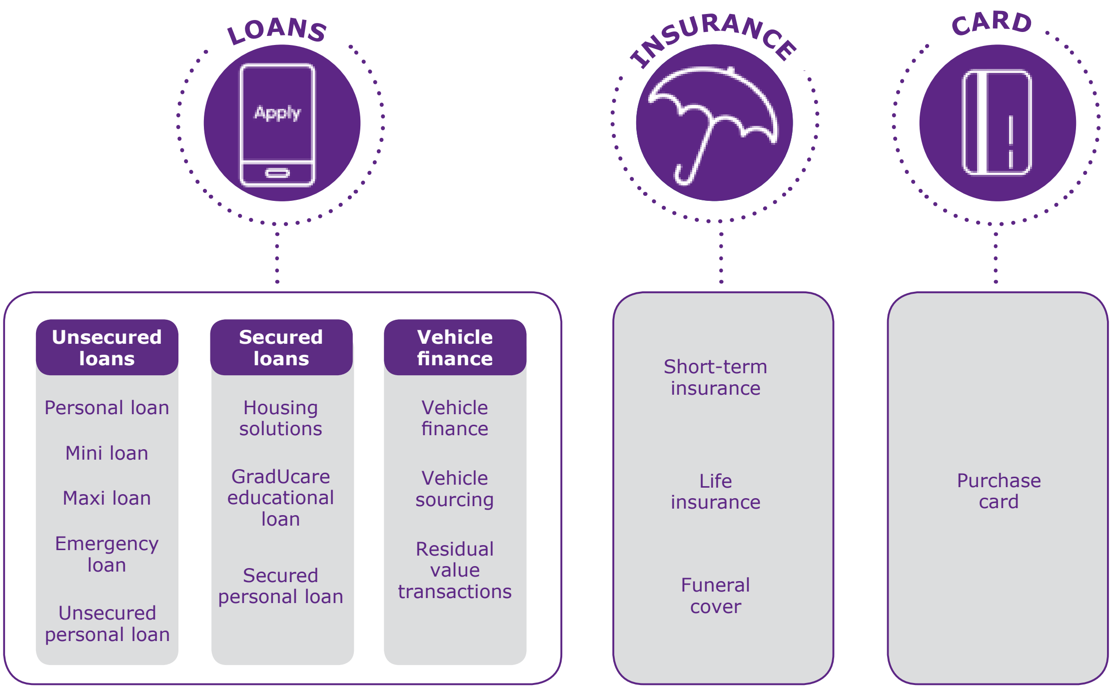
Iemas is South Africa's largest financial services Co-operative offering a comprehensive financing product portfolio and insurance services. A co-operative is a business where a community of people comes together to address their common needs. Based on these needs, relevant services and/or products are then provided by the business to all the members in the group. In line with co-operative principles and the brand promise of being a caring partner, people remain at the heart of the business model. Therefore, profits are shared among members in relation to the business each member conducted with Iemas during a specific financial year. Over the past 10 years, Iemas allocated more than R1bn to its members in the form of **rewards** with the member benefit allocation in F2019 alone being **R109,9m**. For a business to function and operate as a co-operative, it has to, *inter alia*:

- give members democratic control:
  - each member has voting rights that can be exercised in making decisions for their co-operative;
- educate and train their members to develop their financial skills:
  - Iemas provides free financial wellness training at the workplace of participating employers and trained 3 579 individuals during F2019. Iemas further believes that financial education plays a pivotal role in cultivating a culture of financial inclusion, as it enables members to make sound financial decisions and to ultimately achieve holistic financial wellness; and
- demonstrate concern for the community and sustainable development.

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

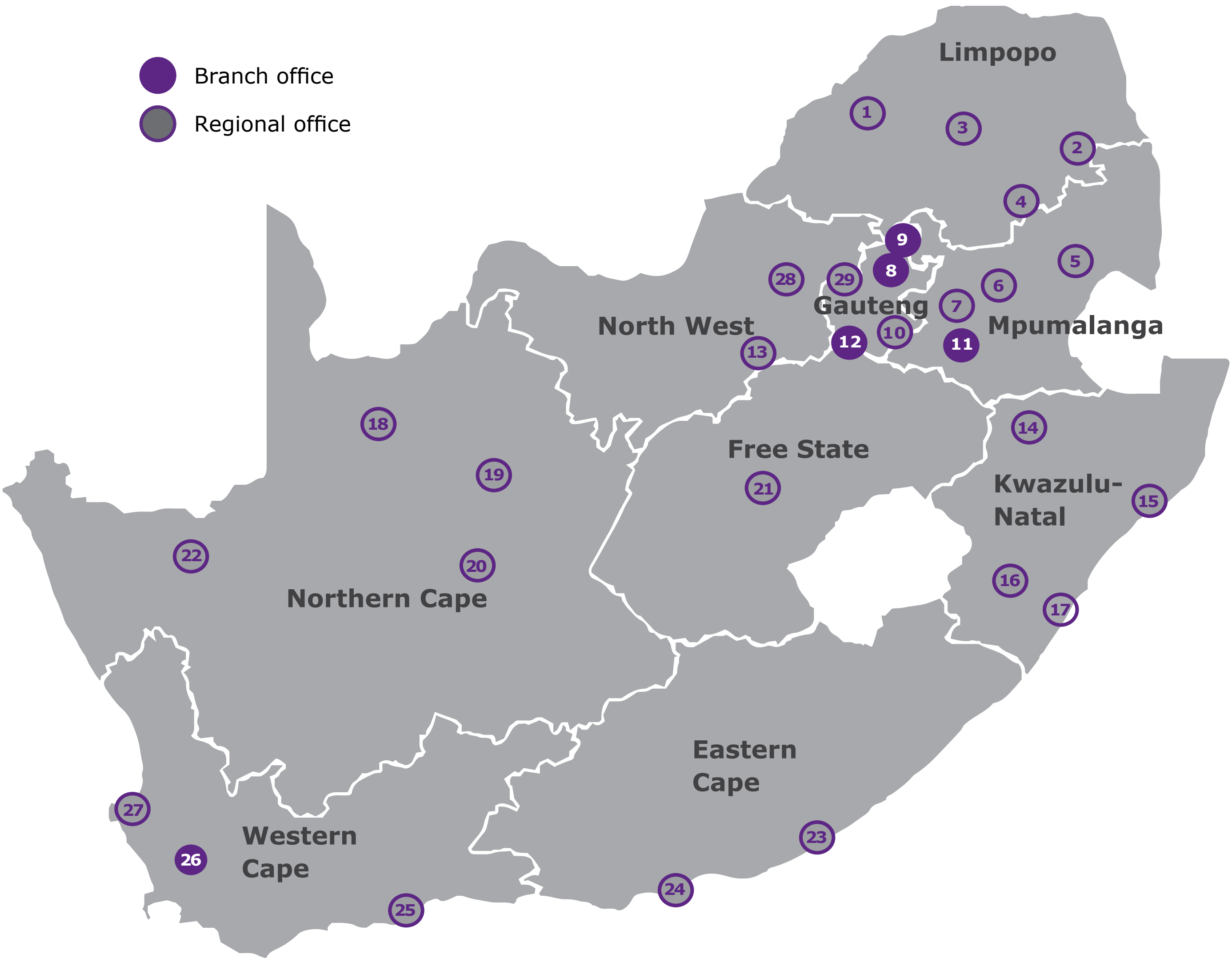
Iemas' comprehensive product portfolio consists of various financial solutions that include vehicle finance, secured and unsecured loan products and a purchase card. Comprehensive insurance solutions include motor and household insurance, life and funeral insurance, savings and investment products as well as wills and estate planning services. As a responsible financial services provider, Iemas ensures that these products are offered in a way that takes into account individuals' affordability.

MEMBER OFFERING



Geographic footprint

Members access Iemas' portfolio of financial products and services via various channels including worksite service points, digital and social platforms and/or personal visits to any of Iemas' offices across South Africa. The geographic footprint is included below:

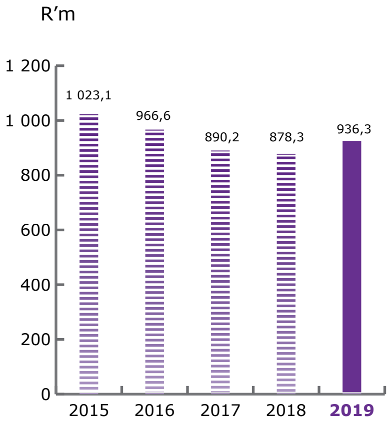


1. Lephalale
2. Phalaborwa
3. Polokwane
4. Steelpoort
5. Mbombela
6. Middelburg
7. Emalahleni
8. **Centurion regional office**
9. **Head office (Centurion)**
10. Boksburg
11. **Secunda regional office**
12. **Vanderbijlpark regional office**
13. Klerksdorp
14. Newcastle
15. Richards Bay
16. Pietermaritzburg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

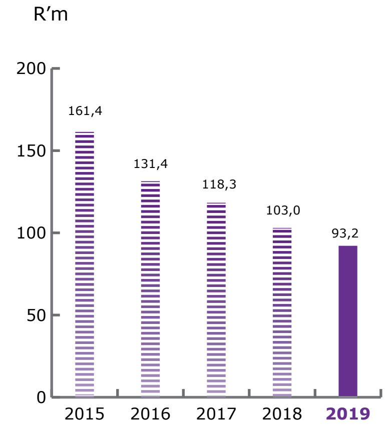
PERFORMANCE

Performance overview

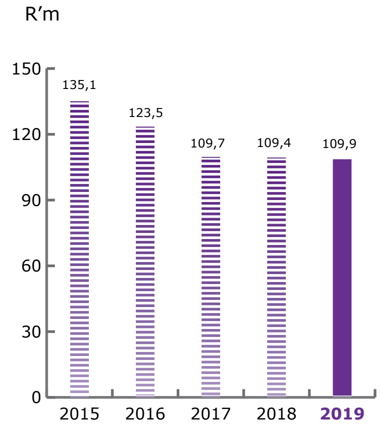
Total income



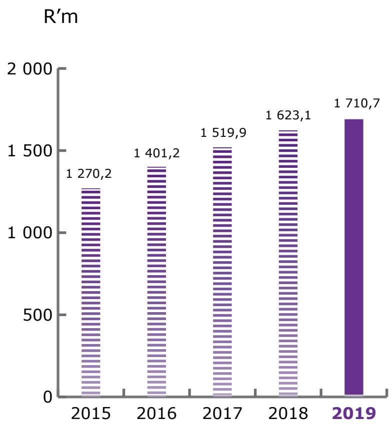
Profit for the year



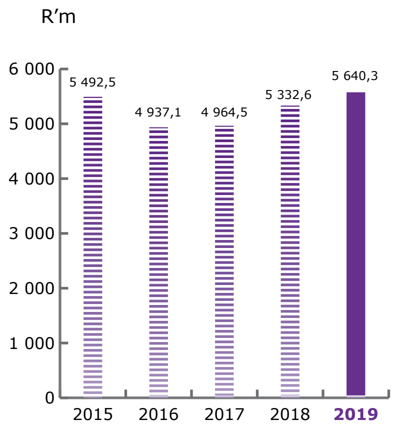
Rewards allocated to members



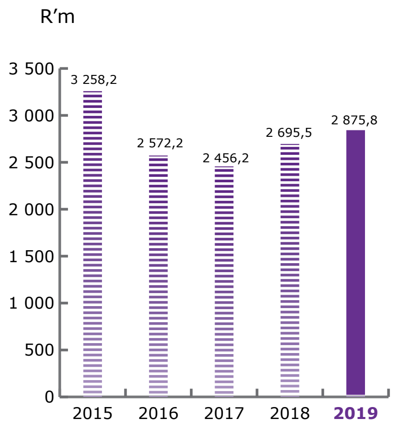
Own reserves



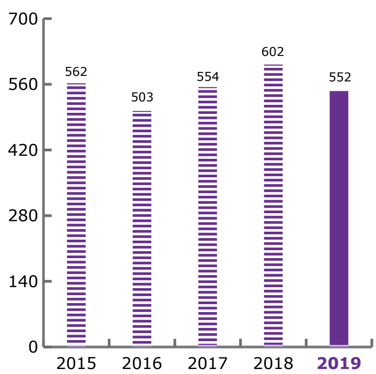
Total assets



Borrowings



Number of employees



Willem van Heerden
Chairman

THE CO-OPERATIVE DIFFERENCE

Iemas offers a comprehensive range of competitive financial products and services to its 220 081 members (2018: 207 636 members) and is the largest financial services co-operative in South Africa, with net advances amounting to **R5 368,9m** in 2019 (2018: R5 047,8m).

As a co-operative, Iemas is owned by, and operated for the benefit of its members and annually a portion of its profits is allocated to members. During November 2019, members will receive **R109,9m** (2018: R109,4m) in reward allocations.

FINANCIAL INCLUSION

South Africa in general has a low level of financial inclusion, characterised by a relatively small percentage of low-income households that actively transact using bank accounts. The remaining, far larger portion primarily operate using cash.

Through its unique business model, distribution channels, financial wellness workshops, communication and a comprehensive range and affordable financial products, Iemas offers compelling solutions to members. Iemas endeavours to uplift its communities and contribute in the spirit of Ubuntu to financial inclusion.

ENVIRONMENT, SOCIAL AND GOVERNANCE

Environment

Iemas is a Financial Services Provider operating in the financial services sector; hence its impact on the environment is not significant or material.

Social

Iemas' human capital is its biggest asset and an important priority. The Group's goal remains to build and maintain a diverse, loyal, performance-driven workforce that is innovative, knowledgeable and effective, and which reflects Iemas' collaborative values and culture. Transformation, innovation, human resources and Iemas' culture are key matters that are addressed continuously throughout all operations.

At a Group level, each operational area's objectives and initiatives are reviewed regularly to ensure effective investment in appropriate training and skills development to ensure that employees are well positioned to meet the Co-operative's strategic objectives. A safe, healthy, engaged workforce is a productive and effective workforce.

Upliftment of the communities in which Iemas operates, through corporate social investment initiatives, is prioritised on a continuous basis.

Governance

Iemas' approach to governance is founded on the premise that a successful business requires strong controls, meaningful structures and unwavering commitment to ethical conduct in order to reach its full potential. The Board is fully committed to the highest standards of governance and accountability, as recommended by King IV™, and the delivery of outcomes such as an ethical culture, good performance, effective control and compliance.

The Group's corporate governance disclosure, shown on pages 28 to 40, has been prepared in terms of King IV™, and the Board is satisfied that the Group complies with all material provisions of King IV™ applicable to Iemas.

The Board plays a pivotal role in strategy planning and establishing benchmarks to measure the Group's strategic objectives.

The Board of Directors, at the approval date of the annual report, comprised ten directors, eight of whom are independent non-executive, with two being executive. Board diversity is disclosed on pages 29 to 31.

A staggered rotation of the members of the Board ensures both the retention of valuable skills, knowledge and experience and the introduction of new members. During the year, Mr Temba Mvusi – Chairman of the Board, reached the end of his seven-year term as director at the Annual General Meeting (AGM) held in October 2018. I wish to thank him for his continued wise counsel, his unquestionable commitment of time and his sharing and mentorship to all Board members.

As and when vacancies arise, applicants are evaluated according to the financial, human resources, information technology, legal and operational aptitudes required by the Board as a whole. Mr Anton Buthelezi was elected as non-executive director at the October 2018 AGM. His extensive human resources management experience, skills and expertise will ensure meaningful contributions to the Group and the Board of Directors.

On 1 January 2019, Mr Banie van Vollenhoven was appointed as Group Chief Executive Officer. He has a wealth of experience and significant expertise in various business spheres at executive level. The Board welcomes his appointment and looks forward to him leading Iemas into a meaningful growth phase.

STAKEHOLDER ENGAGEMENT

Sustainable value creation depends on successful engagement with stakeholders. Iemas' values serve as the basis of all exchanges and the Board and management aim to engage proactively with those who impact Iemas, as well as those on whom the Group has an impact. This informs the Group's strategy development and evaluation, risk management as well as operational responses.

Stakeholder relationships are actively managed by the executive directors and senior members of management and the nature of engagements during the year under review is outlined on pages 19 to 22.

RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of Iemas' risk management framework. Risk management and the ongoing improvement of corresponding control structures remain key to management's focus in building a successful and sustainable business.

Executive management plays an active role in the risk management process and is responsible for the implementation, ongoing maintenance of and compliance with the risk process as it applies to each business in the Group. The Board reviews the top 10 strategic risks, and new critical risks on a regular basis and is satisfied with the governance structures and methodologies applied by management to identify and address these. Mitigating strategies are disclosed in the risk management section of the annual report on pages 25 and 26.

APPRECIATION

I wish to extend my thanks and gratitude to my fellow Board members. My job is made easier because of the significant expertise, skill and commitment that they bring to the deliberations at Board and Board Committee meetings. Their guidance, diverse perspectives and support are appreciated.

With the retirement of the Group Chief Executive Officer at the end of December 2018, I re-iterate the thanks and gratitude extended to him by my predecessor. The Board has confidence in the newly appointed Group Chief Executive Officer and his executive team to execute on Iemas' updated strategy on page 10 to ensure sustainable growth going forward. This includes taking us through the final implementation of the Iemas Business Modernisation (IBM) program, which will place Iemas on the road towards digitalisation.

Our loyal workforce maintained levels of performance during this year of change and for that, we thank you. Your commitment and performance form the foundation from which Iemas will grow sustainably.

A special expression of gratitude is extended to our large and diverse member and employer bases. Without your support, Iemas' growth would not be possible and our aim is for it to be equally rewarding for you.

LOOKING FORWARD

Going forward, Iemas' commitment to financial inclusion and co-operative principles remain non-negotiable.

Reflecting on my current five-year journey as part of the Iemas Board, this year was an exceptionally challenging one with much change, be it in leadership, macro-economic conditions, internal system or changes in the competitive landscape. While the results still reflects a decline versus last year, there are many indications that the Co-operative will return to growth during the next year.

On a personal note, I thank my predecessor, Mr Temba Mvusi, whose wisdom and concise reasoning helped to shape the Co-operative as it stands today. I thank Johan Nel for leaving governance practises that has laid the foundation and the Iemas leadership for providing new vigour, energy and guidance to implement major strategic change-initiatives without disrupting normal operations.

Willem van Heerden
Chairman

Message from the Group Chief Executive Officer

Banie van Vollenhoven
Group Chief Executive Officer

FINANCIAL PERFORMANCE AND RESILIENCE

F2019 was defined as a period of change for Iemas to position the business for growth in F2020 and beyond in a challenging macro-economic environment. The focus has primarily been on securing new employer groups, such as Dimension Data, Mercedes-Benz and L'Oreal, to diversify Iemas' risk concentration spread into industries other than mining and manufacturing, gradually changing the debtors profile in its business aligned to the Group's longer-term sustainable growth strategy.

The finalisation of the replacement of core information technology systems, with implementation scheduled for Q1 F2020, was a priority. Another key focus was Iemas' core operational model which is in the process of being amended and changed to create clearer roles and accountability; the benefits of which are expected to manifest from Q2 F2020.

The profit for the year amounted to R93,2m (2018: R103,0m). Although the F2019 results fell short of the levels achieved in F2018, actions taken mid-year are starting to yield positive results. The overall aim has been to implement measures to stabilise the downward trend and position Iemas for growth going forward, as outlined in more detail on page 10 under Strategy.

Members' funds increased from R814,1m to R848,3m. Total borrowings, current and non-current, increased to R2 875,8m (6,7%), due to additional funding required to finance the increase in total advances.

Iemas financing business

The consumer credit market remains characterised by high consumer debt levels and intense competition for creditworthy consumers. Advances increased mainly due to the growth in unsecured advances to members who have the propensity to repay their debt.

Iemas will persist in implementing the required actions to ensure that its credit management is executed effectively in order to contain bad debts and arrears within acceptable levels. Even though the increase in bad debt written off in 2019 is reasonable, given the growth experienced in advances over the last two years, it remains a priority to contain it to a minimum.

Credit granting governance came under detailed review, given the macro-economic environment. A change in product mix not only resulted in a 2% move towards unsecured lending from secured lending to diversify the risk profile, but also ensured that Iemas remains relevant and competitive. The governance of credit granting processes is being reviewed on a continuous basis.

Iemas insurance business

Iemas Insurance Brokers recorded a profit before tax, although its projected growth in policy units did not fully materialise. This was due to macro-economic factors and more specifically, a 16% increase in policy cancellations as members' disposable income decreased, rendering them unable to pay their premiums.

Regulations to cap credit life fees were promulgated; policies are renewed annually with this cap being introduced on renewal and this impact will be seen into F2020.

Short-term insurance

The intensely competitive short-term insurance industry is characterised by high levels of price-sensitivity, with F2019 seeing loyalties decreasing with an explicable movement towards lower premiums. Iemas' short-term insurance business grew by 6% outperforming the industry benchmark of 3%.

Life insurance

The division experienced a move from traditional funeral policies towards savings and life products, in line with its objective to provide a holistic solution for the lower to mid-market, with total income from the division increasing.

The focus in the year ahead would be to expand Iemas Insurance Brokers' offering by contracting with insurers with unique products not already in the business' offering, such as employer benefits.

TECHNOLOGY

Technology enablement implementation remains a big priority within Iemas. The replacement of Iemas' core technology systems is scheduled to go live during Q1 F2020 for all financing products, the premium collection system and the customer relationship management (CRM) system.

The concerted focus on achieving readiness for technology implementation had a ripple effect, which caused the business to be stagnant. Key product resources focused efforts on both technology projects and their core business function.

The implementation of the new core information technology will enhance Iemas' competitive position and customers' experience in a fast-changing technological environment – propelling the Group towards digital readiness.

THE BEGINNING OF A NEW CHAPTER

In December 2018, the chapter ended with Johan Nel's retirement as Group CEO of Iemas. We extend our appreciation to Johan for implementing essential governance structures and providing solid leadership during his nine-year tenure.

Our Chairman, Temba Mvusi, reached the mandated tenure of seven years as an independent non-executive director in October 2018 and Willem van Heerden was appointed as the new Chairman.

Structure changes

Iemas is in the process of positioning itself for growth, to remain competitive, relevant and sustainable in a rapidly changing environment. It needs to be able to withstand the challenges of new Fintechs and digital virtual banks being launched with low cost structures and regulatory limitations on fees charged. Digital enablement combined with improved customer service delivery will give Iemas a competitive advantage. This called for a re-look at the Co-operative's operating model to ensure sustainability going into the future.

Various projects have been initiated to streamline and optimise business processes, resulting in significant changes, starting with its management layer. The Iemas Executive Committee has been restructured, as is shown on pages 17 and 18, and Board representation by executives was reduced to the Group Chief Executive Officer and Chief Financial Officer.

Strategy

Iemas' business performance has been in decline over the past four years and though still under pressure this year, the annual rate of decline has been minimised. This was mostly achieved through the introduction of short-term cost reduction measures, although this is not necessarily sustainable over the long term.

The Iemas business needs to be re-positioned; this requires fundamental changes, including changing of fixed business operating costs into more variable costs. Iemas needs to obtain the appropriate scale to justify the remaining imbedded fixed enablement costs. The themes over the short to medium period are:

	INPUT	OUTPUT	OUTCOME
Short-term (year 1)	Position Iemas for growth – get the basics right in terms of business enablement requirements, business process optimisation, improved customer experience and value proposition	Change management – operational processes, accountability and organisational culture transformation	Growth enablement technologies and people re-skilling
Medium-term (year 2-3)	Capitalise on the enablement year – embedding new practices of the enablement into daily routines	Benefits of standardisation, focus, digitalisation, re-skilling and automation become evident, resulting in improved productivity while leveraging on economies of scale	Complementary business and products are added to Iemas' offering and business risk is reduced
Long-term (year 3+)	Re-investment of short-term strategic benefits completed during the short to medium term	Scaling benefits become available to see member benefit growth in real terms	Benefit years for stakeholders and members

Focus areas for F2020

For reasons set out above, and the economic constraints, Iemas' performance has not been satisfactory. Performance is constrained by the late delivery on its Iemas Business Modernisation (IBM) program, which will now be implemented during Q1 F2020.

To improve the quality of the debtors book, Iemas will continue to focus on the acquisition of members in less vulnerable business sectors and those in the middle to middle-high income categories. A key enabler of growth will be a relook of the Iemas card business and using technology to upgrade the card offering.

Venturing into complementary business areas, such as banking services and/or expanding into adjacent territories, will always be on the radar and part of the Iemas competitive landscape.

APPRECIATION

I wish to extend my appreciation to the Board of Directors, for their insight and valuable input, my executive team, management and employees for their commitment to implementing the updated Iemas strategy and maintaining a healthy risk-averse approach.

Through the implementation of the IBM program, we share the excitement of being part of the fourth industrial revolution – the platform for growth will be set and the best is yet to come!

Banie van Vollenhoven
Group Chief Executive Officer

Chief Financial Officer's report

Tom O'Connell
Chief Financial Officer

LOCAL ECONOMIC SENTIMENT

A stronger currency and moderating inflation in an economy that may have fallen into a second recession in consecutive years gave the South African Reserve Bank scope to lower its key interest rate for the first time in more than a year, lowering borrowing costs by 25 basis points.

Household debt levels have been increasing as consumers under financial pressure took on more credit and debt servicing costs as a percentage of income increased. The lowered interest rate may offer some relief to financially strained consumers. However, with higher petrol prices and rising administered prices for basic utilities, meaningful household cash flow improvements remain likely to be delayed.

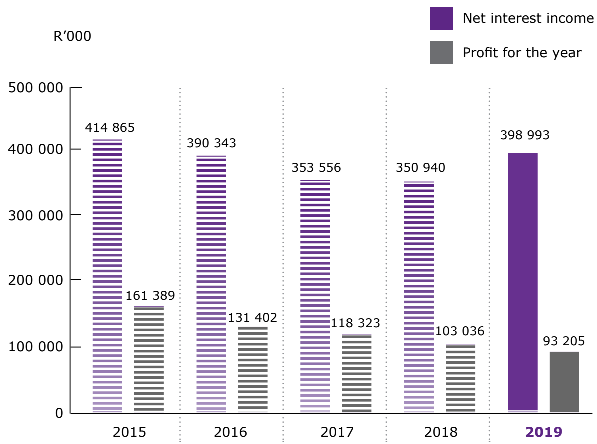
Domestic weaknesses in South Africa impacts the outlook. Broad structural problems in the labour market, education and network industries, coupled with fiscal slippage, high unemployment, low consumption and a slow reform agenda constrained growth.

MODERATE PERFORMANCE

Concerted efforts to improve performance continued, rendering results ahead of expectations 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).

Performance



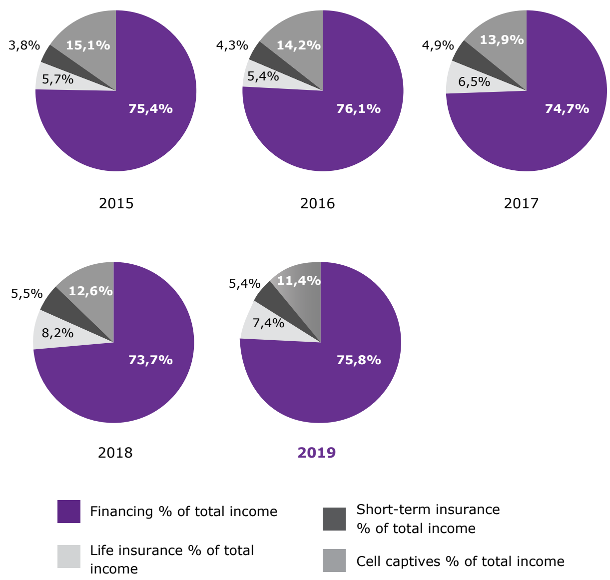
Financing, comprising mainly vehicle advances, pension-backed housing advances and unsecured advances, remains the largest contributor to the Group's income. Revenue from financing activities comprised interest received, administration fees and credit life insurance commission.

Interest income increased by 11,3% (2018: decrease of 0,7%) from R625,6m to R696,1m, due to an improvement in advances and the reallocation of initiation fees in terms of the effective interest rate adoption as required by IFRS 9. Non-interest income decreased on prior year levels at R240,2m (2018: R252,7m), representing 25,7% (2018: 28,8%) of total income.

Other direct advance-related income, such as fees and commission, increased by 5,7% (2018: decrease of 1,3%) to R53,9m (2018: R51,0m). The decrease in fees is mainly due to the impact of the final credit life insurance regulations, effective from August 2017, and the reallocation of initiation fees in terms of the IFRS 9 adoption.

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

Income contribution percentage per main product category



MAINTAINING A HEALTHY MIX OF ADVANCES

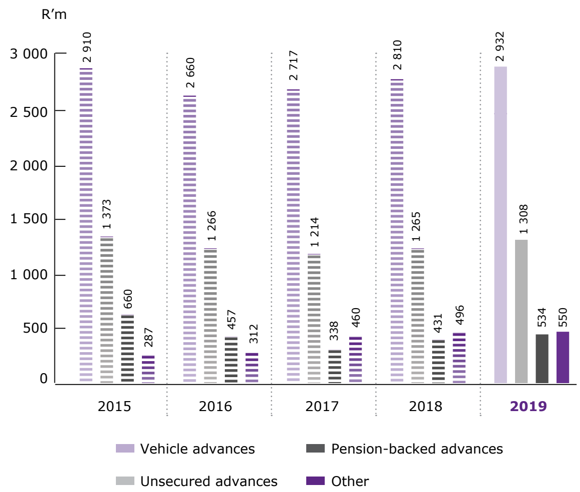
South African consumers remain under financial strain and it is important that they have access to financial products and services that are offered in a responsible manner during times when they need assistance.

The credit market is characterised by strong competition to attract members with good credit profiles, as debt levels are relatively high and a substantial number of consumers have defaults or judgements on their credit record. Iemas' focus has been on attracting members with healthy credit profiles and purposefully managing the quality and composition of its advances, resulting in the product mix of advances remaining well balanced.

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

- Vehicle advances increased by 4,3% (2018: 3,4%);
- Pension-backed advances increased by 3,4% (2018: 4,1%); and
- Unsecured and other advances increased by 17,0% (2018: 16,1%).

Advances per main product categories



Iemas' total net advances increased by 6,4% (2018: 5,6%) to R5 368,9m (2018: R5 047,8m). The growth is mainly attributable to Iemas implementing its diversification strategy through the onboarding of new employer groups in the knowledge economy. This started the process of reducing its large exposure to the mining and manufacturing industries, which still experienced uncertainty, low business confidence and low growth.

GROWTH IN ADVANCES

The National Association of Automobile Manufacturers (Naamsa), in August 2019, stated that new vehicle sales improved which has been prevalent through most of the year.

Iemas' vehicle advances, which constitute the largest portion of the total advances, increased by 4,3% (2018: 3,4%) to R2 931,7m (2018: R2 809,8m).

South African household debt is still above 70%. This means more than 70% of consumers' income goes to servicing their debt, making it more challenging to get quality debtors.

Iemas' pension-backed housing advances, that comprise loans utilised by members to either buy land or property or renovate their properties, increased by 3,4% (2018: 4,1%) to R1 307,9m (2018: R1 264,9m).

The increase of 17,0% (2018: 16,1%) in unsecured and other advances is mainly attributable to Iemas' strategy to focus on growth in the middle and middle-high income categories.

CREDIT LOSSES AMID PRUDENT CREDIT EXTENSION

In a weak and constrained economic environment, there is often tension between members' financial needs and the moral and regulatory obligation on Iemas to be prudent on behalf of all members. Iemas' credit screening is done responsibly to protect members. Iemas will improve on its credit risk processes with the implementation of a credit scorecard as part of the IBM program. This will ensure consistency in credit assessment, increase the speed of processing applications and better risk profile management.

Although unsecured advances increased during F2019, the focus remained on advancing credit to creditworthy consumers rather than aggressively growing the book. This resulted in a shift in the applicants' risk profile.

Iemas is diligently managing the quality of both secured and unsecured advances. The loan impairment expense (bad debts plus provisions less recoveries) increased by 14,6% (2018: decreased by 14,5%) to R88,0m (2018: R76,8m). A significant number of members resigned during H2 F2019, which resulted in an increased arrears portfolio, as a portion of these members are unemployed due to retrenchments. The amount in arrears, classified conservatively, includes all arrears, regardless of the amount or reason, and incorporates technical arrears.

Arrears as a percentage of gross loans and advances increased from 1,3% to 1,4%. This includes all loans that are not up to date with contractual obligations.

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

Capital outstanding of members under debt review increased from R86,5m to R102,1m, representing 1,9% (2018: 1,7%) of total advances. Considering the total number of members under debt review, R0,36m (2018: R0,45m) was in arrears at year-end, which represented 0,3% (2018: 0,5%) of the total capital owed by these members. The increasing trend in members under debt review is being closely monitored.

PROVISION FOR IMPAIRMENT

Credit risk can be defined as the likelihood that a member will fail to meet their obligation in accordance with the agreed terms and conditions of a credit agreement.

Iemas makes adequate provision for impairment of bad debts through meticulous analysis of historic trends and projections of future market conditions.

The impairment provision increased by R13,0m (2018: R5,0m) to R168,0m (2018: R155,0m), which represented 4,1% (2018: 4,1%) of the total advances, excluding pension-backed housing advances. No provision was made for impairments on pension-backed housing advances as these advances are covered by a pledge of an equal amount of the member's pension fund credit.

The impairment expenditure on vehicle advances decreased by R1,4m (2018: R0,5m) to R40,4m (2018: R41,8m), representing 1,4% (2018: 1,5%) of the total vehicle advances. The impairment expenditure on unsecured advances and other loans increased by R6,4m (2018: decrease of R9,9m) to R47,5m (2018: R41,1m), representing 4,4% (2018: 4,4%) of the total unsecured advances and other loans. Post write-off recoveries increased by 8,1% (2018: 5,9%) from R11,1m to R12,0m.

The impact of the adoption of *IFRS 9, financial instruments* is disclosed in note 1.16.

CONTRIBUTION FROM THE INSURANCE BUSINESS

Iemas Insurance Brokers offers a diverse portfolio of life and non-life insurance products. The contribution to total income generated by the insurance business amounted to R119,2m (2018: R120,5m) of which 42,3% (2018: 40,1%) was contributed by the short-term insurance division and 57,7% (2018: 59,9%) by the life division.

The short-term insurance business is subject to intense competition, price-sensitive consumers, increasing regulations, a high turnover and a shortage of human resources with the required skills and qualifications. Total income increased by 4,4% (2018: 10,2%) to R50,4m (2018: R48,3m), while the number of policies increased by 4,1% (2018: 5,9%).

The life division has agreements with the majority of large insurance companies in South Africa, including a recent partnership with Simply. Total income decreased by 4,7% (2018: increased by 23,9%) to R68,8m (2018: R72,2m) and expenditure increased by R8,4m (2018: R21,8m), resulting in a net income decrease of R11,8m (2018: R7,8m).

The strategy of the insurance business has been reviewed and updated to further align it to market needs and will be rolled out in F2020.

INCOME FROM CELL CAPTIVES

For F2019, the net premiums decreased by R3,8m (2018: R12,1m), mainly due to the regulatory cap on credit life premiums on a portion of the unsecured advances as mentioned earlier in this review.

The net claims expense was higher than expected. This was mainly due to retrenchment claims at large employers that materialised during the reporting period.

COST MANAGEMENT

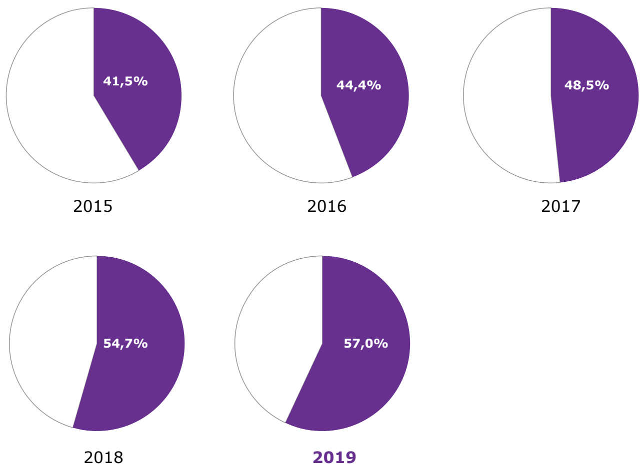
The increase in Co-operative's operating costs in excess of inflation is largely attributable to recruitment cost of key management and vehicle recovery fees, together with information technology costs in order to obtain system readiness.

Salary cost, the largest contributor to expenditure, increased by 8,4% (2018: 10,4%) to R203,3m (2018: R186,9m) and represents 53,8% (2018: 54,2%) of total operating cost. Iemas' total employee complement decreased with 39 employees (2018: 48 employees) to 563 (2018: 602). The lower employee complement relates mainly to the insurance business where there were some retrenchments.

The continued focus on the IBM program demanded an additional investment of R16,5m (2018: R13,8m) in information technology for F2019. The business modernisation program is nearing finalisation with implementation scheduled during the next financial year.

The cost-to-income ratio worsened from 54,7% to 57,0%. This was the result of an increase in net income of 4,6% (2018: increase of 0,5%), with expenditure increasing by 10,4% (2018: 10,8%).

Cost-to-income ratio



MEMBERS SHARE IN THE PROFITS

The foundation of the co-operative model is that members share in the prosperity of the Co-operative.

Iemas' annual reward allocations to members illustrate its commitment to the co-operative principle. Total member rewards (excluding interest on the members' deferred bonus payment fund) amounted to R62,5m (2018: R61,9m), which represents 40,4% (2018: 37,7%) of net profit after tax before rewards.

The interest paid on members' deferred bonus payment funds amounted to R47,4m (2018: R47,4m), which represents a return of 6,25% (2018: 6,5%) on their funds. These returns compare favourably with savings products in the market. The total member rewards for 2019, which comprise the rewards allocated and the interest accrued on the members' deferred bonus payment funds, amounted to R109,9m (2018: R109,4m).

FUNDING FOR SUSTAINABLE GROWTH

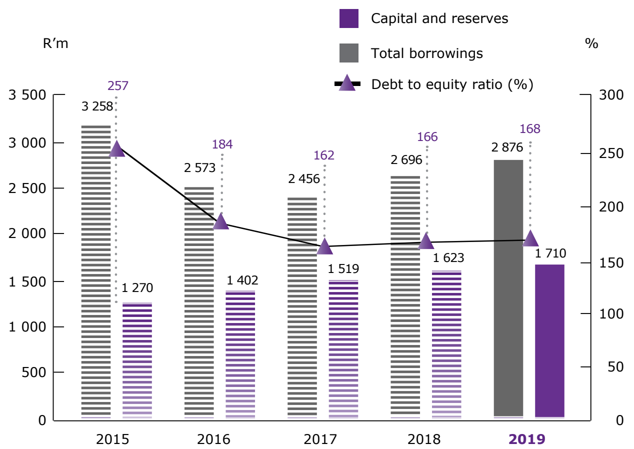
The Group's primary sources of funding are its retained reserves and members' deferred bonus payment funds as well as borrowings. For F2019, capital and reserves increased by 5,4% (2018: 6,8%) to R1 710,7m (2018: R1 623,1m) and members' funds increased to R848,3m (2018: R814,1m).

The retained reserves and members' funds are complemented with funding facilities from three South African banks, which represent 88,0% (2018: 87,2%) of the Group's total external funding. Funding via the securitisation structure, Torque Securitisation, represents 12% (2018: 12,8%) of the Group's external funding and is discussed in more detail further in this review.

In an effort to secure continuous access to funding at competitive terms, performance was managed within the covenants agreed with the banks. Iemas is currently well within the limits of its covenants, mainly attributable to good cash and arrears management.

Regular, pro-active engagement with funders and timely, accurate reporting further established Iemas' credibility as a sound investment.

Debt to equity



TORQUE SECURITISATION (RF) LIMITED (TORQUE)

Torque Securitisation (RF) Limited is a special-purpose securitisation vehicle (established in August 2012) to finance a portion of the vehicle advances in the capital markets. In May 2018, this revolving structure changed to an amortised structure. The number, value and timing of vehicle advances sold to the structure would be at management's discretion based on Iemas' funding requirements from time to time. The structure also provides the flexibility for Iemas to approach additional investors, should the need arise.

The previous external noteholders were redeemed and replaced by one external investor, who does not require the notes to be listed or rated. Iemas re-issued notes to the value of R119,1m during F2019.

This has resulted in additional long-term funding at competitive rates, with the added benefit of a simplified and lower cost structure.

CONSERVATIVE PERFORMANCE EXPECTATIONS

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

In view of conservative income projections, it is important to ensure responsible cost containment and improvement of operational efficiency. As Iemas' growth rate slowly gains momentum, more resources will be allocated into those areas that have the most benefit for its members. This calls for the balancing of the income with continued discipline around cost management and improvements in the efficiency of operations, processes and procedures.

Given the volatile current economic environment, diligent management of bad debts and arrears will be required to ensure that the initiatives envisaged to improve collections, have the desired results. A new payment and collection stream, DebiCheck, has been designed in response to the terms of reference supplied to the Payments Association of South Africa (PASA) by the South African Reserve Bank. The programme aims to provide a more efficient, reliable payment and collection environment for both the creditor and debtor.

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

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

Tom O'Connell
Chief Financial Officer

Maria Feiteira (54)

Managing Executive: Financing Business (Loans)

BComm (Banking); Regulatory Examination Key Individual; Associate Diploma (Institute of Bankers); Advanced Marketing Diploma (Institute of Bankers); Global Management Diploma

Date appointed: 19 August 2019

Maria Feiteira has accepted the position as Iemas' Managing Executive: Financing Business (Loans) with effect from 19 August 2019.

Maria has over 30 years' experience in retail banking and, prior to joining Iemas, she spent a career at Absa in various senior management positions across the sales sphere. She received various awards during her tenure at Absa, including the prestigious Leadership Exco Award.

Jaybalan Goonahsylin (45)

Chief Information Officer

National Diploma – Electronic Engineering, BTech – Business Administration, Masters in Information Technology, Certified Enterprise Architect

Date appointed: 1 August 2019

Prior to Iemas, Jaybalan held the role of IT Executive – Business Intelligence and Analytics at Telkom Openserve. He has over 25 years' extensive knowledge across the TELCO and ICT Environment, which includes more than 10 years' Senior IT and Business Management experience. Jaybalan is an Enterprise Architect, with extensive Business Strategy, Business Architecture, Business Intelligence, Analytics, Data Governance, Business Process Management, IT Architecture, IT Strategy and IT Governance experience backed up with broad technical and design knowledge and experience in IT Operations and Development.

Leonie Louw (48)

Group Manager: Human Resources

BA Degree (Communications), Advanced Training and Education Diploma, Human Resources Management Diploma (cum laude)

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

Years of service: 19

Leonie had eight years of experience in communications and public relations when she joined Iemas as Relationship Manager in 2000. She was later appointed as Skills Development Manager. Since 2010 she has been responsible for human resources management as part of the Executive Committee.

Tom O'Connell (48)

Chief Financial Officer

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

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

Years of service: 23

Prior to starting his career at Iemas in October 1995, Tom completed his articles at PwC. He was appointed as head of Iemas' finance division in October 1998 and as Finance Director in 2005. He also serves on the boards of Torque Securitisation (RF) Ltd, Iemtech (Pty) Ltd and Iemas Insurance Brokers (Pty) Ltd. Tom has 25 years' experience in finance, funding, and audit. His responsibilities include the finance, funding, credit vetting and administration functions at Iemas.

Banie van Vollenhoven (57)

Group Chief Executive Officer

BCompt (Hons), CTA, CA(SA), MSc in Project Management (cum laude), Advanced Executive Programme (Unisa SBL)

Member of the South African Institute of Chartered Accountants (SAICA), Independent Regulatory Board of Auditors (IRBA) and PMSA (Project Management South Africa)

Date appointed: 1 January 2019

Prior to Iemas, Banie assumed the role of Chief Financial Officer at Telkom Openserve. He has a wealth of experience that he gained from various organisations and industries such as Eskom, Absa and Telkom. He has significant expertise in change management, business transformation and repositioning, large-scale capital project management and delivery, corporate finance and financial management, business re-engineering, analytics, strategic management and leadership on senior and executive level.

Piet Wolmarans (54)

Managing Director: Iemas Insurance Brokers

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

Years of service: 31

Piet started his career at Iemas in 1988. Piet has broad experience of Iemas, headed up a number of business divisions within Iemas and has extensive understanding of the financing and insurance industry. As of 1 June 2019, after serving for 15 years on the Iemas main Board, Piet resigned as director. He is currently a director on the Board of Iemtech (Pty) Ltd and the Managing Director of Iemas Insurance Brokers (Pty) Ltd.

Ages as at 31 August 2019

Stakeholder engagement

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

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

Iemas has identified nine key stakeholder groups and the engagements during F2019 were as follow:

	NEEDS	ENGAGEMENT	OUTCOME	FUTURE ACTIONS
EMPLOYEES	• Leadership communication • Organisational performance and strategic direction information • Positive, inclusive and diverse work environment with the necessary support to work effectively • Job satisfaction and career development, including training and upskilling • Job security	• Group CEO communication, senior management feedback sessions and director visits to branches and regional offices • Training initiatives • Performance reviews, feedback and exit interviews • Wellness workshops and helpline • Employee involvement in CSI initiatives and social functions • Internal communication channels, including intranet portal, blog and newsletters	• 95 (2018: 114) employees (17% of the workforce) attended wellness workshops and 119 (2018: 109) (21%) made use of individual counselling sessions • 13 (2018: 15) employees attended diversity training • One e-learning module was deployed to 73 users in preparation for the information technology deployment • 37 new employees in the insurance environment completed Class of Business courses and 140 insurance employees completed Continuous Professional Development courses	• Continue implementing initiatives in contact centre environment to improve employee retention • Wellness training initiatives • Manage the impact of organisational alignment on corporate culture • Continue with change management programme to ensure successful implementation of information technology and adoption by users

	NEEDS	ENGAGEMENT	OUTCOME	FUTURE ACTIONS
MEMBERS	• Financial education and knowledge • Improved brand awareness • Annual rewards allocation • Competitive product and service offering as well as access to products and services • Good customer service	• Annual brand survey • Digital platforms with strong financial education focus including website and social media • Implemented marketing automation function managed, targeted and measured • Newsletters with financial education and worksite marketing • Financial wellness training at the workplace and wellness days	• Growth of 82% (2018: 13%) in Facebook, 17% (2018: 17%) in LinkedIn and 78% (2018: 8%) in Twitter followers. Also established Iemas' brand on both Instagram and Youtube • Improved corporate website and social media platforms • Launched website and social media platforms for Iemas Insurance Brokers • Launched micro sites on employer groups' intranets for members' ease of use	• Enhance digital channels to improve access for members • Continue growing social media communities • Implement business modernisation program to improve speed of service and communication during and after product applications • Complete implementation of customer relationship management system to effectively manage stakeholder relationships
EMPLOYER GROUPS	• Effective and accurate monthly administration • Adherence to relevant legislation with no liability for the employer • Ethical and responsible lending practices • Employee financial wellness • Regular interaction	• Participation in employer wellness days and financial wellness training • Worksite marketing initiative and personal interaction with employer representatives • Annual brand survey • Joint CSI initiatives and regular newsletters	• 3 579 (2018: 7 028) employees attended financial wellness workshops offered free of charge at employer groups • Increase in participation at employer wellness days	• Focus on groups in specific sectors (new and existing) and review relationship management structure • Continue with employer engagement initiatives • Training of relationship consultants
COMMUNITIES	• Sustainable upliftment and development • Monetary and non-monetary donations and contributions	• Joint CSI initiatives with employers • CSI initiatives, e.g. CANSA Shavathon, Casual Day and Mandela Day • Learnerships and internships • Donations	• 11 (2018: 23) Persons were involved in learnerships and internships during the year • 5 (2018: 3) Learners were permanently employed • Employee participation in CSI: CANSA Shavathon; Casual Day, Tekkie Tax and SANBS blood donation drives as well as donations	• Continue with engagement initiatives in line with Iemas' corporate citizenship and sustainability guidelines • Continue with learnership and internship programmes

	NEEDS	ENGAGEMENT	OUTCOME	FUTURE ACTIONS
BANKS AND INVESTORS	• Return on investment • Good corporate governance and sustainable business practices • Management of risk exposure • Compliance with covenants and liquidity management • Comprehensive and accurate reporting	• Regular interaction and liaison • Timely and accurate reporting	• Positive relationships with banks and investors • Continued access to funding • Funding secured on acceptable terms • Compliance with covenants	• Manage performance within bank covenants • Ensure continuous access to funding at competitive rates • Focus on liquidity and management of funding terms
PRODUCT AND SERVICE PROVIDERS	• Increased sales of products • Efficient administration and punctual payment combined with adherence to contractual agreements • Good corporate governance • Responsible representation of supplier brand • Regular project progress meetings and feedback	• Meetings and personal visits • Industry forums, functions and social functions • Provider initiated audits • Statutory and management reports • Project progress meetings	• Contracted new purchase card retailers and additional short-term insurance companies • Collaborated with vehicle suppliers to extend vehicle sourcing service for members and entered into new vehicle dealer agreements • New private-to-private vehicle finance digital platform launched • Reviewed existing and renewed contracts with Information Technology service providers	• Continue with engagement initiatives • Negotiate additional contracts with retailers, suppliers and vehicle dealers • Manage procurement policy • Review contracts with IT service providers to ensure required support and expertise are available
ASSOCIATIONS	• Active membership • Attendance of meetings • Active industry participation	• Membership fees paid • Attendance of industry meetings, workshops and training • Constructive feedback • Active involvement at the South African Banking Risk Information Centre and the South African Insurance Crime Bureau	• Regular engagement and participation	• Continue with engagement initiatives

	NEEDS	ENGAGEMENT	OUTCOME	FUTURE ACTIONS
BOARD OF DIRECTORS	• Good corporate governance • Effective risk management and reporting • Corporate strategy execution and review • Appointment of new Group CEO	• Corporate risks reviewed, reported and approved • Board and Committee meetings • Ad hoc meetings and feedback • Appointed new Group CEO and ensured smooth transition • Conducted intensive strategy review to position the Co-operative for growth	• Feedback regarding corporate risks, governance and compliance at Board and Board Committee meetings	• Continue to ensure that corporate governance is in line with best practice • Ensure identified strategic objectives are successfully and timeously implemented
GOVERNMENT AND REGULATORY BODIES	• Good corporate governance • Responsible business and lending practices and industry participation • Payment of taxes and other statutory levies • Managing the impact of Broad-Based Black Economic Empowerment Amendment Act and Codes	• Monthly, quarterly and annual reporting • Employment equity plans submitted • Taxes, fees and levies paid • Follow and achieve Broad-Based Black Economic Empowerment Amendment Act and Codes' strategic objectives	• Strict adherence to relevant legislation and codes • Requirements of the National Credit Amendment Act (NCAA) continuously reviewed and implemented • Feedback on proposed regulations and legislation via industry associations	• Further alignment of business to the requirements of the NCAA • Implementation of requirements of Department of Trade and Industry regarding credit life insurance • Managing the impact of the Retail Distribution Review (RDR) • Broad-Based Black Economic Empowerment procurement initiatives

ACCOUNTABILITY

Regulatory environment

South African regulatory bodies have broad jurisdiction over the Group's activities as Iemas operates in a highly regulated environment. These jurisdictions include credit granting practises, permissible rates of interest and fees charged to borrowers, debt collection, marketing, selling and advertising practices.

Governance and oversight structures have been implemented to ensure compliance with regulatory requirements.

The main applicable legislation includes:

- Basic Conditions of Employment Act, No 75 of 1997
- Co-operatives Act, No 14 of 2005
- Co-operatives Act, No 6 of 2013
- Companies Act, No 71 of 2008
- Debt Collection Act, No 114 of 1998
- Financial Intelligence Centre Act, No 38 of 2001
- Financial Sector Regulation Act, No 9 of 2017
- Income Tax Act, No 58 of 1962
- Long-term Insurance Act, No 52 of 1998
- National Credit Act, No 34 of 2005
- Occupational Health and Safety Act, No 85 of 1993
- Protection of Personal Information Act, No 4 of 2013
- Short-term Insurance Act, No 53 of 1998
- Value-Added Tax Act, No 89 of 1991

Iemas endeavours to maintain strong relationships with regulators and continued compliance with regulatory requirements. In recent years, Iemas has experienced and welcomed a move from regulators towards principle-based rather than traditional rules-based regulation.

While these fundamental changes can be perceived as a risk for the Co-operative as well as a direct increase in the cost of compliance, Iemas is always looking for opportunities within the regulatory universe to improve its business.

Iemas expects the subject of debt relief for over-indebted consumers to gain further momentum. The Co-operative remains committed to applying existing debt relief measures to assist its members based on their unique circumstances.

The Co-operatives Amendment Act, No 6 of 2013, came into effect 1 April 2019; which amended the Co-operative Act, No 14 of 2005. Iemas views the proposed impact of the Amendment Act, including the Principles of Good Governance for Co-operatives, as positive and in support of its business model.

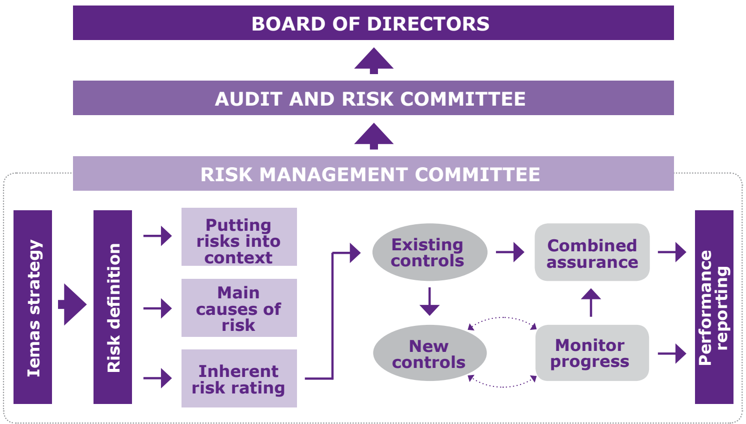
In alignment with the Amendment Act, Iemas re-drafted its Constitution which is up for adoption at its AGM on 31 October 2019.

ENTERPRISE RISK MANAGEMENT

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

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

The diagram below outlines the procedure followed to ensure risk management processes are optimised to efficiently mitigate the corporate risks contained in the corporate risk register.



Formalisation of a risk management framework is the responsibility of the Board of Directors and the Audit and Risk Committee is responsible for oversight of the risk management process. The Committee monitors the progress of risk mitigation strategies, processes and provides formal feedback to the Board.

KEY RISKS AND MITIGATION STRATEGIES

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

Additional information regarding mitigating actions is included below:

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
Iemas Business Modernisation (IBM) program	
Implementation of the IBM program within acceptable timeframes and approved budget.	• Best practice in project management and system delivery methodology implemented. • Change management measures implemented to ensure seamless adoption by users. • Oversight and governance structures implemented to oversee delivery.
New member attraction	
Failure to attract new active and product participating members and customers.	• Member attraction and retention programme developed. • Improvement of product cycle timelines, easing the engagement between members and Iemas. • Extension of engagement channels through digitalisation. • Conduct brand and product awareness campaigns with non-members. • Focused new member market strategy, corporate marketing and communications through the use of customer relationship management principles.
Payroll deduction dependence	
Dependence on payroll deduction facilities as a primary method for instalment and premium collections.	• Enhanced development of debit order capabilities in business systems.

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
Operating model	
Ineffectiveness and failings of the operating model.	• Creation of a culture of focus and accountability throughout the Co-operative. • Development of internal strategic and results delivery capability. • Process re-engineering followed by reskilling and upskilling of employees. • Change management and re-enforcement of culture.
Profitability constraints	
Failure to generate and grow profit in real terms.	• Re-evaluate distribution alternatives and validation targets. • Product development. • Restructured focus on standardisation and scaling. • Cost containment strategies using alternative funding/ insurance structures. • Implementation of structural changes to create more focus and accountability. • Review all operational processes to increase the use of automation and robotics.

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

BUSINESS CONTINUITY

Strategies have been implemented to mitigate the risks associated with business interruptions in the event of failure to resume critical business activities and services within a reasonable time, these include:

- standardisation of the systems implemented and virtualised;
- compilation and testing of business continuity plans, which are reviewed and revised when required; and
- identification of a disaster recovery site with a formal disaster recovery framework in place.

COMBINED ASSURANCE

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

Members of the Combined Assurance Committee are appointed by the Risk Management Committee and consist of internal and external assurance providers.

Stakeholders in the combined assurance framework

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

IEMAS BOARD	Responsible for the formalisation of risk management and internal controls upon recommendation from the Audit and Risk Committee.
AUDIT AND RISK COMMITTEE	Responsible for oversight of combined assurance, periodical assessment of the state of combined assurance and feedback to the Board.
RISK MANAGEMENT COMMITTEE	Responsible for approval of the combined assurance scope and cover, oversight of the monitoring process and consideration of the assurance provided.
COMBINED ASSURANCE COMMITTEE	Responsible for reporting to the Risk Management Committee on the effectiveness and findings of assurance providers.

Assurance providers

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

Management-based assurance

Iemas' internal controls and systems are relied upon to:

- provide reasonable assurance of the integrity and reliability of its accounting reports and financial statements;
- safeguard, verify and maintain accountability of its assets; and
- prevent and detect fraud, potential liability, loss and material misstatement,

while at the same time complying with applicable regulations.

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

Internal assurance

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

Independent assurance

Internal Audit

Internal Audit forms an integral part of the combined assurance process. The role of Internal Audit is defined in the Internal Audit Charter.

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

Operational matters are reported to members of the Executive Committee. All non-compliance outcomes arising from planned audits, special projects, forensic investigations and independent investigations into fraud and similar acts of dishonesty, are referred to management for corrective action. Material findings are reported to the Audit and Risk Committee.

External audit

The Audit and Risk Committee is responsible for recommending the external auditor for approval by members at the Annual General Meeting (AGM). The committee also ensures that the external auditor carries out the annual audit in accordance with international auditing standards and reports on the results of the audit to the Audit and Risk Committee. The external auditor is the main external independent assurance provider with regard to Iemas' annual financial results.

External assurance

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

Oversight committees

The following committees provide assurance as stated below:

- Audit and Risk Committee – with regard to financial and internal controls as well as risk management, including input received from the Risk Management Committee and the Combined Assurance Committee.
- Information Technology Committee – with regard to business systems and controls, as well as business continuity and disaster management.
- Human Resources Committee – with regard to employee and related matters.

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

The internal control self-assessment process, internal audit and year-end external audit revealed no material aspects of control but did highlight some matters for future enhancements. As a result, the Board is of the opinion that Iemas' systems of internal controls and risk management are effective and that the internal financial controls form a sound basis for the preparation of a reliable annual report and financial statements. The Board's opinion is based on the assurances from the various assurance providers, which include the external and internal auditors, management and the Audit and Risk Committee as well as the Information Technology and Human Resources Committees.

Corporate governance report

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

THE BOARD'S ALIGNMENT WITH THE OUTCOMES OF KING IV™

The Board has ultimate accountability to the members of the Co-operative and responsibility for the performance of the Group in providing services to the communities it serves.

Governance is evident in Iemas' organisational culture of commitment to establish effective processes and procedures, which aims to achieve objective other than merely legal compliance. It aims to ensure that the Group achieves high standards of ethical behaviour and good performance outcomes.

The Board believes that the Group's conformance to the King IV™ principles is integrated into its governing practices, as far as practicable, in Iemas' unique business model.

The Board aims to fulfil the primary governing roles and responsibilities recommended in the King IV ™, namely:

- to set and direct the strategic direction of the Group in accordance with co-operative principles;
- to consider and approve corporate policy and tactical planning;
- to oversee and monitor progress; and
- to ensure accountability.

in doing so, the Board has committed to fulfilling the following responsibilities:

- effectively delegate authority to a competent executive team.
- ensure that an effective strategy planning and execution process is defined and followed.
- ensure compliance with the compliance universe in which it operates.
- protect the interests of the members and other stakeholders to ensure fair treatment, responsible and transparent people practices.
- oversee the risk management function in support of the development and implementation of the strategy.

IMPLEMENTATION OF KING IV™

To determine the impact of King IV™ on current governance practices within the Co-operative, a process of self-assessment was conducted. Internal workshops were conducted with staff members and members of the Executive Committee to establish the scope of the application of the various principles contained in King IV™. Management evaluated current Iemas practices within these focus areas and provided evidence to confirm that the principles indeed are applied.

In areas where the principles contained in King IV™ are not being applied, management is assessing to which extent the specific principles are applicable to Iemas and how Iemas would in the future incorporate such principles. Subsequently, management formulated plans to ensure the application of the principles, where applicable.

KING IV™ CORPORATE GOVERNANCE REPORT

During the reporting period, Iemas applied and explained the principles and recommended practices of King IV™ applicable to the Group, disclosed in this report, for the first time.

BOARD OF DIRECTORS

Independent non-executive directors

Anton Buthelezi (54)

B-Tech Degree Labour Relations Management (Unisa), Diploma Labour Law (GIMT & Global Business School), National Diploma HR Management (Unisa), Certificate Programme in Business Leadership Development (Wits)

Date appointed: 31 October 2018

Anton has more than 30 years' experience in human resources management in the mining industry. He is currently an Executive Manager – Human Resources and Labour Relations with Harmony Gold. Previous positions include Senior Human Resources Officer at AngloGold Ashanti and mid and senior managerial positions in the same field at African Rainbow Minerals Gold and Samancor Chrome. He has a proven track record in the full spectrum of human resource functions. Anton also has an outstanding record in managing labour matters, especially in conducting and guiding negotiations with organised labour.

Iemas Committee membership

Human Resources Committee – member

Len de Villiers (63)

D.IS (Harvard), National Diploma in EDP (Tygerberg College), GITI – INSEAD (France)

Date appointed: 31 October 2014

Len has 30 years' experience in information technology and was Group CIO of Absa Bank, Nedbank, First National Bank, Transaction Capital, Telkom and the JSE. He is Chairman of the CIO Council of South Africa, which represents the top 200 CIOs in South Africa and was voted "the most admired CIO in South Africa" by this Council in 2009. Len serves on the Boards of Moyo Business Advisory, Zambia National Commercial Bank (ZANACO) and the Advisory Board of the University of Pretoria. Len also assists Tiger Brands, Teba Investments and the JSE with strategic advice on technology.

Iemas Committee membership

Information Technology Committee – Chairman

Prudence Lebina (38)

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

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

Date appointed: 31 October 2016

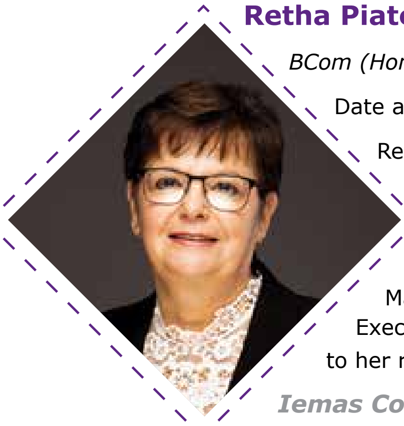
Prudence is a chartered accountant with extensive experience in corporate finance, investor relations, investment banking and the mining industry. She is currently the Chief Executive Officer of GAIA Infrastructure Capital, an infrastructure investment holding company listed on the main board of the JSE. Prior to this, she was Head of Corporate Development and Investor Relations at Atlatsa Resources Corporation. She was also an Investor Relations Manager and Corporate Finance Principal Analyst at Exxaro Resources. She is an independent non-executive director on the Board of DRDGold.

Iemas Committee membership

Audit and Risk Committee – member

BOARD OF DIRECTORS (continued)

Independent non-executive directors (continued)



Retha Piater (64)

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

Date appointed: 10 July 2014

Retha has extensive experience in human resources management, including the development and execution of people strategy, managing the people life cycle, support and enabling people processes. She started her career in the human resources field in the mining industry and has experience in generalist roles at several mines and on commodity level as Human Resources Manager and Group Manager: Remuneration, Benefits and Human Resources Systems. Retha was the Executive Head of Human Resources for the Exxaro Resources group of companies prior to her retirement in 2016.

Iemas Committee membership

Human Resources Committee – Chairman

Vusi Sampula (54)

BTech Human Resources, Advanced Diploma Labour Law

Date appointed: 31 October 2014

Vusi is the Vice-President of employee relations at Sibanye Gold. He has extensive experience in human resources management. Vusi previously served on the Boards of Directors of the Social and Labour Plan Trust Fund at Harmony Gold, Masakhane Provident Fund at Lonmin and Thusano Trust Fund at Sibanye Gold. Vusi is currently studying towards his BCom Honours degree in employee relations.

Iemas Committee membership

Human Resources Committee – member

Dashni Sinivasan (50)

CA (SA), BCom (Hons), CTA, BCom Economics

Date appointed: 31 October 2017

Dashni is a chartered accountant and is currently employed at Exxaro Resources as the Group Financial Manager responsible for reporting. She previously held positions as General Manager Finance, Treasury Controller and Management Accountant and has extensive experience in corporate finance and statutory financial reporting. Dashni also has experience, at senior level, in people management, statutory compliance and stakeholder relations.

Iemas Committee membership

Audit and Risk Committee – member

Willem van Heerden (69)

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

Date appointed: 6 December 2014

Willem served as partner at PwC and moved to commerce later in his career, where he held senior positions in Iscor, Kumba Resources and Kumba Iron Ore. He currently serves on a number of company and pension fund Boards. On 22 November 2018, Willem was appointed as Chairman of the Iemas Board of Directors.

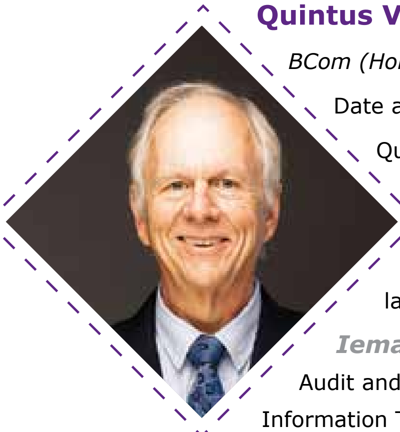
Iemas Committee membership

Human Resources Committee - member

Information Technology Committee – member

BOARD OF DIRECTORS (continued)

Independent non-executive directors (continued)



Quintus Vorster (67)

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

Date appointed: 12 April 2017

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

Iemas Committee membership

Audit and Risk Committee – Chairman

Information Technology Committee – member

Executive directors

Tom O'Connell (48)

Chief Financial Officer

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

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

Banie van Vollenhoven (57)

Group Chief Executive Officer

BCompt (Hons), CTA, CA(SA), MSc in Project Management (cum laude), Advanced Executive Programme (Unisa SBL)

Member of the South African Institute of Chartered Accountants (SAICA), Independent Regulatory Board of Auditors (IRBA) and PMSA (Project Management South Africa)

A brief curriculum vitae of each of the executive directors is disclosed on page 18 under the Executive Committee.

Ages as at 31 August 2019

Attendance at board meetings

Attendance by each of the directors during F2019 was as follows:

Member	Designation	19 Oct 2018	22 Nov 2018	16 Apr 2019	29 Aug 2019
Anton Buthelezi [1]	Independent non-executive director	x	√	√	√
Len de Villiers	Independent non-executive director	√	√	√	√
Prudence Lebina	Independent non-executive director	√	√	√	√
Temba Mvusi [2]	Independent non-executive director and Chairman of the Board	√	n/a	n/a	n/a
Johan Nel [3]	Group Chief Executive Officer	√	√	n/a	n/a
Tom O'Connell	Chief Financial Officer	√	√	√	√
Retha Piater	Independent non-executive director	x	√	√	√
Vusi Sampula	Independent non-executive director	x	x	x	√
Dashni Sinivasan	Independent non-executive director	√	√	√	√
Willem van Heerden [4]	Independent non-executive director and Chairman of the Board	√	√	√	√
Banie van Vollenhoven [5]	Group Chief Executive Officer	n/a	n/a	√	√
Quintus Vorster	Independent non-executive director	√	√	√	√
Piet Wolmarans [6]	Executive director	√	√	√	n/a

[1] *Anton Buthelezi appointed as non-executive director to the Board at the AGM on 30 October 2018*

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

[3] *Johan Nel retired effective 31 December 2018*

[4] *Willem van Heerden elected as Chairman of the Board at the Board meeting on 22 November 2018*

[5] *Banie van Vollenhoven appointed as Group CEO effective 1 January 2019*

[6] *Piet Wolmarans resigned from the Board on 1 June 2019*

IEMAS' APPLICATION OF KING IV™ PRINCIPLES AND PRACTICES

Iemas complies with the principles and recommended practices of King IV™, applicable to the Co-operative, and applied these principles and recommended practices during the reporting period, as disclosed.

LEADERSHIP

Principle 1: The governing body should lead ethically and effectively.

The Board is committed to high standards of corporate governance that are required to ensure the success and long-term sustainability of the Group. It is of the opinion that ethical and effective leadership forms the foundation for good governance, as leaders define the strategy, provide the direction and establish the values and ethics that will guide the practices and behaviour of the Group.

Arrangements by which Board members are being held to account for ethical and effective leadership include, but are not limited to, performance assessments of individual directors as well as of the Board as a whole, which are conducted every second year. A procedures document has been developed in this regard.

Planned areas of future focus

The Charter of the Human Resources Committee will be amended to include ethics-related responsibilities and to fulfil the responsibilities of an Ethics Committee and to disclose to stakeholders how the Board is being held to account for ethical governance and leadership.

ORGANISATIONAL ETHICS

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Group's Code of Conduct gives effect to Iemas' core values of integrity, teamwork, ownership and accountability, professionalism, innovation and dignity that guide its relationships with stakeholders.

Planned areas of future focus

The Iemas Code of Conduct will be amended to very specifically address ethics and the management thereof as well as to include the requirements and expectations regarding employees' ethical behaviour towards all stakeholder groups.

The monitoring and assessment on adherence to ethics norms will be incorporated in the Internal Audit programmes, including reporting to the Board on the findings on all known incidents and awareness campaigns undertaken.

RESPONSIBLE CORPORATE CITIZENSHIP

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

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

Oversight and monitoring of activities and outputs that affect Iemas' status as a responsible corporate citizen includes:

- workplace (employment equity, fair remuneration, health and safety, training and development of employees);
- economy (economic transformation, prevention, detection and response to fraud and corruption); and
- society (consumer protection, community development and protection of human rights).

Planned areas of future focus

The Board, through the Human Resources Committee, will be considering measures to monitor organisational ethics and methods by which to address outcomes.

STRATEGY AND PERFORMANCE

Principle 4: The governing body should appreciate that the organisation's core purposes, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The Board informs and approves Iemas' strategy, which is aligned with the purpose of the Group, the value capitals and value drivers of the business, and the expectations of its stakeholders. The strategy is aimed at ensuring sustainability and which takes into account the top risks facing the Group. With the support of the Board Committees, the Board of Directors oversees and monitors the implementation and execution by management of the policies, procedures and priorities. It ensures that Iemas accounts for its performance by, amongst others, reporting and disclosure.

Global, local, internal as well as external factors and/or assumptions are considered in the formation of Iemas' strategy.

Planned areas of future focus

Going forward, the needs and preferences of members, in specific market segments, need to be tested in specific focus groups to guide certain components of the strategy execution. Strategic assumptions will be tested frequently to assure the relevance of the strategy and to facilitate interventions and amendments to the strategy.

Key performance indicators will be developed in the various operating areas of the business, after an evaluation of industry benchmarks and frequent feedback will be given to the Board on performance against these indicators.

REPORTING

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.

Iemas subscribes to the principle that formal and rigorous processes should be implemented to independently verify and safeguard the integrity of its corporate reporting. Materiality levels are determined as part of the external audit planning process.

The Board, before it approves the annual report and financial statements for a financial period, receives a declaration from the Group Chief Executive Officer and Chief Financial Officer that, in their opinion, the financial records have been properly maintained. Also, the financial statements must comply with the appropriate accounting standards giving a true and fair reflection of the financial position and performance of the Group and that the opinion has been formed on the basis of a sound system of risk management and effective internal control.

Planned areas of future focus

Disclosure in respect of materiality levels will be included in the annual report in the future.

PRIMARY ROLE AND RESPONSIBILITIES OF THE GOVERNING BODY

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The Board provides guidance to management in formulating the Group's strategic direction, objectives and values. The responsibilities of the Board and its Committees are directed by the Co-operatives Act, No 14 of 2005, as amended, the Constitution of the Co-operative, good corporate governance practices and Board and Committee Charters.

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

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

Planned areas of future focus

The Charters of the Board and all the Board Committees will be updated to explicitly include the respective roles and responsibilities pertaining to the enhancement of Iemas' responsible corporate citizenship status.

COMPOSITION OF THE GOVERNING BODY

Principle 7: The governing body should comprise of the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Board composition

The Board of Directors is accountable to the Annual General Meeting, being the general meeting of members and the highest decision-making body composed by a quorum duly held, and the Group. The Board has ten members including eight non-executive directors, all of whom are independent, and two executive directors.

The roles of the Chairman and the Group Chief Executive Officer are separate and the composition of the Board ensures that there is an appropriate balance of power and authority so that no one individual or block of individuals has unfettered powers of decision-making and authority. The majority of the Board is elected by the members of Iemas.

Independence assessment

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

Appointment of directors and term of office

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

The credentials and demographic profile of the Board are reviewed by the Human Resources Committee to ensure that the Board's composition remains strategically and operationally appropriate. Directors are appointed either for a maximum term of seven years.

The Board established a formal orientation programme to familiarise incoming directors with the Group's operations and business environment, their fiduciary duties and responsibilities and the Board's expectations in respect of their commitment and ethical behaviour.

The Co-operative Secretary is responsible for the director induction programme.

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

Chairman and Group Chief Executive Officer

At the first Board meeting after the AGM, the directors elect, from among themselves, a Chairman. The Board is chaired by an independent non-executive director. The role of the Chairman is formalised, and his performance is assessed by the Board. The Board of Directors is chaired by Willem van Heerden, who was appointed as Chairman on 22 November 2018.

The daily management of the Group's affairs is delegated to the Group Chief Executive Officer, who manages the implementation of the Board approved strategy through the Executive Committee, whose photographs and brief curriculum vitae appear on pages 17 and 18 of this report.

Group Chief Executive Officer succession planning

The Board appoints the Group Chief Executive Officer and ensures that succession is planned. The Board collaborates with the Group Chief Executive Officer to develop the next generation of leaders to address both short and long-term succession scenarios.

On 31 December 2018, Johan Nel retired as Group CEO of Iemas. Banie van Vollenhoven was appointed as Group CEO of Iemas effective 1 January 2019.

Planned areas of future focus

The Board will review, at least annually, its composition and diversity targets, as well as the appropriateness of the skills, experience, expertise of individual directors and the effectiveness of the Board as a whole.

COMMITTEES OF THE GOVERNING BODY

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures, promote independent judgement, assist with balance of power and the effective discharge of its duties.

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

Audit and Risk Committee

The members of the Audit and Risk Committee are appointed by the Board at the first Board meeting after the AGM for a one-year term of office. The Committee consists of at least three members, all of whom must be independent non-executive directors. The Board also appoints the Chairman of the Committee. The Chairman of the Iemas Board is excluded from being a member of the Audit and Risk committee. The Group Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit are permanent invitees to the meetings of the Committee. The external auditors also attend the meetings.

The Committee ensures the integrity of the financial reporting and reviews the effectiveness of the financial reporting process, system of internal control, management of risks, internal audit function, assurance process and the Group's process of monitoring compliance with legislation and regulations. The report on risk management appears on pages 25 to 27 and the report of the Audit and Risk Committee appears on pages 56 to 59 of this report.

Attendance by each of the members and the permanent invitees of the Audit and Risk Committee during the period under review, was as follows:

Member	Designation	9 Oct 2018	27 Mar 2019	30 May 2019	20 Aug 2019
Prudence Lebina	Independent non-executive director	√	√	√	√
Sydney Maluleka*	Head of Internal Audit	√	√	√	√
Johan Nel [1]	Group Chief Executive Officer	√	n/a	n/a	n/a
Tom O'Connell *	Chief Financial Officer	√	√	√	√
Dashni Sinivasan	Independent non-executive director	x	√	√	√
Willem van Heerden [2]	Independent non-executive director and Chairman of the Audit and Risk Committee	√	n/a	n/a	n/a
Banie van Vollenhoven *[3]	Group Chief Executive Officer	n/a	√	√	√
Quintus Vorster [4]	Independent non-executive director and Chairman of the Audit and Risk Committee	√	√	√	√

* *Permanent invitee*

[1] *Johan Nel retired effective 31 December 2018*

[2] *Willem van Heerden appointed as Chairman of the Board effective 22 November 2018. He is therefore not allowed to serve on the Audit and Risk Committee as per the Audit and Risk Committee Charter*

[3] *Banie van Vollenhoven appointed as Group CEO effective 1 January 2019*

[4] *Quintus Vorster appointed as Chairman of the Audit and Risk Committee on 22 November 2018*

Human Resources Committee

The members of the Human Resources Committee are appointed by the Board at the first Board meeting after the AGM for a one-year term of office. It must consist of at least three members, all of whom must be independent non-executive directors. The Group Chief Executive Officer and the Group Manager of Human Resources are permanent invitees to the meetings of the Committee. The Board appoints the Chairman of the Committee. Although the Chairman of the Board qualifies to be a member of the Human Resources Committee, he is not eligible to be appointed as Chairman of this Committee.

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

Attendance by each of the members and of the permanent invitees of the Human Resources Committee during the period under review was as follows:

Member	Designation	26 Sep 2018	7 Mar 2019	5 May 2019	24 Jul 2019
Leonie Louw *	Group Manager: Human Resources	√	√	√	√
Anton Buthelezi [1]	Independent non-executive director	n/a	√	x	√
Temba Mvusi [2]	Independent non-executive director	x	n/a	n/a	n/a
Johan Nel [3]	Group Chief Executive Officer	√	n/a	n/a	n/a
Retha Piater	Independent non-executive director and Chairman of the Human Resources Committee	√	√	√	√
Vusi Sampula	Independent non-executive director	√	√	√	√
Banie van Vollenhoven *[4]	Group Chief Executive Officer	n/a	√	√	√
Willem van Heerden [5]	Independent non-executive director	n/a	√	√	√

** Permanent invitee*

[1] Anton Buthelezi appointed to the Human Resources Committee on 22 November 2018

[2] Temba Mvusi retired from the Human Resources Committee on 26 September 2018

[3] Johan Nel retired effective 31 December 2018

[4] Banie van Vollenhoven appointed as Group CEO effective 1 January 2019

[5] Willem van Heerden appointed to the Human Resources Committee on 22 November 2018

Information Technology (IT) Committee

The IT Committee assists the Board in fulfilling its IT governance responsibilities in order to ensure the achievement of corporate objectives. The Committee comprises three non-executive directors, appointed by the Board for a one-year term of office, and is complemented by two external members with expert knowledge in IT related fields. The two external specialist members are appointed by the members of the Committee on an annual basis. During the reporting period, one of the external specialist members resigned. The Chairman of the Committee is appointed by the Board and is an independent non-executive director. The Group Chief Executive Officer, Chief Financial Officer and Chief Information Officer are permanent invitees to the meetings of the Committee.

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

Member	Designation	14 Mar 2019	13 Aug 2019
Chris Bornman*	Chief information officer	√	√
Len de Villiers	Independent non-executive director and Chairman of the IT Committee	√	√
Johan Nel [1]	Group Chief Executive Officer	n/a	n/a
Tom O'Connell*	Chief Financial Officer	√	√
Willem van Heerden	Independent non-executive director	√	√
Banie van Vollenhoven *[2]	Group Chief Executive Officer	√	√
Quintus Vorster	Independent non-executive director	√	√
Louis Fourie	Specialist adviser to IT Committee	√	√
Pete Janse van Vuuren [3]	Specialist adviser to IT Committee	n/a	n/a

** Permanent invitee*

[1] Johan Nel retired effective 31 December 2018

[2] Banie van Vollenhoven appointed as Group CEO effective 1 January 2019

[3] Pete Janse van Vuuren resigned from the IT Committee on 1 October 2018

Specialist member of the IT committee

Louis Fourie (61)

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

Professor Louis Fourie retired in May this year as the Deputy Vice-Chancellor for Knowledge and Information Technology Services at the Cape Peninsula University of Technology. He currently focuses on consulting for various organisations and is a research fellow of the Economic and Social Research Foundation in Tanzania; research fellow of the University of the Free State, an associate of the Southern Africa Regional Universities Alliance, and Deputy Professor at the University of Arkansas, Little Rock. In addition to a distinguished academic career and notable contributions to his field of expertise, Louis has extensive consultation experience in the field of information and communication technology.

Planned areas of future focus

The Human Resources Committee's Charter will be amended to specifically include responsibilities relating to ethics.

The Board and its Committees have approved their respective annual workplans for the year ahead, which plans will be actioned and reported on in the 2020 annual report.

EVALUATION OF THE PERFORMANCE OF THE GOVERNING BODY

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

Board evaluation

The Human Resources Committee is responsible for ensuring that the effectiveness of the Board and its Committees are evaluated. Performance evaluation is a key measure by which the Board can recognise and improve corporate governance shortfalls in an effort to add real value to the Group and its stakeholders.

The Chairman annually appraises the Group Chief Executive Officer and the results of the appraisal are considered in the evaluation of the performance and remuneration of the Group Chief Executive Officer.

As recommended in the King IV™ report and approved by the Board, a review of the Board's performance is conducted every alternate year. The 2019 Board performance review included, in addition to Board and Committee evaluations, the assessment of individual Board members' performance, as recommended in the King IV™ report and approved by the Iemas Board.

Evaluations conducted for F2019 identified no material concerns in respect of the performance of the Board, Board Committees and individual Board members.

Planned areas of future focus

The annual performance assessment of the Board, Board Committees and individual Board members will in the future include an assessment of the performance of the Co-operative Secretary.

An overview of evaluation results and remedial actions as well as the Boards views on the effectiveness of the evaluation process in improving performance will be disclosed in the 2020 annual report.

APPOINTMENT AND DELEGATION TO MANAGEMENT

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

Delegation of authority

The Board delegates certain of its powers and authority, outside of the reserved powers, to management and/or such committees or forums, as they may deem appropriate. The directors appreciate that, despite such delegation occurring, they remain ultimately responsible for the powers and authority so delegated and have therefore to monitor the effective execution of the same.

In the event of there being any dispute over the interpretation of the powers delegated by the Board to management, any committee or forum, the matter will be referred to the Board for a ruling and the decision of the Board in this regard shall be final and binding.

The Board is satisfied that the Delegation of Authority Framework contributes to role clarity and the effective exercise of authority.

Board Committees

The Board has, in accordance with the delegation of authority, delegated some of its functions to directors, managers and Committees of the Board. The Board has an Audit and Risk, Human Resources and Information Technology (IT) Committee. Members of these Committees are independent, and both the Committee Chairmen and members are appointed annually by the Board.

Specific responsibilities are formally delegated to Board Committees, as defined in each Committee's Charter, which are reviewed annually. The Committees are appropriately constituted with due regard to the skills required by each Committee.

Secretary of the Board

The Secretary of the Group is accountable directly to the Board. Directors may communicate directly with the office of the Secretary and vice versa. The decision to appoint or remove the Secretary of the Group is approved by the Board.

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

Planned areas of future focus

Effective corporate governance is embedded in the values of the Group. The effective exercise of authority and responsibilities is therefore a regular agenda item on Board and Committee meeting agendas. This is to ensure that time constraints and potential conflicts of interests are considered and balanced against the opportunity for professional development.

RISK GOVERNANCE

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

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

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

Environmental risks are evaluated by the Board and are well entrenched in the strategic planning process to understand and deal with complexity and hidden interdependencies in the external environment that could affect the Co-operative.

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

Planned areas of future focus

The risk analysis will be expanded to include opportunities identified and the management thereof.

A continuous assessment of the vulnerabilities of the Co-operative and its critical dependencies on its capitals and relationships will be conducted and reported to the Board.

TECHNOLOGY AND INFORMATION GOVERNANCE

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

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

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

Planned areas of future focus

The immediate focus is the full implementation of the Iemas Business Modernisation program, whereafter all legacy systems can be migrated to the new system. Future focus will be on digitisation of the product suites within a secure cyber environment.

COMPLIANCE GOVERNANCE

Principle 13: The governing body should govern compliance with applicable laws and adopt, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The assessment of compliance to legislation, regulations and industry codes of conduct forms an integral part of the Co-operative's risk management process.

The Audit and Risk Committee provides oversight to ensure that Iemas has sufficient processes in place for the monitoring of compliance and reports to the Board on the adequacy and effectiveness of the Group's compliance function.

Planned areas of future focus

The processes implemented, monitoring of activities as well as findings from the internal as well as external compliance functions will continuously be improved, and feedback will be given to the Audit and Risk Committee and the Board.

An independent interview with the Head of Compliance will be conducted annually to ensure the adequacy and effectiveness of the compliance function.

REMUNERATION GOVERNANCE

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

There is no legal obligation on a co-operative to disclose the remuneration per individual director and/or prescribed officer. However, the Board supports the IFRS requirements of disclosing the total expense per category in respect of directors' remuneration in the annual report.

Remuneration of non-executive directors

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

Non-executive directors do not have employment contracts with the Group and Iemas adopts a total fee approach consisting of a fixed retainer portion and a fee per meeting. Remuneration is payable on a quarterly basis.

None of the non-executive directors, by virtue of their Board position, participates in any of Iemas' incentive plans or pension schemes. The Chairman of the Board and Chairmen of Board Committees receive supplementary fees for their additional responsibilities and the time required to make meaningful and effective contributions to the affairs of the Group through their respective Committees.

Executive remuneration

The Human Resources Committee approved a formal Remuneration Policy for the executive directors and the Executive Committee. This Policy requires that the remuneration of executives should be benchmarked externally on an annual basis, before consideration and approval by the Committee.

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

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

In line with the objective to achieve the delivery of long-term value, the deferred structures depend on Iemas achieving pre-set goals and growth objectives.

The deferral structures and long-term incentive vesting criteria applied to executive directors' compensation are identical to that of the Executive Committee.

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

Planned areas of future focus

The Remuneration Policy will be aligned to King IV™ practices, as applicable to Iemas.

ASSURANCE

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The Executive Committee and the internal and external auditors provide assurance on the integrity of the financial information disclosed in the annual report. The Audit and Risk Committee, as the fifth line assurance provider, reports to the Board on the effectiveness of External Audit, Internal Audit and the finance function on an annual basis. Monitoring actions relating to this level of assurance provider are incorporated in the Combined Assurance Monitoring Plan.

There is an alignment between the risks contained in the corporate risk register and the combined assurance monitoring plans. Internal Audit adopts a risk-based methodology on planned audits.

Planned areas of future focus

The Audit and Risk Committee Charter will be aligned to King IV™ practices, as applicable to Iemas, to clarify the Committee's role and responsibilities as related to assurance and the oversight function of the five-line defence assurance model.

STAKEHOLDERS

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

A Stakeholder Relationship Framework was approved and adopted by the Board as part of the Iemas strategy. This Framework sets out and acknowledges the impact that each stakeholder has on the successful implementation of Iemas' strategic objectives as well as on the operations of the Co-operative.

The interest and needs of members, as an important stakeholder of the Co-operative, are considered in the formulation of future strategies of Iemas. An annual member and employer research survey was conducted during 2018 and repeated during May 2019.

Planned areas of future focus

The scope of the annual member and employer research survey will be broadened to increase qualitative feedback and in support of the Board's intentional stakeholder-inclusive approach.

Iemas' digital strategies will be assessed and broadened to include the Group's response on how digitisation and automation are shaping future workforce requirements and the possible impact on employees and society.

OVERALL FUTURE FOCUS

The Board will continue to strengthen Iemas' governance processes with an emphasis on continually improving assurance processes between the Board, its Committees and management.

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

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

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

ETHICS

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

Iemas' Code of Conduct is a meaningful statement of its core values. It is promoted across the organisation and is reinforced by appropriate training and disciplinary action. The Code of Conduct is binding on directors, managers, employees, independent contractors, agents, service providers and business partners. Compliance with the Code of Conduct is integrated in the operations of the Group.

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

Conduct

Iemas has a zero-tolerance approach towards unethical conduct and communicates openly and transparently about fraud, unethical behaviour and related dismissals.

Iemas' values and the associated behaviour expected, are continuously reinforced via communication to employees.

Whistle-blowing

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

In addition to normal internal reporting and escalation processes, Iemas secured the services of an external and objective service provider to administer an anonymous and independent fraud and ethics hotline since 2008. The hotline details are communicated to management on a monthly and quarterly basis.

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 on a quarterly basis. Internal Audit has established relationships with other external parties and financial institutions to collaborate in addressing the increase in fraudulent behaviour.

During F2019, there were no significant cases that originated from the hotline. However, stakeholders reported incidences of fraud and suspicious behaviour via other channels. Please refer to page 56 for more information in the report of the Audit and Risk Committee.

A Fraud Verification Department has been established to perform various checks to confirm suspicious information by members, e.g. contacting employer groups to verify person information or perform bank details verification.

VALUE CREATED FOR STAKEHOLDERS

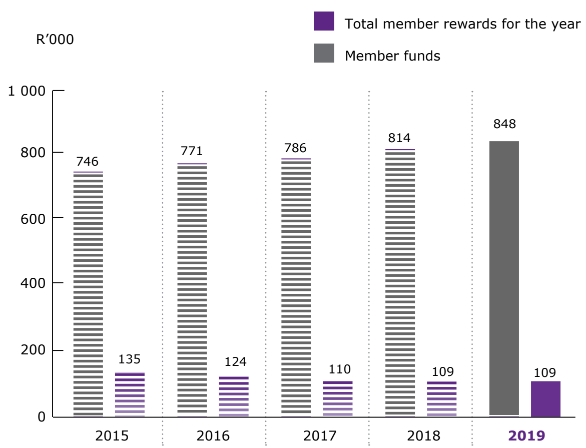
"Value added' is the measure of additional value created for stakeholders by Iemas in its operations. The statement below summarises the wealth created and details how it was shared by employees and other stakeholders that contributed to its creation.

Areas of value creation

	2015 R'm	2016 R'm	2017 R'm	2018 R'm	**2019 R'm**
Employee training and development	2,0	4,2	3,0	2,0	**2,4**
Employee salaries and bonuses	166,7	163,8	169,3	186,9	**203,2**
Employee taxes (including UIF and skills development levies)	34,6	36,3	32,2	31,9	**40,4**
Corporate taxes	46,9	49,2	31,4	31,1	**28,3**
Value added tax	20,1	18,6	17,3	18,3	**18,6**
Annual member rewards	**135,1**	**123,5**	**109,7**	**109,4**	**109,9**

The foundation of the co-operative model is that members share in the profits. Iemas' annual reward allocations to members illustrate its commitment to co-operative principles. Total member rewards (including interest on the members' deferred bonus payment fund) amounted to R109,9m (2018: R109,4m).

Member reserve funds and rewards



EMPLOYEE CAPABILITY AND WELL-BEING

Employment

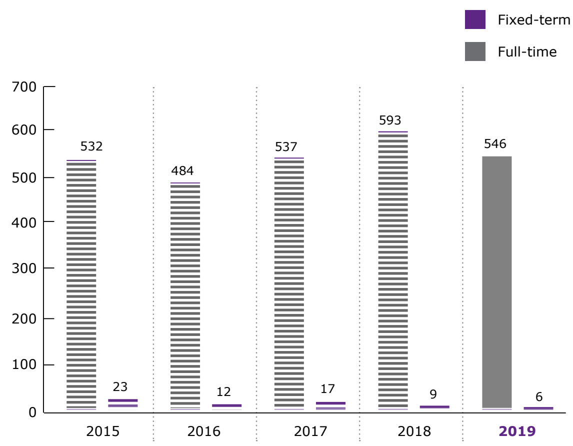
The Co-operative's employment philosophy is interlinked with its strategic plan with a clear focus on attracting, engaging and retaining the best talent to deliver on its business objectives. A combination of Iemas' culture, leadership, product and service offerings, employee benefits and reputation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

Iemas' number of employees decreased to 552 (2018: 602), operating through 29 (2018: 31) offices countrywide. Employee movement throughout Iemas was lower during F2019, with the exception of the short-term insurance business where movements were related to the contact centre. Benefits offered to employees include pension and provident fund contributions, group life cover, income protection, disability cover, funeral benefits and 21 leave days per annum.

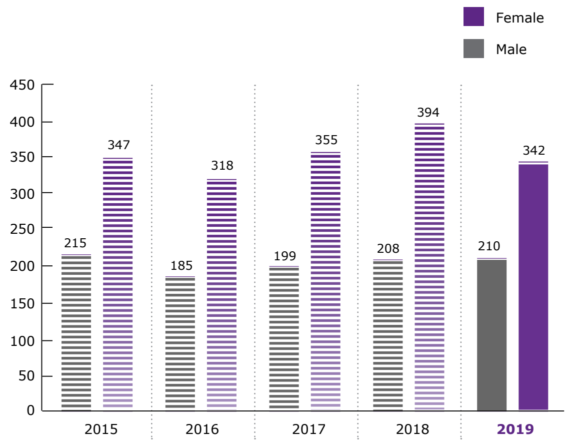
There are currently five (2018: four) employees who have been declared medically disabled. In accordance with the disability cover terms and conditions they continue to receive a portion of their income, pension and provident fund benefits although they are not actively at work.

Employee benefits and remuneration amounted to R203,3m (2018: R186,9m), reflecting an 8,7% (2018: 10,4%) increase.

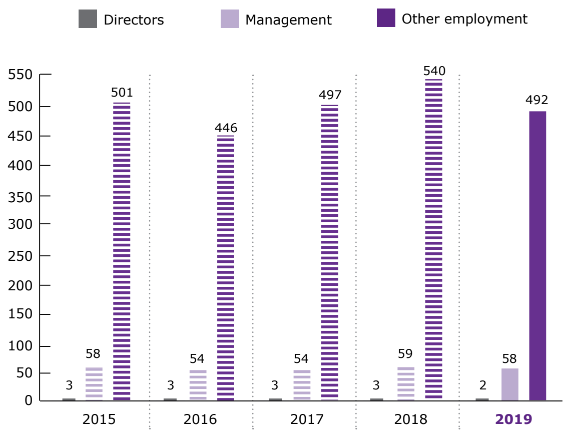
Total number of employees



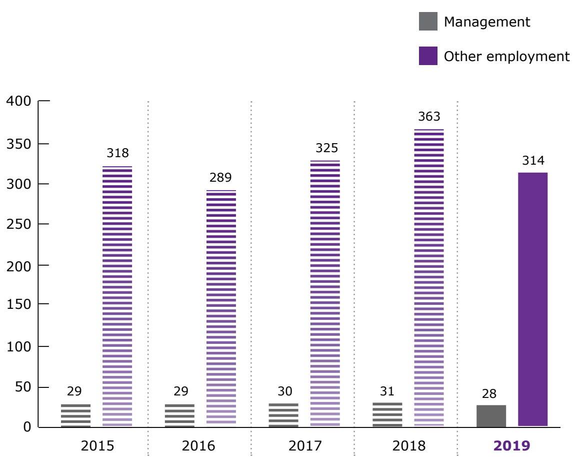
Number of employees by gender profile



Employment per management level



Female employment



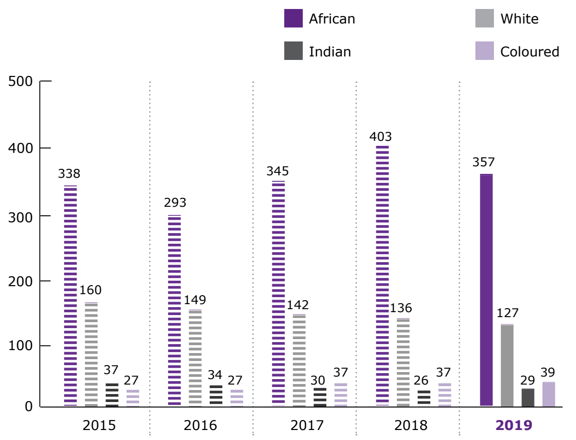
Employment equity (EE)

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

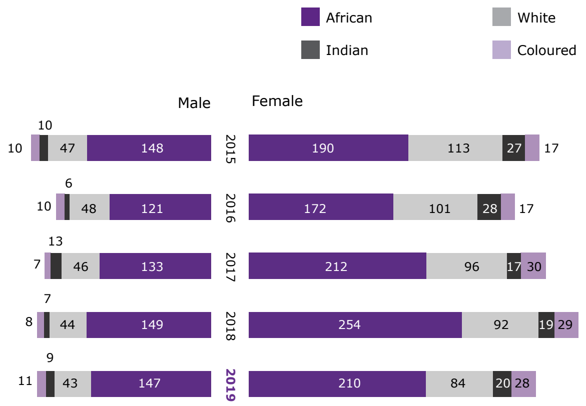
Member	African	Coloured	Indian	White	TOTAL
Top management	–	–	–	1	**1**
Senior management	–	–	1	3	**4**
Professionally qualified and experienced specialists and mid-management	22	–	5	28	**55**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	238	31	17	83	**369**
Semi-skilled and discretionary decision-making	88	8	6	12	**114**
Unskilled and defined decision-making	9	–	–	–	**9**
Grand total	357	39	29	127	**552**
Fixed term employment	5	–	–	1	**6**

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

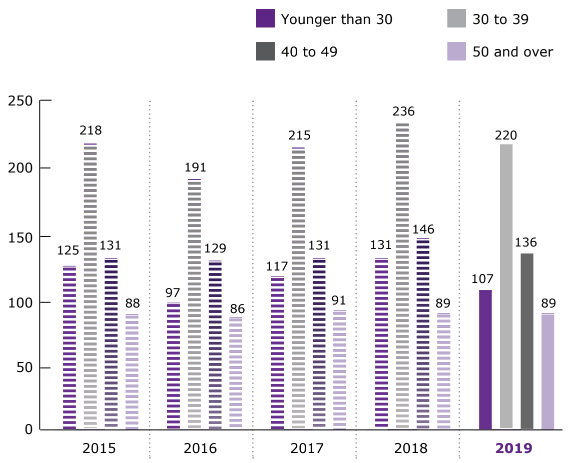
Employment equity profile by race



Employment equity profile by race and gender



Total number of employees by age group



Maternity/paternity leave

During F2019, 28 (2018: 23) female employees took maternity leave and 8 (2018: 9) male employees took paternity leave. All the employees returned to work after their leave.

Diversity and equal opportunity

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

Iemas endeavours to establish a culture that truly embraces all forms of diversity and has been presenting diversity integration programmes every year, since 2007. Over the years, the emphasis with this programme moved away from cultural diversity integration and is now focusing on generational and individual diversity. 13 employees participated in the diversity integration programme during the year (2018: 14 employees). This was the twelfth group and brings the total number of employees who attended the programme since its introduction to 282 (2018: 269).

Performance and career development

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

Talent management and retention

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

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

Employee wellness programme

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

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

During the year 95 (2018: 114) employees (17% of the workforce) attended the wellness workshops, 134 (2018: 109) employees (24% of the workforce) made use of individual wellness counselling sessions and 78 (2018: 166) (14% of the workforce) utilised the wellness helpline.

Exit interviews

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

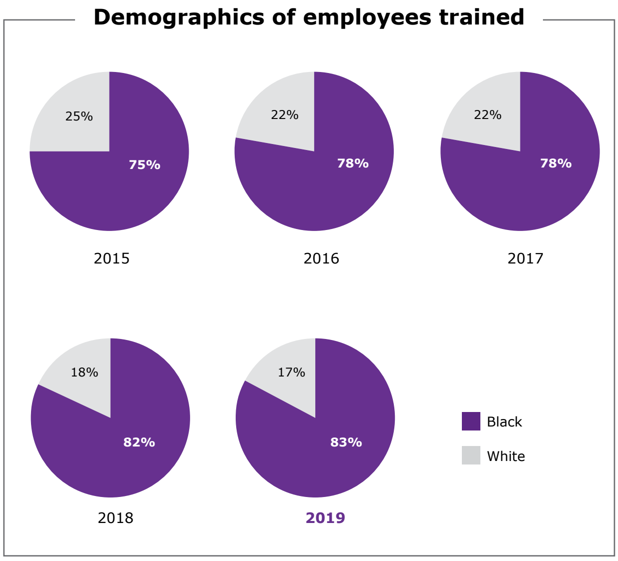
TRAINING AND DEVELOPMENT

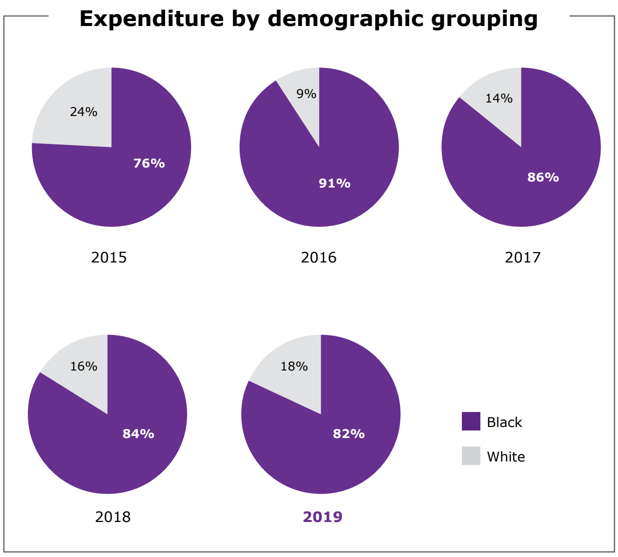
Iemas has a detailed human resources management strategy that is reviewed annually and approved by the Human Resources Committee. Iemas aims to establish a performance-oriented organisational culture by developing high performing individuals through its human resources policies and practices.

In an effort to develop, grow and empower employees, training and development plans are executed to ensure employees achieve their full potential. Iemas' total expenditure on the training and development of employees was R2,4m (2018: R2,0m) for the year. The average training spend per employee trained was R1 166,8 (2018: R2 074), excluding skills development levies and learnership expenses for unemployed learners.

For F2019, the main training priority was to prepare employees for the new loan origination, loan management and debt collection systems. A total of 7 (2018: 6) e-learning training modules were deployed to 417 (2018: 399) users. The learning process was tracked and managed by the human resources management team with the aid of an electronic learner management system. In addition, classroom-based training, system demonstrations and simulations were also conducted

The demographics of training beneficiaries during the reporting period are summarised as follows:





Leadership development

The development of leadership capabilities remains an important human resources and corporate priority. During 2018 a four-module in-house management orientation course was presented. Eleven junior managers attended the Milpark Business School programme. Seven junior managers will attend this programme next year. Participation in the Milpark Business School's study programme was funded by the Bankseta.

Compliance-related training

Compliance-related training was conducted on an ad-hoc basis during F2019 and included:

- Employment Equity Act training;
- National Credit Act: Basic Business and Economic Principles;
- Occupational Health and Safety training; and
- Financial Advisory and Intermediary Services (FAIS) related training which includes, FAIS qualifications, regulatory examinations, Insurance Class of Business and Continuous Professional Development courses.

Bursaries

27 (2018: 26) employees are currently studying with Iemas bursaries towards tertiary qualifications. During F2019, Iemas contributed R116 135 (2018: R155 211) towards study bursaries.

SOCIO-ECONOMIC DEVELOPMENT INITIATIVES

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

These causes include:

- Mandela Day - Iemas donated two refurbished computer sets to Bravo Youth Lephalale. The computers are used in different offices to assist the therapists with administration and report writing as well as to communicate with other role players;
- Iemas donated three refurbished computer sets to National Youth Development Outreach (NYDO) Eersterust, Pretoria. The organisation assists and teaches young people the skills they need for the working environment;
- Iemas participated in Shavathon 2019. CANSA Shavathon is one of South Africa's best-loved events in support of a very worthy cause, showing solidarity with those affected by cancer;
- 10 school children, attending the Vukuzithathe Primary School based at the Embalenhle Location in Secunda, received a back-to-school uniform hamper. Iemas Secunda has supported the initiative for the past ten years; and
- A financial donation was made to the Sedibeng School in Lephalale.

In line with the principles of being a co-operative, Iemas further believes that financial education enables members to make sound financial decisions and to ultimately achieve holistic financial wellness. Iemas therefore offers free financial training at the workplace to employees of contracted employers. Training modules include: how to budget, effective savings tips, escaping the debt spiral, the importance of having a life file and what documentation to include. During F2019, Iemas trained 3 579 employees at contracted employers nationally.

Skills development in the industry

During the year, 12 (2018: 23) learners participated in Iemas' short-term insurance, card, skills development, graphic design and desktop support learnership and internship programmes. Five learners were permanently employed upon successful completion of the programmes, while five are still in the programmes.

OCCUPATIONAL HEALTH AND SAFETY

The purpose of the safety management system is to:

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

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

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

The following actions took place during F2019:

- A pro-active management system was maintained;
- Health and safety representatives trained: 11 (2018:13);
- Health and safety training courses presented: 21 (2018: 78);
- Annual emergency drills conducted at offices: 8 (2018: 11);
- A safety survey was conducted where staff could declare existing medical conditions to improve first aid services to Iemas employees; and
- Internal audit representatives visited several offices and audited the emergency procedures, safety signage, fire protection, health and safety structures and internal security.

A total of 41 (2018: 40) health and safety-related incidents were recorded during the year, with 2 (2018: 0) incidents of injury on duty reported to the Department of Labour.

Other incidents were minor and related to protest/industrial action, vehicle damage, water damage and theft with no fatalities or serious injuries. The increase in reportable safety-related incidents can be ascribed to increased levels of employee awareness about the need to report incidents and complete accident reports.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

In the prior year, Iemas was for the first time rated according to the amended financial sector code of good practice on Broad-Based Black Economic Empowerment (B-BBEE). This code came into effect on 1 December 2017. The rating resulted in a rating of "non-compliant" under the new code

Management has made some progress in improving Iemas' overall rating by achieving a total score of 55,48 – resulting in a classification as a level 7 contributor, which is one level up from the previous year. However, due to not achieving the sub-minimum score in two of the pillars, skills development and enterprise and supplier development, the score was adjusted downwards one level, resulting in a reclassification as a level 8 contributor. The first aim is to achieve at least the sub-minimum in all categories measured.

Specific strategies to achieve an acceptable level have been included in the overall strategy plan for Iemas. As a Co-operative, the B-BBEE strategy takes into account:

- the corporate strategy and purpose of the organisation;
- the possible impact on Iemas' members;
- the risk on annual rewards paid to members;
- the availability of resources to fund the strategy; and
- the availability of opportunities to implement identified initiatives.

Iemas remains committed to achieve an acceptable rating in the short to medium term through the execution of a balanced B-BBEE strategy.

Social Report

The Board of Directors presents Iemas' first Social Report, which has been prepared in accordance with the Co-operatives Amendment Act, No 6 of 2013 and in terms of the disclosure requirements outlined in the Regulations for Co-operatives, gazetted on 18 April 2019. The Social Report assesses the social impact and ethical performance of the Co-operative in relation to its stated vision, mission, goals and the code of social responsibility of the Co-operative, as set out in Iemas' Constitution.

VOLUNTARY AND OPEN MEMBERSHIP

The Co-operative Secretary confirmed that Form CR7, being the Co-operative's annual return, has been completed and submitted to the Registrar of Co-operatives at the Companies and Intellectual Property Commission. The principle of open membership is applied, as per the requirements of the Iemas Constitution. As any individual may apply to be a member of the Co-operative and if the individual qualifies in terms of Iemas' internal risk models, acceptance as a member will be granted and application may be made for any of Iemas' products and services. No discriminatory criteria based on, for example, age, gender, race or marital status apply.

DEMOCRATIC MEMBER CONTROL

All meetings have been conducted in compliance with legislative requirements and those found in the Iemas Constitution.

During the reporting period, the annual general meeting was held on 30 October 2018. Members received notice of the annual general meeting via e-mail, website, member statements, social media platforms and SMS.

Although attendance was low, members actively participated in relevant meetings and quorum requirements were met.

Details of general, Board and Board Committee meetings are disclosed in the annual report in detail, with a summary being:

- One annual general meeting was held in October 2018;
- 67 members, including seven proxies attended the annual general meeting;
- All members who attended the annual general meeting actively participated in the meeting as all attending members casted a vote;
- Number of Board meetings held: 4 (refer to page 32);
- Number of Audit and Risk Committee meetings held: 4 (refer to page 35);
- Number of Human Resources Committee meetings held: 4 (refer to page 36); and
- Number of Information Technology meetings held: 2 (refer to page 36).

Members are given democratic control and each member has an equal vote when making decisions for the Co-operative. Voting rights applied to members constitute one vote per member.

MEMBER ECONOMIC PARTICIPATION

The services and products that Iemas offers to members are disclosed on page 3.

All members contribute economically to the objectives of the Co-operative, through their member transactions and patronage. Member loans (Deferred Bonus Payment Fund) are utilised by the Co-operative as part of the overall funding strategy in support of its growth objectives.

In addition to the member loans, which are divisible amongst the members, Iemas also has an indivisible reserve that complies with the legislative requirements set out in section 46 of the Co-operatives Amendment Act, No 6 of 2013. The reserves are used in accordance with the requirements and prescriptions of the Iemas Constitution.

The rewards allocation for the 2019 financial year, as recommended by the Board of Directors, will be presented at the annual general meeting for approval by members. In total, R109,9m was distributed to members, of which R89,7m was allocated to the members' reserve fund.

For a comprehensive list of products and services, refer to page 3.

Except for commercial arrangements with product and service providers, investors and financiers, no decisions taken by the Board or members of the Co-operative during the year were influenced by non-members, agencies or non-governmental organisations.

AUTONOMY AND INDEPENDENCE

Self-help organisations are ones that are created as an autonomous association of persons who are united voluntarily to meet the common economic, social or cultural needs and aspirations of members and are operated on the basis of co-operative principles. Members join voluntarily to make use of Iemas' products and services.

The Board is not aware of any decisions taken during the reporting period that were influenced by non-members, agencies or non-governmental organisations.

EDUCATION, TRAINING AND INFORMATION

Members are informed of their benefits and rights as members through ongoing communication, which forms part of Iemas' marketing strategy.

Appropriate education and training are provided to members through Iemas' financial wellness training at the workplace of participating employer groups. Elected representatives, being the Board of Directors of Iemas, participate in a formal induction programme on their appointment to the Board to familiarise them with Iemas' sphere of operations, mission, vision, ethics and codes of conduct. Employees are also inducted on employment and receive ongoing training and skills development opportunities. Details of training initiatives during the reporting period are disclosed in the Sustainability Report on page 45.

Engagements with members, elected representatives and employees during the reporting period are disclosed in the Stakeholder Engagement section on pages 19 to 22.

CO-OPERATION AMONG CO-OPERATIVES

Iemas celebrated International Day of Co-operatives on 6 July 2019 with broadcasts on various social media platforms. This year's theme, "Coops 4 decent work", puts forward co-operatives as people-centred enterprises characterised by democratic control that prioritise human development and social justice within the workplace.

Iemas celebrates International Day of Cooperatives

Iemas is a member of The International Co-operative Alliance, which is a non-profit international association established in 1895 to advance the co-operative model.

Iemas monitors international trends and incorporates those trends into its strategies and business operations.

The Alliance is the apex organisation for co-operatives worldwide, representing 315 co-operative federations and organisations across 110 countries *(figures as at March 2019)*. The members of the Alliance are national level co-operative federations, individual co-operative organisations and government offices concerned with co-operatives. Through its membership, the Alliance represents 1,2bn members of co-operatives from any of the 3m co-operatives worldwide.

Management has in the past attended the bi-annual conferences hosted by the Alliance and will continue to do so going forward.

CONCERN FOR COMMUNITY

Iemas believes that financial education plays a pivotal role in cultivating a culture of financial inclusion. This enables members to make sound financial decisions and to ultimately achieve holistic financial wellness. Iemas' financial wellness training not only benefits the members, but also indirectly extends to the communities in which the members reside as well as those in which Iemas has a presence.

Social and environmental developmental projects undertaken during the reporting period are disclosed in the Sustainability Report on page 46 and included national and regional initiatives aimed at assisting the under-served and impoverished parts of the communities in which Iemas operates.

Sustainable development is an evolutionary process, which requires integrated thinking, and the Board will strive to improve on disclosures over time.

Iemas does not have a separate Social and Ethics Committee and a decision has been taken to broaden the mandate of the Human Resources Committee to include social and ethics matters.

BOARD APPROVAL

The Board certifies that to the best of their knowledge and belief, Iemas has complied with all legal requirements as well as the requirements of Iemas' Constitution.

AUDIT OPINION

The unqualified audit opinion is included on page 62. The audit opinion notes the responsibility of the external auditor to read the other information included in the Social Report and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements or their knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, external audit has reported on their 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") on the submission of the certificate as required by section 31(1)(a).

Signed for and on behalf of the Board

Willem van Heerden
Chairman

The Board of Directors presents Iemas' first Management Decision Report, which has been prepared in accordance with the Co-operatives Amendment Act, No 6 of 2013 and in terms of the disclosure requirements outlined in the Regulations for Co-operatives, gazetted on 18 April 2019. The Management Decision Report assesses the Co-operative's compliance with legislative requirements and the requirements contained in the Constitution of the Co-operative.

REGULATORY ENVIRONMENT

Iemas' compliance with legislative requirements and the regulatory environment in which the Co-operative operates are disclosed on page 24.

OBJECTIVES

Iemas' objectives are reviewed annually by management and presented to the Board during May, at which time agreement is reached on the strategic objectives of the Co-operative and a strategy is approved for the ensuing year as well as for a three-year period. Throughout the year, and at each Board meeting, management provides feedback to the Board on the achievement of these objectives.

POLICIES AND PROCEDURES

Proper governance and compliance practices are implemented, whereby standard written operating procedures and policies are developed and communicated to staff. Policies and procedures are updated to ensure that they remain relevant. These policies and procedures include, but are not limited to, staff recruitment and administration, finance, procurement, loans and credit. A manual with Iemas' policies and procedures is accessible to all employees of the Co-operative on Iemas' intranet and forms part of the Group's induction programme.

IMPLEMENTATION OF POLICIES AND PROCEDURES

The Board is not aware of any policies and/or procedures that have been laid down by the members and no matters of this nature were reported at the annual general meeting held on 30 October 2018.

The Board has adopted Iemas' policies and procedures. All policies and procedures are subjected to a combined assurance evaluation, accompanied by assurance monitoring with regular feedback to the Board. Adherence to policies and procedures is monitored and the process, outlined in the Group's disciplinary code, is followed in the event of a breach.

DEMOCRATIC ELECTION OF BOARD MEMBERS

When new members are elected to the Board, a formal nomination process is followed, whereby members are invited to nominate individuals for appointment as directors to the Board. The Human Resources Committee determines the minimum required skills set, which the Co-operative needs to execute on its strategy. Board vacancies are advertised to members, thereby providing an opportunity to nominate individuals for appointment as directors to the Board. All nominations are evaluated against the pre-determined skills set and compliance with Iemas' rules by the Human Resources Committee. At the annual general meeting, all compliant candidates are nominated for election, with the Board providing assurance that due process had been followed and that the proposed candidates met the stipulated requirements. Directors are, therefore, democratically elected at the annual general meeting.

DELEGATION OF AUTHORITY

The delegation of authority framework is a formal framework approved by the Board. The detailed framework contains all decision-making structures, including but not limited to, the Co-operative, subsidiaries, members, the Board of Directors, the Executive Committee through to line management. The framework provides clarity on ranges of decision-making relating to monetary values and percentages, amongst others.

IEMAS' BUSINESS PLAN

The Co-operatives' business plan is officially reviewed annually, with regular feedback to the Board and/or Sub-committees of the Board on the execution of the business plan. Should circumstances, such as the economic environment or the legislative landscape, change during the year causing the business plan to not be realistic or relevant, the business plan is adapted to allow for the changed scenario.

The official annual review in May comprises two phases:

- Phase 1: updating the Board of Directors on the status of the environment in Iemas' operating universe, including the risks associated with strategic assumptions that are made, with feedback on the achievement of goals set in prior strategy sessions; and
- Phase 2: determining the strategy going forward taking cognisance of the background created in Phase 1.

MEETINGS

Official minutes are taken of all Board and Sub-committee meetings as well as the annual general meeting, with a formal structure of matters arising remaining an agenda item until the conclusion of the relevant matter arising. A summary of the outcome of the annual general meeting is posted in Iemas' public website.

DECLARATIONS OF INTERESTS

On the nomination of an appointee to the Board, a declaration of interests is completed by the nominee. On appointment as a director to the Board, an official declaration of interests is lodged with the Co-operative Secretary. At every Board and Sub-committee meeting, members declare their interests and potential conflicts.

Iemas' employees complete an annual declaration of interests and should any outside work be undertaken by a staff member, the staff member's manager has to approve such work.

Registers of interests are kept and updated, as required.

CHANGES TO IEMAS' CONSTITUTION

There have been no changes to Iemas' Constitution during the reporting period.

At the annual general meeting to be held on 31 October 2019, amendments to the Constitution will be presented to members for their consideration and approval. These amendments have been necessitated by the proclamation of the Co-operatives Amendment Act, No 6 of 2013 and the Regulations for Co-operatives, as well as to align the Constitution to Iemas' strategy.

BOARD APPROVAL

The Board certifies that to the best of their knowledge and belief, Iemas has complied with all legal requirements as well as the requirements of Iemas' Constitution.

SUBMISSION

On approval at the AGM to be held on 31 October 2019, the Management Decision Report will be submitted to the Companies and Intellectual Property Commission (CIPC), as required by the Act. The Management Decision Report will be updated and submitted to CIPC on an annual basis.

AUDIT OPINION

The unqualified audit opinion is included on page 62. The audit opinion notes the responsibility of the external auditor to read the other information included in the Management Decision Report and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements or their knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, external audit has reported on their 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") on the submission of the certificate as required by section 31(1)(a).

Signed for and on behalf of the Board

Willem van Heerden
Chairman

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
Fax: 086 520 6556

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

		GROUP		CO-OPERATIVE	
	Note	**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 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.

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

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

for the year ended 31 August

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
2. PROPERTY AND EQUIPMENT					
GROUP					
At 1 September 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**

for the year ended 31 August

2. PROPERTY AND EQUIPMENT (continued)

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
CO-OPERATIVE					
At 1 September 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 %	Invest-ment 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.

for the year ended 31 August

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

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

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	2019 R'000	2018 R'000
5. INVESTMENTS IN INSURANCE CONTRACTS (continued)		
CO-OPERATIVE		
Income and expenditure arising directly from credit life insurance contracts		
Premium income in the statement of comprehensive income		
Revenue – premiums earned		
• Iemas (Co-operative) Limited Cell "A12"	**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

	2019 R'000	2018 R'000
7. ADVANCES RECEIVABLE (continued)		
CO-OPERATIVE		
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.

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
8. OTHER NON-CURRENT RECEIVABLES				
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.

9. INVESTMENT SECURITIES

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

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

11. TRADE AND OTHER ASSETS

	Group 2019 R'000	Group 2018 R'000	Co-operative 2019 R'000	Co-operative 2018 R'000
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.

for the year ended 31 August

13. OTHER RESERVES

GROUP

	Investment securities reserve/ available-for-sale reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
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

	Investment securities reserve/ available-for-sale reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
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				
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	**–**	–

for the year ended 31 August

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
16. BORROWINGS (continued)				
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.

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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	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
18. INTEREST EXPENDITURE				
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.

	GROUP		CO-OPERATIVE	
	2019 R'000	2018 R'000	**2019 R'000**	2018 R'000
19. INCOME TAX PAID				
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

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

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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 reclassification 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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28. COMMITMENTS

	2019 R'000	2018 R'000
GROUP AND CO-OPERATIVE		
Operating lease commitments		
The future minimum operating lease payments which can be terminated are as follows:		
Less than 1 year	**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)

CO-OPERATIVE

	2019 R'000	2018 R'000
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.

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 impairment 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

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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 instru-ments 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.				

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.

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			
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

	Other financial liabilities at amortised cost R'000
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.

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

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.*

for the year ended 31 August

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

Corporate information

IEMAS FINANCIAL SERVICES (CO-OPERATIVE) LIMITED

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

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Co-operative Secretary

Francois van Dyk

Executive Committee

Maria Feiteira
Managing Excutive: Financing Business (Loans)

Jaybalan Goonahsylin
Chief Information Officer

Leonie Louw
Group Manager: Human Resources

Tom O'Connell
Chief Financial Officer

Banie van Vollenhoven
Group Chief Executive Officer

Piet Wolmarans
Managing Director: Iemas Insurance Brokers

Board of directors as at 31 August 2019

Anton Buthelezi * "

Len de Villiers * +

Prudence Lebina * ^

Retha Piater * "

Vusi Sampula * "

Dashni Sinivasan *^

Willem van Heerden * + "

Quintus Vorster * ^ +

Tom O'Connell (Chief Financial Officer)

Banie van Vollenhoven (Group Chief Executive Officer)

** Independent non-executive*
^ Audit and Risk Committee
+ Information Technology Committee
" Human Resources Committee

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