



Integrated Annual **Report**

2020

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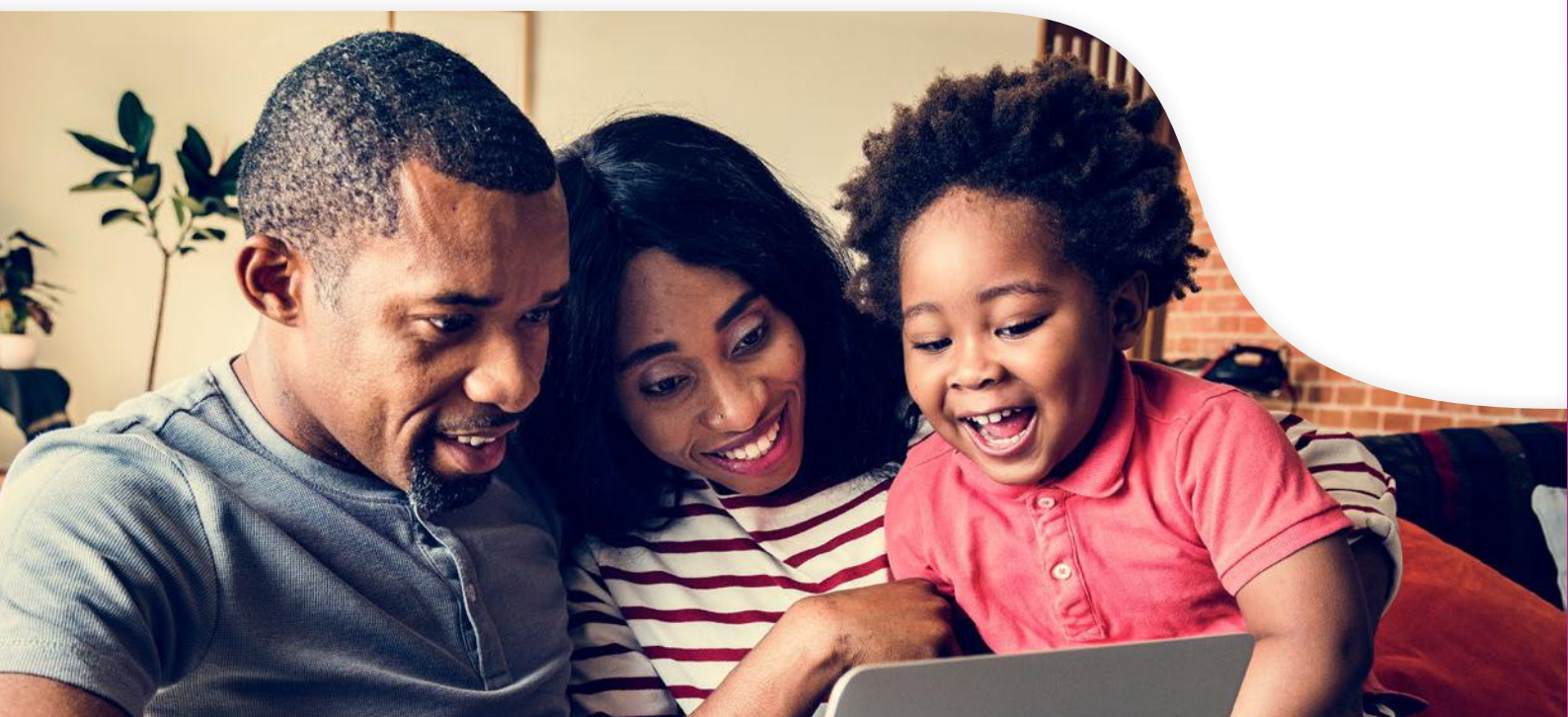
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ABOUT THIS REPORT

The Integrated Annual Report is Iemas' primary report to all stakeholders

The Board of Directors of Iemas Financial Services (Co-operative) Limited is pleased to present the 2020 Integrated Annual Report of Iemas Financial Services (Co-operative) Limited ("Iemas" or "the Co-operative") and its subsidiaries ("the Group") for the year ended 31 August 2020. The report gives an update of our strategy, performance and reflects on our opportunities to utilise our expertise to create sustainable value for our stakeholders.

In preparing our Integrated Annual Report, we were guided by the principles and requirements contained in:

- The King IV™ Report on Corporate Governance™ for South Africa 2016 (King IV™);
- The International Financial Reporting Standards (IFRS) for our Annual Financial Statements;
- The Department of Trade and Industry's B-BBEE Regulations;
- The Co-operative Principles as adopted by the International Co-operative Alliance;
- The Co-operatives Act; and
- The Iemas Constitution.

Boundary and scope

Reporting period

Our report covers the period from 1 September 2019 to 31 August 2020.

Operating businesses

The content of this report covers the activities of the operations of the Group. These operations include the following functional product groups, being:

- Lending;
- Insurance broking and financial advisory services;
- Payment card operations; and
- Entities required as part of the Iemas funding structures.

A legal structure of the Co-operative and its subsidiaries can be found on page 8.

Reporting financial and non-financial performance

Our report goes beyond financial reporting and also includes non-financial performance, opportunities and risks, which have a significant influence on our ability to create sustainable value.

Target audience

This report is primarily aimed at providing information to our stakeholders, who are our members, employees, employers, banks and investors, product and service providers, associations, Board of Directors, government, regulatory bodies and communities.

Assurance, comparability and restatements

PricewaterhouseCoopers Inc. ("PwC") has audited the consolidated financial statements. Comparative figures, unless specifically indicated otherwise, cover the prior financial year ended 31 August 2019. There were no restatements during the reporting period.

Feedback request

The Board of Directors welcomes feedback on the Integrated Annual Report for 2020 from stakeholders. Please submit any suggestions or enquiries to theseecretary@iemas.co.za.

Forward-looking statements

This report contains forward-looking statements on Iemas' future expected performance and prospects. Iemas believes that the forward-looking statements made in this report are not statements of fact, but statements by the management of the Co-operative based on our best estimates and projections, expectations, beliefs and assumptions based on latest economic data. We do acknowledge that actual results could differ materially from those set out in our forward-looking statements as a result of a number of factors, including unexpected global shocks (such as the Covid-19 pandemic), changes in economic and market conditions, technology, the regulatory environment, interest rates, the rand exchange rate and other local and global financial indicators.

Forward-looking statements attributable to Iemas, or any persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements mentioned above.

The forward-looking statements have neither been reviewed nor audited by Iemas' external auditors, PwC.

Approval of the Integrated Annual Report

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

The Integrated Annual Report has been prepared in line with best practice to the extent possible, reflecting on the reporting period. The Board authorised the Integrated Annual Report for release on 16 October 2020.

For and on behalf of the Board



Willem van Heerden
Chairman of the Board



Banie van Vollenhoven
Group Chief Executive Officer

"Rooted in financial wellness, Iemas' value proposition entails a variety of affordable and competitive financial solutions, including vehicle finance, secured and unsecured loans, card and payment solutions, short-term insurance, life and funeral insurance. Our business is founded on the well-established co-operative principles of democracy, equality and social responsibility and the business strategy is underpinned by the commitment to live our brand promise of being a caring partner."



OUR VALUE CREATION STORY

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ORGANISATIONAL PROFILE

The essence of who we are

Iemas was established as an employee loan facility within the former Iscor back in 1937. Today, we have grown to become South Africa's largest primary financial services co-operative, providing financial wellness coaching, secured and unsecured lending options. We also offer card-based payment solutions as well as insurance products nationally. For over 80 years, we have helped employers by giving their employees the convenience and access to rewarding financial solutions in the workplace.

How Iemas works as a financial services co-operative

Iemas' primary market is the total employees employed at contracted employer groups in various public and private sectors across South Africa. Membership to the Co-operative is open to individuals taking up products and services with the Co-operative. As members of the Co-operative, our customers get to share in the profits through an annual member reward payment based on their patronage during the year.

What is a co-operative?

A co-operative is a business where a community of people come together to address their common needs. Based on these needs, relevant services and/or products are then provided by the business to the members in the community and for their collective benefit.

Over the past 10 years, we allocated more than R1b to our members in the form of Iemas Rewards with the member reward allocation in F2020 being R85,8m (2019: R109,9m). The Member Reserve Fund provides a platform for members to save a portion of their annual rewards and create wealth for their future.

Members approve the Iemas strategy at the Annual General Meeting (AGM) and members can be appointed as Non-executive Directors of the Co-operative.

Over the past 10 years,
Iemas allocated more than

R1b

to our members in the form of rewards with
the member rewards and allocation in

**F2020
being R85,8m**

(2019: R109.9m).



Our vision

We aim to be the preferred financial services co-operative.



Our mission

To work together as a team to the benefit of our members through the provision of professional service and financial products based on innovation and integrity.



Our brand promise

We are committed to being a *caring partner* to our employers and members by providing solutions that are innovative and add value. Co-operatives are based on the values of democracy, equality, equity and solidarity.



Our values

The conduct of the Board, management and employees is underpinned by the values of:

Professionalism

Innovation

Accountability and ownership

Teamwork

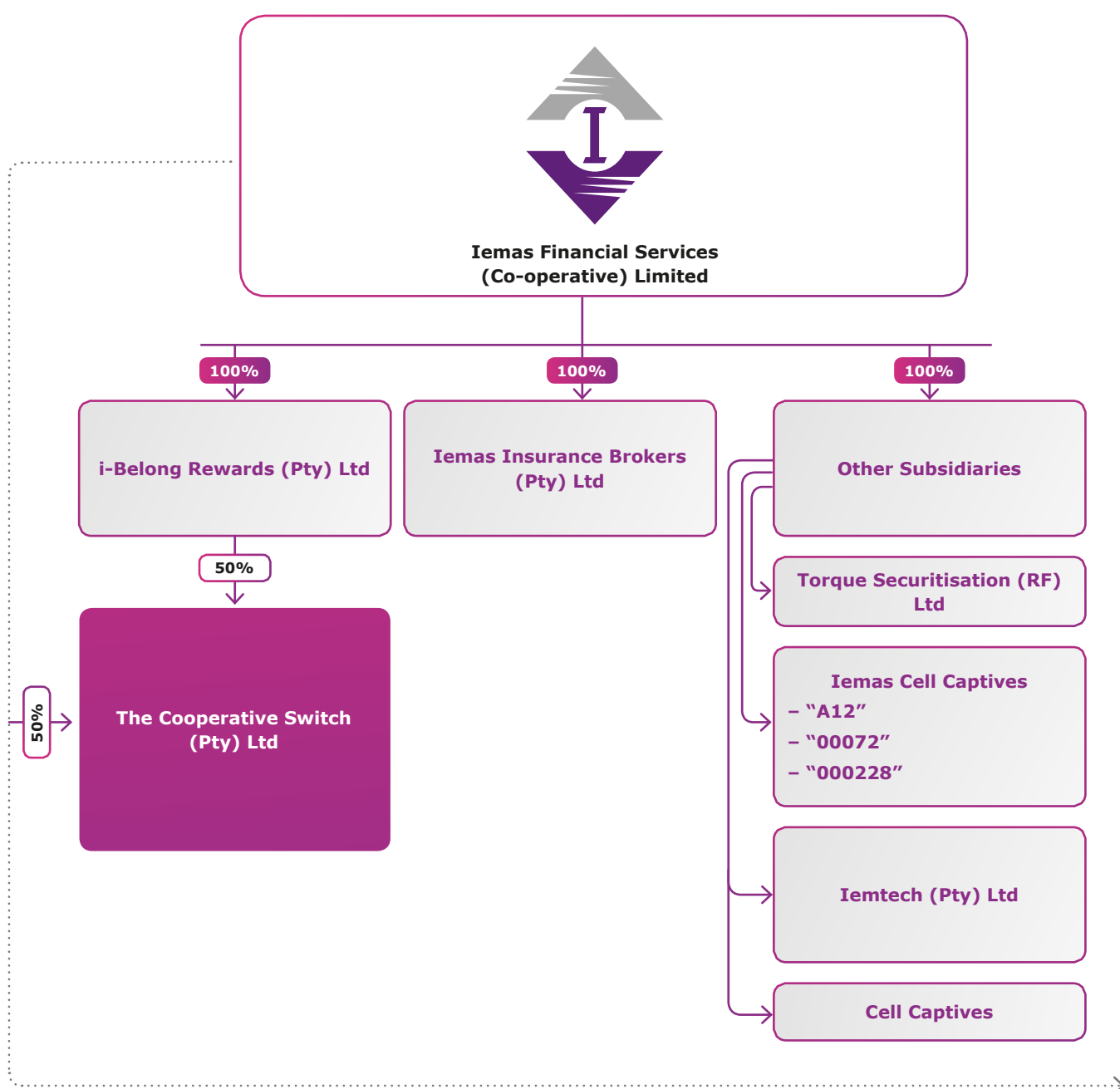
Integrity

Dignity

OUR VALUE CREATION STORY ORGANISATIONAL PROFILE

The Group Structure

The businesses within the Group provide a range of financial service solutions to our members. Iemas, as the Co-operative, establishes the operational base for our business to contract with employers to provide financial products and services to their employees who become our members when they take up our solutions. The collaborative nature of our businesses means that our various operations are constantly sharing best practice and teaming up to deliver exceptional service levels.



Dormant companies (wholly-owned subsidiaries)

- Iemark Marketing Proprietary Limited
- Iemas Financing Proprietary Limited

Iemas Financial Services

i-Belong Rewards (Pty) Ltd

A wholly owned subsidiary of the Co-operative performing card administration services to the Iemas Card Division as well as to Cape Consumers (Pty) Ltd. The business commenced on 1 March 2020 with the purchase of the card operations business from Cape Consumers.

The Cooperative Switch (Pty) Ltd

A jointly owned subsidiary between the Co-operative and i-Belong Rewards, established to make available payment switching platforms to enable transacting between card holders (currently Iemas and Cape Consumers card holders) and merchants.

Iemas Insurance Brokers (Pty) Ltd

Iemas Insurance Brokers is a wholly owned subsidiary established in 2016 to sell and make available insurance as a brokerage business to members of the Co-operative. The primary activity of the brokerage is to sell insurance products and services. This activity commenced from 1 April 2017 when the Company acquired the insurance business of the Co-operative.

Torque Securitisation (RF) Ltd

Torque Securitisation (Torque) was established as a funding initiative by Iemas in 2012 and is a special purpose vehicle, which bought certain participating assets that complied with the eligibility criteria and portfolio covenants from Iemas. Torque funds the purchase of the participating assets by issuing subordinated, secured compulsory redeemable asset-backed notes to investors.

Iemtech (Pty) Ltd

A wholly owned subsidiary of the Co-operative. The primary activity of the company is to hold an investment in an insurance cell captive for the provision of value-added products (mechanical breakdown insurance) to members of the Co-operative.

Iemas Cell Captives

Owner of various cell captives with insurers that host credit insurance-related products and services to members of the Co-operative.

OUR VALUE CREATION STORY ORGANISATIONAL PROFILE (CONTINUED)

What sets Iemas apart in the market

Our value proposition

Rooted in financial wellness, Iemas' value proposition entails a variety of affordable and competitive financial solutions, including vehicle finance, secured and unsecured loans, card and payment solutions, short-term insurance, life and funeral insurance. Our business is founded on the well-established co-operative principles of democracy, equality and social responsibility and the business strategy is underpinned by the commitment to live our brand promise of being a caring partner.

We understand that financial literacy plays an integral role in creating a culture of financial inclusion. Being able to plan, track finances and make sound decisions when borrowing money enables South Africans to make the best out of their often-limited disposable income.

Iemas' Value Proposition

Employer Value Proposition

Iemas is your trusted financial partner, offering unmatched holistic financial wellness solutions to progressive companies wishing to invest in their greatest asset – their employees.

Help employers by giving their employees the convenience and access to rewarding financial solutions in the workplace.

Give ordinary South Africans an opportunity to be part of a business and share in the profits.

Empower financial wellness by means of financial wellness workshops and virtual training.

Enabled by:

**Vehicle financing****Personal lending****Educational lending****Card and payments solutions****Housing solutions**

IEMAS REWARDS

**Financial wellness training****Short-term insurance****Savings and investments****Life and funeral cover****Wills and estate planning**

Translates to:

**Financial
Inclusion**

Through Iemas' offerings, employers enable access to a wide variety of affordable and convenient financial solutions to their employees.

**Employee
Satisfaction**

Iemas' offerings drive an enhanced Employer Value Proposition (EVP), enabling employer groups to stand out and be competitive in the competition for skills and talent.

**Shared
Value**

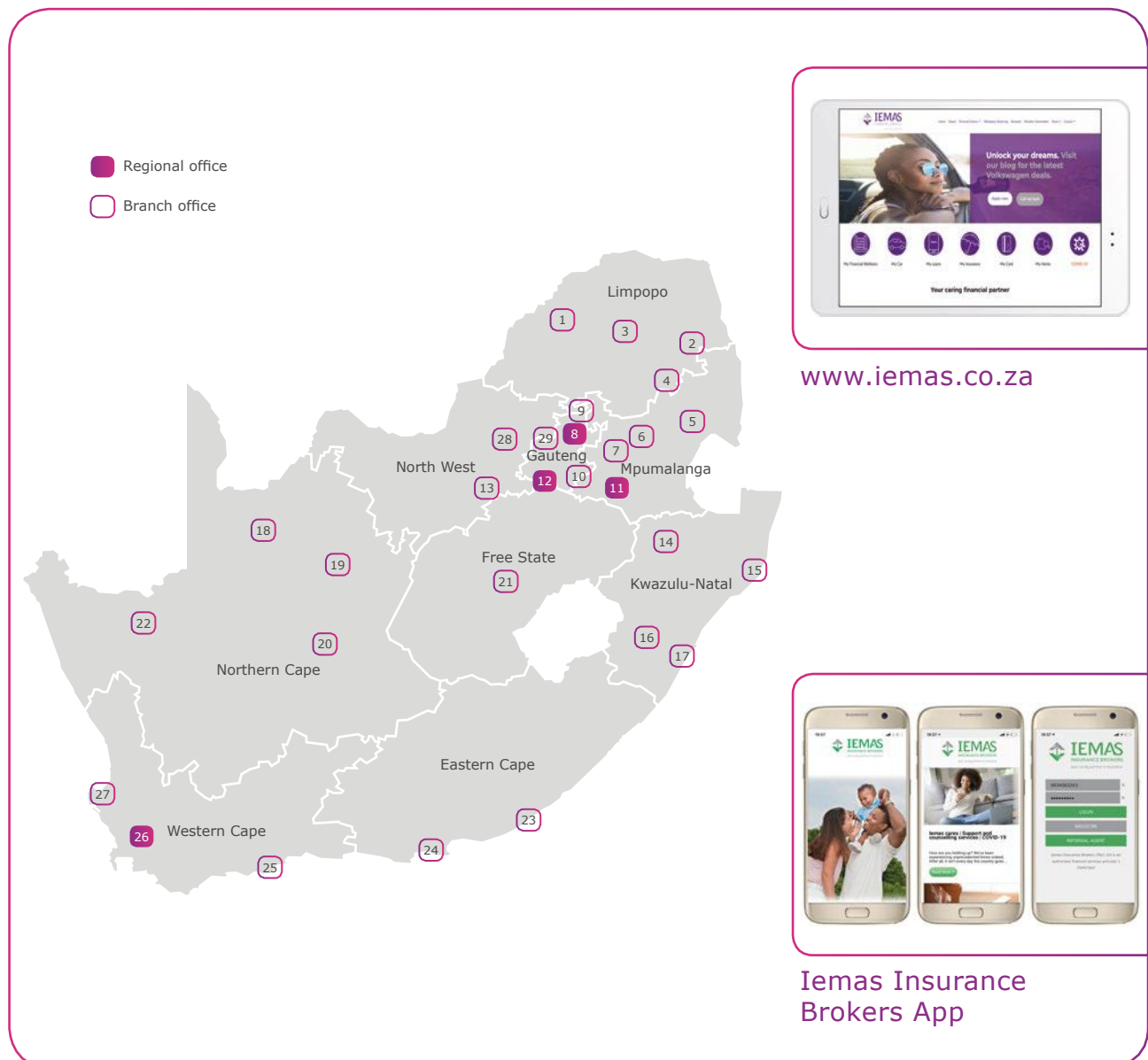
Iemas' unique business model enables the sharing of value with our members. Active members are rewarded annually, based on the products used throughout the year.

Our channels, how and where we serve

Members are served through their channels of choice, which include:

- A national branch network;
- Digital and social platforms;
- Contact centres;
- Financial advisors;
- Group brand ambassadors;
- Worksite service points; and
- Dealerships and originators.

In 2020, we launched an online application capability on the Iemas Financial Services website that improved the digital experience for members: www.iemas.co.za.



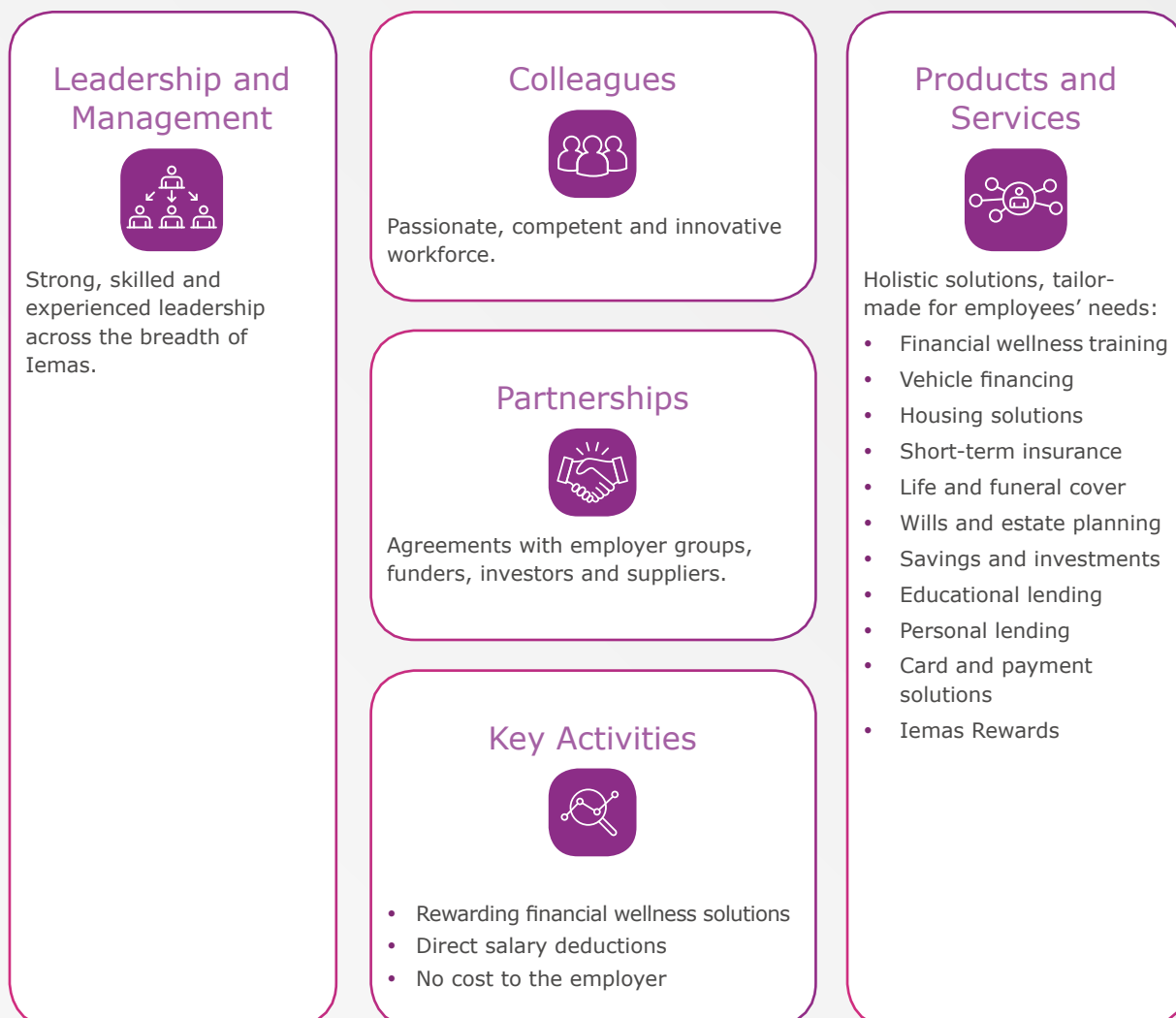
OUR VALUE CREATION STORY ORGANISATIONAL PROFILE (CONTINUED)

How we operate

Iemas' Business Excellence Model – enablers delivering the desired results

Iemas applies a business excellence model framework that is focussed on setting up the appropriate enablers within the Co-operative to achieve the desired results for our stakeholders. Our enablers are those levers that set us apart from other financial services organisations – from our leadership, colleagues, strategy and partnerships with employers, funders, investors and suppliers. Focussing on these allows us to deliver value to our stakeholders: be it our people, members or society.

Enablers





Results

Colleague Results



Empowered, digitally savvy and innovative employees who put our members first, driving a high-performance culture environment.

Customer Results



Financially empowered members who access a wide range of financial services and rewards – contributing to financial inclusion.
Rewarding EVP for employers.

Society Results



Long-term and sustainable contribution to society, through our unique Co-operative model, which enables members to co-own the business.

Business Results

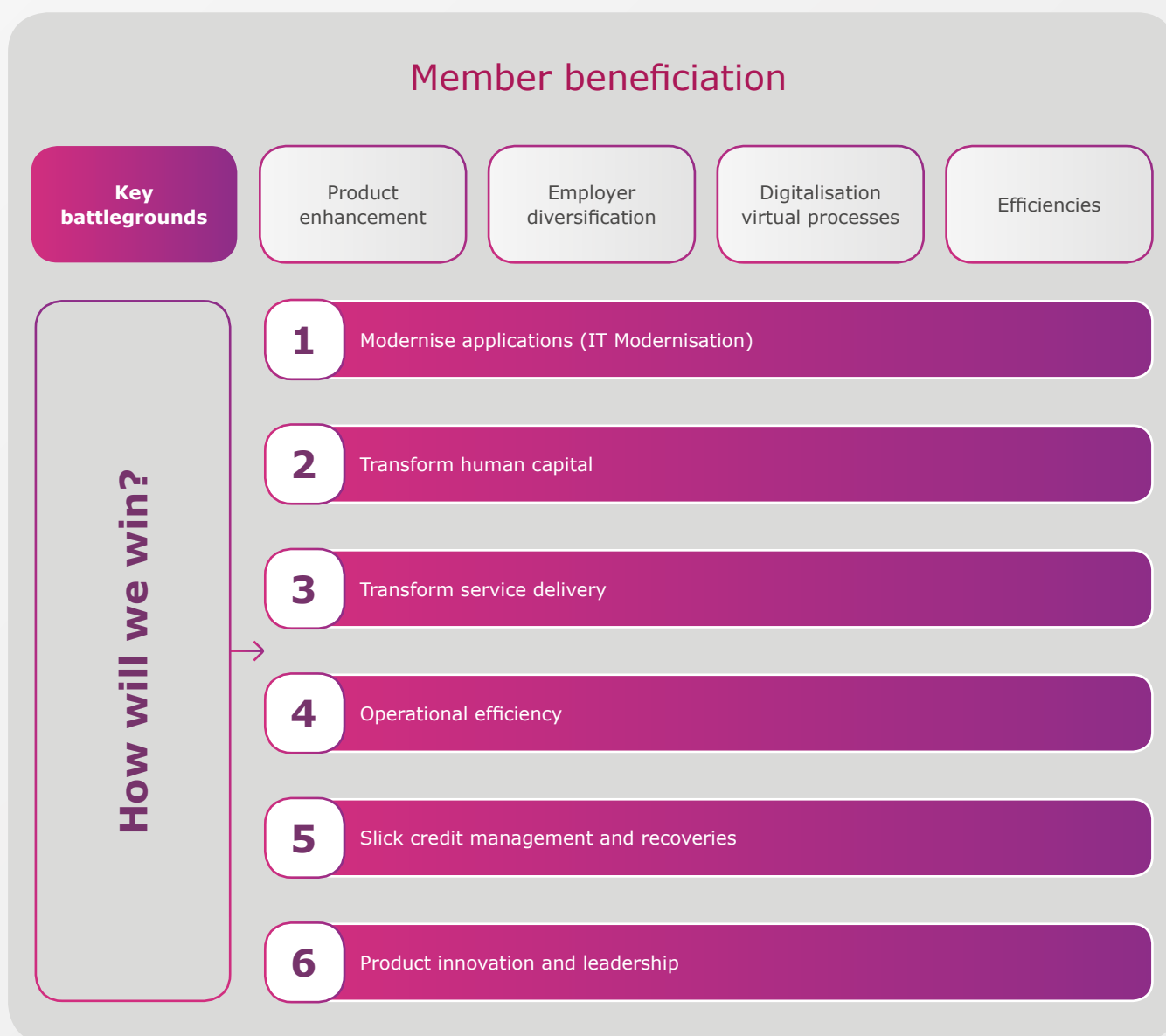


- Value created and shared with members.
- Multiple income streams: interest income, contract and administration fees, commission and dividend income.
- Growing a sustainable business.

OUR VALUE CREATION STORY ORGANISATIONAL PROFILE (CONTINUED)

Our strategy

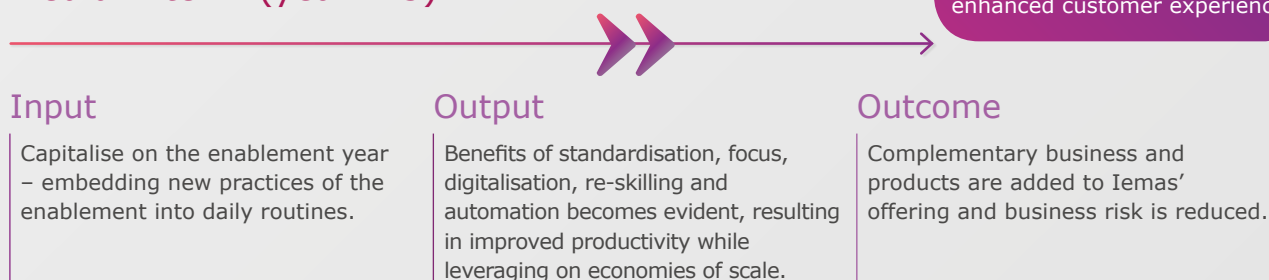
Iemas has completed the first year of a three-year turnaround strategy, created to reposition the Co-operative for growth. Though execution was disrupted by the declaration that the country is in a state of emergency and followed by a national lock-down, management has continued to create the building blocks to execute on this mandate. The Board, with Executive Management, are focused on fulfilling the strategy of the Iemas Group with a view of driving scale and growth.



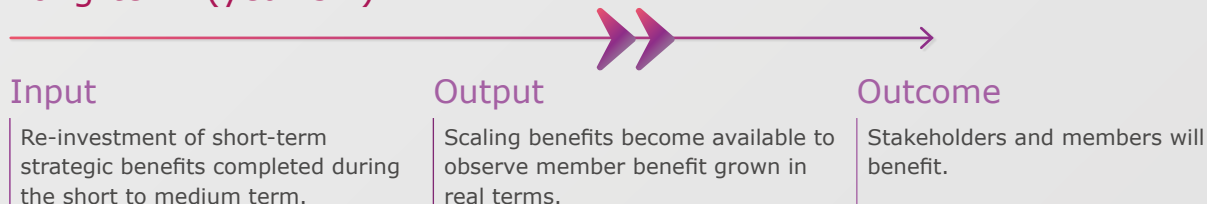
Short-term (year 1)



Medium-term (year 2-3)



Long-term (year 3+)





OUR MAIN LINES OF BUSINESS AT A GLANCE

Iemas Insurance Brokers

How we performed in our insurance business during 2020

Iemas Insurance Brokers is a wholly owned subsidiary of the Co-operative and is our insurance business. Through Iemas Insurance Brokers, we provide comprehensive insurance solutions to our members and clients in collaboration with a network of insurance partners – from short-term insurance, group schemes, wills and estate planning, business insurance to life and funeral insurance.

Iemas Insurance Brokers has a distinct value proposition.

Insurance options you can trust and afford:

- **Securing your family:** Insurance solutions that are comprehensive and suited for our members.
- **Securing your future:** Insurance solutions set to protect your financial future.
- **Securing your belongings:** Insurance solutions that safeguard the belongings that are important to you.
- **Securing your business:** Insurance solutions that are geared to protect your business from several eventualities.

We have distinct strengths that separate us from other insurance brokers in the market.

These include:

- **Manage/facilitate claims on behalf of our members;**
- **Product suite:** Provide a comprehensive insurance product basket;
- **Affinity with employers:** Strong affinity with employer groups;
- **Going beyond compliance:** A commitment to high levels of internal and statutory compliance; and
- **Financial stability:** The Group's financial stability and reserves offers stability for Iemas Insurance Brokers' operations for non-organic growth.

Signature strategic initiatives in 2020

- Application optimisation, for example lead referrals through the "refer a friend" incentive and ploughing rewards back to our members;
- Driving cross-selling opportunities across the Group to deliver greater adoption of Iemas Insurance Brokers products;
- Developing a digital marketing strategy to drive online leads and sales;
- Use of Group Brand Ambassadors to manage close relationships with employer groups; and
- Investment in robotics process automation to increase the speed of service.

Looking ahead

Iemas Insurance Brokers will help Iemas become a preferred financial services provider by:

- Using big data to drive better member understanding and knowledge;
- Entry into the middle/higher segment with Financial Advisory and Intermediary Services Act (FAIS);
- Leveraging off the revamped Iemas Rewards programme to drive member satisfaction; and
- Enhancing our products by developing modular and digital solutions.

Performance Highlights for F2020

Iemas Insurance Brokers contributes

13,2%
to the Group's revenue

Total policies

114 568
(2019: 114 752)

Annual premium collection

R511,7m
(2019: R510,3m)

Iemas Lend

How we performed in our secured and unsecured lending business

Iemas Lend is the anchor product offering and largest contributor to the Group's revenue, with a 71,5% contribution to revenue.

Iemas Lend is our integrated lending business, focused on providing credit solutions across a range of areas – from personal loans, emergency loans, consolidation loans, educational loans, our pension-backed home loans and our vehicle finance.

With over 34 channels, Iemas Lend's aspiration is to be a member-obsessed business, geared to serve our members wherever they are. Whether it is through our physical channels – branches across the country – or our digital channels that provide sales and support services.

We have distinct strengths that separate us from other lending businesses in the market.

These include:

- **Workplace-based value proposition:** With access to members through employer groups, our business model provides members with a unique value proposition;
- **Direct deduction mechanism:** Our collection mechanism is based on us deducting from members' salaries directly; and
- **Diverse product line:** With a focus on promoting financial wellness through virtual and onsite workshops. We also provide a diverse product suite to our members.

Signature strategic initiatives in 2020

- **IT enablement:** Implementing and operationalising our lending system through our new IT system "Credit Ease";
- **Nurturing employer relationships:** Benefits illustrated to employer groups, enabling the successful continuation of our salary-deduction mechanism;
- **Competitive and enhanced product parameters:** Revised parameters become flexible, in line with competitors and our risk-appetite; and
- **Retention:** Steady increase of loans refinanced after the settlement of existing loans (repeat business).

Looking ahead

Iemas Lend will help Iemas become a preferred financial services provider by:

- Targeted use of social media to attract and engage millennials as a new member segment;
- Execution of cross-sell and up-sell opportunities in our member base; and
- Driving recognition of Iemas' brand to foster member-affinity.

Performance Highlights F2020

Contributing
71,5%
(R664,7m)

Iemas Lend is the largest contributor the Group's revenue.

Total debtors
R4,9b
(2019: R5,1b)

Members with Iemas Lend products

54 006
(2019: 46 586)

Average debtors balance

R96 132
(2019: R104 028)

Iemas Pay

How we performed in our payments business

Iemas Pay integrates the relevant functional areas and co-opts services of i-Belong Rewards subsidiary, Cooperative Switch subsidiary and the Iemas Purchase Card product house. Iemas Pay strategically acquired the business operations of Cape Consumers in March 2020. Through Iemas Pay, we connect buyers (consumers) and sellers (merchants) of goods and services in a mutually beneficial way.

Iemas Pay comprises of three businesses:

- **Iemas Card Division:** An existing division of the Group and was fully incorporated as of 1 June 2020.
- **i-Belong Rewards:** A wholly owned subsidiary of Iemas, incorporated in 2019.
- **Cooperative Switch:** Incorporated into the Group in 2017, with 50% of shareholding held by Iemas and i-Belong respectively.

We have distinct strengths that separate us from other payment businesses in the market.

These include:

- **Strong merchant network:** A wide range of merchants across the country with strong relationships with Iemas;
- **Product enhancement:** Focused on improving product offerings, through features such as the PIN card, web portal and mobile development; and
- **Solid business processes:** Continuous investments made in people and technology, resulting in cost-effective operations.

Signature strategic initiatives in 2020

- People – Integrating of i-Belong, Cooperative Switch personnel, Iemas Card personnel and Iemas Pay personnel into the Iemas Group;
- Enhancing our business operations by stabilising and consolidating our operations and systems – with a focus on the enhancement of the Iemas Card security and member functionality, i-Belong administrative efficiencies and Cooperative Switch improved functionality enhancements;
- Defining a clear value proposition by confirming and promoting the products and services to be offered to members; and
- Supporting the redesign of the Iemas Rewards programme through card-based loyalty and rewards to drive loyalty and cross-selling throughout the Group.

Looking ahead

Iemas Pay will help Iemas become a preferred financial services provider through:

- **e-Commerce for our members:** Developing online shopping capabilities;
- **Exploring co-branded opportunities with partners:** School Days, Pokkit, Automobile Association of South Africa, MediSaver, Clientele and Fund your Passion; and
- **Leveraging off the revamped Iemas Rewards:** programme to drive stickability of Iemas Pay.

Performance Highlights F2020

Iemas Pay contributes

3,0%

to the Group's revenue

Total number of accounts

7 979

(2019: 9 059)

Total number of cards

11 965

(2019: 12 130)

– The largest among buy-aid organisations in South Africa

We see a great opportunity and role for Iemas to play in the post Covid-19 world. Technology is going to be an important enabler in all of this by enhancing digital applications for our members to use across our product suite. Mastering strong management of data, intelligence and using insights gained in member research will ensure that we anticipate our members' needs and deliver meaningfully.



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REFLECTIONS FROM OUR CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER (GCEO)

Becoming resilient amidst disruption



"The Covid-19 pandemic has undoubtedly changed our operating environment, putting us on a path where we've had to make hard choices and display agility to maintain the sustainability of our business and deliver value to stakeholders – while keeping our eye on the future.

Everything is being reset; this is the beginning of a new truth – a new dispensation within a fundamentally different economy and environment."

Our business, South Africa and the rest of the world stand at a vantage point that is markedly different from where we began eight decades ago. The Covid-19 pandemic has undoubtedly changed our operating environment, putting us on a path where we have had to make hard choices and display agility to maintain the sustainability of our business and deliver value to our stakeholders – while keeping our eye on the future. Everything is being reset; this is the beginning of a new truth – a new dispensation within a fundamentally different economy and environment. The choices we make today will define the industry's approach for years to come, with a generational impact on how it cares for our employees and our members.

Overview

At a crossroads

We began the year under review full of promise, with a firm view on "positioning for and indeed returning to growth" agenda in F2020 that was dependent on our turnaround strategy and getting the basics right. This factored in economic assumptions that took an unprecedented turn with the onset of the Covid-19 pandemic. Coupled with South Africa's enduring and longstanding challenges of poverty, inequality and unemployment that climbed to 30,1% in F2020 quarter 1 (2019: 27,6%), the economic environment rapidly deteriorated with consumer spending and business confidence plunging to all-time lows.

The unprecedented decision by the South African Reserve Bank (SARB) to reduce the repo rate five times by the end of July 2020 (with 300 basis points or by a staggering 46%) to stimulate the economy amid the economic turmoil was a further unexpected challenge to our operations and operational results.

The reality is that our lending business is predicated on offering financing, which is pegged to a variable interest rate environment. The unforeseen interest rate reductions impacted our net interest received. SARB's drastic cut of the interest rate not only assisted indebted consumers in the short-term, but will provide huge assistance to re-starting industry sales once the country resumes economic activity after the lockdown.

With consumers' income under strain, we focussed on managing the risk in premium cancellations by keeping in tune with our members realities and offering the relief created by our insurance partners.

Despite these innumerable challenges in the macro-economic environment, we are ever more committed to returning to growth.

Consumers

South Africa's high levels of unemployment, coupled with low economic growth, continues to impact investor and consumer sentiment negatively. The Bureau for Economic Research's Consumer Confidence Index is telling, by the second quarter of 2020, consumer confidence had dropped to -33, from -9 in the prior period. This is the lowest reading of consumer confidence since the second quarter of 1985.

Our members

Our members are our primary focus and they have been under severe socio-economic and financial pressure over the past few months, particularly as economic activity started to slow down during Covid-19 lockdown restrictions. Consumer confidence is a key indicator, offering insight into the sentiment and views of how likely consumers will spend and manage credit.

Our challenge is to survive this recession sustainably as consumer spending is likely to remain low, this has a direct effect on our business. Now more than ever, we will have to find cost-effective and innovative ways to deliver value for our members and help them with their financial wellness.

We are living in unprecedented times. As an organisation that has weathered many storms over the past eight decades, we have always believed that our role is to manage those things that are within our control and

adapt ferociously – even when the external environment is challenging. This is how we make good on the trust that our members place in us.

Reflecting on Environmental, Social and Governance (ESG) considerations

Iemas has a balanced view on integrating environmental, social and governance (commonly referred to as "ESG") considerations in our strategy and operating model.

IEMAS ESG Overview – F2020

Environment

As a financial services provider, we continue to champion the importance of environmental sustainability in our day-to-day operations. We need to explore opportunities around financing of "green" assets for our members.

Social

The very nature of our business is aimed at empowering people – be it our members or our employees. Internally we value our human capital as our most significant asset. In short, we believe that *people* are the starting point of our business.

Governance

Our approach to governance issues is premised on the belief that we embrace the tenets of good governance both in the *letter* and in *spirit*. The Board is committed to the highest standards of governance and accountability, as recommended by King IV™, and the delivery of outcomes such as an ethical culture, integrity and effective control and compliance.

Engaging with our stakeholders effectively

Our ability to generate sustainable value for our stakeholders depends on our ability to engage with our stakeholders effectively. The Group's management team – Executive Committee and Senior Management – are principally charged with managing our stakeholders, through the various operations, clusters and business areas. The nature of engagement during the year under review is on pages 44 to 48. Throughout all of this, the Group's values are the basis on which we engage and receive feedback that helps us improve our operations and manage risk effectively.

Risk management

Risk management is key to the sustainability of Iemas, given the uncertainty brought by the Covid-19 pandemic. The most significant risks that the Co-operative has managed in the year under review are on pages 49 to 55. These range from the inability to reverse the impact of the decline in the prime lending rate on the net interest revenue in the short term, to lost business opportunities resulting from the time taken to execute modern technology platforms.

Our performance

Getting the basics right

The profit for F2020 amounted to R59,8m (2019: R93,2m), while members' funds increased to R863,4m (2019: R848,3m) and total external borrowings decreased to R2 651,1m (2019: R2 875,8m) which, started to reflect the unparalleled pressures brought by Covid-19 and the economic slowdown in South Africa. Our lines of businesses were determined to deliver towards financial objectives in a market where some of our employer groups were closed or scaled down to partial operations during lockdown levels. This required finding innovative ways of reaching and engaging members on their financial needs. Before the Covid-19 pandemic, e-commerce was already meaningfully and visibly eating into the sales of brick-and-mortar operations. Coronavirus has accelerated a change in the shopping behaviours of consumers who were previously slow to adapt.

Encouragingly, our efforts in applying various additional cost containment strategies helped us manage our cost structures well amidst a difficult trading environment.

During the year under review, we made great strides in "retooling" our business for success. There are four distinct areas that we refer to as our key strategy battlegrounds that define how we have worked to build a better and a more efficient basis geared to serve our members and the employers.

"PEDE" – Iemas' key battlegrounds

1

Product enhancement

Driving the enhancement of our current product mix through IT enablement and continuous improvement.

2

Employer diversification

Balancing the risk of overexposure to certain industries, such as mining, metals and manufacturing, to drive a more diverse employers group-base.

3

Digitisation

Iemas Business Modernisation Programme (IBM) through the continues deployment and improvement of our IT systems to support our core business processes.

4

Efficiencies

Efficiency opportunities throughout the business – from fixed-cost reductions to business process optimisation to drive customer experience.

Business abnormal

In the wake of a global pandemic and an economic downturn, we remained committed to keeping our focus on those things that we can control: our products and services, our member experience and continuing to build strong relationships with our employer groups. In short, this period could be referred to as "business abnormal" – a period in which we worked hard to keep the ship sailing against all odds.

Our focus during this period was to provide essential services with quality, acceptable member experience, and risk control – all while caring for Iemas' employees. These objectives were interacting in non-obvious ways.

Accelerating our strategic journey through key initiatives in 2020

<p>Modernisation Iemas Business Modernisation Programme and digitisation</p>	<p>This started relatively well, and despite initial integration challenges with the implementation and stabilisation of the first-leg of Iemas' Business Modernisation, it was a no-regrets move that already proved its worth. With this in the bag, our focus can now be on accelerating the digital future.</p>
<p>Product innovation and leadership Iemas Pay</p>	<p>On 1 March 2020, we incorporated the Cape Consumers Card administration capability into the Group, in line with our product leadership enhancement initiatives. Post the acquisition of this capability, we've worked swiftly on the product management system and enabling the Iemas Purchase Card on the new payments platform, adding new functionalities, for example a web portal and drastically improving card security in line with international standards and best practice. I-Belong also acquired the remaining 50%, not yet owned by the Group, in the Cooperative Switch that has been operational for three years, offering card payment enablement services. This system includes a card issuing platform as well as switching and authorisation capabilities and promises to bring internet payment and a mobile application functionality in future.</p>
<p>Enhancing our rewards programme</p>	<p>We have completed the redesign of our current rewards programme for members, aligned with the emerging trends affecting our customer base, product take-up and rewards structures. The new loyalty and rewards structure, which will be launched during the first half of F2021, will be backed by data science capability and one-to-one engagement channels with a more enticing and expansive reward structure for members and employers.</p>
<p>Operational efficiency championing our members' experience</p>	<p>Putting our members first is core to who we are as South Africa's leading financial services co-operative. Through the adoption of new technologies across the Group, and the design of "digital journeys" to better serve members across our product suite, we are enhancing the current members' experience and working towards championing the best possible members' experience.</p>
<p>Transform service delivery and gearing for growth</p>	<p>There are numerous areas of growth for our business, some of which include:</p> <ul style="list-style-type: none"> • Increasing penetration of product participating members at employer groups; and • Continuing to diversify while also evolving the profile of our members and growing cross-selling among our members.

Prospects

Our opportunities looking ahead

Iemas has a long history of contending with ever-evolving and fast-moving changes, whether it is dealing with technological change or navigating a complex socio-economic environment.

Our business success is dependent on deep relationships with our employer groups, and the permanent employees they employ, who can access our wide range of financial services. There will be an increasing focus on ensuring that financial inclusion is placed front and centre for employer groups. Financial inclusion is a much wider concept than just offering a suite of products to a consumer.

A renewed wave of coronavirus infections during F2021 quarter 1 remains a possibility and could also slow the economic recovery next year, limiting 2021 economic growth.

Although the entire financial services industry has been rebased due to the significantly lower repo rate and have lower margins, we see a great opportunity and role for Iemas to play in the post Covid-19 world. Technology is going to be an important enabler in all of this by enhancing digital applications for our members to use across our product suite. Mastering strong management of data, intelligence and using insights gained in member research will ensure that we anticipate our members' needs and deliver meaningfully.

We will continue to find opportunities for value-added services – in addition to our existing products, especially in the card and new payments solutions, as well as through rewarding of member behaviours.

We are confident that we can, and will, amongst the difficulties – ensure the business is stabilised and sustainable growth is achievable.

Appreciation

We would like to extend our sincere gratitude to all our employer groups for their ongoing support and entrusting Iemas with their employees' financial wellbeing. This could not have been possible without the commitment from the Iemas Board, our dedicated (and very energetic) management team and all of our employees.

To the Board, thank you for demonstrating exceptional insight and leadership during the course of this year. To management and employees, we make a strong team, your individual efforts and contributions are valued – working tirelessly to serve our members and employer groups. This has undeniably been a trying, though very interesting year for all of us. We believe in your resilience and dedication which has brought us here and will take us stronger and successfully into the future.



Willem van Heerden
Chairman of the Board



Banie van Vollenhoven
Group Chief Executive Officer



CHIEF FINANCIAL OFFICER'S REVIEW

Maintaining agility amid a time of change



"Managing our financial performance is an integral part of our returning to growth agenda. By all accounts, F2020 has been financially testing on Iemas."

"The coin with two different sides – first the one side, full of promise and showing encouraging results exceeding expectations by half year close. Then on the other side, the second half of F2020, where the recession and Covid-19 lockdown restrictions forced operations and the economy into negative territories."

Overview

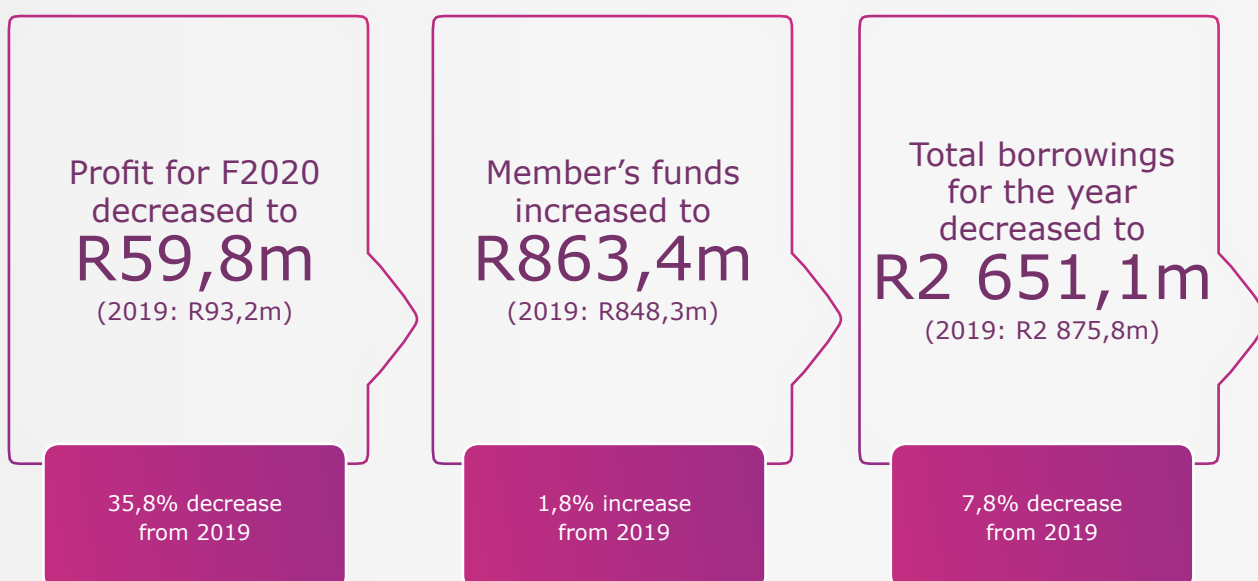
Managing our financial performance is an integral part of our returning to growth agenda. F2020 has been financially testing on Iemas. The coin with two different sides – first, the one side full of promise and showing encouraging results exceeding expectations by half year close. Then, the other side, the second half of F2020 where the recession and Covid-19 lockdown restrictions forced operations and the economy into negative territories characterised by weak growth, high levels of unemployment and lower levels of disposable income.

Our aim is to deliver value to our members, and this

value is dependent on our ability to generate sustainable revenue, where a portion of the profit is shared with members.

Though our results are starting to reflect the tough economic environment, with numerous factors at play – from the impact of the Covid-19 pandemic on consumer spending and confidence to the historic drop in interest rates by the SARB – the full effect will most assuredly only become visible in the next financial year.

Salient features of our financial performance in 2020



Average interest rates per product offered by Iemas

Any lending business is reliant on interest as one of its main sources of revenue. Interest is levied on our members' debtors' balances at the contracted interest rate, and any fluctuations in the repo rate affects this.

Take the vehicle financing proposition for example. As a result of reduced operations and strain on consumer income, Moody's predicted that global demand for passenger vehicles will shrink by approximately 14% in 2020 and the longer it takes for economies to restart, the more this shrinkage will be. If we bring this closer to home, the impact has been immense. To illustrate this, we only need to look at the impact this one proposition of our business has on the economy, indirectly.

CHIEF FINANCIAL OFFICER'S REVIEW (CONTINUED)

Our financial performance in F2020

The story behind the numbers

Measuring how we generated income

Revenue source	Income drivers	F2020 performance
Interest income from lending activities	<p>This is the largest contributor to Iemas' income.</p> <p>Revenue is generated through the advances we extend to our members to finance their vehicles, their children's education, personal needs or through our pension-backed housing advances.</p> <p>We earn interest income by levying our debtors' account balances at an agreed interest rate, in line with the credit agreements. The effective interest rate also includes a once-off initiation fee charged on all new financing agreements.</p> <p>The SARB lending rate to banks (also known as the repo or interest rate) is an important determinant, as our interest income is linked to the changes in the repo rate.</p>	<p>2020: R661,7m (2019: R696,1m)</p> <p>Impacted by: Lower member appetite for financial solutions – due to weak economic environment and employment uncertainty. Decline in repo rate.</p> <p>Decreased by 4,9%</p>
Other direct-advance related income	<p><i>Income related directly to our advances, such as contract fees, monthly service fees and commission.</i></p> <ul style="list-style-type: none"> A monthly service fee is charged on all active finance agreements. A collection fee is collected from card suppliers (merchants) and is based on the value of the Iemas card spend for the specific month. Commission earned through our various partnerships. 	<p>2020: R41,0m (2019: R43,7m)</p> <p>Impacted by: Lower member activity in our core financing activities, resulting in reduced other direct-advance related income.</p> <p>Decreased by 6,2%</p>

How our lines of business contributed to our income

Despite a difficult financial year, our business segments found new ways to service our members and there are opportunities that lie ahead to improve on these results as we pave our way to post Covid-19 recovery and get back on track with Iemas' "return to growth" agenda in mind.



Lending contributed 74,5% to our total income, representing a 1,3% decrease from the previous year (2019: 75,8% contribution to total income)



Short-term insurance contributed 5,5% to our total income, representing a 0,1% increase from the previous year (2019: 5,4% contribution to total income)



Life insurance contributed 7,7% to our total income, representing a 0,3% increase from the previous year (2019: 7,4% contribution to total income)

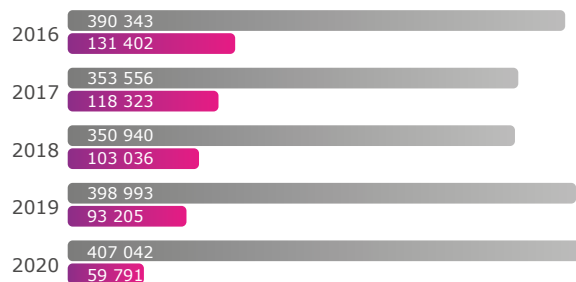


Cell captives contributed 12,3% to our total income, representing a 0,9% increase from the previous year (2019: 11,4% contribution to total income)



Iemas Pay in 2020 contributed 3,0% to our total income. This forms part of the lending activities.

Performance (R'000)



● Profit for the year ● Net interest income

Exploring the factors behind premium, advances and credit losses

The demand and take-up of financial products were affected by the Covid-19 pandemic, with many consumers opting to either restructure their existing suite of products or reluctant to apply for credit due to income uncertainties.

1

Cancellation and restructuring of products

In Iemas' case, cancellation of insurance ended below the forecasted projections.

Restructuring of loan instalments allowed for lower instalments.

2

Increase in arrears

We also saw an increase in arrears during the year under review. With widespread retrenchments in many sectors of the South African economy, the increase in impairment provisions and bad debts were to be expected. The capital at risk at the end of August 2020 was R461,2m (2019: R264,1m).

Another reason for the increase pertains to the manner in which the new loan system (implemented November 2019) calculates arrears and the capital relating to it. The fees that were previously calculated separate are now capitalised as part of the main products are now included. The effect thereof is, for example, that a relatively small administration fee of R69 in arrears on a vehicle with a outstanding balance of R800 000, will cause the entire amount of capital at risk (i.e. R800 000) to reflect as an arrears amount.

3

The decrease in the repo rate

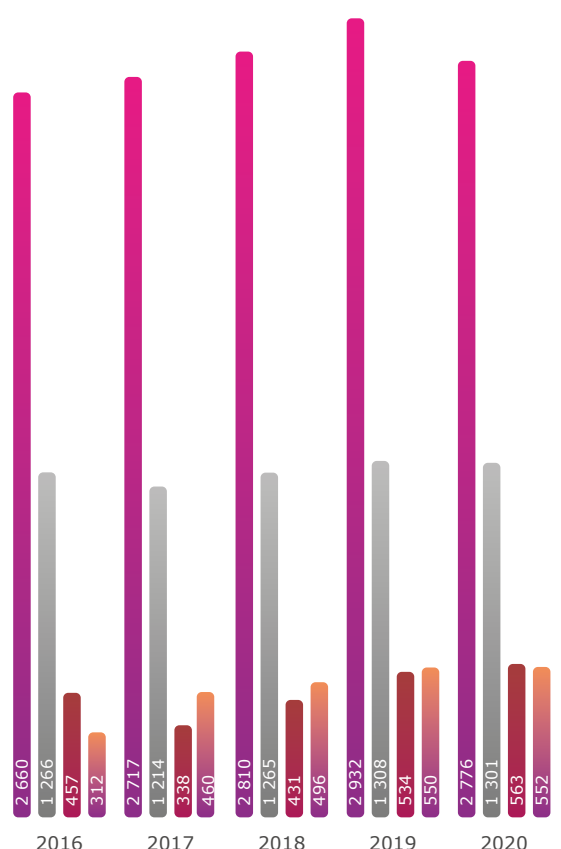
The decrease in the repo rate dampened our profitability significantly, our net interest margin and our interest income on investments decreased.

CHIEF FINANCIAL OFFICER'S REVIEW (CONTINUED)

Highlights for the year:

- Vehicle advances:
R2 775,6m
(2019: R2 931,7m)
- Pension-backed advances:
R1 301,2m
(2019: R1 307,9m)
- Unsecured advances:
R562,5m
(2019: R534,1m)
- Other:
R552,4m
(2019: R550,5m)

Advances per main product categories (Rm)



● Vehicle advances ● Pension-backed advances
● Unsecured advances ● Other

Iemas' total net advances decreased by 2,4% (2019 increased: 6,4%) to R5 239,6m (2019: R5 368,9m). The decline is mainly due to the partial or full closure of employer groups during the coronavirus lockdown period. However, we continued to provide our products to the members classified as 'essential services' and those employer groups which remained open during most lockdown levels. These included employers in public sector, financial services, health, information and communication technology (ICT), education and professional services. Broadly, members linked to those employer groups that could maintain operations and salary expenditure.

Credit losses

The loan impairment expense increased by 56,6% (2019: 14,6%) to R137,8m (2019: R88,0m).

Arrear instalments as a percentage of gross loans and Net advances increased from 1,4% to 2,1%. This includes all loans that are not up to date with contractual obligations.

Provision for impairment

Making provision for impairments is a key feature of how any financial services business manages credit risk. Our models determine various factors, such as high-impact historical, current and future events (e.g. market conditions) as well as the likelihood of members' not meeting their obligation(s).

How we provided for impairments

What was the impairment provision adjustment?

- Our impairment provision increased by R85m (2019: R13m), which represents 6,4% (2019: 4,1%) of the total advances, excluding pension-backed housing advances;
- The vehicle advances written off during the year decreased by R10,5m (2019: R1,4m) to R29,9m (2019: R40,4m), representing 1,08% of the total vehicle advances; and
- Amounts written off on unsecured advances and other loans decreased by R12,4m (2019: increase of R6,4m) to R35,2m representing 3,2% (2019: 4,4%) of the total unsecured advances and other loans. Post write-off recoveries increased by 3,1% (2019: 8,1%) from R12,0m to R12,3m.

Our focus on disciplined cost management

Our commitment to cost-discipline was an important focus for us in the year under review. Iemas' sales and distribution costs were lower due to reduced sales-

related travel as a result of Covid-19 restrictions. Our remote work policy, which enabled a sizeable number of employees working from home, resulted in savings in certain operating costs such as travel, rental, etc.

Salary cost, the largest contributor to expenditure, increased by 5,8% (2019: 8,4%) to R215,0m (2019: R203,3m) and represents 50,7% (2019: 53,8%) of total operating cost. While Iemas' total employee complement increased due to the onboarding of i-Belong Rewards, this was balanced by Voluntary Severance Packages (VSPs) taken by colleagues across the Group in quarter 4. The VSP financial incentive also contributed to the increased salary cost. Overall, there was a decrease of 15 employees (2019: 39 employees). Lastly, in the second half of the year there was a salary freeze. This contributed to managing salary costs.

We measure our cost management according to our cost-to-income ratio – increased from 57,0% to 60,9%. This was the result of a decrease in net income of 2,5% (2019: increase of 4,6%), expenditure from operations increasing by 12,9% (2019: 10,4%).

Members' share in the profits

A distinguishing characteristic of the co-operative model is that members share in our profitability.

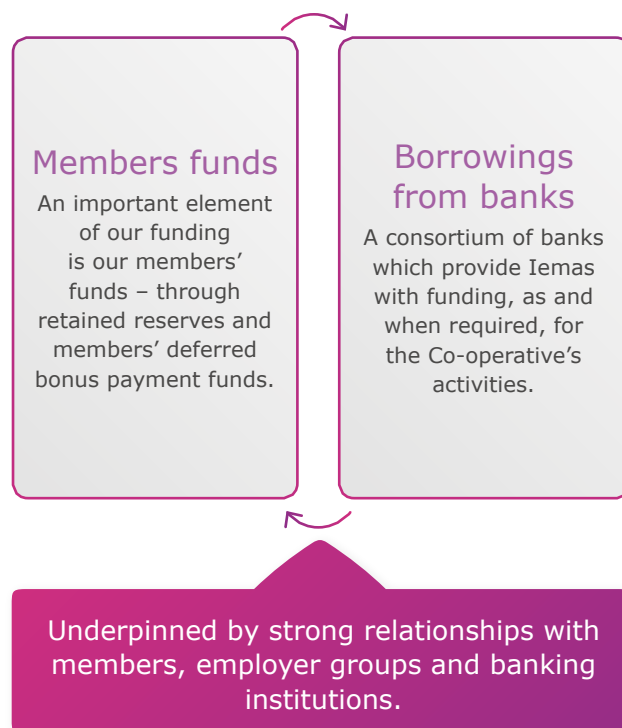
Our annual reward allocations to members illustrate this commitment.

- Despite a difficult environment, with reduced revenues, our total member rewards (excluding interest on members' deferred bonus payment fund) amounted to R46,9m (2019: R62,5m), representing 43,9% (2019: 40,4%) of net profit after tax and interest on members funds, before rewards;
- The interest paid on members' deferred bonus payment funds amounted to R37,5m (2019: R47,4m) and is calculated bi-annually at a rate linked to the repo rate less 0,25%. Interest calculated on members funds for 6 months as at 29 February 2020 amounted to R24,6m which represented a return of 6,0% on their funds. Interest calculated on members funds for the second half of the year at 31 August 2020 amounted to R12,9m which represents a return of 3,25% on their funds; and
- The total member rewards for 2020, which comprise the rewards allocated and the interest accrued on the members' deferred bonus payment funds amounted to R85,8m (2019: R109,9m).

Ensuring adequate funding for future growth

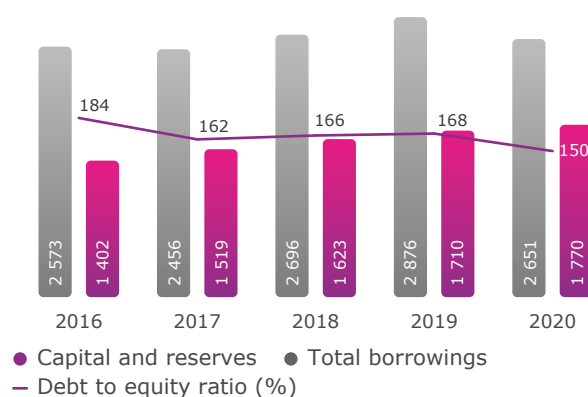
Through our well-established relationships, we have secure funding mechanisms for our debtors' book, through a consortium of banks and a securitisation vehicle.

Our funding is sourced primarily through two main avenues: members funds and borrowings from banks.



For F2020, capital and reserves were R1 769,9m (2019: R1 710,7m) increased by 3,5%, while members' funds increased to R863,4m (2019: R 848,3m).

Debt to equity



Outlook

The Covid-19 pandemic has exacerbated an already weak domestic economy. The first 25 basis points downward adjustment in the repo rate during January 2020 was effected prior to the pandemic as a measure to improve a weakening economy.

However, the subsequent adjustments (a further 275 basis points within three months) were highly unexpected and were actioned to ease the effect that the pandemic had on the economy. The significant reduction in the repo rate had a negative impact on the income streams of financial services organisations, including Iemas. It is not expected that the Reserve Bank will increase the repo rate in the short to medium term.

Therefore, low interest rate margins will become the norm and Iemas will have to adjust its operating structures accordingly. Adjustments will, inter alia, include potential changes in the human resources structures and operating models, thus setting a new base for its business.

The important areas of focus going forward, include the following:

- 1 Continued focus on responsible credit granting amid job losses and salary reductions
Affordability: Credit granting will be made to members that can afford it
- 2 Disciplined capital expenditure
Investing in digitisation and business processes with discipline top-of-mind
- 3 Managing our financial risks effectively
Funding: Diversifying funding sources to manage overexposure and risk
- 4 Continued focus on arrears management
- 5 Maintaining cost-discipline amid constrained revenues
Controlling operational costs through a range of initiatives, from lease negotiations, optimising operational structures and other efficiencies

How Iemas will navigate the financial future post Covid-19

Responsible credit granting will remain an important focus area for the business. Iemas will continue to grow its debtors in a responsible manner, considering members' need for finance and the employers' requirements for responsible lending. Overall, we expect that organisations in the financial services industry will have to navigate a difficult environment. It will take several years for the economy to recover. We are confident that our employees' passion and commitment, the support of our members and our participating employers and our strong relationships with partners, banks and other stakeholders will see us through.



Tom O'Connell

Chief Financial Officer – *Iemas Financial Services*



MITIGATING AND CONTAINING THE IMPACT OF COVID-19

Your caring partner – resilience through the cycle

Covid-19 has brought innumerable challenges for all businesses. During this period, we have focused on those elements, that are in our control. Our rigorous enterprise risk management framework and our strong relationships with employer groups, associations, banks and investors has helped us to mitigate and contain the impact of the virus on our operations. As we move forward, we are committed to supporting our employees and members.

The reality is that Covid-19 has resulted in a negative global and local economic environment and the virus had an indelible impact on business and consumer confidence in South Africa. Not only is turnover (volumes) negatively affected by the lockdown and resulting recession in South Africa, it also resulted in the SARB to dramatically reduce interest rates which caused Iemas to experience an immediate and continuous reduction in our ability to earn interest.

With the announcement of the state of emergency by Government, we activated the Business Continuity Emergency Response Plan (BC-ERP) for the various Business Units and Support Services. A Command Centre was established with immediate effect to monitor critical activities and to mitigate risks during the crisis period and update the BC-ERP. The Workplace Safety Plan was updated with the new regulations published by Government and successfully implemented.

Right from the start of the lockdown, Iemas (and in particular the insurance operations) was considered to be part of essential services and we had to ensure that those products were available to our members.

The global Covid-19 pandemic had a far-reaching effect on our employees, employer groups and members in various ways, as many employer groups immediately implemented reduced or no operations and only started to return to limited operations once the lockdown level moved to Level III. Ensuring the safety and well-being of our colleagues was our primary focus. Our business operations were completely transformed into remote working, allowing some of our employees to continue working. This meant that we could serve our employer groups, especially essential services, and members through digital and voice channels, albeit also with its own challenges.



What we have done to support primary stakeholders

Colleagues



The challenges that arose from the national disaster propelled our colleagues to adapt to a new way of work. Throughout the pandemic we have focused on safeguarding the emotional, physical, mental and financial well-being as well as livelihoods of our employees.

- Through a work readiness plan we implemented a range of workplace controls – from constant education, electronic reminders and provisioning of personal protective equipment, to physical distancing in our operational offices, frequent sanitisation of workspaces, flexible and remote working policies and a range of other employee-support initiatives.
- The Senior Management and Executive Committee of the Group, as well as the entire Board of Directors sacrificed a percentage of their monthly remuneration to preserve cash, effectively protecting the remainder of the employees' net income for three months. Employee contributions towards their pension funds were suspended to also protect their monthly net cash-out. Iemas successfully applied for the Unemployment Insurance Fund (UIF) Temporary Employer/Employees Relief Scheme (TERS) for employees who had to take annual leave during the initial lockdown. VSPs were offered to all employees resulting in a limited restructure which will bear fruit in the next fiscal.
- The Employee Assistance Programme (EAP) offered counselling and emotional support while internal drives promoted health and wellbeing education.

Members



Our members have been severely affected by the economic impact of the pandemic. Numerous factors have led to this, from widespread job losses across various sectors of the economy to salary reductions. During this period, we have assisted member by means of interventions such as:

- Loan payment break relief initiatives;
- Credit life claims;
- Debt consolidation loans;
- Loan restructuring; and
- Insurance premium relief options from our insurance partners.

We have also helped members navigate through their financial challenges by making use of our online and onsite financial wellness programmes.

Employer Groups



Covid-19 had an adverse impact on the operational and financial performance of our employer groups. They had to navigate this uncertain environment with tact and resilience. Given our dependence on these relationships, we have worked closely with these partners to ensure business continuity of our operations for our members – even during this time.

This included:

- Regular engagement with Human Resource Divisions to determine payment relief needs for qualifying members with reduced or no salaries;
- Counselling services extended to employer groups and their employees offering support and counselling related to their emotional wellbeing, at no cost; and
- Insurance claims assistance – both normal short term incidents and credit life claims. Our loan payment break relief initiatives were implemented from 1 April to 30 June 2020 to assist members who were effected by salary reductions.

Liquidity and risk management



As a financial services co-operative, maintaining optimal levels of liquidity and managing our risks effectively is paramount to our success and sustainability.

We remain disciplined in how we deploy capital (be it discretionary or not), and we conduct rigorous financial, operational and actuarial risk management.

Free cash was immediately affected negatively from April 2020 onwards due to the reduction in repo rate by the SARB.

New and emerging risks resulting from the Covid-19 pandemic are constantly identified and measures are developed and implemented to mitigate these risks in the Covid-19 Risk Register. Some of these risks are included in the top 5 Risks discussed on page 52.

On the other hand, the impact of Covid-19 accelerated our strategic digitisation journey while internal restructures helped streamline our operations which brought us closer to our goal of being member-centric through agility.

PERFORMANCE HIGHLIGHTS

Revenue R929,9m

▼ 0,7%

Profit for the year R59,8m

▼ 34,5%

Rewards allocated
to members

R85,8m

Own reserves

R1 769,9m

Total assets

R5 497,8m

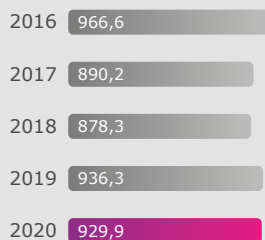
Borrowings

R2 651,1m

Number of employees

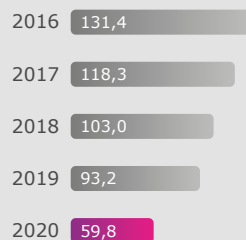
548

Gross turnover (Rm)



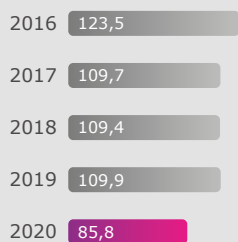
2020
R929,9m
(2019: R936,3m)

Profit for the year (Rm)



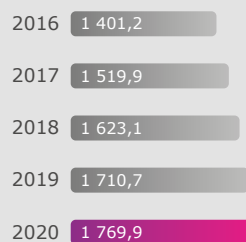
2020
R59,8m
(2019: R93,2m)

Rewards allocated to members (Rm)



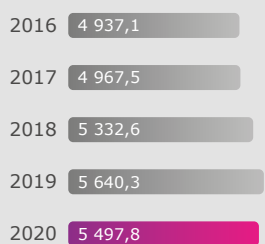
2020
R85,8m
(2019: R109,9m)

Own reserves (Rm)



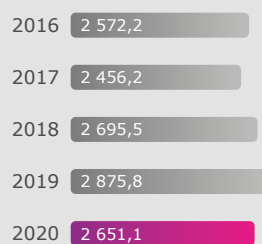
2020
R1 769,9m
(2019: R1 710,7m)

Total assets (Rm)



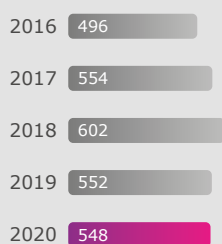
2020
R5 497,8m
(2019: R5 640,3m)

Borrowings (Rm)



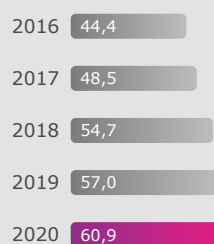
2020
R2 651,1m
(2019: R2 875,8m)

Number of employees



2020
548
(2019: 552)

Cost-to-income (%)



2020
60,9%
(2019: 57,0%)

The performance of our business is dependent on how well we engage with our stakeholders, this determines Iemas' success and long-term sustainability.



HOLDING OURSELVES ACCOUNTABLE

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EXECUTIVE COMMITTEE



Maria Feiteira (55)

Managing Executive: Iemas Lend

BComm (Banking), Regulatory Examination Key Individual, Associate Diploma, Advanced Marketing Diploma and Global Management Diploma

Years of service: 1



Jaybalan Goonahsylin (46)

Chief Information Officer

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

Years of service: 1



Leonie Louw (49)

Group Manager: Human Resources

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

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

Years of service: 20

Ages at 31 August 2020



Tom O'Connell (49)

Chief Financial Officer
BCom (Hons), CTA, CA (SA);
Management Development
Programme (MDP) and
International Executive
Programme

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

Years of service: 24



Banie van Vollenhoven (58)

Group Chief Executive Officer
BCompt (Hons), CTA, CA (SA),
MSc in Project Management
(*cum laude*) and Advanced
Executive Programme

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

Independent Regulatory Board
of Auditors (IRBA) and Project
Management South Africa
(PMSA)

Years of service: 1

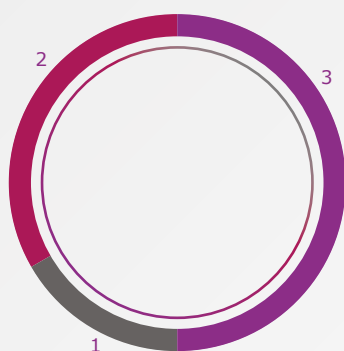


Piet Wolmarans (54)

*Managing Director: Iemas
Insurance Brokers*
BCom (Hons), MBA, Advanced
Management Programme

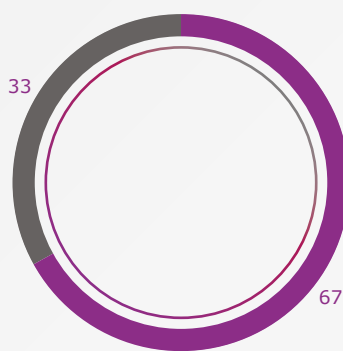
Years of service: 32

Tenure



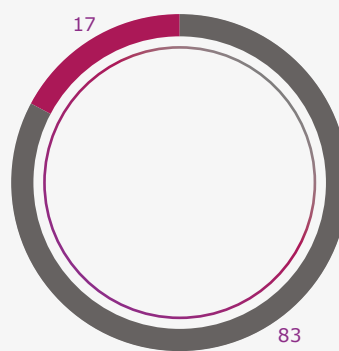
- 0-10 years
- 11-20 years
- 21-40 years

Gender (%)



- Male
- Female

Demographic (%)



- Black
- White
- Indian
- Coloured

Average
age:
52

STAKEHOLDER ENGAGEMENT

The Board of Directors and Executive Committee are convinced that active stakeholder engagement is important to the Group's long-term performance and continued sustainability.

How we engage

Stakeholder Engagement

The performance of our business is dependent on how well we engage with our stakeholders, this determines Iemas' success and long-term sustainability.

Our integrated stakeholder engagement approach is based on four principles. For us, it is essential to:



Hold open and collaborative interactions with each stakeholder group.



Listen to their input and feedback – to improve on our business offerings and processes.



Develop an understanding and appreciation for our stakeholders' needs.



Create value for our stakeholders – and where possible, ensure that this is shared.

Iemas' Stakeholder Engagement Approach

Mapping our stakeholders

Primary Stakeholders: Stakeholders who influence Iemas' business operations and strategy. They have a direct bearing on our business direction and activities.

Secondary Stakeholders: Stakeholders who have an association with Iemas' day-to-day running and are impacted by our decisions and operations.

Tertiary Stakeholders: Stakeholders who regulate the environment in which Iemas operates in and have a vested interest in ensuring that this happens in accordance with the best standards, laws and regulations.











AIM

- I. Better understanding of our value proposition:** Stakeholders need to understand our role and function as a financial services co-operative, and what implications this has for them. Crucial to this is a solid understanding of our integrated business performance, challenges and opportunities.
- II. Active engagement:** Iemas has a duty to foster a spirit of openness and transparency – to enable active engagement with its stakeholders that goes beyond compliance.
- III. Deepened relationships:** The overarching objective, for Iemas is to have deepened and mutually beneficial relationships with its stakeholder groups that are based on trust and confidence in the Group's ability to deliver on its strategy.





INTEGRATED STAKEHOLDER ENGAGEMENT (CONTINUED)

Delivering against our stakeholders' expectation

 Stakeholder group	 Key expectations	 The value we deliver for our stakeholders	 How we will deliver value for them going forward
Members	<ul style="list-style-type: none"> • Sustainable business; • Returns and rewards; • Optimal capital allocation; • Competitive product and service offering; • Excellent customer service; • Open communication; and • Financial education and knowledge. 	<ul style="list-style-type: none"> • Continuous operational efficiency improvements • Delivering excellent customer experiences; • Consistent products and services available for our members at competitive prices; and • Consistent practice of curiosity, identify innovative world-class products to introduce to our members. 	<ul style="list-style-type: none"> • Market related rewards programme; • Enhance digital channels to improve access for members; • Continue growing social media communities; and • Active customer relationship management.
Employers	<ul style="list-style-type: none"> • Effective and accurate monthly administration; • Ethical and responsible lending practices; • Consistent engagement and collaborative approach to decision-making and risk management; and • Employee financial wellness. 	<ul style="list-style-type: none"> • Delivering excellent customer experiences; • Consistent products and services available for our members at competitive prices; and • Employer's employee financial partnering. 	<ul style="list-style-type: none"> • Focus on groups in specific sectors (new and existing) and deepen relationships; • Ongoing employer engagement initiatives; and • Improvement of employer group value proposition.
Employees	<ul style="list-style-type: none"> • Employment security; • Competitive remuneration; • Stimulating work environment and challenges; • Career development and personal growth opportunities; • Diverse, inclusive and empowering culture; and • Accessible communication channels, open engagement and honest feedback. 	<ul style="list-style-type: none"> • Sustainable business execution; • Flexible working conditions; • Internal communication platforms for engagement with Executives; • Investment in skills development; • Entrepreneurial culture which rewards innovation; and • Customer-centric culture which appreciates and rewards service excellence. 	<ul style="list-style-type: none"> • Continue implementing initiatives to improve employee retention and sense of belonging; • Wellness training initiatives; • Redefine and entrench a high performance culture; • Manage the impact of organisational alignment on corporate culture; and • Change management programme to ensure successful implementation of information technology and adoption by all.

 Stakeholder group	 Key expectations	 The value we deliver for our stakeholders	 How we will deliver value for them going forward
Product and service providers	<ul style="list-style-type: none"> Increased up take on their services; Efficient administration and punctual payment combined with adherence to contractual agreements; Responsible representation of supplier brand; and Shared accountability and responsibility for joint projects. 	<ul style="list-style-type: none"> Unbiased partnership terms rooted in the unique capabilities of each party; Fair share of responsibility in joint projects; Accountability for output – contribute to product development; and Regular (both scheduled and concern-induced) honest communication. 	<ul style="list-style-type: none"> Ongoing engagement initiatives; Growing partnerships with retailers, suppliers and vehicle dealers; Transparent procurement policy; and Review contracts with service providers to ensure required support and expertise are available.
Government and regulatory bodies	<ul style="list-style-type: none"> Compliance with all legal, regulatory and certification requirements; Responsible corporate citizenship; Responsible taxpayer behavior; and Participation in meetings of regulators and industry working groups. 	<ul style="list-style-type: none"> Internal compliance control procedures in place; Continuous employee training on regulations and compliance requirements; Immediate corrective action on concerns raised by authorities; and Timeous submission of all periodic assessment documentation and fulfilment of all statutory obligations. 	<ul style="list-style-type: none"> Further alignment of business to the requirements of the National Credit Act (NCA); Implementation of requirements of Department of Trade and Industry regarding credit life insurance; Managing the impact of the Retail Distribution Review (RDR); and Broad-Based Black Economic Empowerment (B-BBEE) procurement initiatives.

INTEGRATED STAKEHOLDER ENGAGEMENT (CONTINUED)

 Stakeholder group	 Key expectations	 The value we deliver for our stakeholders	 How we will deliver value for them going forward
Banks and investors	<ul style="list-style-type: none"> Return on investment; Good corporate governance; Management of risk exposure; Sustainable business practices; and Compliance with covenants: <ul style="list-style-type: none"> a Comprehensive, and accurate reporting; b Liquidity management. 	<ul style="list-style-type: none"> Regulatory and statutory compliance reporting; Funding available and secured on acceptable terms; and Compliance with funder covenants. 	<ul style="list-style-type: none"> Funding risk management ensuring continuous access to funding at competitive rates; and Focus on liquidity and management of funding terms.
Communities	<ul style="list-style-type: none"> Corporate social responsibility; Responsible corporate citizenship; Trusted and admired brand; and Reliance and guidance. 	<ul style="list-style-type: none"> Financial wellness training; and Continuous support for various causes, aligned to the Iemas Corporate Social Responsibility (CSR) Policy and the United Nations' Sustainable Development Goals focus on our own communities. 	<ul style="list-style-type: none"> Ongoing engagement initiatives in line with Iemas' corporate social responsibility; Continue with Learnership and internship programmes; and Support for the Lerato House home for the neglected and abused girls since 2016.
Board of Directors	<ul style="list-style-type: none"> Good corporate governance; Effective risk management and reporting; and Corporate strategy review and execution. 	<ul style="list-style-type: none"> Continued efforts to conduct business in line with the highest corporate governance standards, with King IV™ as the basis of measure; and Corporate strategy and execute key tasks and initiatives. 	<ul style="list-style-type: none"> Continue to ensure that corporate governance is in line with best practice; Transparency and continuous reporting; and Timeous implementation of identified strategic objectives.
Associations	<ul style="list-style-type: none"> Active membership; Attendance of meetings; and Active industry participation. 	<ul style="list-style-type: none"> Regular participation and engagement; and Involvement at the South African Banking Risk Information Centre and the South African Insurance Crime Bureau. 	<ul style="list-style-type: none"> Continue with engagement initiatives.

ENTERPRISE RISK MANAGEMENT

How we manage risk

An effective enterprise risk management process is essential in order to identify potential risks that may, if not properly mitigated against, lead to not meeting profit expectations or other objectives of the Co-operative. The Board, management and employees consider actively applying a standardised risk management framework and methodology as fundamental to management practice.

Enterprise risk management includes managing risks, at all levels, in all aspects of the business that include setting the strategy, achieving objectives and making informed decisions, corporate governance, execution of leadership responsibilities, interaction with stakeholders, people behaviour and cultural factors.

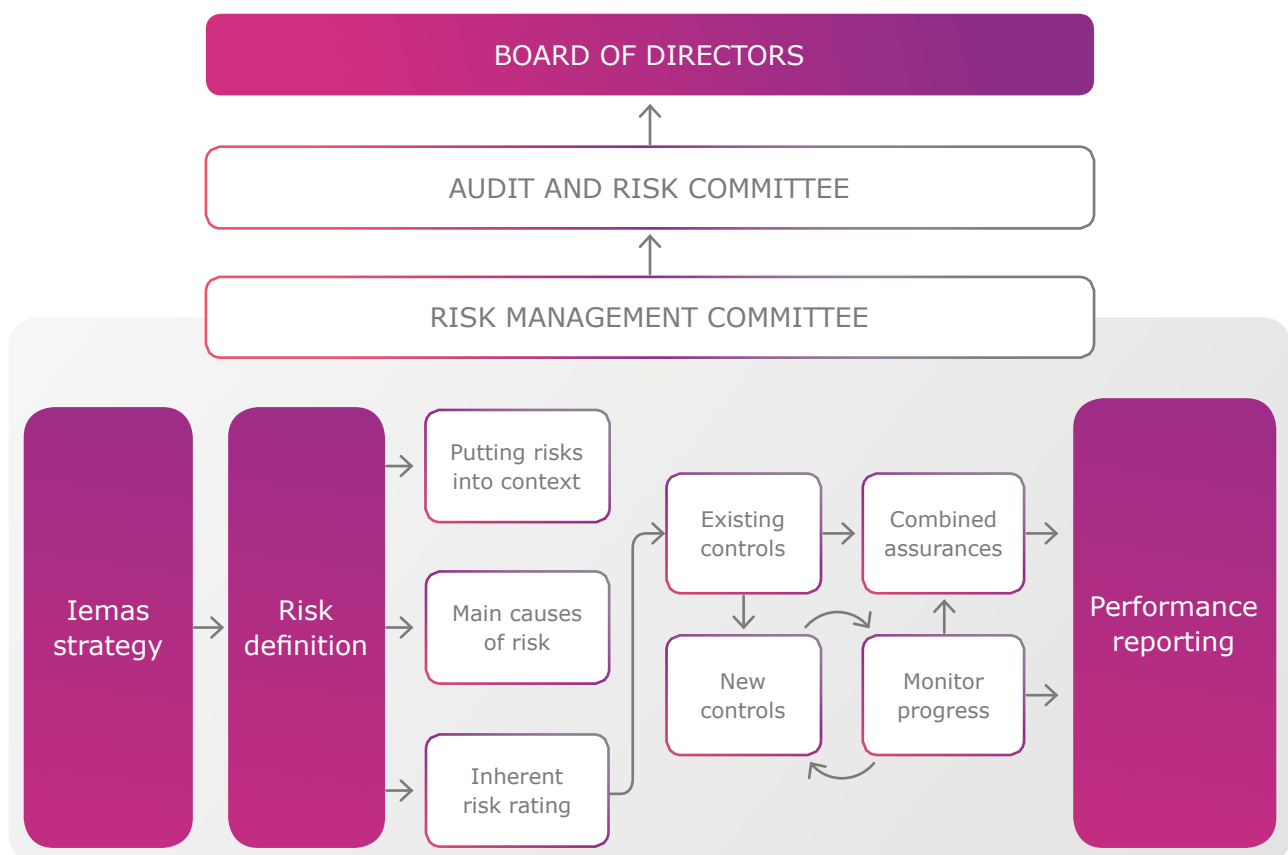
An integrated process for risk management and fraud prevention has been implemented in the Group and the execution thereof is an ongoing process:

- Various levels within the Co-operative participate pro-actively in identifying, analysing, assessing, monitoring, and report their response (with treatment

plans) to the Risk Management Committee. This Committee is responsible for ensuring that all risks, both internal and external, are effectively managed. The Risk Management Committee reports to the Audit and Risk Committee of the Board.

- The Audit and Risk Committee of the Board is responsible for oversight and monitoring the progress of risk mitigation strategies and processes. The Committee reports on progress made with the management of existing and emerging risks, and makes the necessary recommendations and comments to the Iemas Board of Directors.
- Formalisation of a risk management framework is the responsibility of the Board of Directors.

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



ENTERPRISE RISK MANAGEMENT (CONTINUED)

Comprehensive and multi-layered risk treatment plans have been developed and are continuously reviewed to mitigate identified risks. A key component of the risk treatment plan is the corporate risk register. The Executive Committee and Risk Management Committee manage the risk register.

The Iemas Risk Universe is categorised as follows:

**Strategic
Risk**

- People
- Stakeholders
- Macro-economy
- Reputation
- Political

**Financial
Risk**

- Credit
- Market
- Interest rate
- Liquidity
- Concentration
- Capital
- Financial sustainability

**Operational
Risk**

- Process failures
- People – Human error
- Systems – IT failures
- External events – Business continuity

**Governance
Risk**

- Corporate governance
- Regulatory
- Legal
- Supply chain

**IT
Risk**

- IT governance
- IT security
- Cyber security
- System application / availability

Iemas' Board of Directors is ultimately accountable for risk management and fraud prevention in the Group. Iemas' fraud prevention is based on the following four principles:



ENTERPRISE RISK MANAGEMENT (CONTINUED)

Analysis of our Top 5 Risks in 2020

1

Risk and context

Inability to reverse the negative impact of the reduction in net interest revenue over the short-term.

The significant reduction in interest revenue stems from the extraordinary repo rate decrease by the SARB during our financial year. Iemas' inability to grow the debtors book to replace this was due to the declared national lockdown of economic activity, limited (if any) alternatives to replace this income stream and the inability to reduce the cost of operations in the same timeframe.

Mitigating measures

The risk is mitigated through the effective management of Iemas' hedging strategies also similarly ensuring a reduction in own cost of funding, though this is limited to the amount of external borrowings.

The internal funding rate of members' reserves was also adjusted to reduce the average weighted cost of capital.

2

Risk and context

Inability to generate new financing transactions to achieve targeted monthly sales in the defined market segment.

Factors negatively impacting on the ability to generate sales targets include:

- Over-indebtedness of members and high number of members with adverse credit records;
- Low consumer confidence levels, thus not entering into new credit agreements; and
- The inability to trade under normal business conditions resulting from the lockdown rules imposed by government (seize of normal economic activity). Many employer groups closed operations and are slowly returning to some level of operations.

Mitigating measures

New sales are stimulated through vehicle sourcing capabilities, private-to-private transactions and rendering of services to members through the E-Sales channel in the Contact Centre during the lockdown.

Confirming Iemas' brand promise and reputation as a responsible credit provider through creative digital interactions with members. Digital marketing through social media platforms and Iemas website.

Rewarding members for conducting their business with Iemas through the payment of annual rewards, based on the business conducted during the year.

3

Risk and context

Non-performing loans and bad debts written-off increasing outside limits prescribed by the banks.

Consumers remain under serious financial pressure and the inability to repay monthly commitments to Iemas is adversely impacted by the forced remuneration reductions on members resulting from the impact of Covid-19. There is an increase in members being placed under debt review as a result of the current levels of over-indebtedness.

Negative impact of Covid-19 pandemic on the operations of employer groups also had a knock-on impact on employees, resulting in amongst others increased levels of right-sizing and retrenchment actions at employer groups.

Iemas has also experienced a significant increase in cases where vehicles are being written-off as stolen or being in accidents without any comprehensive short-term insurance being maintained by members.

Mitigating measures

Iemas' credit policy and lending practices are frequently evaluated to discount any changes in the credit landscape.

A comprehensive affordability assessment is conducted before any credit is extended to members, including a critical evaluation of the levels of basic living expenses provided for by members.

Specific unsecured exposure limits, both on Iemas loans and loans with other credit providers, form part of Iemas' credit policy and credit granting methodology in an attempt to prevent the over-indebtedness of members.

Retrenchment cover forms part of the credit insurance product offering to members, providing cover to settle monthly instalments under credit agreements for a maximum period of 12 months after members are retrenched by employers.

Payment relief schemes implemented to assist members with obligations towards Iemas. Ad-hoc Credit Insurance payments approved by the Iemas Executive Committee.

Implementation of the "Noting of Interest" capability to actively monitor that members maintain comprehensive insurance for all vehicles under a credit agreement with Iemas.

4

Risk and context

Lost business opportunities resulting from the extended periods of time required to implement modern technology platforms and business solutions.

The implementation of the IBM programme and the replacement of the legacy platforms brought some well-deserved relief to business unit managers in that new agile platforms are now available for the launching of new products and services.

Iemas will now be able to make use of Application Programming Interface (API) which will enhance speed with digital delivery.

Mitigating measures

Iemas recognises that the key to the ultimately successful implementation of any technology solution is to understand the three critical components that make up a healthy organisation which are the people, the processes and the technology itself.

It cannot be stated enough that the successful deployment of technology is less about the technology itself than it is about aligning the people and processes that will be affected by that technology.

Technology deployments are supported by a clear understanding of the business drivers, the process issues to be addressed, and the surrounding technology structure that bring these three critical components into alignment.

5

Risk and context

Failure to achieve new business sales targets in the insurance operations.

The lack of digitisation across the insurance industry has been strongly highlighted in recent times, with many insurers' and brokers operations heavily constrained and new sales limited. Claims processing and policy management also largely remain reliant on in-person engagement in most markets.

Mitigating measures

Covid-19 and particularly the social distancing mechanisms employed by government have emphasised the need for insurers and brokers to be able to operate digitally.

Fast tracking digitising of various aspects of the insurance value chain. One of the key opportunities for Iemas emerging from Covid-19 is around digital sales, e.g. improving our call centers or end-to-end mobile sales. Implementation of bots to improve customer care and turnaround times.

Transitioning to digital engagement with customers remains a challenge due to two major constraints:

- Customers remain accustomed to face-to-face engagements and in-person interaction. It remains difficult to build sufficient trust with most consumers through digital interaction; and
- Regulation prohibits certain e-signatures and electronic contracting.

ENTERPRISE RISK MANAGEMENT (CONTINUED)

Business continuity

The business continuity plan was reviewed and updated in detail in 2020 to manage the impact of disruptions such as national disasters, example the Covid-19 pandemic. Business Continuity Management related risk assessments have been conducted and a series of strategies have been created to mitigate business interruption. The following controls have been identified:

- 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.

The contribution of stakeholders in the combined assurance framework

The roles of stakeholders in the combined assurance framework with the three lines of defense are illustrated below:



Assurance providers

A number of assurance providers mitigate the risk of control failure.

Management-based assurance

Iemas' internal controls and systems are relied upon to:

- Provide reasonable assurance of the integrity and reliability of the financial statements;
- Safeguard, verify and maintain accountability of its assets;
- Prevent and detect fraud, potential liability, loss and material misstatement, while at the same time complying with applicable regulations; and
- 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, marketing 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

The role of internal audit is defined in the Internal Audit Charter. Internal audit performs an independent assessment of Iemas' systems of internal controls, policies and procedures, and monitors whether it is adequate and effective. All of Iemas' business operations and support functions are subject to internal audit during different audit cycles. Operational matters are reported to members of the Executive 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 AGM. The Committee ensures that the external auditor carries out an annual audit in accordance with International Auditing Standards and reports on the results of the audit both to management and to the Audit and Risk Committee. The external auditor is the main external independent assurance provider with regard to Iemas' financial results for each financial year. The Audit and Risk Committee nominated PwC for appointment as the independent auditors to perform the F2020 audit. Members at the AGM approved the appointment on 31 October 2019.

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 the Financial Intelligence Center Act (FICA) and the Financial Advisory and Intermediary Service (FAIS).

Oversight committees

Audit and Risk Committee

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

Business systems and controls.

Human Resources and Ethics Committee

Employee and related matters compliances, as well as business ethics.

Board assessment of Iemas' systems of internal control and risk management

The internal control self-assessment process, internal audit and year-end external audit revealed no aspects of concern. 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 Integrated 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 and Ethics Committees.

CORPORATE GOVERNANCE REPORT

Iemas is committed to good corporate governance standards and ethical practices to create sustainable-shared value. The Co-operative's governance framework is founded on the fundamentals of accountability, integrity, transparency, ethical standards, fairness and compliance.

Corporate governance is concerned with the relationships among the management, Board of Directors, members of the Co-operative and other stakeholders. Good corporate governance assists Iemas to operate more efficiently, mitigate risk and safeguard against mismanagement. It also ensures transparency and equips the Board to respond to legitimate stakeholder concerns raised in respect of issues such as sustainable environmental and social development. Overall corporate governance contributes to the development of the Co-operative.

Iemas' focus on sustainability represents one of the pillars of corporate governance. Better corporate governance increases the likelihood that we will satisfy the legitimate claims of all stakeholders and fulfil our environmental and social responsibilities. Accordingly, it contributes to the long-term, sustainable growth of Iemas. Our philosophy is that when Iemas is well-governed, we will be accountable and transparent to our members and other stakeholders and society in general.

We believe that the Co-operative's governance framework and supporting structures support the overall strategy of Iemas. The Board composition, governance framework and the roles and responsibilities of the various committees are not only focused on compliance with respective laws, but also drives outcomes that support our mission and vision.



The following principles are entrenched in Iemas' corporate governance policies:

1 Solid foundations for management and oversight

2 Value-adding Board structure

3 Compliance with Acts and Regulations

4 Ethics

5 Integrity of corporate reporting

6 Timely and balanced disclosure

7 Governance policies and code of ethics

8 Accountability towards members

9 Rights of the members of the Co-operative

10 Member participation

11 Business practices and corporate citizenship

12 Identification and management of risk

13 Fair and responsible remuneration policies

CORPORATE GOVERNANCE REPORT (CONTINUED)

Our Board: Skilled and committed leadership

The Board of Directors provides strategic direction to enhance and safeguard stakeholder value creation within a framework of prudent and effective controls. Through oversight, it ensures that Iemas capitalises on opportunities and manages risks and challenges as an ethical, responsible corporate citizen in South Africa.

The Board's duties and responsibilities are discharged with the assistance of the three Board Committees, each with its formally mandated terms of reference.

The careful selection of individual Directors underpins the effectiveness of the Board in fulfilling its role and ensures the optimal combination of expertise and experience to drive Iemas' accelerated growth.

Governance structure

Board of Directors

The Board directs the Group towards and facilitates the development and achievement of Iemas' strategy and operational objectives. The management of the Co-operative is accountable for the day-to-day running of the business, execution of the strategy, operating and financial performance.

Board composition

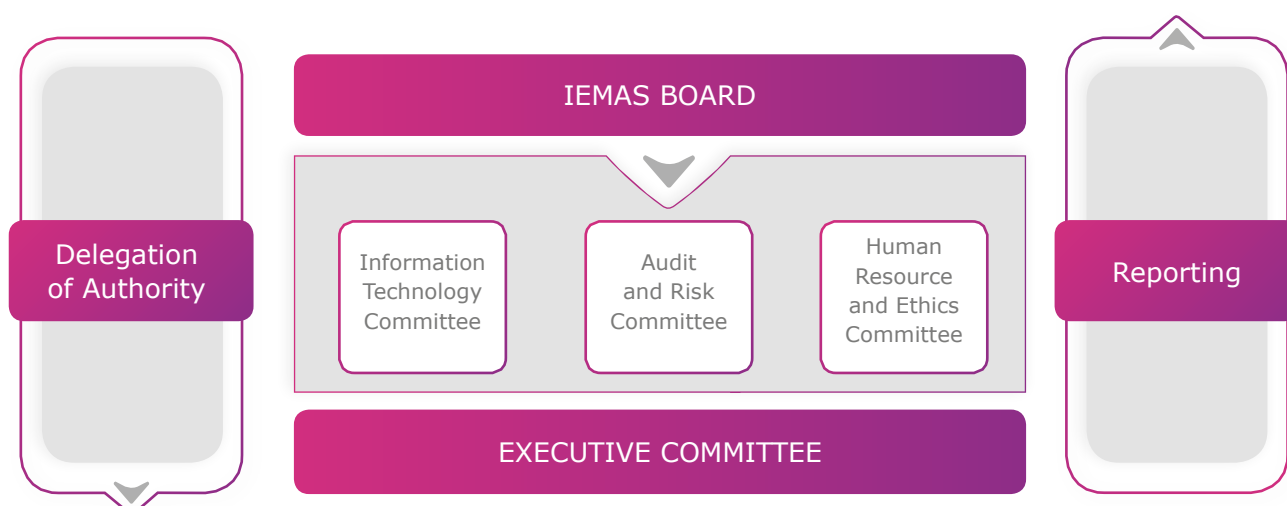
A key attribute of an effective board is that it comprises of a majority of independent members which gives assurance to Iemas members of high levels of corporate governance.

The Board of Directors is the highest decision-making body of the Co-operative and is ultimately responsible for our governance. The Board has 10 members and comprises of eight Independent Non-executive Directors and two Executive Directors.

The roles of the Chairperson 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 group of individuals has unfettered powers of decision-making and authority. The members of the Co-operative elect the majority of the Board.

Term of office of Non-executive Directors

Iemas' constitution provides that the term of office for Non-executive Directors shall be for a period of seven years, commencing at the close of the AGM at which she or he is elected. Non-executive Directors shall be elected for a single term of office, and are not eligible for re-election at the AGM at which they retire.





INDEPENDENT NON-EXECUTIVE DIRECTORS



Anton Buthelezi (55)

B-Tech Degree (Labour Relations Management): Diploma Labour Law, National Diploma HR Management, Certificate and Programme in Business Leadership Development

Human Resources and Ethics Committee – member

Date appointed: 31 October 2018



Len de Villiers (64)

D.IS, National Diploma in EDP, GITI

Information Technology Committee – Chairman

Date appointed: 31 October 2014



Prudence Lebina (39)

CA (SA), BCom, Higher Diploma Accounting, Certificate in Business Leadership

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

Audit and Risk Committee – member

Date appointed: 31 October 2016



Retha Piater (65)

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

Vice-chairman of the Iemas Board

Human Resources and Ethics Committee – Chairman

Date appointed: 31 July 2014



Vusi Sampula (55)

BTech Human Resources, Advanced Diploma Labour Law

Human Resources and Ethics Committee – member

Date appointed: 31 October 2014



Dashni Sinivasan (51)

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

Audit and Risk Committee – member

Date appointed: 31 October 2017

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

**Willem van Heerden (70)**

BCom (Hons), CA (SA), Advanced Management Programme (Darden Business School)

Chairman of the Iemas Board

Human Resources and Ethics Committee – member

Information Technology Committee – member

Date appointed: 6 December 2014

**Quintus Vorster (68)**

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

Audit and Risk Committee – Chairman

Information Technology Committee – member

Date appointed: 12 April 2017

Ages at 31 August 2020

EXECUTIVE DIRECTORS



Banie van Vollenhoven (58)

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

Group Chief Executive Officer

Date appointed: 1 January 2019



Tom O'Connell (49)

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

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

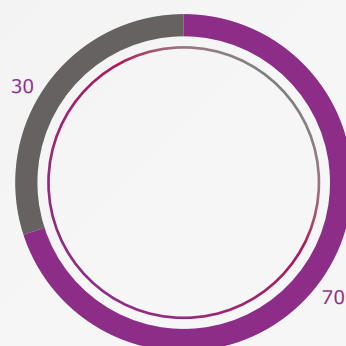
Chief Financial Officer

Date appointed: 2 October 1995

Average age:

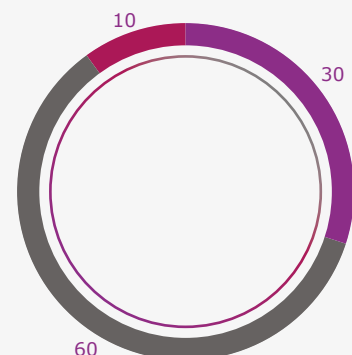
58

Gender (%)



● Male
● Female

Demographic (%)



● Black
● White
● Indian
● Coloured

BOARD MEETING ATTENDANCE FOR THE YEAR UNDER REVIEW

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

Board Attendance

98%

Board meeting attendance

4 Meetings	10 Members
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Member	Meeting attendance
Anton Buthelezi	4/4
Len de Villiers	4/4
Prudence Lebina	4/4
Tom O' Connell Chief Financial Officer	4/4
Retha Piater Vice-Chairman	4/4
Vusi Sampula	3/4
Dashni Sinivasan	4/4
*Willem van Heerden Chairman	4/4
Quintus Vorster	4/4
Banie van Vollenhoven Group Chief Executive Officer	4/4

**Willem van Heerden elected as Chairman of the Board 21 November 2019*

Board committees

The Board has, in accordance with the delegation of authority, delegated some of its functions to Directors, Senior Managers and Committees of the Board. The Board has the following Committees:

- Audit and Risk
- Human Resources and Ethics
- Information Technology

Members of these Committees are independent and the Board appoints both the Committee Chairman and members annually. 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 for the skills required by each Committee.

Some regularly scheduled Committee meetings are held where only the Committee members are present and, if appropriate, the Committee's independent consultants. Meetings are aimed at discussing matters relating to the mandate and functions of the particular Committee.

Audit and Risk Committee Attendance

100%

Committee meeting attendance

4
Meetings

3
Members

Member	Meeting attendance
Prudence Lebina	4/4
^ Sydney Maluleka Head: Internal Audit	4/4
^ Tom O' Connell Chief Financial Officer	4/4
Dashni Sinivasan	4/4
^ Banie van Vollenhoven Group Chief Executive Officer	4/4
*Quintus Vorster Committee Chairman	4/4

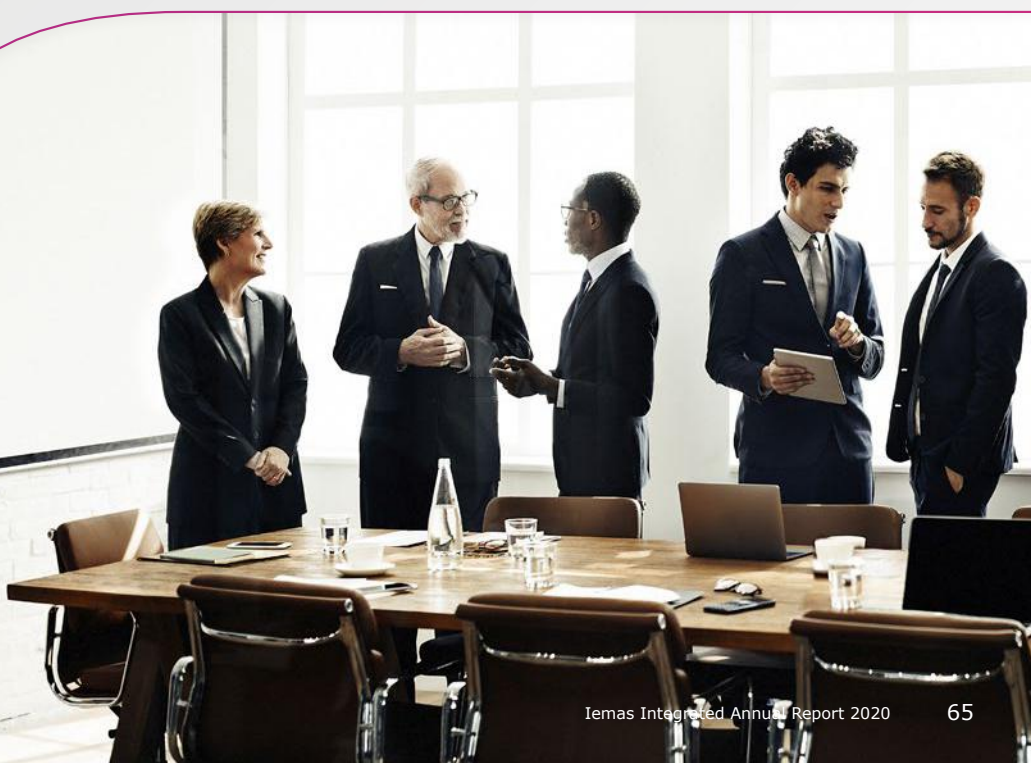
^Permanent invitees

**Quintus Vorster appointed as Chairman of the Audit and Risk Committee on 21 November 2019*

Audit and Risk Committee

The Committee consists of at least three members, all of whom must be Independent Non-executive Directors. The Chairman of the Iemas Board cannot be a member of the Audit and Risk Committee. The Group Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit and External Auditors are permanent invitees to the meetings of the Committee.

The Committee ensures the integrity of the financial reporting and reviews the effectiveness of the financial reporting process, the system of internal control, the management of risks, the internal audit function, the assurance process and the Group's process of monitoring compliance with legislation and regulations. The reports on risk management and compliance appear on pages 49 to 55 and the report of the Audit and Risk Committee appears on pages 90 to 93 of this report, both of which contain further detail in this regard.



BOARD MEETING ATTENDANCE FOR THE YEAR UNDER REVIEW (CONTINUED)

Human Resources and Ethics Committee

The Human Resources and Ethics Committee consist of at least three members, all of whom must be Independent Non-executive Directors.

The Group Chief Executive Officer and the Group Manager: Human Resources are permanent invitees to the meetings of the Committee. The Chairman of the Board qualifies to be a member of the Human Resources and Ethics Committee, he is not eligible to be appointed as Chairman of this Committee.

The Human Resources and Ethics Committee is responsible for approving Iemas' human resources strategy, including the 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.

Human Resources Committee Attendance

100%

Committee meeting attendance

3
Meetings4
Members

Member	Meeting attendance
Anton Buthelezi	3/3
^ Leonie Louw Group Manager: Human Resources	3/3
* Retha Piater Committee Chairman	3/3
Vusi Sampula	3/3
Willem van Heerden	3/3
^ Banie van Vollenhoven Group Chief Executive Officer	3/3

^Permanent invitees

**Retha Piater appointed as Chairman of the Human Resources Committee on 21 November 2019*



Information Technology (IT) Committee

The Information Technology (IT) Committee assists the Board in fulfilling its IT governance responsibilities in order to ensure the achievement of corporate objectives. The Committee comprises of three Non-executive Directors, appointed by the Board for a one-year term of office and is complemented by one external IT Specialist with expert knowledge in IT-related fields. 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 as well as the Chief Information Officer are permanent invitees to the meetings of this Committee.

IT governance is implemented according to the IT governance policy and governance framework. The Committee oversees that the IT strategy is defined, approved, reviewed and implemented in a manner that is aligned with the business strategy.

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

Information Technology Committee Attendance

100%
Committee meeting attendance

3
Meetings

3
Members

Member	Meeting attendance
* Len de Villiers Committee Chairman	3/3
# Louis Fourie IT Specialist	3/3
^ Jaybalan Goonahsylin Chief Information Officer	3/3
^ Tom O' Connell Chief Financial Officer	3/3
Willem van Heerden	3/3
^ Banie van Vollenhoven Group Manager: Human Resources	3/3
Quintus Vorster	3/3

^Permanent invitees

*Len de Villiers appointed as Chairman of IT Committee on 21 November 2019

#IT Specialist

APPLICATION OF KING IV™

The Iemas Board's alignment with the outcomes of King IV™

The Board is fully committed to the four governance outcomes as set out in King IV™. A self-assessment was conducted against the 16 principles and the Board is satisfied that the Group aligned with the principles and is mindfully overseeing the application of the relevant practices.

The Board has ultimate accountability and responsibility for the performance and affairs of the Group.

Governance in the Iemas Group reflects a culture of commitment to sound processes and procedures, which goes beyond legal compliance, to ensure that the Group adheres to high standards of ethical behaviour and good performance outcomes.

The Board believes that the Group's adherence to the King IV™ principles is fully integrated into its governing practices. The diagram below demonstrates how this leads to the achievement of the King IV™ outcomes.

Collective responsibilities of our Board.

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

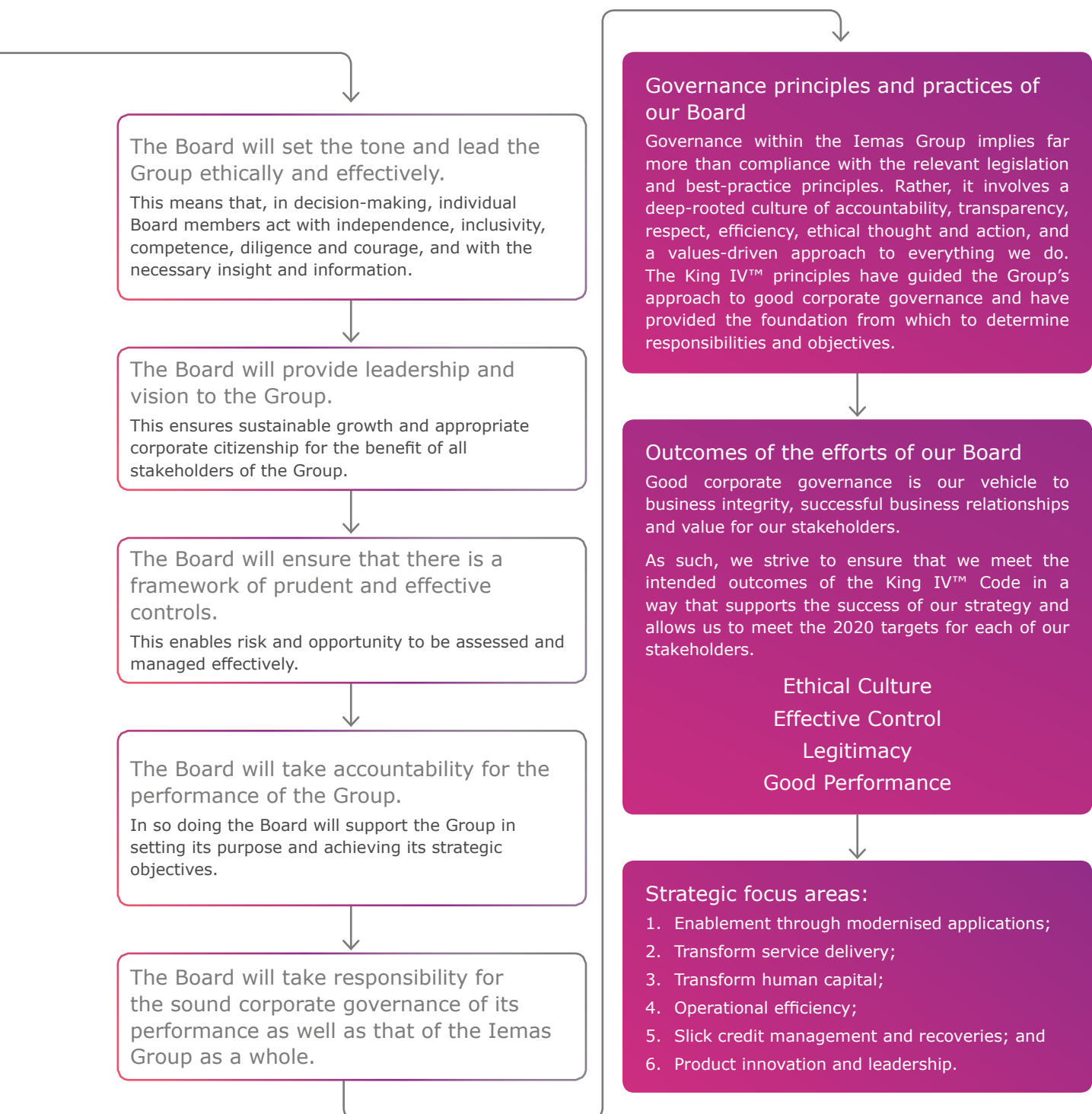
1. To set and steer strategic direction
2. To approve policy and planning
3. To oversee and monitor
4. To ensure accountability

In doing so the Board has committed to fulfilling the following responsibilities:

- Ensure that a robust strategy process is defined and executed by management;
- Oversee the management of technology and information as two separate elements;
- Ensure compliance with appropriate legislation (including regulations); supervisory codes and appropriate best practices;
- Govern disclosures so that stakeholders can effectively assess the performance of the Group;
- Protect the interests of the Group's stakeholders and ensure fair, responsible and transparent people practices; and
- Oversee the risk management function and ensure that it informs management's development and implementation of the strategy.

Value driven objectives of our Board rooted in King IV™ principles

The Board's decision-making processes and actions are guided by its commitment to its responsibilities and governing objectives. The objectives provide a mechanism to measure and evaluate performance against the King IV™ principles and outcomes.



Iemas King IV™ Application Report for F2020

Iemas is committed to supporting the governance principles and outcomes as stipulated in King IV™. To view how Iemas has applied the principles of King IV™, as recommended by the King IV™ Report and Code on Corporate Governance [click here](#).

REGULATORY ENVIRONMENT

Regulatory Environment

The scale of regulatory change remains challenging with the continued regulatory scrutiny of the operation of the banking, financial services and consumer credit industries. With an ever-increasing scrutiny on the financial services sector, it is important to consider the various regulatory issues at play for Iemas' sustainable long-term operations.

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

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

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 our business model. In alignment with the Amendment Act, Iemas re-drafted its Constitution and it was adopted at our last AGM on 31 October 2019. To view applicable legislation, codes and regulations that Iemas complies with [click here](#).

New regulations and their impact on our operations

Regulatory oversight and the introduction of stringent market conduct standards of financial services providers continue to accelerate both in South Africa and the world.

The Protection of Personal Information Act 4 of 2013

In 2020, the Protection of Personal Information Act 4 of 2013, commonly referred to as POPIA, came into force. Over the past few years, the Group has worked on introducing various aspects of the Act into our operations – including providing training to employees. We are implementing internal controls to govern and safeguard how the personal information of our members, customers and suppliers is processed and stored.

The Conduct of Financial Institutions Bill

The financial sector is an important economic contributor in South Africa, and the governance of its conduct and activities is important for regulators. The Iemas Board is tracking the process related to Conduct of Financial Institutions Bills (commonly referred to as COFI). This Bill, once passed, will provide a framework on guiding principles on how a financial institution such as Iemas needs to conduct itself.

The Cybercrimes Bill

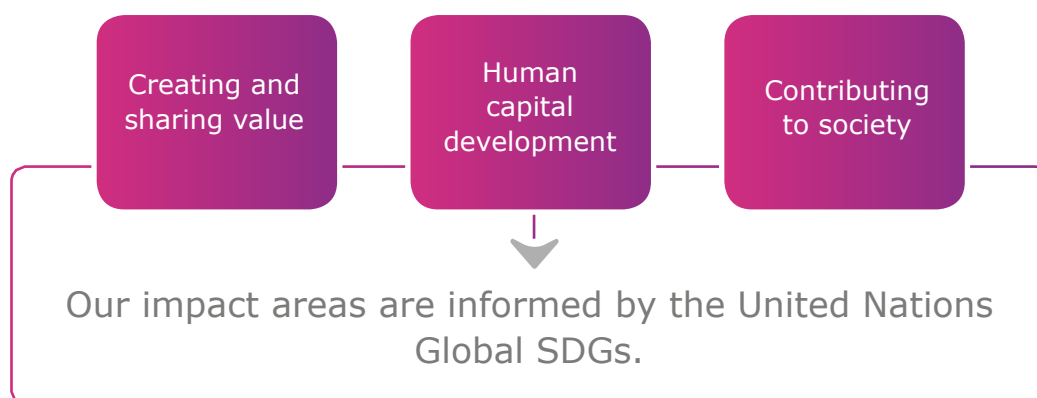
The financial sector is a high-target for cybercrimes. A positive step in dealing with this challenge is the adoption of the Cybercrimes Bills by the Select Committee on Security and Justice. This Bill aims to introduce offences that have a bearing on cybercrime and further regulate the powers to investigate cybercrimes – all which will have a positive bearing on Iemas' ability to combat fraud in the form of identity theft, financial crimes and other offences.






SUSTAINABILITY OVERVIEW

How we drive sustainability

Iemas' contributes towards sustainable growth and financial inclusion across South Africa. We have three levers in which we believe that we can best achieve our vision. Our impact areas are informed by the United Nations Global Sustainable Development Goals (SDGs).

Iemas sustainability levers



Sustainable Goals	Description	Actions
	End poverty in all its forms everywhere.	Eradicate hunger for vulnerable communities.
	Ensure healthy lives and promote well-being for all at all ages.	Employee well-being and philanthropic contributions and collaboration.
	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	Bursaries, internships/learnerships to previously disadvantaged youth. Financial wellness training to employees, members and communities.
	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	Financial Wellness Training. Growing the Iemas business to ensure continued employment of the current base.
	Ensure sustainable consumption and production patterns.	Carbon footprint interventions. Health and safety of Iemas employees. Business continuity. Disaster management/paperless campaign. Implementation of the Procurement policy. Improve the B-BBEE scorecard.

Our approach to sustainability

For Iemas, sustainability is not just what we do as a business. It also affects our stakeholders – be it our employees, employer groups, members or broader society. Core to our licence to operate as a financial services co-operative, is how we continue to work towards maintaining and building on the trust we have instilled with our stakeholders.

SUSTAINABILITY OVERVIEW (CONTINUED)

Creating and sharing value



In the current world economy, increased household debt, growing unemployment and negative or slow economic growth, during and post the Covid-19 pandemic, are sources of financial anxiety for many South Africans.

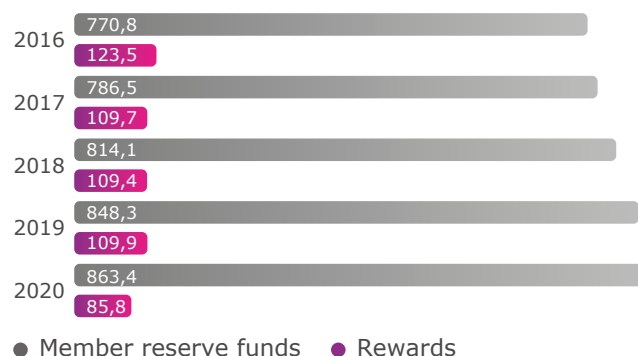
Through our business, we create and share value with our members through our rewards programme.

Areas of value creation:

	2017 R'million	2018 R'million	2019 R'million	2020 R'million
Annual member rewards	109,7	109,4	109,9	85,8

The foundation of the Co-operative model is that members share in the profits. Our annual reward allocations to members illustrates our commitment to adhering to the co-operative principles. Total member rewards (including interest on the members' deferred bonus payment fund) amounted to R85,8m (2019: R109,9m)

Member reserve funds and rewards (Rm)



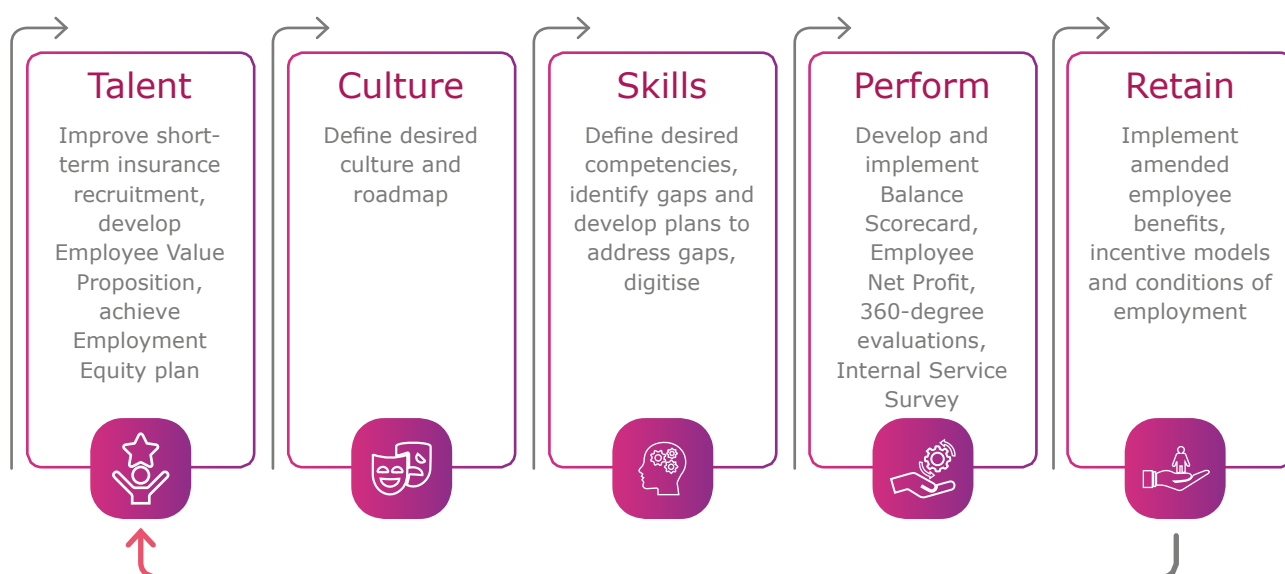
Human Capital



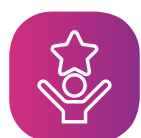
Our Human Capital initiatives and activities stem from our strategy, with the aim of driving a high performance culture in Iemas. We endeavour to attract, develop, nurture and retain talent. Internally, we are implementing a range of skills development and training initiatives geared to develop the Iemas employee of the future. One who is innovative, digitally perceptive and agile in the context of driving our performance culture.

One of the significant initiatives during the year under review was the LRA Section 197 transfer of employment of the Cape Consumers employees into i-Belong, as part of the Iemas workforce. This resulted in a positive contribution to our skill-sets and human resources. We therefore include reporting on the additional 39 employees acquired.

Iemas' Human Capital strategic priorities are outlined below:



Measuring performance



Talent

Employment Equity

Our employment equity goals are based on the National Economically Active Population. We manage representation of all races and genders in our workforce profile through deliberate recruitment and selection strategies, through our key performance areas and by embracing diversity. The Employment Equity and Skills Development Forum assists the Executive Committee with implementing and monitoring employment equity in the workplace. The Forum represents the workforce in terms of all the job levels, races and genders.

Member	African	Coloured	Indian	White	Total
Top management	-	-	-	1	1
Senior management	-	-	1	4	5
Middle Management	19	3	5	28	55
Junior Management	231	36	14	86	367
Semi-Skilled	70	11	7	15	103
Unskilled	7	-	-	-	7
Grand total	327	50	27	134	538
Fixed Term	10	-	-	-	10

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

SUSTAINABILITY OVERVIEW (CONTINUED)

Promoting diversity

The Iemas Diversity Integration Programme plays a crucial role in creating an equitable and inclusive working environment for all Iemas employees. This year, priority was to empower new leaders; 7 line managers participated in the diversity integration programme during the year (2019: 13 employees).

Succeeding through talent

The Executive Committee conducts annual reviews to identify and track employees who are considered key talent. These employees are managed and monitored in terms of retention, wellness, development, skills transfer and career advancement. Iemas continuously reviews its strategies and processes to improve talent attraction and retention.



Culture



Employee wellness programme

Iemas offers a wellness programme to employees, which consists of:

- pro-active workshops to emotionally equip and empower people;
- a confidential helpline (via telephone, e-mail and WhatsApp/SMS) for support or referral to individual coaching or counselling; and
- Individual and confidential coaching or counselling with a wellness counsellor.

During the year 26% of the workforce (2019:17%), 141 employees attended the wellness workshops, 17% of the workforce (2019: 24%), 91 employees made use of individual wellness counselling sessions and 34% of the workforce (2019:14%) 189 employees utilised the wellness helpline. With the Covid-19 pandemic virtual wellness sessions were conducted and complementary employee support was provided by a key supplier.

Internal Brand Survey

With Iemas executing a brand refresh project, the focus was to roll-out an internal brand survey. These insights are being used in the crafting of our new culture and values. In the coming financial year, the focus will be on an employee engagement survey, and focus groups to give further insights in enhancing our culture.



Skills



Training and Development

Iemas aims to establish a performance culture by developing high performing individuals through our 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 R3,1m (2019: R2,4m) for the year. The average training spend per employee trained was R2 526 (2019: R1 167), excluding skills development levies and learnership expenses for unemployed learners.

For F2020, the main training priorities were to prepare employees for the new systems, including post-implementation support. Other training initiatives included the Group Brand Ambassadors Academy, job specific training for the sales force and compliance-related training. There were 28 (2019: 27) employees this year who studied towards tertiary qualifications with the aid of Iemas study bursaries. During F2020, we contributed R290 551 (2019: R116 135) towards study bursaries. A total of 21 (2019: 7) e-learning training modules were deployed to 580 (2019: 417) users. During the Covid-19 lockdown the business was quick to response to social distancing challenges and 212 employees continued their training on Microsoft Teams.

Trained employees

African %YOY
83%
(2019: 83%)

Woman %YOY
62%
(2019: 63%)

	2018 R'million	2019 R'million	2020 R'million
Employee training and development	2,0	2,4	3,1

72% of our skills development levies were successfully claimed as grants from BANKSETA.

Leadership development

The development of leadership capabilities remains a key priority in the human capital strategy. In F2020, 7 (2019: 11) employees attended the Milpark Business School's Junior Management Development programme, funded by the Bankseta.

SUSTAINABILITY OVERVIEW (CONTINUED)



Performance and career development

Tracking our progress against our strategic goals

Iemas Balanced Scorecard

We strive to achieve our vision of being your preferred financial services co-operative by focusing on our five pillars of management performance:

Pillar 1:
People and
Culture

Pillar 2:
Customer
Experience

Pillar 3:
Key Strategic
Milestones

Pillar 4:
“Silent
Running”

Pillar 5:
Financials

SIX KEY STRATEGIC FOCUS AREAS

**Modernise
applications and focus
on digital**

**Transform service
delivery**

**Transform human
capital**

**Efficient credit
management and
recoveries**

Product management

Operational efficiency



Retention

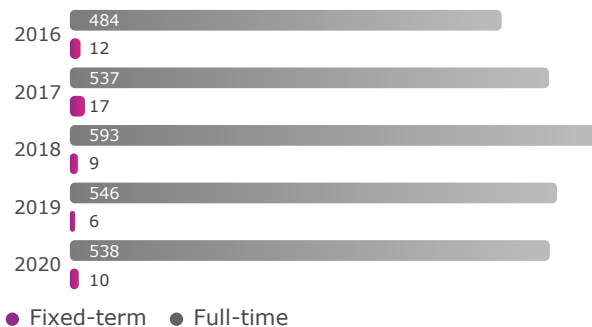
Employee turnover: measures the percentage of employees who left our employment during the year.

In F2020, we saw an increase in employee turnover due to the acceptance of VSP. In line with efforts to manage the impact of Covid-19 and the national lockdown on our business and the sustainability of Iemas, a Group-wide invitation was extended to all Iemas employees to apply for VSPs. Careful consideration was given when granting VSPs, ensuring retention of required specialised skills and business continuity. This resulted in an organisational restructure to optimise operations. At Iemas, while expanding our service offering, we aim to not only improve on our processes but to continuously streamline our workforce and structure for future growth and success.

Enhanced conditions of employment

The conditions of employment were reviewed to align to best practice and ran in parallel with our goal of enhancing Iemas' employee proposition. Benefits offered to employees include retirement fund contributions, group life cover, income protection, funeral benefits, a short-term performance incentive scheme and 21 leave days per annum for general employees.

Total number of employees



Corporate Social Responsibility



Contributing to society

Contributing positively to society is key to how we conduct our business, beyond our day-to-day business activities. Through our CSR policy, we are committed to contributing to society through the lens of the United Nations SDGs. Iemas' contribution to society is mapped against five key SDGs.

We remain cognisant of our responsibility to provide opportunities for our employees to participate in initiatives aimed at assisting the under-served and impoverished parts of the community in which we operate. The Co-operative's CSR strategy therefore includes various national and regional initiatives, which employees can support and donate to. These causes include:

- Mandela Day – Iemas donated blankets, groceries and clothes to Lerato House.
- Iemas participated in CANSA Shavathon 2020, supporting those affected by cancer.
- Casual Day – employees contributed donations in support of people with disabilities.

As part of marketing activities at employer groups, the Group Brand Ambassadors focused their promotional collateral on hand sanitizers to help promote member safety and curb the spread of Covid-19.

Broad-Based Black Economic Empowerment

We are committed to B-BBEE as a corporate responsibility and endeavour to contribute to the creation of an equitable society. Iemas has made progress in improving our overall rating by obtaining and maintaining a Level 4 B-BBEE rating in F2020.



SOCIAL REPORT

Iemas' Board of Directors present the second Social Report, which has been prepared in accordance with the Co-operatives Amendment Act, No 6 of 2013 and in terms of disclosure requirements outlined in the Regulations for Co-operatives, gazetted in the previous financial year (April 2019).

The Social Report assesses the social impact and ethical performance of the Co-operative as this relates to its stated vision, mission, goals and the code of social responsibility of the Co-operative, as set out in Iemas' Constitution.

Requirements	Performance against requirements
Voluntary and open membership	<p>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.</p> <p>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 rating models, acceptance as a member will be granted on the successful application for any of Iemas' products and services. No discriminatory criteria based on, for example, age, gender, race or marital status apply.</p>
Democratic member control	<p>All meetings have been conducted in compliance with legislative requirements and those found in the Iemas Constitution. During the reporting period, the AGM was held on 30 October 2019. Members received notice of the AGM via e-mail, website, member statements, social media platforms and SMS.</p> <p>Details of General, Board and Board Committee meetings are disclosed in the Integrated Annual Report in detail, with a summary being:</p> <ul style="list-style-type: none"> • One AGM was held in 31 October 2019 • 67 members, including 16 proxies attended the AGM • All members who attended the AGM actively participated in the meeting as all attending members casted a vote • Number of Board meetings held: 4 • Number of Audit and Risk Committee meetings held: 4 • Number of Human Resources and Ethics Committee meetings held: 3 • Number of Information Technology meetings held: 3

Requirements	Performance against requirements
<p>Member economic participation</p>	<p>1) Members are given democratic control and each member eligible to vote at a general meeting shall have the following number of votes:</p> <ul style="list-style-type: none"> • By default every member eligible to vote shall have one vote. • In addition to the default vote the Board shall award additional votes to members eligible to vote in accordance with a formula and rand values based on a member's reward bearing patronage for the preceding financial year and the value of a member's Deferred Bonus Payment Fund as it stands at the end of the preceding financial year <p>The applicable formula and related values shall annually be determined by the Board</p> <p>The services and products that Iemas offers to members are disclosed on page 10. 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.</p> <p>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.</p> <p>The basis on which rewards are allocated to members are at the discretion of the Board. The rewards allocation for the 2020 financial year, as approved by the Board of Directors amounts to R85,8m and was distributed to members, of which R69,4m was allocated to the members' reserve fund. The payment frequency of rewards to members, subject to the provisions of the Act, are within the discretion of the Board, with the understanding that such payments will be done at least annually.</p> <p>Rewards declared and payable to members, except amounts transferred to the Deferred Bonus Payment Fund, shall not earn interest from the Co-operative.</p>
<p>Autonomy and independence</p>	<p>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.</p> <p>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.</p> <p>The Board is not aware of any decisions taken during the reporting period that were influenced by non-members, agencies or non-governmental organisations.</p>

SOCIAL REPORT (CONTINUED)

Requirements	Performance against requirements
Education, training and information	<p>Member meetings represent an important forum for two-way communication between Iemas and our members. They provide an opportunity for Iemas to impart to members a greater understanding of our business, governance, financial performance and prospects, as well as to discuss areas of concern or interest to the Board and management. They also provide an opportunity for members to convey their views to the Iemas Board and management about any areas of concern or interest for them.</p> <p>Iemas has a large number of members and owing to the practical difficulties does not facilitate meetings at remote locations. Iemas is therefore considering the use of technology to facilitate the participation of members in meetings in future years.</p> <p>Members are informed of their benefits and rights as members through ongoing communication, which forms part of Iemas' marketing strategy.</p> <p>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 71.</p> <p>Engagements with members, elected representatives and employees during the reporting period are disclosed in the Stakeholder Engagement section on pages 44 to 48.</p>
Co-operation among co-operatives	<p>Iemas celebrated International Day of Co-operatives on 4 July 2020 with broadcasts on various social media platforms. This year's theme was, "Co-operatives for Climate Action". Climate change severely impacts people's livelihoods around the world, especially the most disadvantaged groups such as small-scale farmers, women, youth, indigenous peoples and ethnic minorities, who have to cope with extreme natural disasters and degradation of natural resources. This year focused on the contribution of co-operatives to combating climate change. Iemas is a member of The International Co-operative Alliance, which is a non-profit international association established to advance the co-operative model.</p>
Concern for community	<p>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.</p> <p>Social and relationship initiatives initiated by Iemas and our employees have an impact on the sustainability of members, their families and the wider under-served and impoverished communities in which Iemas operates.</p> <p>Sustainable development is ever evolving and the Board continues to strive to improve on disclosures.</p>

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.

External auditor's opinion

The unqualified audit opinion is included on page 96. 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 of Directors



Willem van Heerden

Chairman of the Board



MANAGEMENT DECISION REPORT

The Board of Directors presents Iemas' Management Decision Report, as 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.

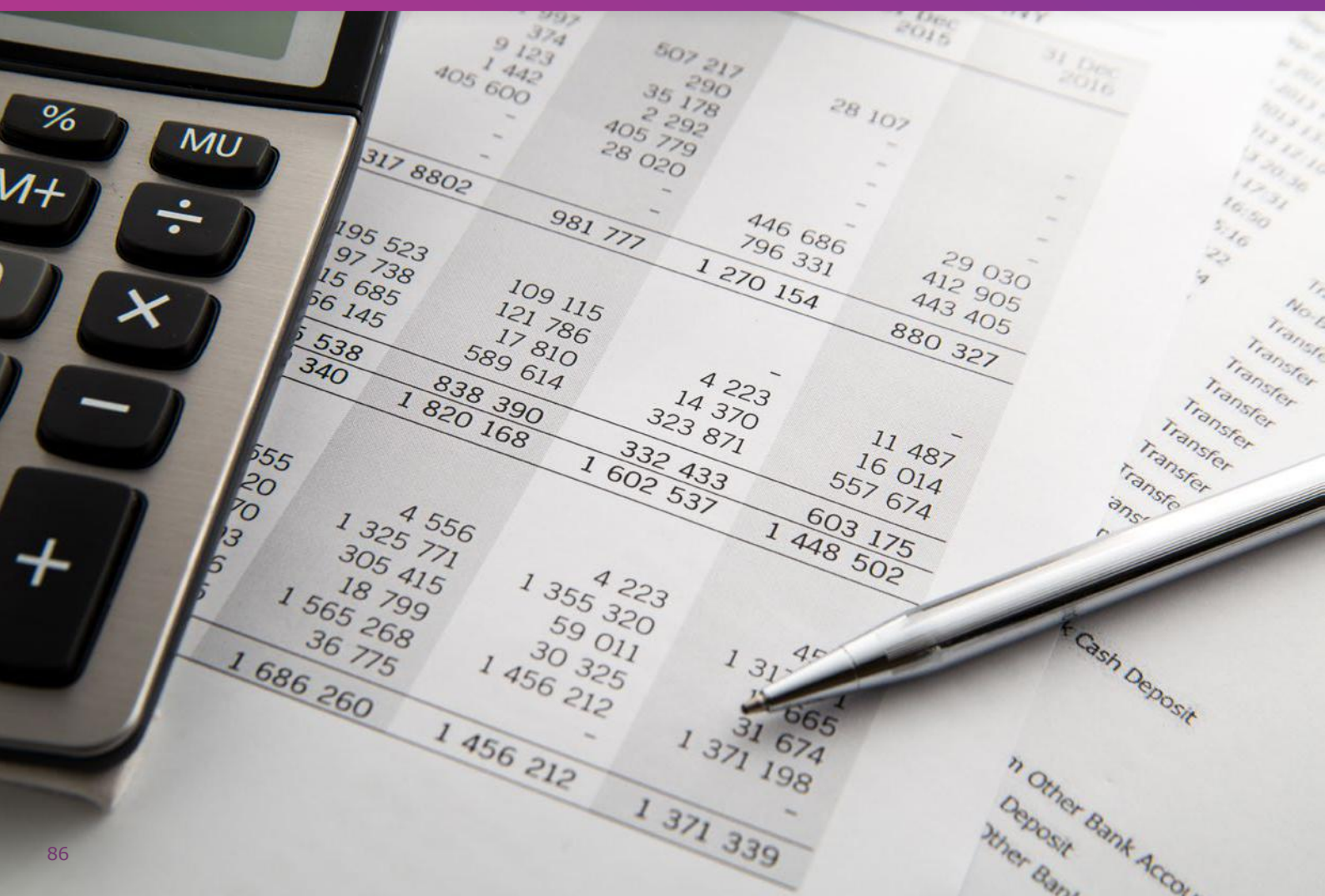
Requirements	Performance against requirements
Regulatory environment	Iemas' compliance with legislative requirements and the regulatory environment in which the Co-operative operates are disclosed on page 70.
Objectives	<p>Iemas' objectives are reviewed annually by management and presented to the Board during June, at which time agreement is reached on the strategic objectives of the Co-operative.</p> <p>A strategy is reviewed and approved for the ensuing year as well as for a further three-year period. Members also have the opportunity to assess and approve the Co-operative's future business strategy at its AGM.</p>
Policies and procedures	<p>Proper governance and compliance practices are implemented, where standard written operating procedures and policies are developed and communicated to employees.</p> <p>Policies and procedures are updated to ensure that they remain relevant. These policies and procedures include, but are not limited to, employees recruitment and administration, finance, procurement, loans and credit.</p> <p>An intranet platform with Iemas' policies and procedures is accessible to all employees of the Co-operative.</p>
Education, training and information	<p>Acting ethically and responsibly will enhance Iemas' brand and reputation and assist in building long-term value for our members. Iemas' Code of Conduct is, and is seen to be, a meaningful statement of the Co-operative's core values. It is promoted as such throughout the organisation and reinforced by proper training and appropriate disciplinary action should it be breached.</p> <p>Financial wellness awareness and training are provided to members virtually or face to face at the workplace of participating employer groups. The Board of Directors of Iemas and employees, participate in a formal induction programme on their appointment to the Board to understand Iemas' sphere of operations, mission, vision, ethics and codes of conduct. Employees also receive ongoing training and skills development opportunities. Details of training initiatives during the reporting period are disclosed in the Sustainability Report on page 71.</p>
Implementation of policies and procedures	<p>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 31 October 2019.</p> <p>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.</p>

Requirements	Performance against requirements
Democratic election of board members	<p>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 and Ethics 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 laid out by the Human Resources and Ethics Committee.</p> <p>During the selection and appointment of new Non-executive directors, the Board:</p> <ol style="list-style-type: none"> Undertake appropriate checks before appointing a person, or putting forward to the members a candidate for election, as a director; and Provide members with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. <p>At the AGM, all qualifying 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 AGM.</p>
Delegation of authority	<p>Iemas clearly distinguishes the respective roles and responsibilities of its Board and management and those matters expressly reserved to the Board and those delegated to management in the Constitution of the Co-operative and its delegation of authority. These roles and responsibilities are disclosed in the Annual Report.</p> <p>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.</p>
Iemas business plan	<p>The Co-operative's 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.</p> <p>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.</p> <p>The official annual review in June comprises of two phases:</p> <p>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.</p> <p>Phase 2: determining the strategy going forward taking cognisance of the background created in Phase 1.</p>
Meetings	<p>Official minutes are taken of all Board and Sub-committee meetings as well as the AGM, with a formal structure of matters arising remaining an agenda item until the conclusion of the relevant matter arising</p> <p>A summary of the outcome of Iemas' AGM is published on the Iemas website.</p>

MANAGEMENT DECISION REPORT (CONTINUED)

Requirements	Performance against requirements
Declaration of interests	<p>On the nomination of an appointee to the Board, a declaration of interests is completed by the nominee. At every Board and Sub-committee meeting, members declare their interests and potential conflicts.</p> <p>Iemas' employees complete an annual declaration of interests and should any outside work be undertaken by an employee, the employees member's manager has to approve such work. Registers of interests are kept and updated, as required.</p>
Changes to Iemas' Constitution	<p>There have been a few changes to Iemas' Constitution during the reporting period.</p> <p>At the AGM held on 31 October 2019, amendments to the Constitution were 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.</p>
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 30 October 2020 the Management Decision Report will be submitted to the Companies and Intellectual Property Commission (CIPC), as required by the Act. The Management Decision Report is updated and submitted to CIPC on an annual basis.
Audit opinion	<p>The unqualified audit opinion is included on page 96. 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.</p> <p>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).</p>





CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2020

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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 needs 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 96 to 97.

The annual financial statements set out on pages 98 to 192, were approved by the Board of Directors on 16 October 2020 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 2020 were considered and approved by the members at the AGM held on 30 October 2020.



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 2020

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 2020.

COMMITTEE MEMBERSHIP

During 2020, the Audit and Risk Committee members were Quintus Vorster (Chairman), Prudence Lebina and Dashni Sinivasan, all of whom are Independent Non-executive Directors. Quintus Vorster was appointed as Chairman of the Audit and Risk Committee on 21 November 2019, 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, are permanent invitees to the meetings. The meeting attendance of members is detailed on page 65 of this annual 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.

AUDIT

External audit

- The Committee nominated PwC for appointment as the independent auditors to perform the 2020 audit. The appointment was approved by members at the AGM on 31 October 2019.
- 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 2020 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, Louwrens van Velden, the Committee has assessed information provided by PwC and has evaluated the external auditor's performance during the 2020 audit. The Committee, having satisfied itself of the suitability of the external auditors, has again nominated PwC as external auditor, and Louwrens van Velden as the designated audit partner, for the 2021 reporting period. A resolution to this effect will be presented to members at the AGM to be held on 30 October 2020.

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 Iemas' Internal Audit function.
- 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.

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.

- The Audit and Risk Committee fulfilled its mandate and recommended the annual financial statements for the year ended 31 August 2020 to the Board for approval.
- The Board approved the annual financial statements on pages 98 to 192 on 16 October 2020 and recommended the annual financial statements to be tabled at the AGM for approval.

Integrated 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 Integrated 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.

REPORT OF THE AUDIT AND RISK COMMITTEE

Continued

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 49 to 55 of the integrated annual report.

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 8 (2019: 12), involving losses of R358 382 (2019: R302 428), 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 a new 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.
- 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 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 70 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 2020, the Committee is of the view that, in all material aspects, it complies with the relevant provisions of the Co-operatives 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 Integrated Annual Report for the year ended 31 August 2020 for approval to the Board on 16 October 2020.

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 98 to 192 on 16 October 2020 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 16 October 2020.

Signed for and on behalf of the Audit and Risk Committee.

A handwritten signature in black ink, appearing to read 'Q. Vorster', with a stylized flourish at the end.

Quintus Vorster

Chairman of the Audit and Risk Committee

DIRECTORS' REPORT

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 2020. The annual financial statements set out the financial position, results of operations and cash flows of Iemas for the year ended 30 August 2020

GROUP RESULTS SUMMARY

	2020 R'000	2019 R'000	% Change
Statement of Financial Position			
Total assets	5 497 790	5 640 342	(2,5)
Total liabilities	3 727 843	3 929 669	(5,1)
Statement of Comprehensive Income			
Interest income	661 671	696 106	(4,9)
Net interest income after impairments of advances	269 227	310 962	(13,4)
Profit before income tax	72 127	117 486	(38,6)
Income tax	12 336	24 281	(49,2)
Total comprehensive income for the year	59 274	93 688	(36,7)
Group rewards allocation to members of the Co-operative	85 793	109 901	(21,9)

REVIEW OF FINANCIAL RESULTS

Concerted efforts to improve performance continued, rendering results below budget due to the impact of the Covid-19 pandemic. Profit for the year decreased by R33,4m (2019: decrease of R9,8m) to R59,8m (2019: R93,2m). The total member rewards for 2020, including rewards allocated and interest accrued on the members' deferred bonus payment funds, amounted to R85,8m (2019: R109,9m).

Net advances decreased by 2,4% (2019: increase of 6,4%) to R5 239,6m (2019: R5 368,9m). The loan impairment expense (bad debts plus provisions less recoveries) increased by 56,6% (2019: 14,6%) to R137,8m (2019: R88,0m).

The impairment provision increased by R85,0m (2019: R13,0m), which represents 6,4% (2019: 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 3,5% (2019: 5,4%) to R1 769,9m (2019: R1 710,7m) while members' funds increased to R863,4m (2019: R848,3m).

SPECIAL RESOLUTIONS

The Co-operative's constitution was amended by the members at the AGM held 31 October 2019. 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.

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.

DIRECTORS

Details regarding movements of directors during the period 1 September 2019 to 31 August 2020 are tabled below:

Member Designation	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
Tom O'Connell	Chief Financial Officer	2 October 1995
Retha Piater	Independent Non-executive Director	31 July 2014
Vusi Sampula	Independent Non-executive Director	31 October 2014
Dashni Sinivasan	Independent Non-executive Director	31 October 2017
Willem van Heerden [^]	Chairman of the Board	6 December 2014
Quintus Vorster	Independent Non-executive Director	12 April 2017

[^]Appointed as Chairman of the Board at the AGM on 21 November 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 Integrated Annual Report.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee are appointed by the Board at the first Board meeting after the AGM for a one-year term of office.

AUDITORS

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

The Audit and Risk Committee has satisfied itself of the independence of the auditors and a recommendation to re-appoint them will be proposed at the AGM scheduled to take place on 30 October 2020.

INDEPENDENT AUDITORS' 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 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operatives Act of South Africa.

WHAT WE HAVE AUDITED

Iemas Financial Services (Co-operative) Limited's consolidated and separate financial statements set out on pages 98 to 192 comprise:

- The consolidated and separate statements of financial position as at 31 August 2020;
- 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Integrated Annual Report". The other information does not include the consolidated or the 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-Operatives Act, 2005 we report that, based on our audit, nothing has come to our attention that causes 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.

Further, in accordance with our responsibility in terms of Regulation 31(1)(a) published in accordance with section 95 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), we report that a certificate by the Board as required by Regulation 31(1)(a) was submitted by the Co-operative.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: Louwrens van Velden

Registered Auditor

Johannesburg

16 October 2020

STATEMENT OF FINANCIAL POSITION

at 31 August

		Group		Co-operative	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Note					
ASSETS					
Non-current assets					
Property and equipment	2	41 797	42 266	40 361	40 881
Right-of-use assets	3	14 207	–	14 207	–
Intangible assets	4	66 517	52 344	57 343	51 892
Investments in subsidiaries	5	–	–	313	313
Investments in insurance contracts	6	155 273	145 963	155 273	145 963
Deferred income tax	7	65 509	53 102	60 273	48 217
Advances receivable	8	3 899 800	4 029 502	3 899 800	4 029 502
Other non-current receivables	9	–	–	131 800	131 800
Investment securities	10	2 518	3 035	2 000	2 000
		4 245 621	4 326 212	4 361 370	4 450 568
Current assets					
Advances receivable	8	1 047 451	1 131 062	999 618	1 086 357
Cash and cash equivalents	11	187 779	170 216	42 843	25 017
Trade and other assets	12	13 056	10 772	105 960	110 153
Income tax receivable	21	3 883	2 080	3 187	–
		1 252 169	1 314 130	1 151 608	1 221 527
TOTAL ASSETS		5 497 790	5 640 342	5 512 978	5 672 095
EQUITY AND LIABILITIES					
Equity attributable to members of the Co-operative					
Share capital	13	–	–	–	–
Other reserves	14	241 884	242 401	241 366	241 366
Retained reserves		1 528 063	1 468 272	1 482 237	1 429 013
		1 769 947	1 710 673	1 723 603	1 670 379
Non-current liabilities					
Members' funds	15	863 373	848 335	863 373	848 335
Borrowings	17	1 129 447	1 577 638	1 271 552	1 712 245
Lease liability	3	8 209	–	8 209	–
Other provisions	18	6 197	–	6 197	–
		2 007 226	2 425 973	2 149 331	2 560 580
Current liabilities					
Borrowings	17	1 521 612	1 298 167	1 504 969	1 294 583
Lease liability	3	6 857	–	6 857	–
Trade and other liabilities	19	176 065	184 467	113 874	126 156
Cash co-operative rewards payable	16	14 344	18 163	14 344	18 163
Income tax payable	21	1 739	2 899	–	2 234
		1 720 617	1 503 696	1 640 044	1 441 136
TOTAL EQUITY AND LIABILITIES		5 497 790	5 640 342	5 512 978	5 672 095

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August

	Note	Group		Co-operative	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Interest income		661 671	696 106	667 646	703 966
Interest expenditure	20	(217 134)	(249 701)	(229 388)	(266 728)
Interest credited to members' funds	34	(37 495)	(47 412)	(37 495)	(47 412)
Net interest income before impairment losses		407 042	398 993	400 763	389 826
Impairment of advances receivable	22	(137 815)	(88 031)	(137 815)	(88 031)
Net interest income after impairment losses		269 227	310 962	262 948	301 795
Premium income	6	101 251	94 815	101 251	94 815
Fee and commission income	23	150 865	128 935	74 439	74 130
Other operating income	24	16 154	16 479	35 759	109 061
Income from operations		537 497	551 191	474 397	579 801
Operating expenditure	25	(423 817)	(377 687)	(377 962)	(348 512)
Profit before co-operative rewards to members		113 680	173 504	96 435	231 289
Co-operative rewards to members	34	(41 553)	(56 018)	(41 553)	(56 018)
Profit before income tax		72 127	117 486	54 882	175 271
Income tax	27	(12 336)	(24 281)	(1 658)	(14 424)
Profit for the year		59 791	93 205	53 224	160 847
Other comprehensive (expense)/income for the year		(517)	483	–	–
Items that will not be classified to profit and loss					
Net (losses)/gains on investments in equity instruments designated at FVOCI		(517)	483	–	–
Total comprehensive income for the year		59 274	93 688	53 224	160 847
Total comprehensive income attributable to:					
– Members of the Co-operative		59 274	93 688	53 224	160 847

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 2018		–	241 918	1 381 147	1 623 065
Impact of initial application of IFRS 9 at 1 September 2018		–	–	(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	14	–	483	–	483
Balance at 31 August 2019		–	242 401	1 468 272	1 710 673
Balance at 1 September 2019		–	242 401	1 468 272	1 710 673
Profit for the year		–	–	59 791	59 791
Other comprehensive expense for the year	14	–	(517)	–	(517)
Balance at 31 August 2020		–	241 884	1 528 063	1 769 947
CO-OPERATIVE					
Balance at 1 September 2018		–	241 366	1 274 246	1 515 612
Impact of initial application of IFRS 9 at 1 September 2018		–	–	(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
Balance at 1 September 2019		–	241 366	1 429 013	1 670 379
Profit for the year		–	–	53 224	53 224
Balance at 31 August 2020		–	241 366	1 482 237	1 723 603

STATEMENT OF CASH FLOWS

for the year ended 31 August

		Group		Co-operative	
	Note	2020 R'000	2019 R'000	2020 R'000	2019 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash utilised by operations	28	(361 313)	(766 134)	(309 734)	(760 937)
Interest received (excluding interest receivable)	28	674 728	691 233	680 280	695 600
Interest paid (excluding accrued interest)	28	(217 645)	(249 416)	(227 297)	(266 377)
Premium income	28	101 251	94 815	101 251	94 815
Fee and commission income	28	150 865	128 935	74 207	73 789
Other income	28	16 154	16 479	13 759	14 061
Co-operative rewards paid to members	29	(14 946)	(15 431)	(14 946)	(15 431)
Disbursements to members	15	(37 638)	(45 508)	(37 638)	(45 508)
Income tax paid	21	(27 706)	(25 847)	(19 135)	(15 701)
Net cash flow generated from/(utilised by) operating activities		283 750	(170 874)	260 747	(225 689)
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property and equipment	2	(4 561)	(6 886)	(4 501)	(5 888)
Disposals of property and equipment		6	25	6	25
Additions to intangible assets	4	(11 354)	(16 533)	(11 088)	(16 533)
Increase in investments in insurance contracts	6	(9 310)	(1 460)	(9 310)	(1 460)
Increase in investment securities	10	–	(2 000)	–	(2 000)
Dividend received	24	–	–	22 000	95 000
Net cash flow (utilised by)/generated from investing activities		(25 219)	(26 854)	(2 893)	69 144
CASH FLOW FROM FINANCING ACTIVITIES					
(Decrease)/increase in borrowings	28	(42 811)	181 800	(230 810)	174 088
Increase in notes	28	–	199 112	–	–
Decrease in notes	28	(188 939)	(200 930)	–	–
Payments of principal on leases		(7 630)	–	(7 630)	–
Payments of interest on leases		(1 588)	–	(1 588)	–
Net cash flow (utilised by)/generated from financing activities		(240 968)	179 982	(240 028)	174 088
Net increase/(decrease) in cash and cash equivalents		17 563	(17 746)	17 826	17 543
Cash and cash equivalents at beginning of the year		170 216	187 962	25 017	7 474
Cash and cash equivalents at end of the year	11	187 779	170 216	42 843	25 017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 August 2020

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 2020 ended have been prepared in accordance with International Financial Reporting Standards (IFRS) and the 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 2020 financial year

The following standards, amendments and interpretations which became effective in the 2020 financial year have been adopted for the first time for the financial period beginning on or after 1 September 2019 and have an impact on the Group's operations.

- 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 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'. For detail on the 'right-of-use asset' and lease liability raised, refer to note 3.

1. ACCOUNTING POLICIES continued

1.1 Introduction continued

1.1.2 Standards, amendments and interpretations which became effective in the 2020 financial year continued

- 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 assessed the existing models against the specific guidance in the interpretation and considered the impact on income tax accounting.

The following standards, amendments and interpretations which became effective in the 2020 financial year are mandatory for the Group's accounting periods beginning on or after 1 September 2019. Although these standards, amendments and interpretations are mandatory, they are not relevant for the current and prior financial year.

- *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).*

There are a number of minor amendments and improvements published in December 2017. These amendments are listed below:

- *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).*

1.1.3 Standards, amendments and interpretations not yet effective in the 2020 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 2020 or later periods. Of those identified as possibly being relevant to the Group's operations, the following have not been early adopted by the Group. Except for the standards specifically addressed below the impact of the remaining future standards are still being assessed.

- *IFRS 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.1 Introduction continued

1.1.3 Standards, amendments and interpretations not yet effective in the 2020 financial year continued

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 of the opinion that standard will impact insurance contracts currently recognised in terms of IFRS 4. Management is still in the process of establishing the impact of this standard on current insurance contracts.

- 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."

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 2020 or later periods, but are not relevant to the Group's operations:

- IFRS 3 (Amendment), 'Business combinations' (effective from 1 January 2020).
- IFRS 9 (Amendment), 'Financial Instruments' (effective from 1 January 2020) relating to hedge accounting.

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 8, 22 and 36).

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.

1. ACCOUNTING POLICIES continued

1.2 Critical accounting estimates and assumptions continued

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 35 and 36, 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 standalone 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 proportionate share of the net assets acquired in common control transactions, will be allocated to the common control reserve in equity of the acquiring entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

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. Amortisation periods are determined based on the pace at which the technology develops and the estimated timeframe of it becoming obsolete.

Amortisation is calculated as follows:

Loan system	10 years
Card technology and administration	3 to 5 years
Other	7 years

Direct costs include the software development employee costs and an appropriate portion of relevant overheads levied by external parties.

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

1. ACCOUNTING POLICIES continued

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/depreciation 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 doesn't 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

Financial instruments carried on the statement of financial position include all assets and liabilities, however exclude property and equipment, right-of-use assets, lease liabilities, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.1 Measurement methods

Amortised cost and effective interest rate

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 or 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

1.8.2.1 Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost
- FVOCI; or
- FVPL

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

1.8.2.1 Classification and subsequent measurement continued

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 are adjusted by the expected credit loss recognised. The Group's financial assets classified in this category comprise of advances, other non-current receivables, trade and other assets and cash and cash equivalents in the statement of financial position (refer note 8, 9, 11 and 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

1.8.2.2 Debt instruments continued

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 note 8 and 36).

- *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. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.2 Financial assets continued

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 10).

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 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.3 Financial liabilities

1.8.3.1 Classification and subsequent measurement

Financial liabilities consist of borrowings (excluding lease liabilities) and trade and other payables.

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 12 months after the statement of financial position date.

1.8.4 Derecognition of financial assets and liabilities

1.8.4.1 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.

1.8.4.2 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.

1.8.5 Modification of financial assets and financial liabilities

1.8.5.1 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; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

1. ACCOUNTING POLICIES continued

1.8 Financial instruments continued

1.8.5 Modification of financial assets and financial liabilities continued

1.8.5.1 Modification of financial assets continued

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 are 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.

1.8.5.2 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.

1.8.6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

1. ACCOUNTING POLICIES continued

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 bi-annually before the current year's distribution of co-operative rewards is taken into account. Where funds were withdrawn by members during the relevant six month period, or appropriated by Iemas during the relevant six month period, 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 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.

1. ACCOUNTING POLICIES continued

1.12 Investment in insurance contracts continued

The cell captive arrangement transfers the significant insurance risk (of the policies issued to members by the cell captive insurer) from the cell captive insurer to the Co-operative by requiring the Co-operative to maintain the solvency of the cell captives. The cell captive arrangement therefore meets the definition of an insurance contract in IFRS 4 'Insurance contracts'. A portion of the cell captives' insurance premiums are received in conjunction with the members' loan instalments which constitutes a 'deposit component'. A 'deposit component' is defined as a contractual component that is not accounted for as a derivative under IFRS 9, and would be in the scope of IFRS 9 '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 IFRS 9. 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 and Bryte Insurance Company, on commercial terms and conditions at market prices. Both these companies are licensed insurance companies.

1.13 Leases

IFRS 16 was adopted by the Group on 1 September 2019, and replaces IAS 17. The Group adopted the 'modified retrospective approach' included in IFRS 16 which doesn't require a full retrospective application, i.e. comparative information wasn't restated.

1.13.1 Leases under IFRS 16 (2020)

The Group is the lessee

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group.

The right-of-use assets are presented separately in the statement of financial position. Lease liabilities are disclosed separately as current and non-current liabilities in the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of fixed payments for the underlying right-of-use assets during the lease term. The lease payments are discounted using the prime interest rate.

Lease payments are allocated between the lease liability and interest expenditure. The interest expenditure is recognised in the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. ACCOUNTING POLICIES continued

1.13 Leases continued

1.13.1 Leases under IFRS 16 (2020) continued

Right-of-use assets are initially recognised at the present value of lease payments and subsequently stated at cost. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases are recognised on a straight-line basis as operating expenditure in the statement of financial position. Short-term leases are leases with a lease term of 12 months or less.

1.13.2 Leases under IAS 17 (2019)

The Group is the lessee

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

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

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

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 the unwinding of 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

1. ACCOUNTING POLICIES continued

1.15 Revenue recognition continued

1.15.1 Net interest income continued

statement of comprehensive income. Effective interest is calculated on loans and advances which are classified at amortised cost. Interest expenditure are 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

2. PROPERTY AND EQUIPMENT

	Office furniture and equipment R'000	Computer equipment R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
GROUP					
At 1 September 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 25)	(1 073)	(3 455)	(579)	–	(5 107)
Closing net book amount	5 429	8 756	1 404	26 677	42 266
At 31 August 2019					
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
Year ended 31 August 2020					
Opening net book amount	5 429	8 756	1 404	26 677	42 266
Additions	671	3 382	508	–	4 561
Additions acquired through business combination	–	145	28	363	536
Disposals	(112)	(25)	–	–	(137)
Depreciation charge (note 25)	(1 197)	(3 733)	(499)	–	(5 429)
Closing net book amount	4 791	8 525	1 441	27 040	41 797
At 31 August 2020					
Cost	17 341	50 391	8 254	27 163	103 149
Accumulated depreciation	(12 550)	(41 866)	(6 813)	(123)	(61 352)
Net book amount	4 791	8 525	1 441	27 040	41 797

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 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 25)	(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
Year ended 31 August 2020					
Opening net book amount	5 192	8 725	287	26 677	40 881
Additions	643	3 322	536	–	4 501
Disposals	(112)	(24)	–	–	(136)
Depreciation charge (note 25)	(949)	(3 726)	(210)	–	(4 885)
Closing net book amount	4 774	8 297	613	26 677	40 361
At 31 August 2020					
Cost	17 043	50 155	6 808	26 800	100 806
Accumulated depreciation	(12 269)	(41 858)	(6 195)	(123)	(60 445)
Net book amount	4 774	8 297	613	26 677	40 361

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; and
- 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.

The Group adopted IFRS 16 on 1 September 2019. For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. For long-term lease rentals relating to property refer to note 3. Short-term lease rentals amounting to R2,1m are included in the statement of comprehensive income for both the Group and the Co-operative. For the 2019 financial year, leases relating to property were recognised in terms of IAS 17. Lease rentals for 2019 amounting to R12,2m are included in the statement of comprehensive income for both the Group and the Co-operative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

3. LEASES

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Right-of-use assets		
Buildings	14 207	–
	14 207	–
Lease liabilities		
Non-current portion of lease liabilities	8 209	–
Current portion of lease liabilities	6 857	–
	15 066	–

The following amounts relating to leases are recognised in the statement of comprehensive income:

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Interest expenditure (note 20)	1 588	–
Depreciation (note 25)	8 489	–
	10 077	–

The Group leases various offices throughout the country. Rental contracts are typically made for fixed periods of up to eight years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may not be used as security for borrowing purposes.

The Group adopted IFRS 16 on 1 September 2019. For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. As a result a right-of-use asset and corresponding lease liabilities were recognised in the 2020 financial year.

The future minimum lease payments in relation to non-cancellable operating leases are receivable as follows:

	2020 R'000	2019 R'000
No later than one year	6 857	–
Later than one year but not later than five years	8 209	–
	15 066	–

4. INTANGIBLE ASSETS

	Group R'000	Co- operative R'000
At 1 September 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 25)	(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
Year ended 31 August 2020		
Opening net book amount	52 344	51 892
Additions	11 354	11 088
Additions acquired through business combination	10 939	–
Amortisation charge (note 25)	(8 120)	(5 637)
Closing net book amount	66 517	57 343
At 31 August 2020		
Cost	86 658	73 070
Accumulated amortisation	(20 141)	(15 727)
Net book amount	66 517	57 343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

4. INTANGIBLE ASSETS continued

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 development of the new loan management system was finalised and the system was implemented on 1 November 2019. All external costs associated with the development of this system were capitalised. As at August 2020, this totalled R56,3m (2019: R49,0m);
- 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;
- The Issue Insurance Software system was implemented in the Financial Advisory Division during August 2015 at a total cost of R0,7m;
- During the current financial year, the Co-operative did system development and customisation to the value of R3,8m on the SEA2 Card system to cater for the Co-operative's needs. The system was implemented on 1 November 2019. On 1 March 2020 iBelong Rewards Proprietary Limited purchased the SEA2 Card system from Cape Consumers Proprietary Limited for a total cost of R4,2m. Total costs for this system as at 31 August 2020 totalled to R4,3m after a further R0,1m was capitalised for additional developments done to the system. iBelong Rewards Proprietary Limited uses the SEA2 Card system for card administration purposes; and
- In the 2019 financial year, The Cooperative Switch Proprietary Limited implemented a new card payment platform at a total cost of R6,9m.

5. INVESTMENTS IN SUBSIDIARIES

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Shares at cost	–	–	313	313

	Number of shares	Effective holding %	Invest- ment R
CO-OPERATIVE 2019			
Iemtech Proprietary Limited	1 000	100	1 000
Iemark Marketing Proprietary Limited (Dormant)	120	100	120
Torque Securitisation (RF) Limited (preference shares/note 36)	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
CO-OPERATIVE 2020			
Iemtech Proprietary Limited	1 000	100	1 000
Iemark Marketing Proprietary Limited (Dormant)	120	100	120
Torque Securitisation (RF) Limited (preference shares/note 36)	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	100	1 000
iBelong Rewards Proprietary Limited	100	100	100
			313 104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

5. INVESTMENTS IN SUBSIDIARIES continued

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.

In 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.

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 33.

As discussed in note 36 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 9. No additional financial support was provided during the year.

During the 2018 financial year, a new card payment platform in partnership with another buying association, Cape Consumers Proprietary Limited, was developed. The platform is housed in a separate company, The Cooperative Switch Proprietary Limited, that was jointly owned by the Co-operative and Cape Consumers Proprietary Limited. The Co-operative acquired 50% of the shares in The Cooperative Switch Proprietary Limited in the 2018 financial year.

During the current financial year the Co-operative acquired 100% of the shares in iBelong Rewards Proprietary Limited for a total consideration of R7,5m, that consisted of the following:

	2020 R'000
Investment in The Cooperative Switch Proprietary Limited	1
Loan to The Cooperative Switch Proprietary Limited	4 117
Rental deposit	263
Furniture and equipment	536
Computer systems	4 195
Leave pay provision	(1 079)
Staff incentive liabilities	(376)
Tenant installation allowance liability	(144)
	7 513

iBelong Rewards Proprietary Limited acquired 50% of the shares in The Cooperative Switch Proprietary Limited from Cape Consumers Proprietary Limited. The Cooperative Switch Proprietary Limited is now 100% owned by the Group through the respective 50% investments by the Co-operative and iBelong Rewards Proprietary Limited.

6. INVESTMENTS IN INSURANCE CONTRACTS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
– Iemas (Co-operative) Limited Cell "A12"	1 549	1 442
– Iemas Financial Services (Co-operative) Limited Cell "00228"	128 439	126 885
– Iemas Financial Services (Co-operative) Limited Cell "00072"	25 285	17 636
	155 273	145 963
GROUP		
Reconciliation of movement in investment in insurance contracts		
<i>Iemas (Co-operative) Limited Cell "A12"</i>		
At 1 September	1 442	3 839
Revenue – premiums earned	32	83
Revenue – investment income	163	316
Claims income	21	48
Reinsurance commission paid	(103)	(176)
Transactions with related parties	(6)	(2 668)
At 31 August	1 549	1 442
<i>Iemas Financial Services (Co-operative) Limited Cell "00228"</i>		
At 1 September	126 885	127 775
Revenue – premiums earned	82 553	78 028
Revenue – investment income	8 993	8 725
Claims costs	(32 279)	(18 995)
Reinsurance commission paid	(11 287)	(12 955)
Transactions with related parties	(46 426)	(55 693)
At 31 August	128 439	126 885
<i>Iemas Financial Services (Co-operative) Limited Cell "00072"</i>		
At 1 September	17 636	12 889
Revenue – premiums earned	18 666	16 704
Revenue – investment income	1 171	924
Claims costs	(1 503)	(4 017)
Reinsurance commission paid	(5 178)	(3 934)
Transactions with related parties	(5 507)	(4 930)
At 31 August	25 285	17 636

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6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Reconciliation of movement in investment in insurance contracts		
<i>Iemas (Co-operative) Limited Cell "A12"</i>		
At 1 September	1 442	3 839
Revenue – premiums earned	32	83
Revenue – investment income	163	316
Claims income	21	48
Reinsurance commission paid	(109)	(194)
Transactions with related parties	–	(2 650)
At 31 August	1 549	1 442
<i>Iemas Financial Services (Co-operative) Limited Cell "00228"</i>		
At 1 September	126 885	127 775
Revenue – premiums earned	82 553	78 028
Revenue – investment income	8 993	8 725
Claims costs	(32 279)	(18 995)
Reinsurance commission paid	(34 713)	(38 648)
Transactions with related parties	(23 000)	(30 000)
At 31 August	128 439	126 885
<i>Iemas Financial Services (Co-operative) Limited Cell "00072"</i>		
At 1 September	17 636	12 889
Revenue – premiums earned	18 666	16 704
Revenue – investment income	1 171	924
Claims costs	(1 503)	(4 017)
Reinsurance commission paid	(10 685)	(8 864)
At 31 August	25 285	17 636

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.

6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
GROUP		
Income and expenditure arising directly from credit life insurance contracts		
<i>Premium income in the statement of comprehensive income</i>		
Revenue – premiums earned		
– Iemas (Co-operative) Limited Cell "A12"	32	83
– Iemas Financial Services (Co-operative) Limited Cell "00228"	82 553	78 028
– Iemas Financial Services (Co-operative) Limited Cell "00072"	18 666	16 704
	101 251	94 815
<i>Income in other operating income</i>		
Revenue – investment income (note 24)		
– Iemas (Co-operative) Limited Cell "A12"	163	316
– Iemas Financial Services (Co-operative) Limited Cell "00228"	8 993	8 725
– Iemas Financial Services (Co-operative) Limited Cell "00072"	1 171	924
	10 327	9 965
<i>Expenditure in other operating expenses</i>		
Claims (income)/cost (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	(21)	(48)
– Iemas Financial Services (Co-operative) Limited Cell "00228"	32 279	18 995
– Iemas Financial Services (Co-operative) Limited Cell "00072"	1 503	4 017
	33 761	22 964
Reinsurance commission paid (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	103	176
– Iemas Financial Services (Co-operative) Limited Cell "00228"	11 287	12 955
– Iemas Financial Services (Co-operative) Limited Cell "00072"	5 178	3 934
	16 568	17 065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

6. INVESTMENTS IN INSURANCE CONTRACTS continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Income and expenditure arising directly from credit life insurance contracts		
<i>Premium income in the statement of comprehensive income</i>		
Revenue – premiums earned		
– Iemas (Co-operative) Limited Cell "A12"	32	83
– Iemas Financial Services (Co-operative) Limited Cell "00228"	82 553	78 028
– Iemas Financial Services (Co-operative) Limited Cell "00072"	18 666	16 704
	101 251	94 815
<i>Income in other operating income</i>		
Revenue – investment income (note 24)		
– Iemas (Co-operative) Limited Cell "A12"	163	316
– Iemas Financial Services (Co-operative) Limited Cell "00228"	8 993	8 725
– Iemas Financial Services (Co-operative) Limited Cell "00072"	1 171	924
	10 327	9 965
<i>Expenditure in other operating expenses</i>		
Claims (income)/cost (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	(21)	(48)
– Iemas Financial Services (Co-operative) Limited Cell "00228"	32 279	18 995
– Iemas Financial Services (Co-operative) Limited Cell "00072"	1 503	4 017
	33 761	22 964
Reinsurance commission paid (note 25)		
– Iemas (Co-operative) Limited Cell "A12"	109	194
– Iemas Financial Services (Co-operative) Limited Cell "00228"	34 713	38 648
– Iemas Financial Services (Co-operative) Limited Cell "00072"	10 685	8 864
	45 507	47 706

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 2020	Ratings 2019
– Guardrisk Insurance Company Limited	Ba1 (Apr 20) (Moody's)	Baa3 (Mar 18) (Moody's)
– Bryte Insurance Company Limited	A (Jul 20) (GCR)	A+ (Aug 18) (GCR)

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

7. DEFERRED INCOME TAX

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Deferred tax assets				
– To be recovered within 12 months	94 199	68 307	86 482	62 146
	94 199	68 307	86 482	62 146
Deferred tax liabilities				
– To be incurred after more than 12 months	(4 599)	(2 892)	(3 951)	(2 736)
– To be incurred within 12 months	(24 091)	(12 313)	(22 258)	(11 193)
	(28 690)	(15 205)	(26 209)	(13 929)
Deferred tax assets (net)	65 509	53 102	60 273	48 217
The gross movement on the deferred income tax account is as follows:				
At 1 September	53 102	46 701	48 217	42 215
Credited to the statement of comprehensive income (note 27)	12 407	4 036	12 056	3 637
Impact of initial application of IFRS 9 at 1 September 2018	–	2 365	–	2 365
At 31 August	65 509	53 102	60 273	48 217

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	Accelera- ted tax de- preciation R'000	Prepay- ments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities					
GROUP					
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)
Debit to the statement of comprehensive income	–	(1 707)	(115)	(11 663)	(13 485)
At 31 August 2020	(448)	(4 150)	(669)	(23 423)	(28 690)

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7. DEFERRED INCOME TAX continued

	Section 12J investment R'000	Accelera- ted tax de- preciation R'000	Prepay- ments R'000	Doubtful debt allowance R'000	Total R'000
Deferred tax liabilities					
CO-OPERATIVE					
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)
Debit to the statement of comprehensive income	–	(1 215)	(87)	(10 978)	(12 280)
At 31 August 2020	(448)	(3 503)	(640)	(21 618)	(26 209)

	Impair- ment 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 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	280	–	–	2 085	2 365
At 31 August 2019	47 040	8 338	8 427	4 502	68 307
Credit/(debit) to the statement of comprehensive income	23 800	1 606	(724)	1 210	25 892
At 31 August 2020	70 840	9 944	7 703	5 712	94 199
CO-OPERATIVE					
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	280	–	–	2 085	2 365
At 31 August 2019	42 560	7 397	8 427	3 762	62 146
Credit/(debit) to the statement of comprehensive income	22 960	1 602	(724)	498	24 336
At 31 August 2020	65 520	8 999	7 703	4 260	86 482

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

8. ADVANCES RECEIVABLE

	2020 R'000	2019 R'000
GROUP		
Gross advances	6 638 357	7 225 718
Repossessed vehicles ⁽¹⁾	–	5 437
Unearned finance charges	(1 398 802)	(1 862 233)
Net advances	5 239 555	5 368 922
Current members	5 043 676	5 285 791
Former members	195 879	83 131
Less: Interest in suspense	(11 798)	(10 265)
Less: Impairment of advances receivable (see note 22)	(253 000)	(168 000)
Net advances after impairment	4 974 757	5 190 657
Non-current portion of advances	3 919 119	4 050 031
Current portion of advances	1 055 638	1 140 626
Deferred initiation fees	(27 506)	(30 093)
Non-current portion of deferred initiation fees	(19 319)	(20 529)
Current portion of deferred initiation fees	(8 187)	(9 564)
Statement of financial position	4 947 251	5 160 564
Non-current portion of advances	3 899 800	4 029 502
Current portion of advances	1 047 451	1 131 062
	4 947 251	5 160 564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. ADVANCES RECEIVABLE continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
Gross advances	6 590 524	7 181 013
Reposessed vehicles ⁽¹⁾	–	5 437
Unearned finance charges	(1 398 802)	(1 862 233)
Net advances	5 191 722	5 324 217
Current members	4 995 843	5 241 086
Former members	195 879	83 131
Less: Interest in suspense	(11 798)	(10 265)
Less: Impairment of advances receivable (see note 22)	(253 000)	(168 000)
Net advances after impairment	4 926 924	5 145 952
Non-current portion of advances	3 919 119	4 050 031
Current portion of advances	1 007 805	1 095 921
Deferred initiation fees	(27 506)	(30 093)
Non-current portion of deferred initiation fees	(19 319)	(20 529)
Current portion of deferred initiation fees	(8 187)	(9 564)
Statement of financial position	4 899 418	5 115 859
Non-current portion of advances	3 899 800	4 029 502
Current portion of advances	999 618	1 086 357
	4 899 418	5 115 859

(1) 2020 reposessed vehicles are included as part of advances.

Net advances in both the Group and Co-operative includes securitised assets of R278,2m (2019: R458,0m). 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 17 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 R278,2m (2019: R458,0m) that were sold to Torque Securitisation (RF) Limited, have been pledged as security for bank borrowing facilities (see note 17).

Reposessed 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.

9. OTHER NON-CURRENT RECEIVABLES

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Loan to related party	–	–	5 300	5 300
Investment in debt instruments	–	–	126 500	126 500
	–	–	131 800	131 800

The Co-operative provided a credit enhancement in terms of a subordinated loan of R5,3m (2019: R5,3m) to Torque Securitisation (RF) Limited to fund the purchase of the participating assets (refer note 8). 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 R0,02m (2019: R0,03m) 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 (2019: 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. Interest accrued on the Class D2 notes of R0,2m (2019: 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 (2019: 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. Interest accrued on the Class C3 notes of R0,1m (2019: 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 (2019: 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. Interest accrued on the Class B3 notes of R0,1m (2019: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

10. INVESTMENT SECURITIES

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Investment in Hollard Insurance Company Limited cell captive				
At 1 September	1 035	–	–	–
Reclassify asset from available-for-sale to investment securities	–	552	–	–
Fair value remeasurement	(517)	483	–	–
At 31 August	518	1 035	–	–
Investment in nReach One Proprietary Limited				
At 1 September	2 000	–	2 000	–
Increase in investment	–	2 000	–	2 000
At 31 August	2 000	2 000	2 000	2 000
Investment securities	2 518	3 035	2 000	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.

During the 2019 financial year the Co-operative invested R2,0m for a period of five years in shares issued at R1 per share by nReach One Proprietary Limited. nReach One Proprietary Limited is classified as a venture capital company in terms of section 12J of the Income Tax Act, No 58 of 1962. The company utilises the investment made by the Co-operative to fund small- and medium-sized enterprises.

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

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
AVAILABLE-FOR-SALE ASSETS				
At 1 September	–	552	–	–
Reclassify asset from available-for-sale to investment securities	–	(552)	–	–
At 31 August	–	–	–	–

11. CASH AND CASH EQUIVALENTS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash on hand	46	58	46	58
Cash at bank	171 950	154 742	42 797	24 959
Total cash and bank	171 996	154 800	42 843	25 017
Restricted cash	15 783	15 416	–	–
Cash and cash equivalents	187 779	170 216	42 843	25 017

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 R9,5m (2019: R9,3m) is included as restricted cash in the Group.

An amount of R6,3m (2019: R6,1m) 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:

	2020		2019	
	Global credit rating	Latest significant change date	Global credit rating	Expiry date
Absa Bank Limited	AA	(Jul 20)	AA	(May 18)
Standard Bank of South Africa Limited	AA+	(Jul 20)	AA+	(May 18)
FirstRand Bank Limited	AA+	(Jul 20)	AA+	(Dec 18)

12. TRADE AND OTHER ASSETS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Receivables from related parties (note 33)	–	–	97 259	103 766
Cash-in-transit suspense	115	610	–	–
Prepaid expenses	3 453	2 744	3 453	2 744
Other	9 488	7 418	5 248	3 643
	13 056	10 772	105 960	110 153

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. SHARE CAPITAL

In terms of the Co-operatives Amendment Act, No 6 of 2013 and Iemas' constitution, membership of the Co-operative does not require members to take up shares in the Co-operative.

14. OTHER RESERVES

	Invest- ment securities reserve R'000	Special reserve R'000	General reserve R'000	Total R'000
GROUP				
At 1 September 2018	552	97 494	143 872	241 918
Net gains on investments in equity instruments designated at FVOCI (note 10)	483	–	–	483
Transfer to general reserve	–	(82 137)	82 137	–
At 31 August 2019	1 035	15 357	226 009	242 401
At 1 September 2019	1 035	15 357	226 009	242 401
Net loss on investments in equity instruments designated at FVOCI (note 10)	(517)	–	–	(517)
Transfer from general reserve	–	425	(425)	–
At 31 August 2020	518	15 782	225 584	241 884
CO-OPERATIVE				
At 1 September 2018	–	97 494	143 872	241 366
Transfer to general reserve	–	(82 137)	82 137	–
At 31 August 2019	–	15 357	226 009	241 366
At 1 September 2019	–	15 357	226 009	241 366
Transfer from general reserve	–	425	(425)	–
At 31 August 2020	–	15 782	225 584	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.

15. MEMBERS' FUNDS

	R'000
GROUP AND CO-OPERATIVE	
At 1 September 2018	814 064
Interest credited to members' funds (note 34)	47 412
Co-operative rewards credited to members' funds (note 34)	42 332
Appropriations of members' funds as collateral against advances	(10 364)
Under provision of prior year rewards (note 34)	399
Disbursements to members	(45 508)
At 31 August 2019	848 335
At 1 September 2019	848 335
Interest credited to members' funds (note 34)	37 495
Co-operative rewards credited to members' funds (note 34)	31 872
Appropriations of members' funds as collateral against advances	(15 245)
Over provision of prior year rewards (note 34)	(1 446)
Disbursements to members	(37 638)
At 31 August 2020	863 373

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 the first six months of 2020, an interest rate of 6,00% was approved by the Board of Directors on the liability balance as at the end of February 2020. For the last six months of 2020, an interest rate of 3,25% was approved by the Board of Directors on the liability balance at the end of the year. A rate of 6,25% was approved for the full 2019 financial year.

16. CASH CO-OPERATIVE REWARDS PAYABLE TO MEMBERS

	R'000
GROUP AND CO-OPERATIVE	
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 29)	(15 431)
Over provision of prior year cash co-operative rewards (note 34)	(1 363)
At 31 August 2019	18 163
At 1 September 2019	18 163
Co-operative rewards and interest accrued for the year*	80 481
	98 644
Transfer to members' funds*	(69 367)
Cash co-operative rewards paid to members (note 29)	(14 946)
Under provision of prior year cash co-operative rewards (note 34)	13
At 31 August 2020	14 344

* Included in co-operative rewards declared to members (note 34).

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17. BORROWINGS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Non-current	1 129 447	1 577 638	1 271 552	1 712 245
Standard Bank of South Africa Limited	350 000	500 000	350 000	500 000
Absa Bank Limited	400 000	500 000	400 000	500 000
First National Bank (a division of FirstRand Bank Limited)	350 000	400 000	350 000	400 000
Torque Securitisation (RF) Limited	–	–	171 552	312 245
Torque Securitisation (RF) Limited – notes issued	29 447	177 638	–	–
Current	1 521 612	1 298 167	1 504 969	1 294 583
Standard Bank of South Africa Limited	500 120	300 376	500 120	300 376
Absa Bank Limited	500 000	400 212	500 000	400 212
First National Bank (a division of FirstRand Bank Limited)	388 896	431 024	388 896	431 024
Cape Consumers Proprietary Limited	7 803	–	–	–
Torque Securitisation (RF) Limited	–	–	115 953	162 971
Torque Securitisation (RF) Limited – notes issued	124 793	166 555	–	–
Total borrowings	2 651 059	2 875 805	2 776 521	3 006 828

The facilities consist of:

	Review date	Expiry date	Interest rate linked to	Facility R'000
Standard Bank of South Africa Limited	n/a	Dec 2021	1-month JIBAR	250 000
Standard Bank of South Africa Limited	n/a	Dec 2021	1-month JIBAR	100 000
Standard Bank of South Africa Limited	n/a	Jun 2021	1-month JIBAR	250 000
Standard Bank of South Africa Limited	n/a	Jun 2021	1-month JIBAR	250 000
Absa Bank Limited	n/a	Dec 2020	Prime	500 000
Absa Bank Limited	n/a	Dec 2021	Prime	200 000
Absa Bank Limited	n/a	Jun 2022	Prime	200 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2020	1-month JIBAR	300 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Sep 2021	1-month JIBAR	100 000
First National Bank (a division of FirstRand Bank Limited)	n/a	Dec 2021	1-month JIBAR	250 000
First National Bank (a division of FirstRand Bank Limited)	Oct 2020	n/a	*	450 000
				2 850 000

* 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.

Refer to note 8 for the advances receivable ceded as security. These facilities require that certain ratios are met in terms of the common terms agreement.

17. BORROWINGS continued

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 approximate their carrying amounts.

Torque Securitisation (RF) Limited funded the borrowings by issuing notes to investors. The notes were issued to fund the purchase of participating assets from the Group (refer note 8). Detail of the notes issued is presented below:

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Class A6 notes Unsubordinated, secured, compulsory redeemable, asset-backed notes of R 1,000,000 each. The notes bear interest at 3-month JIBAR plus 2,08%. The scheduled maturity date is 15 May 2021. The legal maturity date is 15 May 2028. The amounts disclosed are the total notes in issue for this class.	153 914	342 853	–	–
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. The total notes in issue for this class amount to 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. The total notes in issue for this class amount to 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. The total notes in issue for this class amount to R48,0m.	–	–	–	–
Interest accrued	326	1 340	–	–
Loan payable to Torque Securitisation (RF) Limited 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.	–	–	287 505	475 216
At 31 August	154 240	344 193	287 505	475 216

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17. BORROWINGS continued

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.

During the current financial year iBelong Rewards Proprietary Limited purchased Cape Consumers Proprietary Limited's card business. As per the sale of business agreement iBelong Rewards Proprietary Limited created a loan in favour of Cape Consumers Proprietary Limited of R7,5m that is the amount equal to the purchase price (refer note 5). Interest of R0,3m were capitalised during the year. The loan will be repaid by means of withdrawals in tranches as set out in the loan agreement. The loan account will be credited on the last day of each calendar month with interest calculated on a daily basis and compounded monthly based on the amount of the various tranches of the principal debt and at the interest rate applicable to each tranche of the principal debt as set out in the loan agreement.

Capital is repayable in 4 tranches of 25% each. These are due within 6 months of the previous tranche with the last payable 31 August 2021. Interest is raised per tranche at a rate between 7% and 8%. Interest on call account is raised on a 3 month JIBAR rate plus 0.3%.

18. OTHER NON-CURRENT PROVISIONS

Personnel bonus and incentive provision

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
At 1 September	–	–	–	–
Net personnel bonuses accrued	6 197	–	6 197	–
At 31 August	6 197	–	6 197	–

19. TRADE AND OTHER LIABILITIES

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Card merchants	38 337	43 941	144 128	43 941
Premiums payable	40 788	41 946	–	–
Unclaimed balances owed to current and former members	22 938	27 046	22 938	27 046
Insurance rewards payable	5 867	6 131	–	–
Accrued expenses				
– Bonuses	20 190	20 603	17 956	18 852
– Leave pay	9 509	8 478	7 287	6 866
Brokers' commission	3 378	2 641	–	–
Pay as you earn	3 344	2 268	2 205	1 938
Audit fee accrual	3 403	2 092	3 135	1 865
Dealers	9 037	12 482	9 037	12 482
Trade creditors	19 274	16 839	12 979	13 166
	176 065	184 467	113 874	126 156

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

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

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

20. INTEREST EXPENDITURE

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Interest expenditure	217 134	249 701	236 551	272 447
Gain on finance costs	–	–	(7 163)	(5 719)
	217 134	249 701	229 388	266 728
Interest expenditure consist of:				
– Bank borrowings	193 703	221 192	193 703	221 192
– Torque Securitisation (RF) Limited	–	–	34 098	45 536
– Torque Securitisation (RF) Limited – Notes issued	21 489	28 509	–	–
– Lease liabilities (note 3)	1 588	–	1 588	–
– Other	354	–	–	–
	217 134	249 701	229 389	266 728

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

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21. INCOME TAX PAID

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Payable at the beginning of the year	(2 899)	(1 716)	(2 234)	–
Receivable at the beginning of the year	2 080	3 367	–	126
Normal tax (note 27)	(24 743)	(28 317)	(13 714)	(18 061)
Receivable at the end of the year	(3 883)	(2 080)	(3 187)	–
Payable at the end of the year	1 739	2 899	–	2 234
	(27 706)	(25 847)	(19 135)	(15 701)

22. IMPAIRMENT OF ADVANCES RECEIVABLE

The gross movement on the impairment is as follows:

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
At 31 August (IAS 39)	168 000	155 000	168 000	155 000
Impact of initial application of IFRS 9 at 1 September	–	1 000	–	1 000
Restated balance at 1 September	168 000	156 000	168 000	156 000
Advances written off during the year as uncollectible	(65 143)	(87 993)	(65 143)	(87 993)
Impairment charge	150 143	99 993	150 143	99 993
At 31 August	253 000	168 000	253 000	168 000
Impairment of advances in the statement of comprehensive income is as follows:				
New impairment raised (note 8)	253 000	168 000	253 000	168 000
Unused amounts reversed	(102 857)	(68 007)	(102 857)	(68 007)
Impairment charge	150 143	99 993	150 143	99 993
Post write-off recoveries	(12 328)	(11 962)	(12 328)	(11 962)
Impairment of advances receivable	137 815	88 031	137 815	88 031

23. FEE AND COMMISSION INCOME

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Administration fees	73 136	52 159	61 008	58 443
Commission	77 729	76 776	13 431	15 687
	150 865	128 935	74 439	74 130

24. OTHER OPERATING INCOME

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Dividends received (note 33)	–	–	22 000	95 000
Investment income (note 6)	10 327	9 965	10 327	9 965
Realised return on investment securities	2 328	2 341	–	–
Other income	3 499	4 173	3 432	4 096
	16 154	16 479	35 759	109 061

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25. OPERATING EXPENDITURE

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
The following items have been charged against other operating expenditure:				
Amortisation of intangible assets (note 4)	8 120	1 118	5 637	775
Auditor's remuneration	4 959	5 394	4 257	4 713
– Audit fees	4 284	4 040	3 561	3 412
– Overprovision prior year	(242)	(110)	(221)	(163)
– Non-audit fees	917	1 464	917	1 464
Bank charges	2 295	2 747	1 439	1 891
Broker commissions	6 828	3 895	–	–
Card costs	5 986	1 412	4 314	1 412
Computer services	45 319	24 924	37 597	21 569
Credit Bureau charges	2 574	2 042	2 574	2 042
Credit life insurance claims (note 6)	33 761	22 964	33 761	22 964
Depreciation of property and equipment (note 2)	5 429	5 107	4 885	4 870
Depreciation of right-of-use assets (note 3)	8 489	–	8 489	–
Directors' emoluments	25 962	21 400	19 456	21 190
– Non-executive directors	3 567	3 345	3 231	3 135
– Executive directors	22 395	18 055	16 225	18 055
Salaries	11 895	13 224	7 028	13 224
Short-term incentive	5 195	4 831	4 531	4 831
Long-term incentive	5 305	–	4 666	–
Insurance	1 424	1 548	1 424	1 548
Insurance rewards	5 312	5 507	–	–
Marketing costs	2 564	2 884	2 127	2 523
Municipal services	6 240	6 777	6 240	6 777
Other professional services	5 257	5 415	4 856	4 981
Reinsurance commission paid (note 6)	16 568	17 065	45 507	47 706
Rentals in respect of leases	2 054	12 294	2 054	12 294
Repairs and maintenance	3 417	4 836	3 417	4 835
Security costs	1 832	1 368	1 832	1 368
Service provider fee	1 322	1 658	–	–
Skills development costs	1 715	2 396	1 299	1 914
Staff costs (note 26)	189 049	181 855	155 752	147 476
Stationery	3 385	4 080	3 385	4 080
Telephone and postages	5 970	6 702	5 970	6 701
Travel expenses	1 497	1 751	1 274	1 470
Vehicle running costs	5 018	10 478	4 815	10 253
Other	21 471	20 070	15 601	13 160
	423 817	377 687	377 962	348 512

26. STAFF COSTS

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Wages and salaries (including performance bonuses)	175 422	168 182	144 128	136 248
Pension costs – defined contribution plans	13 627	13 673	11 624	11 228
	189 049	181 855	155 752	147 476

27. INCOME TAX

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Current				
South African normal tax (note 21)	24 743	28 317	13 714	18 061
Deferred				
Deferred income tax (note 7)	(12 407)	(4 036)	(12 056)	(3 637)
Income tax expense	12 336	24 281	1 658	14 424
Tax rate reconciliation	%	%	%	%
Effective rate of tax	17.1	20.7	3.0	8.2
The tax rate has been affected by:				
Profit on insurance contracts	12.5	8.1	17.1	5.4
Dividends received	–	–	11.6	15.2
Disallowed expenditure	(1.6)	(0.8)	(3.7)	(0.8)
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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28. STATEMENT OF CASH FLOW

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash utilised by operations				
Profit before income tax	72 127	117 486	54 882	175 271
<i>Adjusted for:</i>				
Interest income	(674 728)	(691 233)	(680 280)	(695 600)
Interest expenditure	217 645	249 416	227 297	266 377
Interest credited to members' funds (note 15)	37 495	47 412	37 495	47 412
Impairment charge on advances receivable (note 22)	150 143	99 993	150 143	99 993
Premium income (note 6)	(101 251)	(94 815)	(101 251)	(94 815)
Fee and commission income	(150 865)	(128 935)	(74 207)	(73 789)
Other income	(16 154)	(16 479)	(13 759)	(14 061)
Depreciation of property and equipment (note 2)	5 429	5 107	4 885	4 870
Depreciation of right-of-use asset (note 3)	8 489	–	8 489	–
Loss on disposals of property and equipment	131	357	131	357
Amortisation of intangible assets (note 4)	8 120	1 118	5 637	775
Appropriations of members' funds (note 15)	(15 245)	(10 364)	(15 245)	(10 364)
Dividends received (note 24)	–	–	(22 000)	(95 000)
Rewards to members (note 34)	41 553	56 018	41 553	56 018
Staff and incentive provision (note 18)	6 197	–	6 197	–
Interest receivable	13 057	(4 873)	12 634	(5 545)
Accrued interest	1 077	283	2 091	351
Interest in suspense	1 533	2 820	1 533	2 820
Servicer fee receivable	–	–	(232)	(340)
Insurance rewards payable (note 19)	5 867	6 131	–	–
Changes in working capital:				
Advances (excluding impairments)	48 580	(401 689)	51 708	(403 243)
(Increase)/decrease in trade and other assets	(4 647)	(4 278)	4 847	(27 854)
(Decrease)/increase in trade and other liabilities	(15 866)	391	(12 282)	5 430
	(361 313)	(766 134)	(309 734)	(760 937)
NET DEBT RECONCILIATION				
The analysis of net debt is as follows:				
Net debt				
Cash and cash equivalents (excluding restricted cash) (note 11)	171 996	154 800	42 843	25 017
Liabilities arising from financing activities (note 17)	(2 651 059)	(2 875 805)	(2 776 521)	(3 006 828)
Borrowings repayable within one year	(1 521 612)	(1 298 167)	(1 504 969)	(1 294 583)
Borrowings repayable after one year	(1 129 447)	(1 577 638)	(1 271 552)	(1 712 245)
	(2 479 063)	(2 721 005)	(2 733 678)	(2 981 811)

28. STATEMENT OF CASHFLOW continued

The movement in net debt is as follows:

	Opening R'000	Cash flows R'000	Non-cash move- ment/ maturity reclassifi- cation R'000	Closing R'000
GROUP				
As at 31 August 2019				
Cash and cash equivalents (excluding restricted cash) (note 11)	171 676	(16 876)	–	154 800
Liabilities arising from financing activities (note 17)	(2 695 539)	(179 982)	(284)	(2 875 805)
Bank borrowings due within one year (excluding accrued interest)	(1 298 000)	68 200	100 000	(1 129 800)
Bank borrowings due after one year	(1 050 000)	(250 000)	(100 000)	(1 400 000)
Notes due within one year	(152 903)	1 818	(14 130)	(165 215)
Notes due after one 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)
As at 31 August 2020				
Cash and cash equivalents (excluding restricted cash) (note 11)	154 800	17 196	–	171 996
Liabilities arising from financing activities (note 17)	(2 875 805)	231 750	(7 004)	(2 651 059)
Bank borrowings due within one year (excluding accrued interest)	(1 129 800)	93 100	(350 000)	(1 386 700)
Bank borrowings due after one year	(1 400 000)	(50 000)	350 000	(1 100 000)
Notes due within one year	(165 215)	188 939	(148 191)	(124 467)
Notes due after one year	(177 638)	–	148 191	(29 447)
Other borrowings due within one year	–	(289)	(7 514)	(7 803)
Accrued interest	(3 152)	–	510	(2 642)
Net Debt	(2 721 005)	248 946	(7 004)	(2 479 063)

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28. STATEMENT OF CASHFLOW continued

	Opening R'000	Cash flows R'000	Non-cash move- ment/ maturity reclassifi- cation R'000	Closing R'000
CO-OPERATIVE				
As at 31 August 2019				
Cash and cash equivalents (excluding restricted cash) (note 11)	7 474	17 543	–	25 017
Liabilities arising from financing activities (note 17)	(2 832 390)	(174 088)	(350)	(3 006 828)
Bank borrowings due within one year (excluding accrued interest)	(1 298 000)	68 200	100 000	(1 129 800)
Bank borrowings due after one year	(1 050 000)	(250 000)	(100 000)	(1 400 000)
Other borrowings due within one year	(158 689)	(4 282)	–	(162 971)
Other borrowings due after one 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)
As at 31 August 2020				
Cash and cash equivalents (excluding restricted cash) (note 11)	25 017	17 826	–	42 843
Liabilities arising from financing activities (note 17)	(3 006 828)	230 810	(503)	(2 776 521)
Bank borrowings due within one year (excluding accrued interest)	(1 129 800)	93 100	(350 000)	(1 386 700)
Bank borrowings due after one year	(1 400 000)	(50 000)	350 000	(1 100 000)
Other borrowings due within one year	(162 971)	47 018	–	(115 953)
Other borrowings due after one year	(312 245)	140 692	–	(171 553)
Accrued interest	(1 812)	–	(503)	(2 315)
Net Debt	(2 981 811)	248 636	(503)	(2 733 678)

29. CO-OPERATIVE REWARDS PAID TO MEMBERS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Cash rewards payable at the beginning of the year	(18 163)	(20 307)
Cash portion of total rewards payable (note 34)	(11 114)	(14 650)
(Under)/over provision of prior year cash co-operative rewards (note 16)	(13)	1 363
Cash rewards payable at the end of the year (note 16)	14 344	18 163
	(14 946)	(15 431)

30. COMMITMENTS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Operating lease commitments		
The future minimum operating lease payments which can be terminated are as follows:		
Less than one year	–	9 014
More than one year but less than five years	–	12 920
	–	21 934

The Group adopted IFRS 16 on 1 September 2019 (refer note 3). For the 2020 financial year, lease rentals relating to property were recognised and disclosed in terms of IFRS 16. For the 2019 financial year, leases relating to property were recognised in terms of IAS 17. The effect for 2019 of the escalation clauses for rentals on properties is detailed above as part of the straight-lining performed on these leases.

31. 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 (2019: 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 applies.

This guarantee is secured by a cession of advances receivable (refer to note 8).

32. 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 amounted to R12,6m (2019: R12,5m) for the Co-operative and R14,8m (2019: R15,0m) 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.

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33. RELATED PARTIES

	2020 R'000	2019 R'000
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 5 and note 6.		
<i>Key management personnel</i>		
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 comprise of 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 to the Executive Committee. All non-executive directors, including the entity that provides director services to the Group are classified as key management personnel.		
GROUP		
Income and expenses		
<i>Key management personnel</i>		
Salaries	16 407	15 262
Pension costs – defined contribution plans	1 180	1 290
Short-term incentive	6 025	5 000
Long-term incentive	6 197	–
Interest paid	151	210
Non-executive directors – directors' emoluments	3 567	3 345
Outstanding balances		
<i>Key management personnel</i>		
Advances during the year	1 064	2 626
Outstanding balance at the end of the year	1 693	1 741
Leave pay accrued	1 171	699
CO-OPERATIVE		
Income and expenses		
<i>Commission and administration fees received from</i>		
Torque Securitisation (RF) Limited	2 796	3 167
Iemas Insurance Brokers Proprietary Limited	28 436	29 026
iBelong Rewards Proprietary Limited	727	–
<i>Dividends received from</i>		
Iemas (Co-operative) Limited Cell "A12"	–	2 650
Iemas Financial Services (Co-operative) Limited Cell "00228"	23 000	30 000
Iemtech Proprietary Limited	–	5 000
Iemas Insurance Brokers Proprietary Limited	22 000	25 000
Torque Securitisation (RF) Limited	–	65 000
<i>Interest received from</i>		
Torque Securitisation (RF) Limited in respect of:		
– subordinated loan	736	801
– class D2 notes	6 617	7 020
– class B3 notes	4 281	4 789
– class C3 notes	2 624	2 922

33. RELATED PARTIES continued

	2020 R'000	2019 R'000
<i>Interest paid to</i>		
Torque Securitisation (RF) Limited	34 098	45 536
<i>Administration fees paid to</i>		
iBelong Rewards Proprietary Limited	2 449	–
<i>Card transaction fees paid to</i>		
The Cooperative Switch Proprietary Limited	3 398	562
<i>System development expenditure paid to</i>		
Cape Consumers Proprietary Limited	–	664
<i>Key management personnel</i>		
Salaries	13 983	15 262
Pension costs – defined contribution plans	1 013	1 290
Short-term incentive	5 885	5 000
Long-term incentive	6 197	–
Interest paid	151	210
Non-executive directors – directors emoluments	3 231	3 135
Loan advances during the year		
<i>Loans advanced to related parties</i>		
Torque Securitisation (RF) Limited	–	199 114
<i>Loans replaced between related parties</i>		
Torque Securitisation (RF) Limited	–	597
Outstanding balances		
<i>Current receivable from related parties</i>		
Iemtech Proprietary Limited	–	50
Iemas Insurance Brokers Proprietary Limited	91 617	99 191
The Cooperative Switch Proprietary Limited	3 514	3 513
iBelong Rewards Proprietary Limited	1 473	–
Torque Securitisation (RF) Limited		
– Interest accrued related to the subordinated loan	24	37
– Interest accrued related to the investment in class B3 notes	72	205
– Interest accrued related to the investment in class C3 notes	115	125
– Interest accrued related to the investment in class D2 notes	212	305
– Servicer fee	232	340
<i>Non-current receivable from related parties</i>		
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
<i>Payable to related parties</i>		
Torque Securitisation (RF) Limited		
– Non-current portion (note 17)	171 552	312 245
– Current portion (note 17)	115 953	162 971
The Cooperative Switch Proprietary Limited	1 448	–
<i>Key management personnel</i>		
Advances during the year	1 064	2 626
Outstanding balance at the end of the year	1 693	1 741
Leave pay accrued	974	699

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34. CO-OPERATIVE REWARDS DECLARED TO MEMBERS

	2020 R'000	2019 R'000
GROUP AND CO-OPERATIVE		
Cash portion of total co-operative rewards payable (note 29)	11 114	14 650
Co-operative rewards credited to members' funds (note 15)	31 872	42 332
(Over)/under provision of prior year co-operative rewards (note 15)	(1 446)	399
Under/(over) provision of prior year cash co-operative rewards (note 16)	13	(1 363)
Co-operative rewards to members	41 553	56 018
Interest credited to members' funds (note 15)	37 495	47 412
Co-operative rewards and interest accrued for the year	79 048	103 430

35. IMPACT OF COVID-19

The Covid-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. This in turn has had a significant impact on the risks that the Group is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty has forced the Group to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

The most substantial impact on the Group relates to credit risk. IFRS 9 requires ECL allowances to be recognised based on a stage allocation methodology:

- Stage 1 ECL allowance reflects the total losses associated with defaults that are expected to occur within 12 months of the reporting date. Exposures must be moved to stage 2 when a significant increase in credit risk has been observed.
- Stage 2 and stage 3 exposures carry an ECL allowance that is based on the losses expected to occur over the lifetime of the exposure.

The ECL allowance estimation must include an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible economic conditions. IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Significant judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models are not calibrated for events such as the Covid-19 crisis. Given the deteriorating economic environment, specific increases in PDs and LGDs were made to appropriately capture the Covid-19 environment.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk. These additional management adjustments have required greater governance across the Group and were robustly challenged and reviewed by the Group's finance department. A revised approach to the estimation of PDs, identification of significant increase in credit risk (stage 2 impairment), forward-looking scenarios and the impact on estimated ECL allowances was employed. Further complexity was added by the relief measures provided to eligible members.

35.1 Relief measures provided to members

The Group implemented the following four relief measures to financially assist its members.

- Forbearance
- Debt relief
- Debt consolidation and term extensions
- Emergency loans

35. IMPACT OF COVID-19 continued

35.1 Relief measures provided to members continued

Forbearance

Forbearance provided the Group's members' time to repay delinquent asset-based accounts. This was advantageous to the member, and offering forbearance would benefit the Group, which prevented write-offs should assets be repossessed and sold on auction. Forbearance measures were only available on vehicle loans.

The terms of a forbearance agreement were negotiated between the Group and the member on a case-by-case basis. The opportunity for such an agreement depended on the likelihood that the member would be able to resume monthly repayments once the temporary forbearance was over. The Group may have approved a full or only a partial reduction of the member's instalment depending upon the extent of the member's need and the Group's confidence in the member's ability to catch up at a later date.

Members that applied for forbearance were evaluated against a qualifying criteria. Qualifying members could apply for a payment break of no longer than two months.

Debt relief

Debt relief refers to a mechanism offered by a credit provider to a borrower to provide temporary relief for the repayment of a loan or credit facility. Mechanisms that could be used were interest rate adjustments, term extensions or payment breaks. The mechanism used depended on the specific circumstances of the members.

The Group implemented a debt relief program ("payment break") to its members. Every application for a payment break was considered individually and on its own merit. Applications were only considered where the members' income was adversely impacted by the effects of the Covid-19 pandemic. Applications were considered against the approved policy and a payment break were provided for approved applications for an approved term based on the member's specific circumstances. No installments were requested for the payment break period. The last payment date of an account was effectively postponed with the payment break period. Installments resumed normally after the end of the postponement period. Monthly interest, fees and credit insurance premiums were requested and capitalised against an account for the postponement period.

For certain qualifying members, the implementation of an overall interest rate adjustment, with the subsequent lowering of the monthly instalment was considered, which benefited the members and had a smaller impact on the Group than for instance a payment break.

Debt consolidation

To assist members, the Group granted the option of consolidating external debt in accordance with the Iemas Credit Policy in order to improve monthly cash flow for the member.

Emergency loans

During the national lockdown, certain members were needing financing to deal with a financial crisis. The National Credit Act provided that the Group may grant emergency loans to members up to R6 000 where the amounts are repayable within six months. In addition to capping the time period and amount of emergency loan, the National Credit Act also set a maximum monthly interest rate of 5%.

The Group's existing credit policies continued to apply to members not meeting the debt relief eligibility criteria.

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35. IMPACT OF COVID-19 continued

35.1 Relief measures provided to members continued

The gross carrying value of loans and advances to customers that were granted debt relief as at 31 August 2020 is as follows:

	Debt relief gross amount of recognised financial assets R'000	Total gross amount of recognised financial assets R'000	Percentage of recognised financial assets %
GROUP AND CO-OPERATIVE			
Pension-backed loans	85 593	1 301 212	6.58
Vehicle loans	219 410	2 775 598	7.90
Maxi loans	40 118	562 510	7.13
Other unsecured loans	48 578	552 402	8.79
	393 699	5 191 722	7.58

35.2 Key economic variables

As indicated above, ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible economic conditions. The global shocks experienced in the market have led to a highly uncertain and unprecedented environment and to address such uncertainty, the key economic variables impacting credit risk and ECL per product, utilised at 31 August 2019, has been updated. The ranges between the base, mid-point, upside and downside scenarios varies significantly when compared to those presented at 31 August 2019. As at 31 August 2020, it is the Group's view that the mid-point scenario is more likely to occur as opposed to the alternative scenarios, and has been weighted accordingly.

The Group considers several factors in the development of its economic scenarios including economic growth/retraction and expected recovery, sector specific impacts, unemployment rates and regulatory actions.

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

2020	Base (%)	Upside (%)	Mid-point (%)	Downside (%)
GDP growth	(8.20)	(7.10)	(9.30)	(11.40)
Unemployment	30.10	30.00	32.00	33.00

The narrative below explains the basis of these economic variables for each of the scenarios, specifically with regards to the impact of Covid-19.

Base scenario as at 31 August 2020

GDP is negative 8.2% in 2020, showing some recovery in 2021. With the country already in recession before Covid-19, only moderate growth is expected. Unemployment expected to climb in Q1. The gradual re-opening of the economy results in a spike in Covid-19 cases, however a hard lock-down is avoided.

35. IMPACT OF COVID-19 continued

35.2 Key economic variables continued

Upside scenario as at 31 August 2020

The Covid-19 new infection rate starts decreasing. Progress is made in developing a vaccine, which is easily accessible for South Africans in 2021. The return to work is faster, although work from home remains, if possible. Motor trade are still below previous levels and slow to recover. Higher income categories benefit from the SARB rate cuts; however, no further easing and rate cuts are expected. The unemployment rate declines somewhat and rising productivity boosts wages, lifting household incomes and spending.

Downside scenario as at 31 August 2020

The pandemic escalates after a renewed wave of coronavirus is experienced with more cases than anticipated i.e the health crisis persists longer than expected. Possibility of another level 5/4 lock down environment. Social distancing and work from home remains for the remainder of the 2021 financial year. A much weaker growth outlook, resulting in more job losses.

35.3 Estimation of probability of default (PD), loss given default (LGD) and significant increase in credit risk (SICR)

As the Group's ECL modelling methodology does not automatically consider the typical complexity of the current economic environment, management applied these economic scenarios in conjunction with the following considerations with regards to Covid-19, to determine the appropriate management adjustment when recognising ECL losses for the reporting period.

PD and LGD

PD and LGD were adjusted for current and forward-looking information, based on historical information dating back to the 2008 financial crisis. These PD and LGD scaling factors will be reassessed as the impacts of Covid-19 unfolds and the level of member distress becomes evident within the model.

SICR events

The impact of Covid-19 on PDs and LGDs, as well as the provision of debt relief, were considered to determine whether a SICR event, which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses), has taken place. Employer group and sectorial stratifications were also considered in the SICR evaluation.

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35. IMPACT OF COVID-19 continued

35.4 Impairment losses pre- and post-management adjustments

The table below provides a breakdown of the total ECL recognised at 31 August 2020 to reflect the impairment charge calculated using the Group's approved models together with the management adjustments raised to incorporate the effects of Covid-19.

	Impairment losses pre-management adjustments R'000	Covid-19 management adjustment R'000	Total impairment losses R'000
GROUP AND CO-OPERATIVE			
Vehicle loans	131 176	26 000	157 176
Maxi loans	68 951	–	68 951
Other unsecured loans	16 873	10 000	26 873
	217 000	36 000	253 000

Other areas of the Group's financial results have not been impacted significantly by the advent of the pandemic and no further Covid-19 disclosures are needed.

36. 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 outbreak of the Covid-19 pandemic has significantly increased the risks faced globally by financial markets participants and the economy and has materially changed the economic outlook to the downside. Increased focus on risk and capital management has been initiated to address the uncertain outlook over the short- and medium-term horizon. The strategic focus has moreover shifted to one of supporting the Group's stakeholders, whilst preserving capital and liquidity and maintaining the operational resilience of the Group during this time. For further information, refer to the Impact of Covid-19 section in note 35.

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.

36. FINANCIAL RISK MANAGEMENT continued

Market risk

Market risk for members is the risk that the fair value or 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. Market risk arises from investment securities.

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.

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.

36.1 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 consists 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 the 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 2020 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.

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.1 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-backed facilities to their employees. Iemas' business could be adversely affected, should legislation be introduced that prohibits salary deductions.

The Covid-19 pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. The consequent impact of the lockdown restrictions on the portfolio of assets was severe, materialising in an increase in the credit risk exposure due to the relative deterioration in asset quality over the period, and a substantial rise in the impairment charge due to the significant increase in expected credit losses given the macroeconomic outlook. For further information, refer to the Impact of Covid-19 section in note 35.

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:

	2020 R'000	2019 R'000
Torque financial instruments at amortised cost		
Carrying amount of assets	299 384	490 060
Carrying amount of liabilities	(287 445)	(477 738)

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

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.2 Credit quality

Cash and cash equivalents and funds borrowed from banks

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<i>The balances borrowed from banks are as follows (note 17):</i>				
Absa Bank Limited	900 000	900 212	900 000	900 212
Standard Bank of South Africa Limited	850 120	800 376	850 120	800 376
First National Bank (a division of FirstRand Bank Limited)	738 896	831 024	738 896	831 024
<i>The balances held with banks are as follows (note 11):</i>				
First National Bank (a division of FirstRand Bank Limited)	187 733	170 158	42 797	24 959

The long-term credit ratings for all the banks where balances are held are disclosed in note 11. Management considered the concentration risk on cash and cash equivalents and is of the opinion that the risk is adequately managed by holding funding balances at three of the major banks in South Africa.

Receivables from related parties

Included in receivables from related parties for the Co-operative is a receivable of R91,6m (2019: R99,2m) 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:

	2020 R'000	2019 R'000
Employer group receivables and deposits	119 235	91 290
Daily operational related transactions	(27 618)	7 901

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 2020. 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 17).

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.

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement

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;
 - A member was granted a 3-month payment holiday during the Covid-19 period and has not resumed payment or is in arrears at year-end;
 - Contracts that are linked to high-risk industries, specifically employer groups in the entertainment sector; and
 - Members linked to employer groups where there is a high risk of retrenchments or other industrial action.
- 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; and
 - Legal action has been taken against the member or the vehicle held as collateral has been handed over for repossession.
- 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 36.1.3.1 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 36.1.3.2 for an explanation of how the Group has incorporated this in its ECL models.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

35.1.3 Expected credit loss measurement continued

36.1.3.1 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. ECL's 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 and lifetime PD's are calculated on a granular contract level by monitoring the movement of contracts between stages from one reporting date to another, which is then assumed to be the same across all assets within a portfolio. Even though benchmarked against, this estimation technique has been updated from the maturity profiles and write-off history applied in the prior financial year.

The 12-month and lifetime LGD's 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 36.1.3.2 for detail on the forward-looking information and the inclusion in the ECL calculations.

Except as indicated above and as described in note 35, no significant changes in estimation techniques or significant assumptions were made during the reporting period.

36.1.3.2 Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate 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.

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

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

2019	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

2020	Base (%)	Upside (%)	Mid-point (%)	Downside (%)
GDP growth	(8.20)	(7.10)	(9.30)	(11.40)
Unemployment	30.10	30.00	32.00	33.00

Due to the abnormal fluctuations in the prime and inflation rates in the current year during these Covid-19 times, management concluded that movements in these forward looking indicators would not provide a true reflection on the credit risk associated with the ECL allowance and is therefore not included in the current year's calculation.

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, before taking into account the impact of discounting:

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

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

2019	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
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

The 2020 table reflects the changes to the ECL at reporting date that would result from a 0.25% change in the unemployment rate per economic scenario, after taking into account the impact of discounting:

2020	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Vehicle loans				
Original ECL	130 961	97 766	157 176	203 730
ECL after 0,25% increase in unemployment rate	130 961	97 955	157 490	202 861
Sensitivity (%)	–	0.2	0.2	(0.4)
Maxi loans				
Original ECL	59 420	49 904	68 951	80 747
ECL after 0,25% increase in unemployment rate	59 420	51 735	71 006	83 019
Sensitivity (%)	–	3.7	3.0	2.8

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.3 Expected credit loss measurement continued

36.1.3.2 Forward-looking information incorporated in the ECL models continued

2020	Base R'000	Upside R'000	Mid-point R'000	Downside R'000
Other unsecured loans				
Original ECL	28 955	24 588	26 873	30 079
ECL after 0,25% increase in unemployment rate	28 955	24 443	27 036	29 440
Sensitivity (%)	–	(0.6)	0.6	(2.1)
Total				
Original ECL	219 336	172 258	253 000	314 556
ECL after 0,25% increase in unemployment rate	219 336	174 133	255 532	315 320
Sensitivity (%)	–	1.1	1.0	0.2

* Historical statistics showed a slight increase in recovery rates for vehicle loans and other unsecured loans under high stress economic conditions. This results in a positive impact on the downside ECL sensitivity and a respective negative impact on the upside.

36.1.4 Credit risk exposure

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

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

	Net advances before impair- ment R'000	ECL staging Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000
GROUP				
As at 31 August 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

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

	Net advances before impair- ment R'000	ECL staging Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000
As at 31 August 2020				
Pension-backed loans	1 301 212	1 301 212	–	–
Vehicle loans	2 775 598	2 495 750	108 632	171 216
Maxi loans	562 510	492 832	31 619	38 059
Other unsecured loans	552 402	515 431	19 163	17 808
Employer groups	47 833	47 833	–	–
	5 239 555	4 853 058	159 414	227 083
CO-OPERATIVE				
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
As at 31 August 2020				
Pension-backed loans	1 301 212	1 301 212	–	–
Vehicle loans	2 775 598	2 495 750	108 632	171 216
Maxi loans	562 510	492 832	31 619	38 059
Other unsecured loans	552 402	515 431	19 163	17 808
	5 191 722	4 805 225	159 414	227 083

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:

	2020 R'000	2019 R'000
GROUP		
As at 31 August		
Investment securities	2 518	3 035
Cash and cash equivalents	187 779	170 216
Trade and other assets excluding pre-payments	9 603	8 028
	199 900	181 279

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 Credit risk exposure continued

	2020 R'000	2019 R'000
CO-OPERATIVE		
As at 31 August		
Other non-current receivables	131 800	131 800
Investment securities	2 000	2 000
Cash and cash equivalents	42 843	25 017
Trade and other assets excluding pre-payments	102 507	107 409
	279 150	266 226

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 obtain 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.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 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 8, represent the Group and Co-operative's maximum exposure to credit risk. The following collateral is held for the different advances:

	Net advances before im- pairment R'000	Collateral R'000	Members' funds appro- priation R'000	(Over)/ under colla- teralised R'000
GROUP				
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
As at 31 August 2020				
Pension-backed loans	1 301 212	1 301 212	39 003	(39 003)
Vehicle loans	2 775 598	2 181 620	65 879	528 099
Maxi loans	562 510	–	66 355	496 155
Other unsecured loans	552 402	–	90 451	461 951
Employer groups	47 833	–	–	47 833
	5 239 555	3 482 832	261 688	1 495 035
CO-OPERATIVE				
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
As at 31 August 2020				
Pension-backed loans	1 301 212	1 301 212	39 003	(39 003)
Vehicle loans	2 775 598	2 181 620	65 879	528 099
Maxi loans	562 510	–	66 355	496 155
Other unsecured loans	552 402	–	90 451	461 951
	5 191 722	3 482 832	261 688	1 447 202

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.4 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.

36.1.5 Impairment loss allowance

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 36.1.3). 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.

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

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
At 1 September 2019	1 307 947	–	–	1 307 947
New advances originated	308 587	–	–	308 587
Collections received and fees raised	(315 257)	–	–	(315 257)
Write-offs	(65)	–	–	(65)
At 31 August 2020	1 301 212	–	–	1 301 212

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
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
At 1 September 2019	2 548 958	260 231	122 476	2 931 665
Transfers				
– Transfer from stage 1 to stage 2	(89 198)	89 198	–	–
– Transfer from stage 1 to stage 3	(41 205)	–	41 205	–
– Transfer from stage 2 to stage 3	–	(54 609)	54 609	–
– Transfer from stage 3 to stage 2	–	4 151	(4 151)	–
– Transfer from stage 2 to stage 1	138 438	(138 438)	–	–
– Transfer from stage 3 to stage 1	5 068	–	(5 068)	–
New advances originated	798 989	–	–	798 989
Collections received and fees raised	(864 139)	(49 847)	(11 154)	(925 140)
Write-offs	(1 161)	(2 054)	(26 701)	(29 916)
At 31 August 2020	2 495 750	108 632	171 216	2 775 598

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
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
At 1 September 2019	492 411	11 386	30 302	534 099
Transfers				
– Transfer from stage 1 to stage 2	(31 902)	31 902	–	–
– Transfer from stage 1 to stage 3	(25 533)	–	25 533	–
– Transfer from stage 2 to stage 3	–	(1 782)	1 782	–
– Transfer from stage 3 to stage 2	–	3 004	(3 004)	–
– Transfer from stage 2 to stage 1	5 384	(5 384)	–	–
– Transfer from stage 3 to stage 1	5 961	–	(5 961)	–
New advances originated	218 553	–	–	218 553
Collections received and fees raised	(166 609)	(4 691)	4 587	(166 713)
Write-offs	(5 433)	(2 816)	(15 180)	(23 429)
At 31 August 2020	492 832	31 619	38 059	562 510

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
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
At 1 September 2019	509 841	13 280	27 385	550 506
Transfers				
– Transfer from stage 1 to stage 2	(18 707)	18 707	–	–
– Transfer from stage 1 to stage 3	(11 048)	–	11 048	–
– Transfer from stage 2 to stage 3	–	(1 639)	1 639	–
– Transfer from stage 3 to stage 2	–	2 643	(2 643)	–
– Transfer from stage 2 to stage 1	6 661	(6 661)	–	–
– Transfer from stage 3 to stage 1	9 192	–	(9 192)	–
New advances originated	219 092	–	–	219 092
Collections received and fees raised	(197 282)	(5 294)	(2 887)	(205 463)
Write-offs	(2 318)	(1 873)	(7 542)	(11 733)
At 31 August 2020	515 431	19 163	17 808	552 402

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
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
At 1 September 2019	4 859 157	284 897	180 163	5 324 217
Transfers				
– Transfer from stage 1 to stage 2	(139 807)	139 807	–	–
– Transfer from stage 1 to stage 3	(77 786)	–	77 786	–
– Transfer from stage 2 to stage 3	–	(58 030)	58 030	–
– Transfer from stage 3 to stage 2	–	9 798	(9 798)	–
– Transfer from stage 2 to stage 1	150 483	(150 483)	–	–
– Transfer from stage 3 to stage 1	20 221	–	(20 221)	–
New advances originated	1 545 221	–	–	1 545 221
Collections received and fees raised	(1 543 287)	(59 832)	(9 454)	(1 612 573)
Write-offs	(8 977)	(6 743)	(49 423)	(65 143)
At 31 August 2020	4 805 225	159 414	227 083	5 191 722

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Stage 1 12-month ECL R'000	Stage 2 Lifetime ECL R'000	Stage 3 Lifetime ECL R'000	Total R'000
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
At 1 September 2019	44 705	–	–	44 705
New advances originated	1 677 172	–	–	1 677 172
Collections received and fees raised	(1 674 044)	–	–	(1 674 044)
At 31 August 2020	47 833	–	–	47 833

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

The following tables set out the movement in the impairment loss allowance:

	Opening R'000	Utilised R'000	Provided/ (reversed) R'000	Closing R'000
GROUP AND CO- OPERATIVE				
At 31 August 2019				
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

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.5 Impairment loss allowance continued

	Opening R'000	Utilised R'000	Provided/ (reversed) R'000	Closing R'000
At 31 August 2020				
Stage 1				
– Pension-backed loans	–	(65)	65	–
– Vehicle loans	28 523	(1 161)	48 618	75 980
– Maxi loans	10 414	(5 433)	19 678	24 659
– Other unsecured loans	7 542	(2 318)	10 708	15 932
	46 479	(8 977)	79 069	116 571
Stage 2				
– Vehicle loans	35 435	(2 054)	(20 019)	13 362
– Maxi loans	6 581	(2 816)	8 769	12 534
– Other unsecured loans	5 901	(1 873)	(1 527)	2 501
	47 917	(6 743)	(12 777)	28 397
Stage 3				
– Vehicle loans	36 382	(26 701)	58 153	67 834
– Maxi loans	22 549	(15 180)	24 389	31 758
– Other unsecured loans	14 673	(7 542)	1 309	8 440
	73 604	(49 423)	83 851	108 032
Total				
– Pension-backed loans	–	(65)	65	–
– Vehicle loans	100 340	(29 916)	86 752	157 176
– Maxi loans	39 544	(23 429)	52 836	68 951
– Other unsecured loans	28 116	(11 733)	10 490	26 873
	168 000	(65 143)	150 143	253 000

36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.9 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 instruments not set off in the statement of financial position* R'000	Net amount R'000
GROUP					
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
As at 31 August 2020					
Pension-backed loans	1 301 212	–	1 301 212	(39 003)	1 262 209
Vehicle loans	2 775 598	–	2 775 598	(65 879)	2 709 719
Maxi loans	562 510	–	562 510	(66 355)	496 155
Other unsecured loans	552 402	–	552 402	(90 451)	461 951
Employer groups	47 833	–	47 833	–	47 833
	5 239 555	–	5 239 555	(261 688)	4 977 867

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36. FINANCIAL RISK MANAGEMENT continued

36.1 Credit risk continued

36.1.9 Offsetting financial assets continued

	Gross amount of recognised financial assets R'000	Gross amounts of recognised financial liabilities set off in the statement of financial position R'000	Net amounts of financial assets presented in the statement of financial position R'000	Related financial instruments not set off in the statement of financial position* R'000	Net amount R'000
CO-OPERATIVE					
As at 31 August 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
As at 31 August 2020					
Pension-backed loans	1 301 212	–	1 301 212	(39 003)	1 262 209
Vehicle loans	2 775 598	–	2 775 598	(65 879)	2 709 719
Maxi loans	562 510	–	562 510	(66 355)	496 155
Other unsecured loans	552 402	–	552 402	(90 451)	461 951
	5 191 722	–	5 191 722	(261 688)	4 930 034

* Deferred bonus payment appropriations.

36.2 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.

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

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

	Global Credit Rating 2020	Global Credit Rating 2019
Hollard Insurance Company Limited	AA (Mar20)	AA (Nov19)

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 10.

36.2.2 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 36,4% (2019: 47%) prime-linked funding, 60,1% (2019: 46%) JIBAR-linked funding and 3,5% (2019: 7%) overnight call funding from three major South African commercial banks.

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36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<p>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:</p> <p>Advances</p> <p>The table is based on advances with a total carrying value of R5 191,7m (2019: R5 324,2m) that excludes balances owed by employer groups of R47,8m (2019: R44,7m) which do not carry interest. This is applicable for the Group and Co-operative.</p>	25 959	26 621	25 959	26 621
<p>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:</p> <p>Prime-linked other non-current receivables</p> <p>The table is based on other non-current receivables with a total value of R53,3m (2019: R53,3m) for the Co-operative.</p>	–	–	267	267

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<p>The exposure of JIBAR-linked other non-current 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:</p> <p>JIBAR-linked other non-current receivables</p> <p>The table is based on other non-current receivables with a total value of R78,5m (2019: R78,5m) for the Co-operative.</p>	–	–	393	393
<p>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:</p> <p>Cash and cash equivalents</p> <p>The table is based on cash and cash equivalents of the Group with a total value of R187,8m (2019: R170,2m) and a total value of R42,6m (2019: R25,0m) for the Co-operative.</p>	939	851	214	125

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36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<p>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:</p> <p>Bank borrowings: prime-linked</p> <p>The table is based on borrowings with a total value of R986,7m (2019: R1 379,8m) for the Group and Co-operative. The Group's long-term borrowings linked to prime rate is partially offset by advances linked to prime.</p>	2 960	4 139	2 960	4 139
<p>The exposure of the borrowings linked to a 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:</p> <p>Bank borrowings: JIBAR-linked</p> <p>The table is based on borrowings with a total value of R1 500,0m (2019: R1 150,0m) for the Group and Co-operative.</p>	4 500	3 450	4 500	3 450

36. FINANCIAL RISK MANAGEMENT continued

36.2 Market risk continued

36.2.2 Interest rate risk continued

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<p>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:</p> <p>Borrowings: notes</p> <p>The table is based on notes with a total value of R153,9m (2019: R342,9m) for the Group. The notes are issued at rates linked to 3-month JIBAR.</p>	462	1 029	–	–
<p>The exposure of the Group's other borrowings 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:</p> <p>Borrowings: other</p> <p>The table is based on borrowings with a total value of R7,8m (2019: R0m) for the Group.</p>	23	–	–	–

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36. FINANCIAL RISK MANAGEMENT continued

36.3 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.

	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 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
As at 31 August 2020				
Due to banks and note holder	1 017 113	595 386	1 151 202	–
Due to members	–	–	–	863 373
Cash co-operative rewards to members	14 344	–	–	–
Other liabilities	152 362	3 399	20 120	606
Total liquid liabilities	1 183 819	598 785	1 171 322	863 979
Advances receivable	989 232	812 507	2 672 114	2 164 068
Investment in insurance contracts	–	–	–	155 273
Investment securities	–	–	–	2 518
Cash and cash equivalents	187 779	–	–	–
Trade and other assets	13 485	–	–	–
Total liquid assets	1 190 496	812 507	2 672 114	2 321 859
Net liquidity position	6 677	213 722	1 500 792	1 457 880

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.

36. FINANCIAL RISK MANAGEMENT continued

36.3 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 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
As at 31 August 2020				
Due to banks	944 014	538 151	1 121 332	–
Due to members	–	–	–	863 373
Cash co-operative rewards to members	14 344	–	–	–
Other liabilities	189 841	68 017	183 896	26 755
Total liquid liabilities	1 148 199	606 168	1 305 228	890 128
Advances receivable	941 399	812 507	2 672 114	2 164 068
Investment in insurance contracts	–	–	–	155 273
Cash and cash equivalents	42 843	–	–	–
Other non-current receivables	–	–	117 259	13 848
Investment securities	–	–	–	2 000
Trade and other assets	110 779	5 507	15 439	638
Total liquid assets	1 095 021	818 014	2 804 812	2 335 827
Net liquidity position	(53 178)	211 846	1 499 584	1 445 699

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.4 Financial instruments by category

	Debt instru- ments at amor- tised cost R'000	Equity instru- ments designa- ted 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
As at 31 August 2020			
Advances receivable	4 947 251	–	4 947 251
Investment securities	–	2 518	2 518
Cash and cash equivalents	187 779	–	187 779
Trade and other assets excluding pre-payments	9 603	–	9 603
	5 144 633	2 518	5 147 151
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
As at 31 August 2020			
Advances receivable	4 899 418	–	4 899 418
Other non-current receivables	131 800	–	131 800
Investment securities	–	2 000	2 000
Cash and cash equivalents	42 843	–	42 843
Trade and other assets excluding pre-payments	102 507	–	102 507
	5 176 568	2 000	5 178 568

36. FINANCIAL RISK MANAGEMENT continued

36.4 Financial instruments by category 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
	3 897 688
As at 31 August 2020	
Borrowings	2 651 059
Due to members	863 373
Cash co-operative rewards to members	14 344
Trade and other liabilities excluding non-financial liabilities	146 366
	3 675 142
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
As at 31 August 2020	
Borrowings	2 776 521
Due to members	863 373
Cash co-operative rewards to members	14 344
Trade and other liabilities excluding non-financial liabilities	88 631
	3 742 869

36.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued

for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

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.

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 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 11) ⁽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	

⁽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. The hierarchy of valuation technique level of these assets and liabilities is level 3.

36. FINANCIAL RISK MANAGEMENT continued

36.5 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 2020				
Assets				
Advances receivable	Amortised cost	4 947 251	5 190 812	Level 3
Investment securities ⁽¹⁾	Fair value	2 518	2 518	Level 3
Cash and cash equivalents (note 11) ⁽¹⁾	Amortised cost	187 779	187 779	
Trade and other assets excluding pre-payments ⁽¹⁾	Amortised cost	9 603	9 603	
		5 147 151	5 390 712	
Liabilities				
Borrowings (excluding notes) ⁽¹⁾	Amortised cost	2 496 819	2 496 819	
Borrowings: notes ⁽¹⁾	Amortised cost	154 240	154 240	
Due to members ⁽¹⁾	Amortised cost	863 373	863 373	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	14 344	14 344	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	146 366	146 366	
		3 675 142	3 675 142	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 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 2019					
Assets					
Advances receivable	Amortised cost		5 115 859	5 239 020	Level 3
Other non-current receivables – loan to related party (note 9) ⁽¹⁾	Amortised cost		5 300	5 300	
Other non-current receivables – investment in debt instruments (note 9)	Amortised cost		126 500	126 500	
Investment securities ⁽¹⁾	Amortised cost		2 000	2 000	Level 3
Cash and cash equivalents ⁽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. The hierarchy of valuation technique level of these assets and liabilities is level 3.

36. FINANCIAL RISK MANAGEMENT continued

36.5 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 2020				
Assets				
Advances receivable	Amortised cost	4 899 418	5 190 812	Level 3
Other non-current receivables – loan to related party (note 9) (1)	Amortised cost	5 300	5 300	
Other non-current receivables – investment in debt instruments (note 9) (1)	Amortised cost	126 500	126 500	
Investment securities (1)	Fair value	2 000	2 000	Level 3
Cash and cash equivalents (note 11) (1)	Amortised cost	42 843	42 843	
Trade and other assets excluding pre-payments (1)	Amortised cost	102 507	102 507	
		5 178 568	5 469 962	
Liabilities				
Borrowings ⁽¹⁾	Amortised cost	2 776 521	2 776 521	
Due to members ⁽¹⁾	Amortised cost	863 373	863 373	
Cash co-operative rewards to members ⁽¹⁾	Amortised cost	14 344	14 344	
Trade and other liabilities excluding non-financial liabilities ⁽¹⁾	Amortised cost	88 631	88 631	
		3 742 869	3 742 869	

(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. The hierarchy of valuation technique level of these assets and liabilities is level 3.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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for the year ended 31 August 2020

36. FINANCIAL RISK MANAGEMENT continued

36.5 Fair value estimation continued

Investment securities

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 10.

Investment in nReach One Proprietary Limited

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

36.6 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 17) 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 11 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 28) 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 follows:

	Group		Co-operative	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Total borrowings (note 17)	2 651 059	2 875 805	2 776 521	3 006 828
Less: Cash and cash equivalents (excl. restricted cash) (note 11)	(171 996)	(154 800)	(42 843)	(25 017)
Net debt (note 28)	2 479 063	2 721 005	2 733 678	2 981 811
Total equity	2 633 320	2 559 008	2 586 976	2 518 714
Capital and reserves	1 769 947	1 710 673	1 723 603	1 670 379
Members' funds (note 15)	863 373	848 335	863 373	848 335
Total capital	5 112 383	5 280 013	5 320 654	5 500 525
Debt to equity ratio (%)	48.5	51.5	51.4	54.2

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

Registered address

Iemas Park
1249 Embankment Road
Zwartkop Ext 7
Centurion
Private Bag X924, Pretoria, 0001
Tel: 012 674 7074
Fax: 012 674 7043
E-mail: francois.vandyk@iemas.co.za

Co-operative Secretary

Francois van Dyk

Executive Committee

Maria Feiteira
Managing Executive: Iemas Lend

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 2020

Anton Buthelezi * ^
Len de Villiers * +
Prudence Lebina * ^
Tom O'Connell (Chief Financial Officer)
Retha Pieter * ^
Vusi Sampula * ^
Dashni Sinivasan * ^
Willem van Heerden (Chairman of the Board) * + ^
Banie van Vollenhoven (Group Chief Executive Officer)
Quintus Vorster * ^ +

* *Independent non-executive*

^ *Audit and Risk Committee*

+ *Information Technology Committee*

^ *Human Resources and Ethics Committee*

Auditors

PricewaterhouseCoopers Inc.

Physical address:

4 Lisbon Lane
Waterfall City
2090

Postal address:

Private Bag X36
Sunninghill
2157

Telephone number:

011 797 4000



www.iemasfinancialservices.co.za