sefa

Small Enterprise Finance Agency

ANNUAL REPORT 2015

SMMEs AND COOPERATIVES

THE ENGINE FOR **ECONOMIC GROWTH**

sefa's mandate

To be the leading catalyst for the development of sustainable SMMEs and Cooperatives through the provision of finance.

Mission

Our mission is to provide simple access to finance in an efficient and sustainable manner to SMMEs and Cooperatives throughout South Africa by:

- delivering Wholesale and Direct Lending credit facilities
- providing credit guarantees
- supporting the institutional strengthening of Financial Intermediaries so that they can effectively assist SMMEs and Cooperatives
- creating strategic partnerships with a range of institutions for sustainable SMME and Cooperative development and support
- monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities
- developing (through partnerships) innovative finance products, tools and channels to speed up increased market participation in the provision of finance

Values

sefa's values and guiding principles to deepen institutional culture and organisational cohesion are:

Kuyasheshwa!
We act with speed and urgency

Passion for development
Solution-driven attitude, commitment to serve

Integrity
Dealing with clients and stakeholders in an honest and ethical manner

Transparency
Ensuring compliance with best practice on the dissemination and sharing of information with all stakeholders

Innovation
Continuously looking for new and better ways to serve our clients

CONTENTS

About this Report	1
Foreword by the Honourable Minister of Small Business Development	2
About **sefa**	3
Highlights and Challenges	6
Strategic Overview	7
Chairperson's Statement	10
Board of Directors	12
Chief Executive Officer's Statement	14
Strategic Risks	18
Stakeholder Relations and Communications	20
Executive Management	23
Chief Financial Officer's Statement	24
Risk Management	27
Direct Lending	34
Wholesale Lending	42
Human Capital Management	50
Corporate Governance Report	54
Performance Against Predetermined Objectives	58
Group and Company Annual Financial Statements	62

About this Report

We are pleased to present **sefa's** annual report for the period 1 April 2014 to 31 March 2015. Any material information up to 18 August 2015 has been included. This annual report discusses **sefa's** operational and financial performance, strategic overview, governance and risk management.

The annual financial statements are prepared in accordance with IFRS, the PFMA and the Companies Act. The Independent Auditor's Report is shown on pages 69 – 70.

In preparing this report, we have taken into account the guidelines and content elements in the International Integrated Reporting Framework, which was published by the IIRC in December 2013. We acknowledge that integrated reporting is a journey and we aim to constantly improve on our reporting going forward.

Therefore we welcome feedback from our stakeholders on this report. Please contact **sefa** on 012 748 9600 or helpline@sefa.org.za with your feedback.

Board responsibility

The Board is responsible for the integrity of the annual report and it has applied its collective mind to the preparation and presentation of the annual report. The Board is of the opinion that this report addresses all material issues and fairly presents the integrated performance of the Company.

Dr Sizeka Magwentshu-Rensburg
Chairperson

18 August 2015

Mr Thakhani Makhuvha
Chief Executive Officer

18 August 2015

FOREWORD
by the Honourable Minister of Small Business Development

sefa is a crucial implementation institution in the ecosystem supporting small businesses in South Africa. Having migrated to the DSBD, **sefa** now occupies an excellent position to enhance its impact in the development of SMMEs and Cooperatives. This development will ensure a more integrated approach in supporting SMMEs and Cooperatives, thus deepening support and enhancing impact

The development of SMMEs and Cooperatives is fundamental to job creation, economic growth and poverty alleviation. The establishment of the Ministry of Small Business Development by President Zuma marked a turning point in the history of SMME and Cooperative development in South Africa, demonstrating government's commitment to place SMMEs and Cooperatives at the centre of economic growth and job creation. This approach and the war against poverty, inequality and unemployment, is also supported in the NDP. Moreover, we see SMMEs and Cooperatives as economic empowerment vehicles for our historically disadvantaged people, and we expect **sefa** to be at the forefront of this transformation agenda.

Small businesses continue to face challenges in accessing funding from commercial banks, due to inadequate collateral, and their relatively short banking and business track records. This is an intractable dilemma since small businesses require access to capital to grow and develop such track records. This is even more of a challenge for informal businesses, which constitute the majority of the small businesses in South Africa, as they also require access to capital in order to invest in their businesses to grow and formalise. A development state requires funding agencies that fully appreciate this painful fact. Now that **sefa** is part of our department, it is expected to respond to this developmental agenda of the DSBD. In line with this developmental agenda, the department is currently reviewing **sefa's** existing programmes with a view to significantly enhance the support to SMMEs and Cooperatives in a far more integrated and coordinated manner. In addition **sefa** is expected to develop products to support businesses in financial distress, which is one of the priorities of the department in this current financial year.

During the period under review, **sefa** has played an important role in the expansion of the economy, increasing the number of SMMEs and Cooperatives funded by 48% and disbursements by 58% from the previous financial year. In 2014/15 **sefa** funded 68 724 SMMEs and Cooperatives and disbursed R1.3 billion compared to the prior year's performance of 46 400 SMMEs and Cooperatives, and disbursement of R822 million. Of the disbursements in 2014/15, R292 million went to youth-owned businesses, R484 million to women-owned businesses, while R636 million went to rural provinces. These investments demonstrate the importance of **sefa** in the promotion of small businesses and the development of our economy. The urgent task facing **sefa**, in the current financial year, is to strengthen its capacity to reach out to those corners of our land where the need is more pressing. Indeed, in the period that lies ahead, we have high expectations that **sefa** will become a progressive vehicle for economic growth, transformation and job creation.

The current phase of our democratic transition calls for bold and decisive action to push back the frontiers of poverty, unemployment and inequality. Radical economic transformation is about intensifying our collective efforts, reviewing our game plan, and aggressively pursuing an economic growth path that will benefit SMMEs and Cooperatives. Our priority is to work with a determined purpose in pursuit of decent employment, entrepreneurial opportunities, a vibrant economy and a high quality of life. We are cognisant of the role that the private sector can play in achieving these objectives and therefore building and strengthening public-private partnerships are critical to our success. Equally, small businesses also need to seize the opportunities that exist in both the private and public sector.

Our department is the voice of small businesses and Cooperatives within government and society, and we are convinced that through sustained support to SMMEs and Cooperatives, we will contribute immensely to job creation, inclusive economic growth and social cohesion in our country.

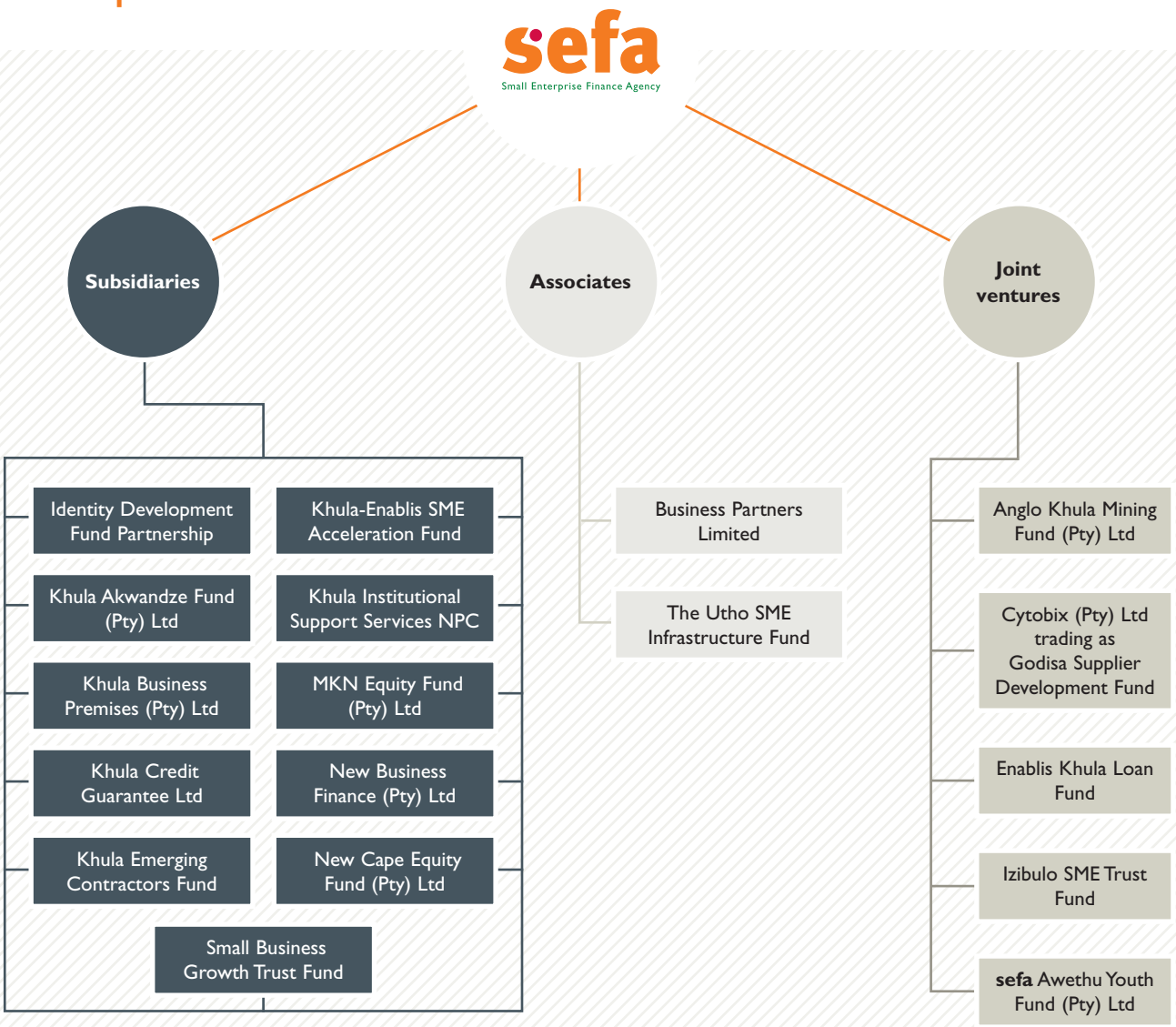
Lindiwe Zulu, MP
Honourable Minister of Small Business Development

ABOUT sefa

sefa was established on 1 April 2012 in terms of Section 3(d) of the IDC Act and as a wholly owned subsidiary of the IDC brings together the activities of the three previous structures (Khula, samaf and the IDC small business activities).

sefa operates as a DFI to foster the establishment, development and growth of SMMEs and Cooperatives and contributes towards poverty alleviation, job creation and economic growth. **sefa** provides products and services to qualifying SMMEs and Cooperatives as defined in the National Small Business Act of 1996, as amended in 2004, through a hybrid of Wholesale and Direct Lending channels as shown on pages 4 and 5.

Group structure



Distribution framework

SMMEs and Cooperatives

CLIENTS

- Commercial Banks
- Cooperative Financial Institutions (CFIs)
- Micro Finance Institutions (MFIs)
- Retail Finance Intermediaries (RFIs)
- **sefa** Co-locations
- **sefa** Main Offices
- Strategic Partnerships
- Structured Finance Solutions (SFSs)

DISTRIBUTION CHANNELS

DIRECT LENDING

through **sefa** main offices, co-locations and SFSs

- Asset Finance
- Bridging Loans
- Revolving Loans
- Term Loans

WHOLESALE LENDING

through MFIs, CFIs, Commercial Banks and Strategic Partnerships

- Credit Guarantees
- Revolving Loans
- Structured Finance Solutions
- Term Loans

NON-FINANCIAL SUPPORT

through **sefa** main offices

- Post Loan Mentoring
- Institutional Strengthening
- Management and Technical Support
- Board Representation
- Commercial and Industrial Properties

R50 000 – R5 MILLION

R500 – R5 MILLION

PRODUCT PORTFOLIO

ENABLING/SUPPORT

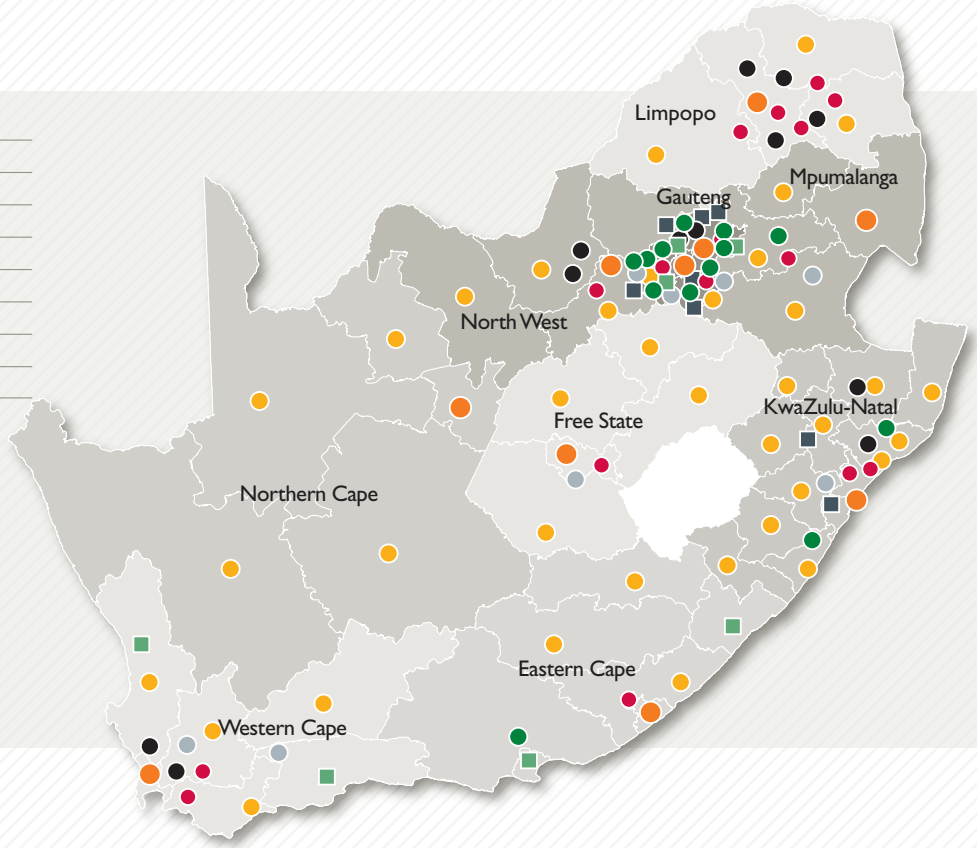
- Finance and Procurement
- Human Capital Management
- IT Systems
- Marketing and Communications
- Risk Management

CORPORATE GOVERNANCE

- Audit Committee
- Board of Directors
- Company Secretariat
- Direct Lending Committee
- Enterprise Risk Committee
- Human Capital and Remuneration Committee
- Internal Audit
- Social and Ethics Committee
- Wholesale Investment Committee

Geographic footprint

- **sefa** Main Offices [10]
- Strategic Partnerships [13]
- **sefa** Co-locations [7]
- Cooperative Financial Institutions [12]
- Retail Financial Intermediaries [8]
- Micro Finance Institutions [11]
- Proposed new access points [37]
- Structured Finance Solutions [8]



Target market

sefa funds qualifying business ventures within the following sectors:

Services (including retail, wholesale and tourism)

Manufacturing (including agro-processing)

Agriculture (specifically land reform beneficiaries and contract-farming activities)

Construction (small construction contractors)

Mining (specifically junior miners)

Green industries (renewable energy, waste and recycling management)

LOAN CRITERIA

In granting loan financing to qualifying businesses, the applicant must:

- be a South African citizen or a permanent resident
- be a registered entity, including sole traders with a fixed physical address
- be within the required legal contractual capacity
- be domiciled in South Africa
- be compliant with generally accepted corporate governance practices appropriate to the client's legal status
- have a written proposal or business plan that meets **sefa's** loan application criteria
- demonstrate the character and ability to repay the loan
- have provided personal and/or credit references
- be the majority shareholder and the owner-manager of the business
- provide relevant securities/collateral
- have a valid Tax Clearance Certificate

HIGHLIGHTS AND CHALLENGES

Highlights

Facilitated the creation and maintenance of **60 169** jobs

Total loan approvals were **R1 billion**

Total disbursements **increased by 58%** to **R1.3 billion**

74% of disbursement made to black-owned SMMEs and Cooperatives

Innovative partnerships with private sector to increase access to finance

Facilitated and supported access to finance to **68 724** businesses

Challenges

- Managing impairment charges in a challenging economic environment
- Reducing loan application turnaround times
- Increasing access to finance to targeted sectors and groups
- Building **sefa** towards financial sustainability
- Maximising the impact of the property portfolio

STRATEGIC OVERVIEW

During the period under review, **sefa** re-engineered its strategy to comprise of two strategic objectives that are underpinned by three enablers. Our progress against strategic objectives and enablers is detailed below.

Strategic objectives and enablers

Strategic objective 01

Increase access and provision of finance to SMMEs and Cooperatives and contribute towards job creation

Targets for strategic obective 1:

- Expand Direct Lending through partnerships in all provinces
- Introduce innovative programmes to expand cost effective access to micro enterprises
- Establish strong partnerships with institutions to increase access to finance for SMMEs and Cooperatives
- Increase the utilisation of the Khula Credit Guarantee Scheme by both banks and other partners

Performance against strategic objective 1:

sefa has consolidated and expanded the growth in its loan portfolio

- Approvals – R1 008 693 010
- Disbursements to SMMEs and Cooperatives – R1 294 026 352
- Number of SMMEs and Cooperatives financed – 68 724
- Jobs facilitated or sustained – 60 169

Decentralised access to finance for SMMEs and Cooperatives

- Ten main offices – nine provincial and one head office
- Seven co-locations with seda and NYDA
- Availability of online funding applications through website
- Expanding access points in each district of South Africa through co-location partnerships

Established partnerships for customised targeted and sector focused lending programmes

- Eleven MFIs
- Twelve Cooperatives
- Nine Strategic Partnerships
- Eight RFIs
- Eight Structured Finance Solutions
- Introduced a pilot programme on supplier trade credit for microenterprises (Steel and Construction Industries)

Strategic objective 02

Build an effective and efficient **sefa** that is sustainable and performance driven

Targets for strategic obective 2:

- Create, develop and retain a dynamic human capital with values and culture aligned to **sefa's** mandate
- Build an effective **sefa** with robust and efficient business processes, systems, and infrastructure
- Build a financially sustainable and viable **sefa**

Performance against strategic objective 2:

Policies, processes and procedures

- Finalised all systems and procedures within Direct Lending to increase efficiency and to improve turnaround times
- Various policies and processes developed and implemented

Talent acquisition

- A headcount plan, informed by business needs, was developed to identify the gap between current and future workforce needs
- Job profiles have been reviewed and aligned with reporting lines
- The vendor management process was enhanced and timeous candidate search was enabled
- A full executive staff complement was attained
- Appointed new investment officers to improve due diligence capacity and upskilled current investment officers
- Updated and developed role profiles

Performance management

- Drive a high-performance culture
- All employees agreed to annual key performance indicators and are subject to a performance management process to ensure tracking, monitoring and achievement of targets

The following enablers have been identified to achieve both strategic objectives:

Enabler A | Build a learning organisation

- Develop and implement a dynamic research and development capacity
- Develop effective **sefa** monitoring and evaluation, and knowledge management systems and practices

Performance against enabler during the current period

People development

- Appointed new investment officers to improve due diligence capacity and upskilled current investment officers
- Training and development interventions aligned to business objectives and available at all levels of our business

Employee relations

- Regular communication and engagement between management and staff
- The integration and management of legacy issues relating to former Khula and samaf integration
- Cordial relationship with employee representatives

Leadership development

- A phased Leadership and Management Coaching programme being implemented

Corporate skills enhancement

- 96% of employees have been trained on various Learning and Development interventions including: Core Operations, Leadership and Management Effectiveness, Compliance, Operational Risk Awareness, Credit Assessment, Client Interface and other skills categories
- Graduate training programmes offered to 26% of employees to improve our pool of talent
- In-house development programmes enabled talented employees to advance in **sefa**

Enabler B | Build a **sefa** that meets all legislative, regulatory and good governance requirements

- Ensure an effectively governed and compliant organisation

Performance against enabler during the current period

Legislative compliance

- Conducted FICA and NCA training with all investment officers
- Established an Operations Hub that is responsible for managing the disbursement of loans
- Governance and compliance imperatives were adhered to through robust governance frameworks

Occupational Health and Safety

- The OHS Committee was established and is operational
- A policy which governs health and safety standards has been developed and approved

Enabler C | Build a strong and effective **sefa** brand

- Develop and implement an effective marketing and promotion programme to communicate **sefa's** product offering to SMMEs and Cooperatives

Performance against enabler during the current period

- Building a **sefa** brand
- Marketing and communication outreach programmes (new product brochures, billboards, community radio stations, print media advertising, roadshows, etc.)
- Regular liaison with stakeholders

Embedding organisational culture

- The CEO conducted coffee sessions with employees, engaging and inviting ideas that can contribute to the effective management of the organisation
- Monthly divisional meetings held to ensure strategic/operational information sharing
- The CEO's quarterly forums containing strategic corporate information was shared with **sefa** employees
- Strengthening and enhancing team effectiveness and participation through continuous interaction

CHAIRPERSON'S STATEMENT

Dr Sizeka Magwentshu-Rensburg
Chairperson

The South African economy is performing below its potential. Economic growth is relatively lower than what is required to deal with the country's challenges of unemployment, poverty and inequality.

In the 2014/15 financial year, **sefa** disbursed R1.3 billion to SMMEs and Cooperatives.

We continue to support government's policies and initiatives aimed at stimulating the economy – including the NGP, the NDP and the IPAP – through supporting the growth and sustainability of SMMEs and Cooperatives.

The establishment of the DSBD in 2014, under the leadership of the Honourable Minister Lindiwe Zulu, is a positive step forward in the widened and deepened development of SMMEs and Cooperatives in South Africa. **sefa** looks forward to working with the DSBD in its efforts to support SMMEs and Cooperatives in an integrated manner, thus amplifying their contribution to economic growth and job creation in South Africa. Good progress has already been made in aligning **sefa's** programmes with the DSBD's strategic objectives and priorities.

There is broad consensus among policymakers, academia and small business practitioners that a flourishing small business sector is key to the revitalisation of the South African economy. Access to finance, along with other resources and capabilities, are critical to a successful small business sector. **sefa** is therefore an essential partner in the development of SMMEs and Cooperatives so that they can realise the potential they hold to contribute to the achievement of national development objectives of job creation, economic growth and poverty reduction.

In the 2014/15 financial year, **sefa** facilitated and supported access to finance to 68 724 SMMEs and Cooperatives. This resulted in an investment of R1.3 billion in the economy as compared to R822 million in the 2013/14 financial year. This represents 58% growth in disbursements and is the direct result of enhanced human resource capacity and improved lending processes.

Internally, **sefa** retained a full executive complement during the year under review and the Board looks forward to the executive management team working effectively to drive **sefa's** strategic objectives. The post-merger human resource issues that **sefa** had to grapple with have now been resolved and all staff are now focusing their collective energy to servicing the SMMEs and Cooperatives more effectively and efficiently. This will, in turn, reduce turnaround times for loan applications, which was a challenge during the period under review. In addition the lending capacity has been enhanced and **sefa** now has satisfactory capacity to provide a far more effective response to SMMEs and Cooperatives.

This rapid growth however has also resulted in increased impairments, a matter that is concerning for the organisation. We appreciate that there is a need for a balance to be found in growing and reaching more SMMEs and Cooperatives on the one hand, whilst ensuring the sustainability of the organisation by ensuring effective collection of loans. Good progress has already been made in managing these impairments through improved due diligence processes, increased efficiencies, and effective post-loan business support. We continue to focus on ensuring that impairments decline in the upcoming financial period.

We were also not able to reach a satisfactory number of people living with disabilities during the year under review. Less than 2% of loans disbursed went to people living with disabilities, a disappointment for **sefa**. Going forward targeted marketing and outreach initiatives will be implemented in order to improve in this area.

In the 2014/15 financial year, **sefa** facilitated and supported access to finance to

68 724

SMMEs and Cooperatives

sefa continues to support government's policies and initiatives aimed at stimulating the economy and growth of SMMEs and Cooperatives

sefa looks forward to working with the DSBD **as part of the broader economic growth path** in South Africa

Building effective partnerships with the private sector and community organisations remains vital for our success, as this will assist in achieving development of a flourishing SMMEs and Cooperatives sector in South Africa. According to a 2011 study commissioned by the NCR, about 45% – 48% of South African small businesses (approximately 2.8 million) cannot obtain financing from banks, capital markets or other suppliers of finance. Of the 2.8 million financially excluded SMMEs and Cooperatives, 1.9 million operate in the informal sector which is largely not yet serviced. Partnerships are therefore crucial for reaching and efficiently servicing this vast number of SMMEs and Cooperatives.

Some of the strategic partnerships we have been able to develop and continue to nurture include those with seda, NEF, SAICA, NYDA and the regional Chambers of Commerce and Industry.

Collaborating with the commercial banks remains a top priority as this will not only assist in reaching more SMMEs and Cooperatives but will also provide more opportunities for financial capital and specialised skills.

Going forward, our focus will be on the following:

- Consolidating post-investment and monitoring support to ensure a reduction in impairments and long-term financial sustainability of **sefa**
- Building a technology platform to reach more SMMEs and Cooperatives and enhance efficiencies, thus improving turnaround times and reducing the cost of finance to SMMEs and Cooperatives
- Bringing **sefa** geographically closer to its market, especially in rural areas and townships through an increased branch network, partnerships and co-locations
- Focusing on partners operating in well-defined geographic and sector-specific industries such as services (retail, wholesale, ICT, tourism and transport logistics); manufacturing; agriculture (specifically land reform beneficiaries and small-scale farming activities); construction (small construction contractors); mining; and green industries (renewable energy, waste and recycling management)

As the **sefa** Board of Directors, we look forward to working closely with the Honourable Minister Lindiwe Zulu, who shares our passion for small business development. We are indebted to Honourable Minister Ebrahim Patel who has been and remains an inspiration to us at **sefa** – we owe the growth of our organisation to his continuous support, encouragement and meticulous guidance in achieving our objectives.

The Board values the ongoing support provided by our shareholder, the IDC.

I am grateful to my fellow Board members for their continued support in my role as Chairperson and for their commitment to the development of small businesses in South Africa. As a Board we thank our CEO, Mr Thakhani Makhuvha and his management team for their continued commitment and great effort during this period. The loyalty and extraordinary efforts of our **sefa** staff, who are at the heart of the organisation, and who are making a difference to the nation are thoroughly appreciated.

Dr Sizeka Magwentshu-Rensburg
Chairperson

BOARD OF DIRECTORS

DR SIZEKA MAGWENTSHU-RENSBURG (55)
CHAIRPERSON OF THE BOARD

QUALIFICATIONS DPhil (Business Management) (UJ), MBA (Webster University) (England), BA (Management in Accounting and Business Administration) (Webster University) (Austria), Advanced Certificate in Purchasing Management (UNISA)

OTHER DIRECTORSHIPS
Director: Findevco (Pty) Ltd, IDC, Girl Guides South Africa, KCG
Member: merSETA Finance and Grants Committee

sefa COMMITTEES
Chairperson: Board of Directors

CURRENT EMPLOYMENT
Independent Consultant

MR THAKHANI MAKHUVHA (46)
CHIEF EXECUTIVE OFFICER

QUALIFICATIONS
MCom Financial Management (UJ), BCompt (Hons) (UNISA), BCom Accounting (University of Venda), Leadership Development Programme (GIBS)

OTHER DIRECTORSHIPS
Director: seda

sefa COMMITTEES
Member: Enterprise Risk Committee, Wholesale Investment Committee, Direct Lending Committee, Social and Ethics Committee

CURRENT EMPLOYMENT
CEO: sefa

MS BARBARA CALVIN (55)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS BCom (Hons) (Queen's University, Canada)

OTHER DIRECTORSHIPS
None

sefa COMMITTEES
Member: Wholesale Investment Committee, Direct Lending Committee

CURRENT EMPLOYMENT
Vulindlela Development Finance Consultants (Pty) Ltd

MR MARIUS FERREIRA (60)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS
BCom (University of Stellenbosch), BCom (Hons) (UJ)

OTHER DIRECTORSHIPS
Director: KCG, various entities in the Imalivest Group

sefa COMMITTEES
Chairperson: Wholesale Investment Committee
Member: Direct Lending Committee

CURRENT EMPLOYMENT
Director: Imalivest (Pty) Ltd
CFO: Imalivest Mineral Resources (Pty) Ltd

MR GERT GOUWS (56)
NON-EXECUTIVE DIRECTOR

QUALIFICATIONS
CA(SA), BCom (Law) (UJ), BCom (Hons) (UJ), FCMA, CGMA, Advanced Management Programme (INSEAD, France)

OTHER DIRECTORSHIPS
Director: Kumba Iron Ore Ltd, Findevco (Pty) Ltd
Chairperson: Herdmans SA (Pty) Ltd, Pebble Bed Modular Reactor (SOC) Ltd

sefa COMMITTEES
Chairperson: Enterprise Risk Committee
Member: Audit Committee

CURRENT EMPLOYMENT
CFO: IDC

MR ISMAIL TAYOB (50)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS CA(SA), BCom (Accounting) (University of Durban Westville), Postgraduate Diploma in Accounting (University of Durban, Westville)

OTHER DIRECTORSHIPS
KCG

sefa COMMITTEES
Chairperson: Audit Committee
Member: Enterprise Risk Committee, Human Capital and Remuneration Committee

CURRENT EMPLOYMENT
Executive Director: CH Chartered Accountants (Pty) Ltd

MS HLONELA LUPUWANA (46)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS MBA (UP), BSc (Social Sciences) (UCT), Associate in Management (UCT)
OTHER DIRECTORSHIPS
Member: International Women's Forum South Africa
sefa COMMITTEES
Chairperson: Social and Ethics Committee
Member: Human Capital and Remuneration Committee
CURRENT EMPLOYMENT
CEO: Anglo American Zimele

MR LAWRENCE MAVUNDLA (50)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS Business Management (Cranefield College, UK), Chamber Management (CIPE, USA), Business Management and Development (Swedish Chamber)
OTHER DIRECTORSHIPS
President: NAFCOC
Chairperson: Adiflash Investments, Silver Vanity Investments, Medi Card (Pty) Ltd
Vice President: The Black Business Council
sefa COMMITTEES
Chairperson: Direct Lending Committee
Member: Wholesale Investment Committee
CURRENT EMPLOYMENT
Businessman

MR SETLAKALANE MOLEPO (53)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS
MBL (UNISA, SBL), Certificate in Financial Management (RAU), BSc Engineering (Civil) (Wits), National Diploma in Civil Engineering (Northern Transvaal Technikon)
OTHER DIRECTORSHIPS
Director: BusaMed Holdings (Pty) Ltd, South Africa Metals Equity (Pty) Ltd, Zastrovect Investments (Pty) Ltd
sefa COMMITTEES
Member: Wholesale Investment Committee, Human Capital & Remuneration Committee
CURRENT EMPLOYMENT
Divisional Executive: SME & Rural Development: NEF

MR RICHARD MUTSHEKWANE (65)
INDEPENDENT NON-EXECUTIVE DIRECTOR

QUALIFICATIONS:
Advanced Executive Programme (UNISA) (Graduate School of Business Leadership), Credit Diploma (ICBSA), Certificate in Banking (IOBSA)
OTHER DIRECTORSHIPS:
Vice Chairperson: Midrand Child Welfare
sefa COMMITTEES
Chairperson: Human Capital and Remuneration Committee
Member: Audit Committee, Enterprise Risk Committee
CURRENT EMPLOYMENT
Shareholder and Director: Pennine Energy Innovation

MS KATINKA SCHUMANN (46)
NON-EXECUTIVE DIRECTOR

QUALIFICATIONS MBA (University of Stellenbosch), B Home Economics (University of Stellenbosch), Advanced Management Programme (INSEAD, France)
OTHER DIRECTORSHIPS
Director: African Continental Resources Ventures (Pty) Ltd, Tourism Enterprise Partnership, Palabora Copper (Pty) Ltd, KCG
Trustee: Women Private Equity Fund
sefa COMMITTEES
Member: Wholesale Investment Committee, Direct Lending Committee, Social and Ethics Committee
CURRENT EMPLOYMENT
Divisional Executive: High Impact and Regions: IDC

CHIEF EXECUTIVE OFFICER'S STATEMENT

Thakhani Makhuvha
Chief Executive Officer

Overview

The 2014/15 financial year marked a continued increase in our funding activities to SMMEs and Cooperatives as we consolidate our developmental agenda in ensuring access to finance and support to these enterprises. We are in a unique position to facilitate and accelerate the financial support to SMMEs and Cooperatives and to create a vibrant job market, thereby reducing poverty and inequality in our communities.

Development impact

While the loan approvals in the current reporting period were marginally below the levels achieved in the prior financial year at R1.1 billion, disbursements increased by 58%. It is pleasing to report that through its lending channels of direct and wholesale, **sefa** achieved disbursements of R1.3 billion to the economy, which benefitted 68 724 SMMEs and Cooperatives and in turn, created and sustained 60 169 jobs, allowing **sefa** to contribute meaningfully to the government's job creation goals. The majority of our developmental impact is driven through our Micro Lending portfolio which remains an effective distribution channel for **sefa** to reach its target market.

Financial performance

The **sefa** group loan portfolio has grown favourably for the fiscal year under review, the quality of portfolio was adversely affected by increased levels of impairments. Before accounting for impairments the loans and advances portfolio grew by 52% to R975 million (2014: R641 million). Such growth reflects the organisation's awareness that financial sustainability should be achieved from strong disbursements, closely monitored quality loan portfolio and efficient cost stuctures. We are aware, though, that in these early years of **sefa's** existence, it will rely on significant government grants that are channelled as a shareholder's loan through the IDC. An additional source of revenue

Our support to targeted groups during the fiscal year under review is delineated as follows in comparison to the previous financial year:

	2013/2014		**2014/2015**	
Target Group	Number	R'million	**Number**	**R'million**
Youth-owned	10 291	157	**16 419**	**292**
Women-owned	44 303	362	**66 668**	**484**
Rural-based	36 729	429	**59 581**	**636**
Black-owned	43 643	599	**52 964**	**954**

** One business can be applicable to more than one target group.*

Highlights

Total approvals exceeded
R1 billion

Growth of 39%
in our approval of financing activities through regional offices nationwide in the Direct Lending portfolio

Our overall disbursements through all of our lending channels to SMMEs and Cooperatives amounted to
R1.3 billion

Challenges

Our significant growth in funding activities coupled with tough economic environment has brought strain in our impairments level

Long turnaround times of loan applications

is the rental income from properties that **sefa** owns countrywide. We endeavour to continue our path towards building a sustainable organisation.

Our asset base increased from R2.3 billion in 2013/14 to just below R2.4 billion in 2014/15. This was largely driven by growth in the Direct Lending portfolio and investments in associates and joint ventures. The Direct Lending portfolio before impairments grew with 95% in 2014/15, with approvals amounting to R508 million and disbursements following closely at R446 million. This growth naturally increased our credit risk exposure, resulting in growing impairments, which prompted us to focus on building strategies that improve the quality of the portfolio without hindering the growth in approvals and disbursements.

Despite the usual cost pressures on a fast-growing organisation, we have managed to control expenses tightly. Apart from the employee-related costs that resulted from additional posts, we managed to keep other operating expenses at the same levels as the previous year.

Loan portfolio growth

Over the past year impairments on the Group loan portfolio grew by R54 million to R322 million which has alerted us to the realities of managing a growing DFI that must be sustainable. The sustainability that we seek includes the ability to create revenue that cover the cost of operations without compromising the balanced scorecard to which we subscribe. This means that we must build a portfolio that carefully balances our need to achieve our developmental imperatives and the quality that is necessary for financial sustainability. Such a balance is the tightrope that **sefa** had to walk in the last year as it strove to build responsible lending processes that will arrest the trend of rising impairments.

Risk management

Due to the nature of our operating environment and clientele, we recognise that our risk appetite is typically higher than those assumed by entities with pure commercial objectives. Our clients are essentially those that have no appeal to commercial lenders and often lack collateral, are involved in start-ups and generally pursue goals that are broader than just commercial lending. It is therefore difficult for businesses to meet the stringent criteria of commercial lenders and they approach **sefa** for financial assistance and support.

In order to manage this complex environment, it is imperative for **sefa** to develop and implement a risk management system that effectively identifies and mitigates the risks in order to deliver the desired balance between developmental and financial returns. Executive management and the Board has deliberated strategically to identify and assess the risks **sefa** faces. In response to these assessments our credit evaluation unit and credit management committees, especially those overseeing our fast growing Direct Lending portfolio were strengthened.

Partnership development

We recognise that our mandate to provide access to finance for SMMEs and Cooperatives can be a daunting task to fulfil without help from others. The risks that we have to manage, as cited above, exacerbate the situation. In order to ensure that we make the greatest possible impact on the growth and sustainability of SMMEs and Cooperatives, we build partnerships with like-minded and development oriented organisations and institutions.

In the past year, **sefa** entered into collaborative and cooperation agreements with both public and private sector bodies with the intention of increasing support to SMMEs and Cooperatives. These enabled **sefa** to increase its footprint on a national scale, while ensuring that SMMEs and Cooperatives receive other essential non-financial support. Some of the partnerships have given **sefa** an opportunity to explore the use of technology to improve efficiencies in our processes in this increasingly sophisticated environment.

sefa launched its new Structured Finance Solution Product, where the innovative finance solution is structured around the needs of targeted SMMEs and Cooperatives and implemented with technical partners, but funded directly by **sefa**. By year-end R345.8 million was ring-fenced for programmes such as the Hulamin & BHP Billiton's Aluminium Beneficiation Initiative, PRASA's Women in Rail, Cadac's Gas Distribution programme, Ntirhisano Shared Service Centre Cooperative Limited's Schools Feeding Scheme and International Labour Organisation's Entrepreneurship programme for SMMEs and Cooperatives.

Human capital management

At **sefa** we acknowledge that the performance of an organisation and the satisfaction of its clients are driven by a highly competent and well-motivated staff complement. We have increased our capacity, in particularly at executive management level, during the latter part of the financial year.

The effects of the merger related challenges that we faced in prior years have lessened to insignificant levels and the experience strengthened our resolve to build a staff complement that has a strong sense of belonging to the organisation.

The fiscal year ending 31 March 2015 saw the organisation's human capital efforts shifting towards the building of staff capacity, increasing staff engagement, promoting effective communication and improving employee relations and performance culture. This enabled the organisation to build a positive culture of unity.

We have initiated a coaching programme for key senior management aimed at development on both the personal and professional front.

With appreciation

As we move forward, I have a deep sense of satisfaction that we are in the epicentre of crucial transformative work in South Africa. The support **sefa** extends to SMMEs and Cooperatives encapsulate the potential to build sustainable entrepreneurship that addresses the challenges of unemployment, poverty and inequality. I am proud to lead such an organisation that is vital in making this country a better place to live in.

Without the hard-working and faithful entrepreneurs that partner with **sefa**, we would not be in a position to write about our successes and achievements. I thank all of you who have laboured with us to build a better country for all.

I would like to express my deepest gratitude to my dedicated management team and competent staff for their efforts in producing the results that epitomise our development objectives. Without you, none of what we have achieved would have been possible. Keep up the good work.

I would also like to extend a special word of thanks to our Chairperson, Dr Sizeka Magwentshu-Rensburg, and my colleagues on the Board of Directors, for their leadership and counsel.

Finally, all of us at **sefa** would like to thank our shareholder, IDC, the Honourable Minister Ebrahim Patel and his team at the EDD for their continued support and oversight. We welcome the Honourable Minister Lindiwe Zulu and the team at the DSBD, and look forward to working towards a common goal of radically increasing access to finance for SMMEs and Cooperatives.

Mr Thakhani Makhuvha
Chief Executive Officer

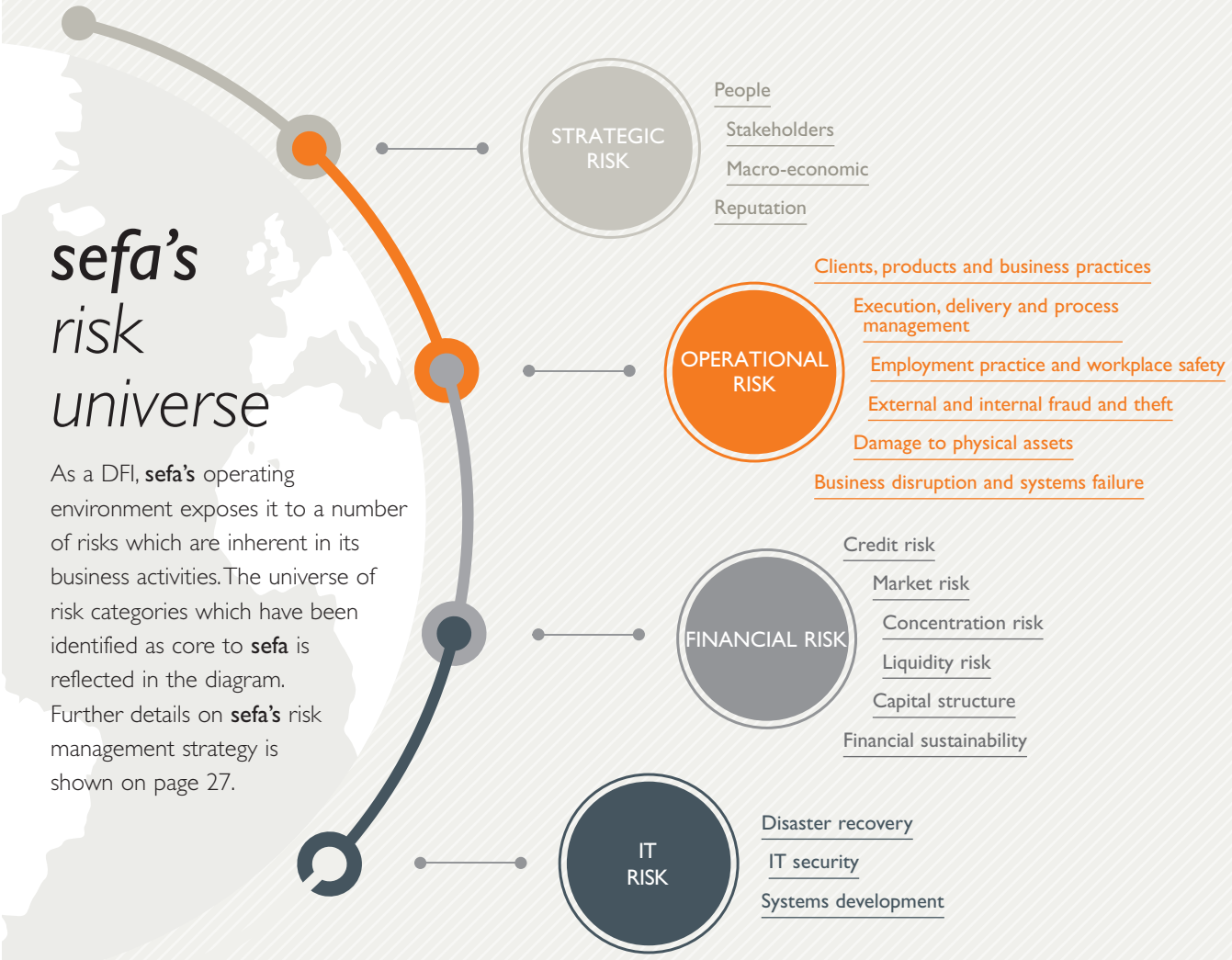
A typical day for LN Manufacturing employees includes assembling, moulding and welding together various engineering components and testing their production.

Image courtesy of ***sefa***

STRATEGIC RISKS

sefa's risk universe

As a DFI, **sefa's** operating environment exposes it to a number of risks which are inherent in its business activities. The universe of risk categories which have been identified as core to **sefa** is reflected in the diagram. Further details on **sefa's** risk management strategy is shown on page 27.



From these risk categories, the following key strategic risks were identified and assessed as potentially having a strategic impact on the overall achievement of the **sefa** objectives:

- **Financial (collections)** – Inability of **sefa** to collect on the loans and other investments resulting in high levels of impairments and losses
- **Performance reporting** – Inadequate monitoring of and timeous reporting on the performance of the organisation
- **Governance and compliance** – Ineffective corporate governance and compliance structures and processes to ensure that the organisation is effectively governed within all regulatory requirements
- **Client** – Inability to effectively and efficiently deliver products and services that respond to the needs of the clients of **sefa**
- **Financial management** – Lack of appropriate and effective financial management and control
- **Organisational sustainability and suboptimal risk and development trade-off** – Inability to define and secure the long term sustainability of **sefa** to continue delivering developmental solutions to its stakeholders. The inherent tension between the developmental mandate and financial sustainability objectives which may disrupt the organisational strategic focus and balance
- **Insuffisient staff capacity, motivation and talent management** – Insufficient levels of adequately skilled, motivated and performance driven human resources to execute on the mandate of the organisation. Ineffective harnessing of skills through an effective talent management strategy

Risk implementation philosophy

Risk management is a balancing act of risk-taking for reward. In respect of this, **sefa's** challenge is the ability to meet high expectations for delivery of financing (primarily through a debt instrument) whilst managing the expectation of recovery of debt and its own financial sustainability.

The key to overcoming the above challenge is to determine the appropriate level of risk to be taken for the achievement of development impact and financial return. Hence, **sefa** has adopted the following principles in implementing an effective risk management system:

- Gradual maturity of risk management – embedding and refining the basic governance policies and structures through a series of procedures, systems and tools that enhances the ability of the organisation to manage risks effectively
- Embedding risk management through management ownership and accountability
- Balanced approach and on-going engagement with all stakeholders
- Effective monitoring of and reporting on the risks taken

STAKEHOLDER RELATIONS AND COMMUNICATIONS

sefa regards stakeholder engagement as a critical function within the organisation. This is mostly due to the space where we are operating and the short duration of our existence.

As an organisation that has existed for three years much still has to be communicated and clarified by **sefa** to ensure that all stakeholders are well informed of the mandate and how it is translated into the business model. Moreover, it is equally important to understand the stakeholder needs and expectations as it is one of the utmost important requirements to ensure that there is buy in from all fronts.

We define stakeholders as *'A person, group, organisation, or system who affects or can be affected by **sefa's** actions'.*

The main objective of the stakeholder relations division is to build strong and healthy relationships with various stakeholders in the development and sustainability of SMMEs and Cooperatives. Understanding that SMMEs and Cooperatives are faced with numerous challenges including access to business finance, **sefa** commits to making funding accessible to qualifying SMMEs and Cooperatives. As an organisation, we also take it upon ourselves to understand each client's unique challenges and needs and respond with relevant solutions.

sefa approach

Our stakeholder engagement approach is to expand our focus beyond entrepreneurs that require funding to partners that offer complementary services and products.

Our decentralised approach to stakeholder engagement and service delivery model has necessitated for **sefa** to have a national footprint.

Owners

Frequency: Quarterly and ad hoc

Reporting to portfolio and select committees at Parliament and the IDC to ensure **sefa's** strategy and performance is aligned to the DSBD's targets.

Clients

Frequency: Continuously

Marketing of **sefa** products and services to potential and existing SMMEs and Cooperatives.

Suppliers

Frequency: Continuously

SMME and Cooperative suppliers are vital to **sefa** from a procurement perspective. This is in line with **sefa's** mandate to support SMMEs and Cooperatives by implementing preferential procurement and BBBEE principles.

Employees

Frequency: Continuously

The use of consultative forums and bilaterals ensure the transformation of employees into a diverse and competitive workforce, geared to execute **sefa's** strategy.

sefa stakeholders

sefa has a number of stakeholders and their influence and relevance in the business varies.

Regulators

Frequency: Annually, quarterly and ad hoc

Returns are submitted to regulatory bodies and technical advice is asked where appropriate.

sefa

Media

Frequency: Continuously

Media is engaged on a regular basis in order to disseminate information regarding **sefa** products and services. Different platforms are utilised to reach different audiences.

Partners

Financial Institutions (RFIs, MFIs, CFIs, Commercial banks)

Frequency: Continuously

These are independent institutions which provide financial assistance to SMMEs and Cooperatives. **sefa** provides bulk funding to these institutions which in-turn advance loans to SMMEs and Cooperatives The intermediaries expand **sefa's** footprint.

Structured Finance Solutions Partners

Frequency: Continuously

sefa has partnered with entities which provide technical support to SMMEs and Cooperatives while **sefa** provides financial support. These partners are normally private entities with an interest in providing Enterprise and Supplier Development.

Strategic Partnerships

Frequency: Continuously

sefa has established synergistic partnerships with the private sector that are co-funded. These partnerships target specific sectors or groups and are used to develop SMMEs and Cooperatives by leveraging of existing technical capacity in the private sector and addressing specific market challenges.

Local Chambers

Frequency: Continuously

Chambers are critical in building the pipeline for **sefa** products and services. The aim of Chamber engagements is to create a conducive environment where information relating to product and service offerings is made easily available to businesses.

Government Agencies and Municipalities

Frequency: Continuously

These are strategic partnerships that assist in increasing **sefa's** visibility especially were **sefa** has no physical presence.

Sinmon Trading contributing to the Mandeni community by building houses.

Image courtesy of ***sefa***

EXECUTIVE MANAGEMENT

MR THAKHANI MAKHUVHA (46)
CHIEF EXECUTIVE OFFICER

BCom (Accounting)
BCompt (Hons)
MCom Financial Management
Leadership Development Programme

MS NOKONWABA SHWALA (47)
EXECUTIVE MANAGER: HUMAN CAPITAL MANAGEMENT

BA (Economics)
Management Advancement Programme
Executive Leadership Programme

MS VUYELWA MATSILIZA (48)
EXECUTIVE MANAGER: WHOLESALE LENDING

BA (Economics and Psychology)
BA (Hons) (Economics) (Cum Laude)
Master of Business Leadership

MR RIAN COETZEE (48)
EXECUTIVE MANAGER: DIRECT LENDING

BCom (Mathematics)
BCom (Hons) (Economics)
MCom (Economics)
Global Executive Development Programme

MS RESHOKETSWE RALEBEPA (39)
CHIEF FINANCIAL OFFICER

BCom (Tax)
BCompt (Hons)
CA(SA)
Advanced Certificate in Accountancy

MR NATHAN NADASAN (56)
CHIEF RISK OFFICER

BPaed (Commerce)
BCom (Hons)

CHIEF FINANCIAL OFFICER'S STATEMENT

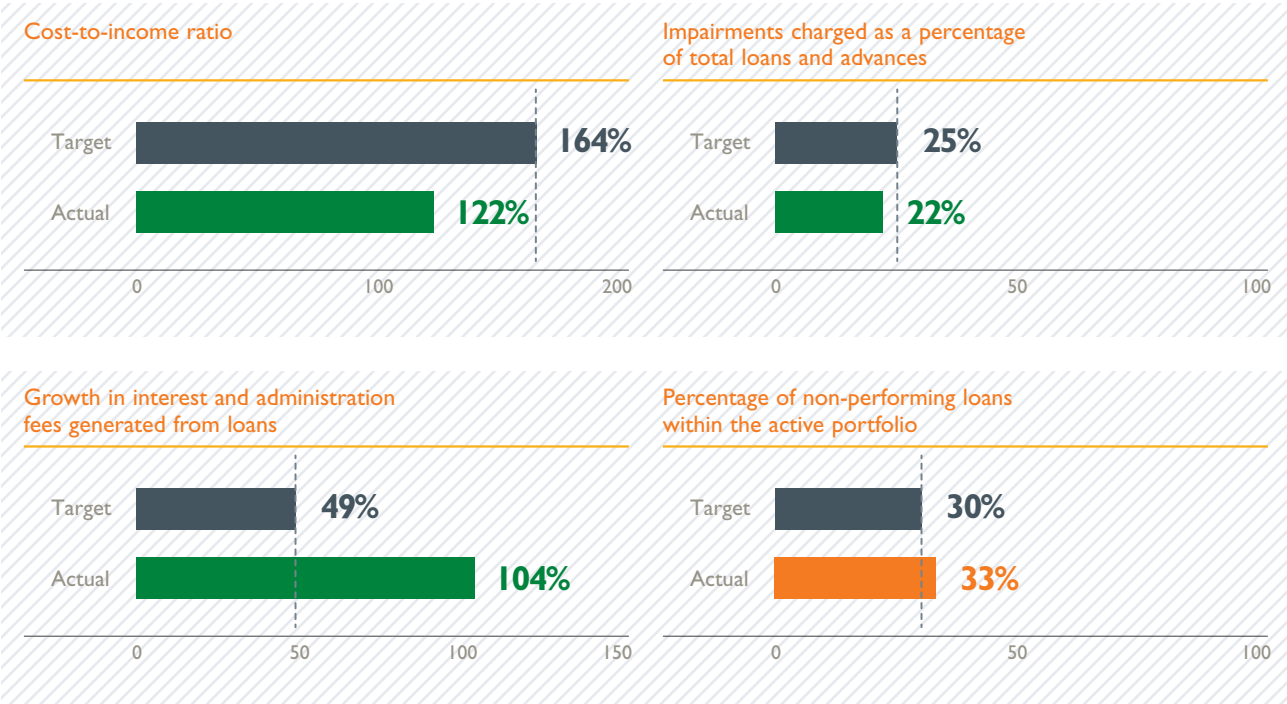
Reshoketswe Ralebepa
Chief Financial Officer

Overview

The finance division plays a critical role in the maintenance and provision of valid, accurate and complete financial information. It also strives to be a business finance partner to the organisation, thereby ensuring that **sefa's** strategic objectives are met.

Key performance indicators

The key financial performance indicators (KPIs) are shown below. These KPIs are continuously monitored to ensure the financial sustainability of **sefa**.



Highlights

Developing a financial **sustainability model**

3 792 jobs supported through **sefa's** property management portfolio

95% of investment properties are rented to black-owned businesses

Other operating expenses remained at **R95 million** year-on-year

Challenges

The impact of growing impairments on **sefa's** sustainability

Losses incurred on property portfolio due to poor collections

Financial performance

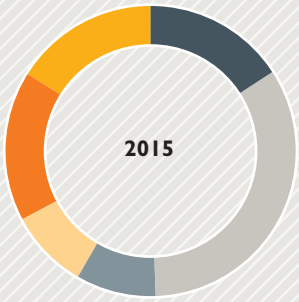
Total assets grew marginally by 4.8% to R2.393 billion (2014: R2.284 billion). This relatively flat growth in total assets masks a significant shift in the composition of our asset base. The loan and advances portfolio grew by 36% which contributed to the decrease in cash and cash equivalents of 31%.

Before impairments the loans and advances portfolio grew by 52% to R975 million (2014: R641 million), an exponential loan portfolio growth, resulting from increase in demand for credit by SMMEs and Cooperatives. The impact of the tough economic environment on our clients resulted in **sefa's** accumulated impairments on loans amounting to R322 million (2014: R162 million), a 99% increase year-on-year. This pertinent threat to our sustainability is addressed by continuous improvements to **sefa's** collection process, for example the implementation of a debit order collection system in April 2015.

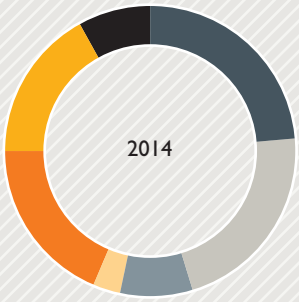
Successes from the implementation of **sefa's** strategy to streamline internal processes became evident as other operating expenses remained constant at R95 million year-on-year when compared to an annual increase of 64% in interest received from loan and advances. **sefa's** headcount increased to accumulate the resource demands created by a growing loan portfolio which contributed to increased personnel expenses.

sefa is gearing itself to further improve the current cost-to-income ratio of 122% through the implementation of a financial sustainability model. This initiative aims to provide insights into **sefa's** cost drivers and to streamline the utilisation of **sefa's** resources to ensure efficiency and effectiveness.

Composition of Group income



2015		2014
16%	Interest received on cash and cash equivalents	23%
34%	Interest received on loans and advances	21%
9%	Admin fees and indemnity premiums	8%
9%	Other income	4%
17%	Investment property rental income	19%
16%	Profit from equity accounted investments, net of tax	17%
0%	Grant income*	8%



** Grant income excludes government grants that are channelled as a shareholder's loan through the IDC.*

Composition of Group assets

Property management

sefa manages 53 investment properties in five provinces. The investment property portfolio consists of 30 industrial properties, 22 retail commercial properties and one vacant plot. Properties are a key element of government's support framework for SMMEs and Cooperatives in the manufacturing sector.

Property portfolio developmental impact statistics

Portfolio includes **948** tenants/businesses	**95%** of tenants are black-owned businesses	**35%** of tenants are women-owned businesses	**3 792** Jobs supported – an average of four jobs per tenant

Looking forward

Going forward, **sefa** will focus on:

- Increasing its debt collections to reduce its impairments
- Implementing its financial sustainability model
- Enhancing processes, policies and procedures to ensure a more efficient organisation
- Adopting an integrated value-added approach to the property portfolio

RISK MANAGEMENT

sefa's mandate is to be the leading catalyst for the development of sustainable SMMEs and Cooperatives through the provision of finance. During the period under review, **sefa's** focus areas included an emphasis on reaching previously disadvantaged communities, building capacity for service delivery and promoting innovation and integrated solutions. The management of these focus areas is largely dependent on **sefa's** ability to take risks in a responsible manner and to manage the resultant exposure to risk effectively.

Nathan Nadasan
Chief Risk Officer

Highlights

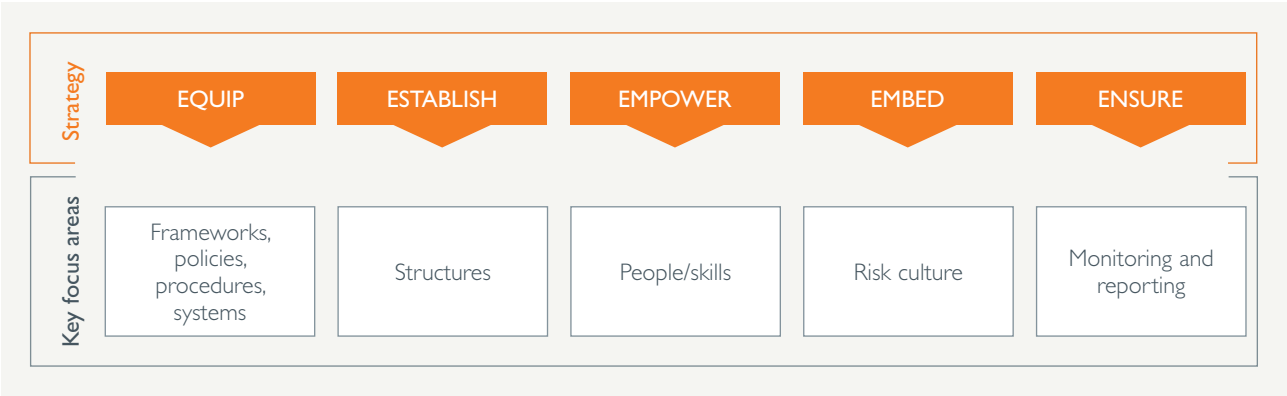
- Established an **Investment Monitoring Committee**
- Revised and enhanced the **impairment policy**
- Introduced quarterly **portfolio reporting**

Challenges

- Low collection rates
- Insufficient capacity for workout and restructures
- Embedding a deeper compliance culture

sefa's ability to achieve its business plans will be adversely impacted if it does not effectively manage the risks that it faces on a day-to-day basis. Therefore, the objective of **sefa's** risk management process is to enhance shareholder value by facilitating management to take appropriate risk in the attainment of its business objectives and development impact, within acceptable levels of risk tolerance. **sefa** continually looks for opportunities to strengthen its risk management.

sefa risk management ethos



The above basic framework adopted by **sefa** in 2013 to build the capability for the management of enterprise wide risk still remains valid. It needs to be evolved to the next level which facilitates efficiency and speed of delivery, while preserving quality and sustainability.

Risk management structure

The Board of Directors is responsible for the governance of risk management and has overall responsibility for:

- Defining the strategy and policy for the management of enterprise-wide risk
- Providing oversight of the overall risk management capabilities and performance
- Being accountable for effective engagements and disclosing results

During the period under review, a Chief Risk Officer was appointed to further boost **sefa's** risk governance process.

Overview

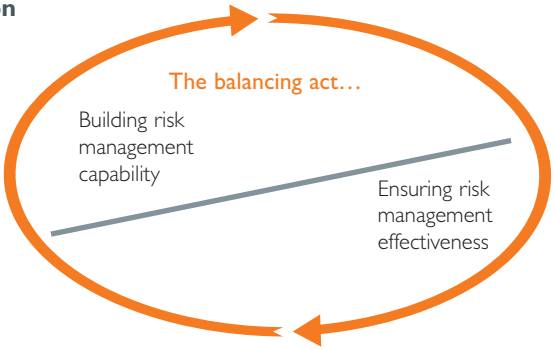
During 2014/15 **sefa** managed its key risks adequately in the light of the issues and challenges facing financial institutions. The issues and challenges surrounding risk management has been exacerbated by the recent years' global risk landscape leading to global financial crisis and economic slump. These crises have eroded confidence in financial institutions and systems, exposing weakness within risk management. Amidst these challenges, **sefa's** Risk and Compliance Division has enhanced and embedded the culture of risk management into all its strategic businesses to drive value creation for the organization. This has been done on the basis that an effective and sound risk management culture is a critical component of a comprehensive approach to total risk management and is therefore fundamental to the safety and soundness of **sefa**.

In the development finance sphere, where the rewards sought transcends financial returns to include a range of socio economic developmental impacts, the risks that are taken on are typically higher than those assumed by entities with purely commercial objectives. As a result, it is acknowledged that in the fulfillment of **sefa's** mandate, **sefa** is highly exposed to various levels of risks that are material and require comprehensive controls and ongoing oversight. It is therefore imperative for **sefa** to implement an effective risk management system to determine the appropriate level of risk to ensure that the desired balance between developmental and financial returns are met.

Enhancing capability through the dedicated Risk Division

Assurance role:
Provide assurance to the CEO and executives, the Board, the shareholder and other stakeholders that risk is being effectively and proactively managed by the Institution.

Enabling role:
Build the enterprise-wide risk management capability



Risk management achievements

During the 2014/2015 financial year, **sefa** examined its portfolio risk in greater detail and continued to report on its operational risk exposures. The aim of this was to identify deficiencies within **sefa's** risk management and to put corrective steps and practices in place to strengthen the risk management policies and systems.

In line with good practices, **sefa** Board approved the institution's revised impairment policy. This policy set out the high level principles for the effective calculation and management of impaired assets, as well as document processes and procedures for impairment on **sefa's** loans, funds and investments. The policy also aims to protect **sefa** against adverse shock, through timely recognition of potential and identifiable losses. It is envisaged that going forward, the policy will guide **sefa** in recognizing and measuring impairments, and to create provisions as soon as a reasonable doubt of recovery arises by using appropriate statistical and modelling techniques to improve the accuracy of impairment estimates.

sefa also established an Investment Monitoring Committee (IMC). The main purpose of this committee is to ensure adequate collections and to mitigate impairment risk. Repayment of loans (collections) is therefore the main focus area of the committee. By doing so the committee also ensures that **sefa's** loan portfolio is managed pro-actively and consistently and that **sefa's** portfolio is healthy and performing at satisfactory levels required for the achievement of their intended returns. Through weekly feedback from the various regions, the committee is updated on the status of **sefa's** loans on a monthly basis. This serves as a mechanism to mitigate project and credit risk, and also provide feedback on the quality and health of **sefa's** assets.

As discussed in the credit risk section, the introduction of a quarterly portfolio report was also a landmark. It provides a more consistent and insightful portfolio analysis and evaluation.

Risk management "three lines of defence"

sefa's "three lines of defence" model is used as a basis for its effective risk management system. The Business Divisions, Risk and Compliance Division and Internal Audit Division are the three independent divisions organized into 'three lines' while still promoting collaboration and flow of information between these divisions. **sefa** uses the enterprise-wide risk management approach, which is changing the risk culture in the institution. Risk Management is receiving stronger backing from the strategic business divisions and units, because the risk management governance structures and systems are embedded in decision making processes. The primary risk functions within **sefa**, which enable enterprise wide risk management, are credit risk, operational risk and compliance risk.

The Integrated Enterprise Risk Management Model below depicts how **sefa's** "three lines of defence" model is incorporated within the risk management process, including the governance structures.

sefa's Integrated Enterprise Risk Management Model

** Risk and Compliance Champions are **sefa's** executives.*

Risk management maturity

One of the aims of the risk management strategy is to achieve an optimal level of risk maturity that is proportionate to the resources and the risk to which **sefa** is exposed. The level of risk maturity will define the degree of sophistication of its risk management activities. Hence the greater the level of sophistication, the greater the benefits of enterprise risk management. **sefa** benchmarks its risk management maturity against the following maturity matrix:

Risk maturity		Key characteristics
Level 1	Risk Naïve	There is no formal approach developed for risk management
Level 2	Risk Aware	Scattered silo based and fragmented approach to risk management. Risk is defined differently at different levels and divisions of the company. Risk management is reactive. Limited alignment of risk management to strategy. Uncoordinated monitoring and reporting of risk.
Level 3	Risk defined	Risk strategy and policies are in place and communicated. Risk appetite defined. Common risk assessment process/responses adopted. Enterprise-wide risk assessment performed. Identified risk universe. Risk mitigation action plans implemented in response to high priority key risks. Communication of key risks to EXCO and the Board.
Level 4	Risk Managed	Enterprise-wide approach to risk management developed and communicated. Risk management activities coordinated across all business areas. Enterprise risk monitoring, measuring and reporting is established. Opportunity risks identified and exploited.
Level 5	Risk Enabled	Risk management and internal controls fully embedded into the decisions and operations of the Company. Ongoing risk assessment processes. Risk discussion embedded in strategic planning, capital allocation, product development, etc. Risk management linked to performance measurement and incentives system.

Having achieved a number of important risk management milestones during the previous financial years, the organisation is considered to have matured to a Level 3 and is in pursuit to reaching level 4.

Risk management objectives

sefa's risk management is practiced to facilitate an understanding of the risks inherent in the organisation's business operations which can impact materially on the achievement of **sefa's** objectives, decide on which and how much of these risks **sefa** is willing to accept and design and implement actions to reduce unacceptable levels of exposures to risks. An enterprise-wide approach to risk management by **sefa** is expected to contribute to this objective by:

- Ensuring that risks are identified, assessed and mitigated in a systematic manner, covering all sources of risk and all aspects of **sefa's** operations and functions, at all levels of the organisation
- Enabling awareness, ownership and involvement of everybody in anticipating and responding to the risks in a holistic manner
- Giving confidence to all stakeholders that reasonable action is taken as an integral part of the normal business operations to anticipate and respond to events
- Ensuring that there are robust and appropriate structures and delegations of authority to ensure sound risk management
- Providing and informing the shareholders and the Board of all inherent risks and the management of such risk by the organisation.

Operational risk

In keeping abreast with the dynamic development finance landscape, **sefa** maintains an agile and "fit for purpose" operational risk management system. The objective in managing operational risk is to establish sound control practises to increase efficiency and effectiveness of **sefa's** mitigation parameters. **sefa's** Enterprise-Wide Risk Management Framework governs the manner in which operational and other types of risk are managed by the Agency. This provides a holistic and effective manner to look at all risk categories including operational risk. Operational risk is managed on an ongoing basis. Furthermore, it gets reported to the relevant oversight committees.

Credit risk

The granting of credit is **sefa's** major source of income and its most significant risk. The management of credit risk is therefore fundamental to **sefa's** core business activities, its planning and decision making processes. **sefa** therefore dedicates considerable resources to its control and management.

Credit risk management

Credit risk is defined as the economic loss arising from the failure of a counter party to fulfill its contractual obligations to **sefa**. The credit risk that **sefa** faces arises mainly from providing finance to small, micro and medium-sized businesses and Cooperatives throughout South Africa.

Credit risk management framework

Credit risk management is an integral part of **sefa's** core business and its management is embedded within the institution's operations. The framework articulates the prudential limits of **sefa's** various credit committees. The Board of Directors has delegated the operational responsibility for managing credit to sub-committees, Executive Credit Committee and the Management Credit Committee and Small Enterprise Credit Committee. The primary objective of **sefa's** credit risk management is to ensure that **sefa's** risk is in line with the institution's risk appetite and threshold, and that all risk issues inherent in **sefa's** lending decisions are mitigated and managed.

The Chief Risk Officer has functional responsibility for managing credit risk across the institution, through its various credit committee structures. These structures provide both management and the Board with the appropriate forums to evaluate credit risk and also evaluate how effectively it is being managed.

Given the nature of the inherent risk contained in small business transactions, the credit risk framework directs that the risks assumed by **sefa**, in the pursuit of its vision and mandate, are consistent with its nature and size and that such risk should also be commensurate with its capital structure, management expertise and risk appetite, as outlined in **sefa's** corporate plan.

Credit risk control and governance committee structure

The Credit Risk Unit is a dedicated resource within the Risk Division. Its role is to assist the Chief Risk Officer in setting and maintaining best practice credit risk management practices, by providing analytical and advisory services in respect of risk taking, control, measuring and reporting on credit risk exposures, trends and quality of assets at portfolio level.

sefa has five key Credit Committees to review credit risk management and evaluate all transactions, namely:

- Wholesale Investment Committee
- Direct Lending Committee
- Executive Credit Committee
- Management Credit Committee
- Small Enterprise Credit Committee

These Credit Committees have clearly defined mandates and members. Additionally, delegated authorities that are reviewed regularly. Responsibilities include:

- Providing oversight of governance and risk appetite
- Ensuring that all transactions under consideration are within **sefa's** mandate and meet our financing criteria
- Evaluating and specifying terms and conditions of credit and lending proposals
- Providing guidance on transactions to credit risk teams on matters to be followed up and incorporated in the further design and origination of credit and investment proposals
- The largest credit exposures above the defined amounts are approved at the Board Investment Committees

Credit risk management enhancement

The Credit Risk Unit continues to review existing policies and procedures in order to avoid undue credit risk and potential loss, without compromising on sustainable returns and development impacts.

sefa's credit policies, which have been approved by the Board and implemented will ensure the following:

- Independence and integrity of decision making and risk reviews
- Sound and consistent credit granting standards
- Effective credit risk management
- Robust credit granting processes and procedures
- Proactive identification of potential client defaults

sefa's credit risk methodologies and models measure and monitor credit risk. These models assist in frontline credit decisions on new transactions, the management of the existing portfolios and ensuring that **sefa** has a credit risk rating for each client.

Credit Risk Grading

As part of the credit process, **sefa** has undertaken extensive research on second generation credit risk models and has developed these models for both Wholesale and Direct Lending. These models have been improved in terms of predictability, accuracy and reliability. It is the aim of **sefa** to continue refining these models in the coming year from lessons learnt and the resultant outputs will be more closely integrated within the credit processes through the use of rule sets derived from ratings. The main objectives of the rule sets are to rank **sefa's** client base according to risk and to estimate the probability of default for each client and to price transactions accordingly.

The risk classification process within **sefa** also ensures that there is a shared understanding across the institution of the credit risk that clients pose.

In view of **sefa's** mandate, the institution has a discounted credit risk charge for all its clients. **sefa** does not charge a risk premium that is in line with the probability of default of its clients. **sefa** has developed a 17 grade scale and a default grade which reflects the discounted risk margin associated with a particular grade.

Reporting

The financial sustainability of **sefa** is critical. **sefa** therefore dedicates resources to gaining a clear and accurate understanding of credit risk across its portfolios. Improvements were made at both divisional (Wholesale and Direct Lending) reporting levels, on the reporting of the credit portfolio including the measurement of the quality of the loan book. This resulted in more consistent and insightful portfolio analysis, evaluation and reporting through the use of improved metrics. In the coming year, portfolio reporting will be enhanced further as more granular data becomes available. This process can be summarised in the following broad stages:

- Measuring and quantification of exposures
- Monitoring adverse trends within the portfolios
- Proactively identifying potential problem loans and investments
- Raising provisions for impaired loans
- Writing off assets when the entire or part of a debt is considered irrecoverable

Credit risk mitigation

Where collateral is offered or deemed to be prudent, consideration is given to the eligibility of collateral in terms of the economic value of the underlying assets and the enforceability of **sefa's** legal rights or entitlement to the asset.

sefa does not fund on the basis of collateral. However, collateral serves as an instrument to enhance the quality of credit and mitigate credit risk inherent in **sefa's** lending transactions, by increasing the ratio of recoverable debt in the event of default and by implication reducing the loss given default of credit exposures.

The main types of collateral taken comprise notarial bonds over existing plant and equipment (business assets), instalment sale agreements on the underlying moveable business assets financed and collateral mortgage bonds over secondary and investment properties if available. In addition **sefa** takes personal suretyships to demonstrate clients' commitment.

The security coverage required is determined by the risk profile, the materiality of the loan and the sustainability and repayment of the funds application. Financial covenants are also an important tool for credit risk mitigation within **sefa**.

Compliance management

The compliance management function reports to the Chief Risk Officer. The objective of the compliance management function is to establish and maintain regulatory compliance processes and embed a regulatory compliance culture within **sefa**. Additionally, the compliance management function facilitates the establishment of regulatory controls, provides compliance advisory support to business to implement controls and to conduct monitoring exercises in order to provide assurance on the level of compliance within **sefa**.

The Compliance management department provides support to business relating to regulatory reporting obligations, ensures timeous adherence to reporting obligations to Regulators and ongoing liaison and communication to Regulators. The department further provides regulatory training to employees relating to applicable legislation. The department ensures that the company is kept abreast of new legislation and regulatory trends within the market in which **sefa** operate.

Meqheleng Waste Management's work is evident in the cleanness of the Qwaqwa area. The environment is inviting and refreshing. Credit goes to MWM for this spotlessness!
Image courtesy of ***sefa***

DIRECT LENDING

Highlights

39%

Increase in funding approvals (in value terms) to a record level of **R509 million** to 307 enterprises

The majority of Direct Lending funding went to projects in priority provinces

Priority provinces:
Eastern Cape
Free State
Limpopo
Northern Cape
North West
Mpumalanga

R446 million

The **highest disbursement funding level** achieved since inception

Streamlined disbursement process and implemented a decentralised approach for post-investment monitoring and support

Disbursement recipients were **black-owned** businesses

91%

65%

Disbursed to **priority productive sectors**

Disbursed to **youth-owned** businesses

24%

Challenges

High level of impairments	Increasing the impact of Direct Lending activities on enterprises owned by targeted groups	Diversifying the sectoral composition of the portfolio
Improving **sefa's** geographic accessibility	Loan application turnaround times	Improving the quality of the business pipeline

Operating environment

Despite the tough economic conditions, Direct Lending played a counter-cyclical role by increasing its impact in the SMME and Cooperative sector. The sluggish growth in the economy, however, impacted negatively on the Direct Lending investment portfolio. This is evident in the high levels of impairments, being the biggest risk factor facing the Direct Lending portfolio.

Rian Coetzee
Executive Manager: Direct Lending

Development impact of Direct Lending activities for 2014/2015 financial year

307 BUSINESSES FINANCED

5 464 JOBS CREATED

91% Facilities disbursed to **black-owned businesses**

24% Facilities disbursed to **youth-owned businesses**

51% Facilities disbursed to **priority rural provinces**

29% Facilities disbursed to **women-owned businesses**

0.3% Facilities disbursed to **people with disabilities**

9% Facilities less than **R250 000** disbursed

65% Approvals for **productive industrial sectors**

A SUCCESS STORY

Mr Mandla Madwara

Key information

- Business name: LN Manufacturing trading as Lawrence Global
- Location: Port Elizabeth, Eastern Cape
- Number of employees: ±80 employees including six black woman engineers
- **sefa** client since: September 2014
- Facility approved: R5 million

LN Manufacturing

LN Manufacturing trading as Lawrence Global is a 100 % black-owned automotive engineering company based in Port Elizabeth. It manufactures and supplies engineering components to both automotive and non-automotive industries. Its clients include various major automotive manufacturers such as Mercedes-Benz, Volkswagen, Toyota, Land Rover, General Motors, BMW, Nissan, Transnet, Tenneco, Bel-essex Engineering and Benteler.

Mr Madwara, a co-owner approached **sefa** after battling to gain access to a business loan through commercial banks. **sefa** assisted with a R5 million loan which was used to service a prior awarded contract to supply automotive parts to Mercedes-Benz.

LN Manufacturing was previously white-owned and had big contracts with VW South and Evoque. In an effort to attract black partners Mr Madwara and his business partner bought a 60% stake which they have now increased to total black-ownership of 100% by merging two engineering companies.

The capacity generated through the **sefa** loan has allowed LN Manufacturing to create and maintain 80 jobs which Mr Madwara is hoping will increase in future as they expect more business from the diversified product offerings, and pursuit of international partnerships.

Equally for Mr Madwara and his partners, the continuous investment in training and up-skilling of staff remains critical, in particular the up-skilling of artisans which include: electricians, machinists and toolmakers – all instrumental in the sustainability and success of any engineering business.

In a constrained economic environment, SMMEs and Cooperatives often require finance urgently and **sefa** needs to efficiently respond to funding applications. Where there are unnecessary delays in the consideration of applications, clients might be negatively affected. To address this risk, **sefa** continues to upskill its staff to become more client-centric, and improve its systems to facilitate quicker turnaround times. It has also implemented a complaints register to resolve client complaints more efficiently.

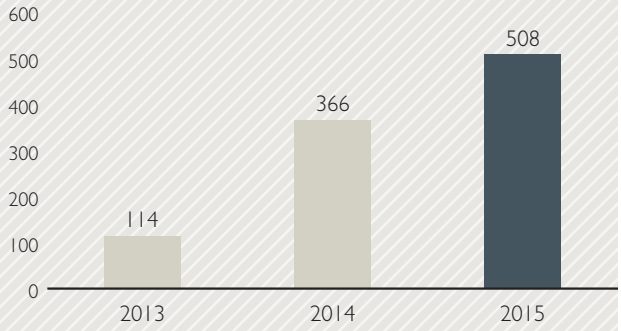
The current electricity interruptions being experienced throughout South Africa has resulted in a negative impact on some of **sefa's** portfolio companies. To provide assistance, **sefa** financed the purchase of back-up mechanisms for some of these companies.

The local operating environment was boosted by government's drive to use government procurement as a transformation tool in the SMME sector. In addition, the BBBEE Codes of Good Practice encouraged the private sector to procure goods and services from black-owned SMMEs and Cooperatives. **sefa's** contract-based financial products, such as bridging loans, were extensively used to support these initiatives. **sefa** continues to engage government and private sector entities to provide **sefa** with cessions of proceeds of such contracts in an endeavour to improve collections.

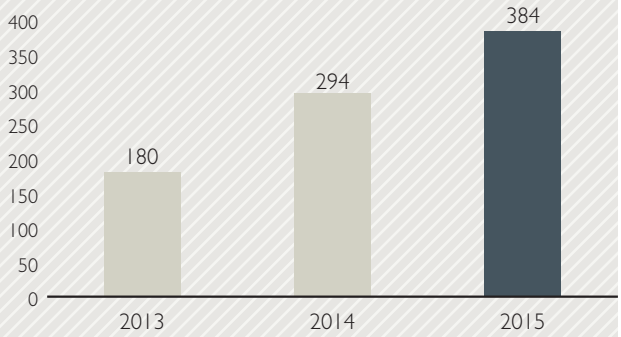
Progress during the year

sefa strives to make continuous progress year-on-year. Some of the areas where **sefa** made solid progress are shown below. Direct Lending approval values for the 2014/2015 financial year showed a 39% increase from the prior period and the disbursement value as a percentage of approval is 88% (2014: 71%). This increase was mainly due to a solid lending platform, a proactive drive towards increased approvals and a streamlined disbursement process. The sector allocations are depicted below and shows that the construction sector received the largest allocation (41%), followed by manufacturing (14%) and the wholesale retail and trade sectors (12%). Going forward **sefa** will continue to diversify these allocations to other priority productive sectors identified by government in its National Development Plan, Industrial Policy Action Plan and New Growth Path.

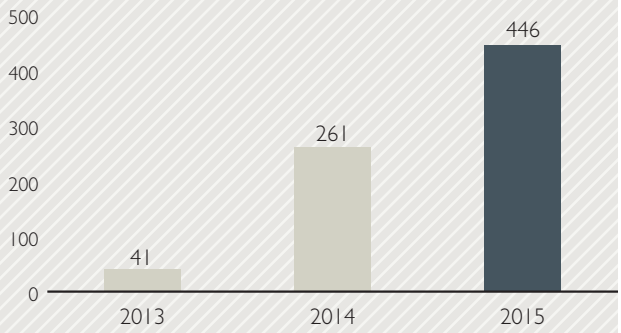
Approvals – value (Rm)



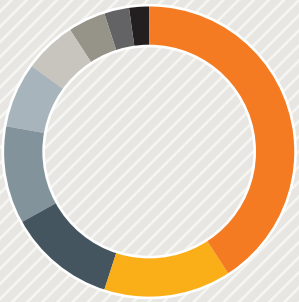
Approvals – numbers



Disbursements – value (Rm)



Sector allocation



Construction	41%
Manufacturing	14%
Wholesale and retail trade	12%
Finance and business services	11%
Community, social and personal services	7%
Transport, storage and communications	6%
Agriculture	4%
Mining and quarrying	3%
Catering, accommodation and other trade	2%

A SUCCESS STORY

Ms Nokulunga Faith Mkhize

Key information

- Business Name: Sinmon Trading
- Location: Mandeni, KwaZulu-Natal
- Number of employees: ±50 employees (including sub-contractors)
- **sefa** client since: March 2014
- Facility approved: R4.7 million

Sinmon Trading

Ms Nokulunga Faith Mkhize, is a black woman entrepreneur from Mandeni in KwaZulu-Natal. She has a passion to empower other aspiring women entrepreneurs, especially those based in the rural areas. Early in 2014 she was awarded a contract to build houses in Mandeni. She approached **sefa** for financial assistance to deliver on her housing contract and was approved for a loan to the value of R4.7 million.

In its first of year of trading Sinmon Trading generated revenue amounting to R6 million which enabled Mrs Mkhize to draw a salary and pay her more than 50 employees and sub-contractors.

Ms Mkhize is appreciative of the financial and non-financial support offered to her by **sefa**. Her passion for development and women empowerment has driven her company to contribute to her community by building a house for a needy family which was handed over in December 2014.

Going forward, Ms Mkhize is looking to expand her business through new projects across the whole of KwaZulu-Natal. Once this is achieved, she plans to extend her business to other provinces.

Progress against 2015 deliverables

What **sefa** planned to achieve	Progress in current financial period
Strengthening and building investment officer skills and capacities	▪ Addressed due diligence capacity in its regional offices through training current investment officers and appointing new investment officers to further boost capacity ▪ Improved systems and procedures, including due diligence funding checklists for investment officers.
Increasing process efficiencies to reduce turnaround times on applications	▪ Finalised all systems and procedures to provide clarity, improve efficiency and to facilitate **sefa** to speed up turnaround time.
Building post-investment skills and capabilities to proactively manage potential defaults and impairments	▪ Implemented an impairment reduction strategy which aims to decentralise and coordinate post-investment monitoring functions ▪ Established an Investment Monitoring Committee to provide portfolio monitoring oversight ▪ Developed a debit order system to improve collections – the first run occurred in April 2015
Expanding Direct Lending's footprint through further strategic partnerships and alliances with organisations such as cooperative associations and franchise organisations	▪ **sefa** approved a geographic expansion plan that will facilitate access to **sefa** in each municipal district in South Africa ▪ Enhanced existing networks and partnerships with IDC, seda, Municipalities, Local Economic Development Agencies, Provincial DFIs and Business Chambers

Looking ahead

The Direct Lending Division will focus on:

- *Market development:* This will bring **sefa** geographically closer to its market – especially in the previously disadvantaged markets such as rural areas and townships – through an increased branch network and different forms of partnerships and co-locations. **sefa** will also strive to initiate, improve and expand partnerships with private sector and public sector entities such as seda, which provides pre-investment business support and incubation. This will improve the quality of funding applications submitted to **sefa**
- *Improved service excellence and value-added client services:* **sefa** wants to improve the experience of its SMME and Cooperative clients through service excellence and value-added post-investment support. This will be achieved by setting high standards of client-centricity and improving the organisation's client service, from a quality and turnaround perspective, during the application phase. It will also ensure holistic support during the post-investment phase
- *Improved due diligence capabilities:* In order to prepare **sefa** for continued growth, investment officers will continuously be upskilled to evaluate applications on different types of transactions and in different sectors. **sefa** will focus on areas where it has limited experience, such as start-up funding and certain government priority sectors
- *Systems development:* **sefa's** due diligence systems and procedures will be customised and automated, where possible, to ensure improved efficiencies and enhanced quality of investment assessments
- *Impairment reduction:* The exponential increase in the size of **sefa's** portfolio over the past two years has shifted the focus from pure deal-making to ensuring the sustainability of our portfolio and reducing impairments. This has necessitated the enhancement of **sefa's** post-investment, workout and restructuring and collection activities

A SUCCESS STORY

Key information

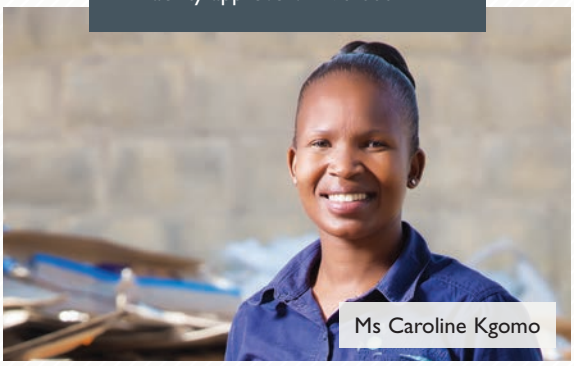
- Business name: Meqheleng Waste Management (MWM)
- Location: Ficksburg, Free State
- Number of employees: ±10 employees (youth)
- **sefa** client since: June 2014
- Facility approved: R493 000

Meqheleng Waste Management (MWM)

MWM is a Ficksburg-based black-owned company that began operating in 2012. It is owner-managed by Ms Caroline Kgomo, a black woman. Ms Kgomo was unemployed and identified a gap in the market when she noticed that waste and refuse material was scattered all over their surroundings which posed a health hazard to the community. That became a business idea for her as she decided to explore the viability of turning waste into revenue and at the same time keeping Ficksburg clean. She subsequently educated herself about waste disposal and opened her own waste management business and has never looked back.

She admits that in the beginning it was not a walk in the park. When she commenced business, she had to rent a disposal truck to collect waste from various supplier sites. This became a challenge for her as a big chunk of her profit went towards the payment of the rented vehicle leaving her and her young daughter to make ends meet with the change that would be left after she had paid her business overheads.

It was then that she approached **sefa** and was approved for a working capital facility of R493 000 which she used to deliver on contracts awarded by Nampak and Consol where she was required to supply waste paper and bottles for recycling. Today she is able to draw a salary from her business and also pay her employees and suppliers with ease.



Ms Caroline Kgomo

The business has been able to uplift its community by creating employment opportunities to about 10 youngsters from the local community.

No business runs without hurdles. MWM's challenge has been load shedding which affects most South African businesses. When this happens, her electrically dependent recycling machinery ceases working. She is looking into investing in a generator to avoid such ongoing business interruptions.

A key highlight for Ms Kgomo was winning the first prize in the Entrepreneurship Challenge Competition in 2014 – hosted by the International Labour Organisation (ILO) where she was also awarded R150 000 grant funding. This money is being used to develop the 1.5 hectares of land Ms Kgomo has earmarked for expanding her business. Ms Kgomo's goal is to have her own recycling plant.

WHOLESALE LENDING

Highlights

Intensified effort to support Cooperatives, resulting in approvals amounting to **R39.9 million**

R345.8 million allocated to the innovative "Structured Finance Solutions" product

Eight new strategic partnerships launched

Khula Credit Guarantee Scheme: **R60 million** approved to indemnify suppliers in the construction and steel industry

New microfinance lending channels increased accessibility of funding to micro-enterprises:

- **R24.5 million approved** for Fresh Produce Market pilot programme
- **R25.5 million** to roll out ICT distribution containers programme

Challenges

Slow economic growth reduces opportunities and affects financial sustainability of SMMEs and Cooperatives

Slow take-up of the indemnity product through financial institutions

The Wholesale Lending division facilitates the establishment, survival and growth of SMMEs and Cooperatives in South Africa, with the goal of contributing towards poverty alleviation and job creation through enterprise development partners. Enterprises served include Cooperatives that require funding/ business loans of up to R5 million. **sefa** also provides capacity building grants to funded institutions to strengthen their ability to serve SMMEs and Cooperatives

Vuyelwa Matsiliza
Executive Manager: Wholesale Lending

Overview

In 2014/15, **sefa's** Wholesale Lending Division complemented the Direct Lending Division by intensifying the establishment of strategic public and private partnerships to broaden the credit access channels to SMMEs and Cooperatives.

The Division revised its SME and micro-enterprise finance strategies to be aligned with the broad objectives to:

- Provide affordable credit to SMMEs and Cooperatives to improve their sustainability
- Significantly extend **sefa's** microenterprise and Cooperatives distribution channels to localities of end users
- Leverage existing private and public sector resources for development and financing of sustainable enterprises

The strategies broadly positioned **sefa** as a preferred SMME and Cooperatives development partner, and ensured that the focus remained on the needs of the SMMEs and Cooperatives. Sector specific and cost-effective credit as well as value chain support was provided to SMMEs and Cooperatives in various sectors that included tourism, retail, the green economy, mining, agriculture, construction, supply chains and small-scale manufacturing.

At **sefa**, Cooperatives are regarded as key players in the upliftment of communities. They enable participation by the communities in economic activities that directly address poverty, unemployment and inequality. In 2014/15 **sefa** made great strides in building both financial and non-financial support for Cooperatives. It also ramped up its collaboration with other government agencies like the Cooperative Banks Development Agency (CBDA) and the Cooperatives Development Agency and seda to ensure that Cooperatives receive broad assistance packages to strengthen them and promote their sustainability.

The following table depicts facility types offered through the Wholesale Lending division:

Facility	Type	Lending channel
On-Lending for the benefit of SMMEs and Cooperatives	Business Term Loans Revolving Credit Facilities Working Capital Loans Institutional Strengthening Support	RFIs; MFIs; CFIs
Land Reform Empowerment Fund for the benefit of emerging black farmers to support government's land distribution, and tenure reform and land restitution initiatives	Mortgage Loans Equity Share Loans Production Loans Business Term Loans Revolving Credit Facilities Working Capital Facilities	Commercial Banks and other Financial Institutions
Credit Guarantee Scheme for the benefit of businesses without collateral	Credit Indemnities	Commercial Banks, other Financial Institutions and Suppliers registered with the scheme
Structured Finance Solutions and Strategic Partnerships address specific market segment challenges and crowd-in existing technical capacity and resources for the benefit of SMMEs and Cooperatives.	Equity Revolving Credit Facilities Institutional Strengthening Support	RFIs; MFIs; Financial Institutions; Specialised Funds; Public and Private Partnerships

A SUCCESS STORY

Constance Mkhabela

Key information

- Business name: Phakamani Foundation
- Location: Mpumalanga, Limpopo and KwaZulu-Natal
- Number of women in the programme: ±10 000 (currently support >50 000 family members)
- **sefa** client since: July 2012
- Facility approved: R22 million

Vision: "a country in which even the survivalist entrepreneur has the opportunity to create a business, uplift a family, and build a dream."

Phakamani Foundation

Phakamani Foundation is a registered non-profit, public benefit organisation. It empowers women from previously disadvantaged backgrounds through an integrated programme of basic skills training, offering group loans and ongoing support to succeed in their micro-enterprise ventures.

The Foundation's key strength is its ability to live up to its mission: "to empower less fortunate individuals to succeed in their micro-enterprises by providing micro-finance product training and ongoing institutional support that will help them thrive." This is achieved through the collaborative efforts of the dedicated staff and commitment from clients, who embrace the training provided to empower them and the communities, in which they operate.

The Foundation also employs staff from the community, thereby enabling the local people to carve out careers and sustain themselves.

Phakamani's sense of success and accomplishment comes from knowing that its beneficiaries' overall wellbeing is taken care of. That includes having adequate nutritional food for their families, and sustaining themselves financially (being able to pay school fees and books and have access to health facilities). It also means economic independence, confidence, new skills, strong community ties and a greater ability to cope with minor setbacks.

Phakamani only on-lends to people who are prepared to help themselves. When the loans are repaid, they are recycled to assist other micro-entrepreneurs. Social and financial measurements undertaken by the Foundation show that through the loan cycles offered, clients' lives are being uplifted over time. In addition, it is encouraging to note that a culture of saving has been embraced by these clients.

sefa's provision of finance through both loans and grants continues to assist the Foundation in achieving its goals. Courtesy of the positive relationship Phakamani Foundation has built with **sefa**, an organisation that understands the unique needs of the Foundation.

As it is the case with any business, profit or non-profit, the Foundation has its hurdles which include systems efficiencies and the interruptions experienced due to load shedding. The lack of diversified funding also remains an ongoing challenge.

Phakamani beneficiary

Constance Mkhabela is an entrepreneur funded by Phakamani and is the proud owner of a chicken farm located in the outskirts of White River, Mpumalanga. The saying that "never judge a book by its cover is true for Constance's Chicken Farm. At first glance as one travels the dusty road to the farm, it does not look like a thriving business. But as you get closer, your first perceptions turn into respect and appreciation of what Constance has built up from nothing to sustain both her personal and business needs.

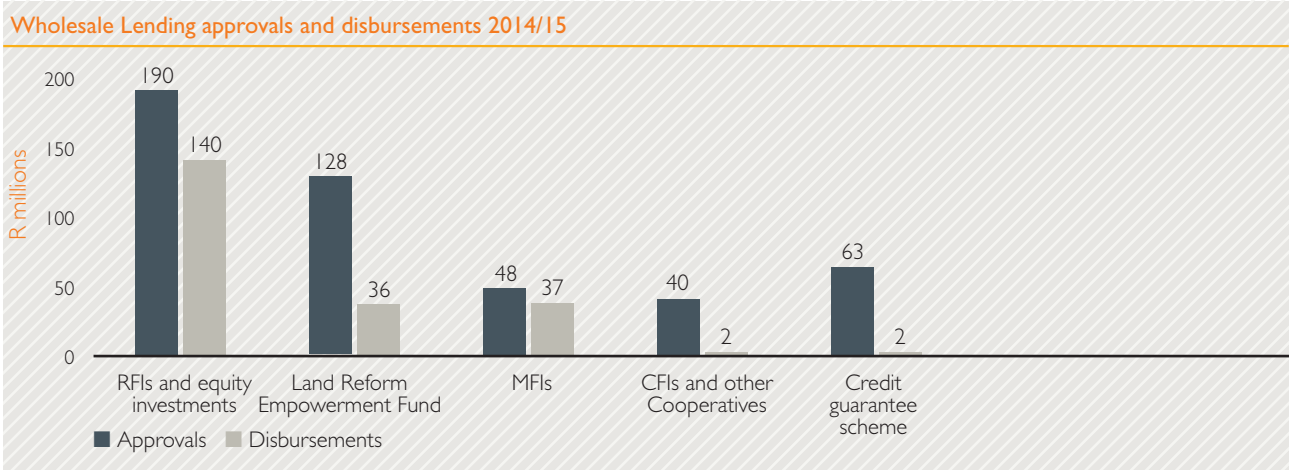
Appreciation goes to the Foundation that assisted Constance with a loan to start the business. Seeing the growth potential of his wife's business, Constance's husband was inspired to assist in expanding the business. They now have a three-stage process with chickens – from the incubation stage, the small chick stage to when the chickens are ready for selling.

Wholesale loan approvals and disbursements

sefa's approvals of R468.1 million (2013/2014: R659.0 million) relate to a number of smaller high impact transactions. Agreements to the value of R345.8 million have been concluded with five different programmes under the Structured Finance Solutions Product. Funds are reserved for these programmes and will only be reported as approvals once the facility has been made available to the end-user.

The Wholesale Lending Division disbursements of R218.4 million (2013/14: R288.0 million) was below the R254.9 million target for the 2014/15 fiscal year. This 86% performance on the targeted disbursements for the year is indicative of the stringent portfolio quality management practices enforced by the Post Investment Management Unit which ensures that drawdowns are conditional on the fulfilment of agreed to terms and conditions and satisfactory performance by our funded partners. Delays in disbursements become inevitable when corrective action is required on either breaches or non-performance by the client.

The graph below shows the total Wholesale Lending Divisional approvals and disbursements for the 2014/2015 financial year.



Summary of the development impact of the Wholesale Lending Division Products and Services during 2014/15:

	Business loans to RFIs; MFIs; CFIs		Micro-enterprises		Cooperative financial institutions		Indemnity scheme		Strategic partnerships	
Target Group	Nr	R'000	Nr	R'000	Nr	R'000	Nr	R'000	Nr	R'000
Support to SMMEs/Cooperatives	406	439 660	66 809	227 706	653	5 708	6	2 942	543	172 328
Support to youth-owned enterprises	110	120 130	16 055	41 595	112	1 225	0	0	48	36 420
Support to enterprises in rural provinces	181	104 636	58 341	208 033	488	5 138	1	90	415	95 107
Support to women-owned enterprises	118	104 660	65 896	221 849	369	3 013	3	1 972	187	29 036
Support to black-owned enterprises	230	206 237	51 750	171 517	151	899	2	292	541	172 327
Support to entrepreneurs or enterprises requiring loans of less than or equal to R250 000	221	15 116	66 724	227 706	653	5 708	3	391	352	15 504

** One business can be applicable to more than one target group.*

A SUCCESS STORY

Anglo Khula Mining Fund

Key information

- Established in 2003
- R200 million 50:50 joint venture between Anglo American and **sefa**
- Business objectives:
  - Sustainable growth of junior mining ventures
  - Promoting BEE participation
  - Creating a sustainable funding vehicle for junior miners
- Number of people employed >1 650
- Funds invested to date R323 million

The Anglo Khula Mining Fund started in 2003 and invest in viable SMEs that are involved in small-scale mining and related activities within South Africa.

In 2013 **sefa** invested an additional R100 million in this fund after successful implementation of the first fund.

The Fund is focused on increasing the presence of black-owned mining companies and to provide the country with junior mining companies to find new mineral deposits.

This is achieved by the provision of funding through various debt and equity instruments. The maximum funding is R30 million per transaction and equity investments range between 10% (minimum) and 49% (maximum). SME financing is capped at the prevailing prime lending rate.

The Fund was created to address challenges that are facing junior miners, including lack of developmental capital and the shortage of advisors and inadequate guidance for these miners.

In addition to financial support, the Fund also provides businesses with systems and technical support – imperative to any mining business. In addition, through Anglo American's stakeholder network, beneficial relationships have been initiated, leading to a number of projects.

Over 1 650 jobs have been created through the Fund's investee companies. The combined turnover of investee companies amounted to R592 million by June 2015.

New strategic partnerships	
Grocat – Chesa Wheels	▪ This initiative provides funding to 24 Cooperatives, who manufacture coal briquettes from coal duff to be used for cooking and warming ▪ **sefa provided R11.6 million and Grocat contributed R2.4 million** ▪ Two manufacturing Cooperatives were established and provided with funds to purchase machinery and up-skill their members
Rise Up Bakeries	▪ The ECF has approved grant funding of R15.9 million to support the creation and development of a complete mobile bakery solution in the Western Cape which will establish at least 50 mobile bakery units that will produce a minimum average of 320 loaves of bread per mobile bakery per day ▪ **sefa is an implementing agent for this project**
Wild Coast Enterprise Development Fund	▪ **sefa approved R56 million in partnership with the ECDC who will invest R55 million on behalf of DEDEA** ▪ The fund will focus on providing support to SMMEs and Cooperatives in the Wildcoast region that have been awarded contracts secured by cessions ▪ This fund will support projects that are directly and in directly linked to the massive infrastructure development initiatives in the region
Gold Loan Scheme	▪ The primary objective of the Gold Loan Scheme is to stimulate growth, create job opportunities and facilitate access of new entrants within the jewellery manufacturing sector ▪ The Scheme provides support to jewellery manufacturers registered and based in SA through the GLSA, by offering a gold metal buying facility at a 3% surcharge per transaction payable upfront or at the end of the period which will not exceed 180 days ▪ **sefa will support small jewellers using R20 million from the MCEP in partnership with the IDC**
Green Fund	▪ The purpose of the fund is to lay the basis for the South African economy to make a transition to a low carbon, resource efficient and climate resilient development path delivering high impact economic, environmental and social benefits ▪ The partners, **sefa** and the Development Bank of Southern Africa, will each contribute R30 million

Progress on strategic partnerships established in the prior year	
Godisa Supplier Development Fund	▪ A partnership between **sefa**, Transnet and Anglo Zimele, each contributing R50 million for on-lending purposes and R5 million for business support ▪ The parties agreed to a PPP in the form of a development Investment Company aimed at financing and supporting black-empowered SME suppliers in the supply chain of Transnet ▪ During the current financial year R14 million was disbursed to Godisa
Anglo Khula Mining Fund	▪ A partnership with Anglo American where each party committed R100 million to invest in viable SME companies that are involved in small scale mining and related activities within the Republic of South Africa ▪ The fund provides equity and/or debt instruments, with equity stakes taken not exceeding 49% of the issued share capital of investees ▪ During the current financial year, R32.3 million was disbursed to this fund

Structured Finance Solutions	
Aluminium Beneficiation Initiative	▪ This R100 million Facility was established in collaboration with the Aluminium Beneficiation Initiative, (a Hulamin and BHP Billiton initiative) to support entrepreneurs in the aluminium fabrication sector
Prasa (Women in Rail)	▪ A facility of R100 million was approved to fund women-owned enterprises participating in the PRASA Women in Rail programme
Liquid Petroleum Gas/CADAC	▪ A R20 million Liquid Gas Petroleum Facility was established in collaboration with CADAC to fund businesses in bulk gas distribution and gas filling outlets
Chicken Stop	▪ This wholesale franchise facility of R30 million was approved to fund entrepreneurs from previously disadvantaged backgrounds to acquire a franchise
DOE Schools Feeding Schemes	▪ R30 million was approved to enable Cooperatives and micro-enterprises to participate in Government's National School Nutrition Programme with the overall purpose of enhancing access to education by providing daily nutritious meals to learners across the country
Gauteng Enterprise Propeller	▪ The R30 million facility from **sefa** will be utilised for business loans to Cooperatives that have been awarded contracts by the City of Tshwane Municipality under the youth programme
Walk-in 25	▪ The business model helps shop owners/enterprises to benefit from bulk buying discounts. **sefa** approved R10.4 million for business loans and business support grants which will benefit 32 enterprises
AJ Containers	▪ **sefa** made R25.5 million available to fund businesses that operate as spaza shops from containers mainly in rural communities of the Eastern and Northern Cape
ILO	▪ ILO has developed a programme, Start and Improve Your Business, as a training instrument focusing on starting and improving small businesses as a strategy for creating more and better employment. **sefa** has approved a R10.3 million revolving credit facility to support this

Looking ahead

The Wholesale Lending Division will focus on the following going forward:

- Increase focus on the needs of SMMEs and Cooperatives, in particular the targeted groups such as rural and peri-urban based women and youth owned enterprises
- Collaborate with public and private sector partners in SMME and Cooperative development
- Review the current products and services and also address needs along the value chains

A SUCCESS STORY

Duvha Foundry
(Credit Guarantee Scheme End User)

Duvha Foundry was established in 2012 by Mr Tshivhase. It is a casting manufacturing business producing castings in chrome, iron, steel and stainless steel alloys.

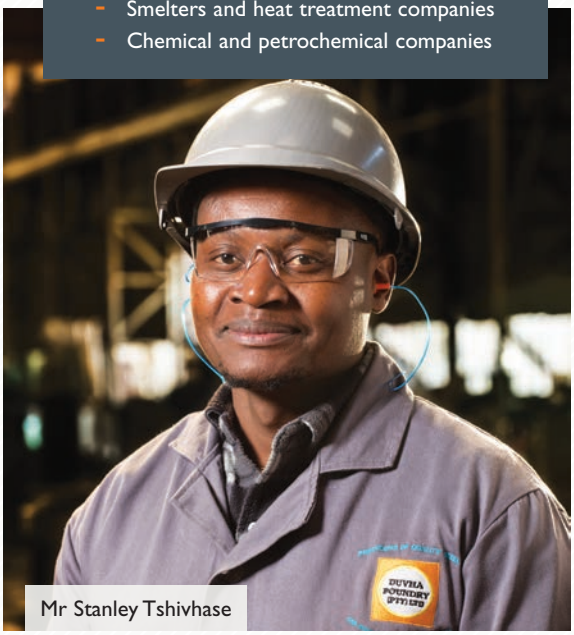
Coming from a disadvantaged background, Stanley was determined to succeed in spite of all the socio-economic challenges. An entrepreneur at heart, he struggled to access finance from commercial banks due to the lack of collateral. He managed to obtain a loan from a well-known commercial bank.

Getting a loan allowed Mr Tshivhase to acquire the factory premises, and equipment, training employees and obtaining the first order for business.

Within three years the business moved from a small workshop of 800m^2 to a factory of about 2 600m^2 with advanced plans to obtain more manufacturing space. The Duvha Foundry has grown its initial number of employees from nine to 35 and has substantially increased its market share.

Key information

- Duvha Foundry is a Venda name for: the sun that rises and shines
- Established in 2012 and located in Gauteng, it is the first successful black-owned foundry in the country
- Duvha services a wide range of companies including:
  - Rail companies
  - Mining companies
  - Engineering companies and machine shops
  - Power generating companies
  - Cement companies
  - Smelters and heat treatment companies
  - Chemical and petrochemical companies



Mr Stanley Tshivhase

HUMAN CAPITAL MANAGEMENT

Operating environment

sefa operates in a competitive market where all players have access to the same technology, systems, people and customers. As a result, there is a growing understanding that our people are what will distinguish us in the marketplace. Our Human Capital Management strategy serves as the foundation to transform our employees into a truly diverse and competitive workforce, geared to execute **sefa's** strategy.

Nokonwaba Shwala
Executive Manager: Human Capital Management

Highlights

- Achieved **leadership stability and strength**
- **Positive culture integration** interventions undertaken
- Implemented **leadership development** initiatives
- Performance measures and incentives **aligned to corporate objectives**
- Skills development **strengthened**

Challenges

- Attraction and retention of critical skills
- Bedding down challenges post-merger in respect of employee relations, engagement and the integration of one culture
- Lack of automated Human Capital Management processes
- Inculcating a culture of high performance

The 2014/15 human capital strategic execution was centered on embedding and resolving all outstanding post-merger challenges. All these challenges have now been largely resolved. Therefore the key focus areas and strategic initiatives for the period under review were the:

- Acquisition and retention of required skills for the company
- Implementation of comprehensive people development initiatives
- Implementation of an integrated performance management and reward strategy
- Enabling change and transformation
- Creating an integrated organisational culture – *One **sefa**, one culture*

Progress during the year

Following the merger between Khula and samaf on 1 April 2012, key challenges facing the Human Capital Division were the integration of the two companies' cultures and skills bases and ensuring that employee expectations in the new organisation (**sefa**) were being met. A large part of the period under review was devoted to building trust among our workforce. To achieve this, the Human Capital Executive conducted extensive employee engagements throughout the nine provinces, mostly one-on-one, to establish what the issues were and how they could be resolved. Following these engagements, **sefa's** Human Capital Division has put in place a five-year plan of action (2014 to 2018), depicted below, which maps out how it plans to create an environment that will enable **sefa** to be a high-performance organisation.

In an effort to drive the objective of culture integration – *One **sefa**, one culture*, the CEO conducted coffee sessions, where he invited employees to share ideas that could contribute towards improving the effective running of the organisation.

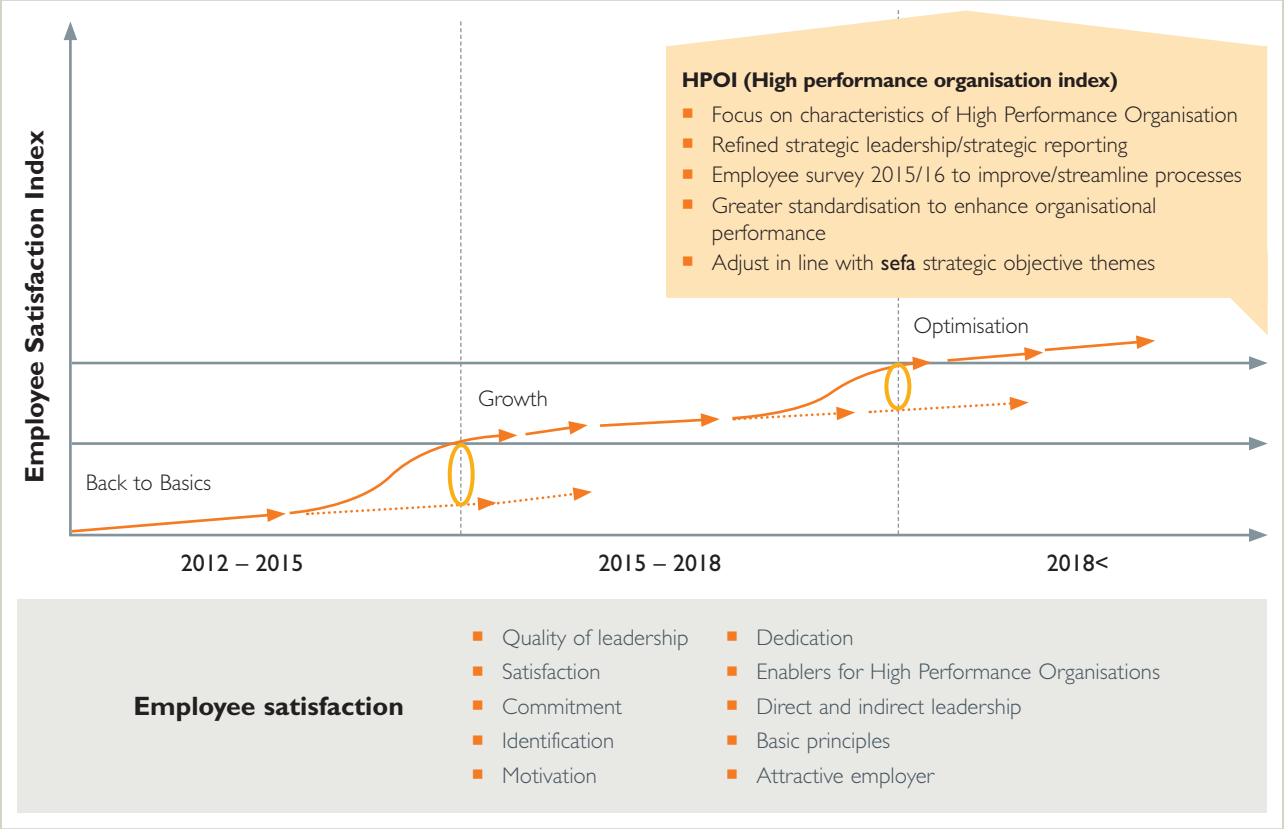
Simultaneously, an employee satisfaction index survey has been conducted, to fully understand 'back-to basics' issues that **sefa** leadership must take cognizance of, for overall organisational improvement. The employment engagement index rating of 68.9% exceeds the 60% target.

Talent and performance management

Great strides were made during the period under review in developing **sefa's** Talent Management Framework to ensure that it not only retains key talent but that it develops a talent pipeline. Key progress included:

- Developing a headcount plan which was informed by business requirements to identify the gap between current and future workforce needs
- Reviewing and aligning job profiles with reporting lines
- Enhancing the vendor management process to enable timeous candidate searches
- Finalising a full executive staff complement

sefa's Human Capital five-year action plan to becoming a High Performance Organisation



sefa continued to drive a consistent performance culture. All employees now have key performance objectives in place and performance assessments are conducted with their managers to ensure tracking, monitoring and achievement of these key performance objectives. All key performance objectives are aligned to **sefa's** business performance objectives. Poor performers are identified during the performance assessment process and an individual development plan is put in place to address areas requiring development.

Compensation and benefits

Employee rewards were aligned to business objectives, and bonuses were awarded based on exceeding business and personal performance goals. A holistic approach to reward is spread across the following elements:

- A guaranteed package
- Variable pay in the form of short-term incentives
- Reward for performance
- Individual growth and development

Our annual review of employee remuneration was benchmarked against the market to ensure that **sefa's** remuneration and benefits are competitive, in an effort to source and retain critical and scarce talent.

Learning and development

Our training and development interventions were aligned to business objectives and available at all levels within **sefa**. The aim is to enhance the skills required to deliver on our strategic objectives, and to develop a succession pipeline for senior management. During the period under review, an amount of R1.5 million was spent on training (2014: R1.8 million). This spend constitutes 3% of payroll expenses.

Leadership development

Leadership development remains a priority for **sefa**. A phased Leadership and Management Coaching programme for ten employees at senior level was implemented to develop a sustainable leadership pipeline.

Corporate skills enhancement

Ninety-six percent of our employees have been trained in various learning and development interventions, including: core operations; leadership and management effectiveness; compliance; operational risk awareness; credit assessment; customer interface and other skills categories.

Graduate training programmes were offered to 29% of our employees. This was supplemented with in-house development programmes.

Employee relations

sefa believes in creating a positive and fair working environment for all employees. Management utilised set consultative forums and bilaterals with relevant stakeholders to ensure that all employees have a voice in the matters that affect them. Regular communication between management and staff assisted in assuring that conflict is resolved amicably and grievances aired and dealt with appropriately by all parties.

The integration and management of legacy issues were resolved during the period under review following extensive employee engagement carried out by the Human Capital Executive. Feedback from these engagements will be used to inform the employee satisfaction survey that will be carried out in the next financial period.

Critical human capital policies were developed, and processes and procedures were enhanced. These policies will further enable employees to perform in accordance with **sefa's** standards.

Occupational Health and Safety (OHS)

OHS remains a top priority in all our operations. During the period under review, **sefa** established an OHS committee which stipulates health and safety standards.

In response to the stress that affects employees on a personal and work-related level, **sefa's** collaboration with ICAS for their Employee Assistance Programme gained traction during the period under review. This service provides psychological care and support, which enables employees to optimise their competencies in the workplace. Employees and their families have access to a 24-hour, confidential and professional support service at ICAS to assist them in the management of daily personal and work-related difficulties.

Headcount and staff turnover

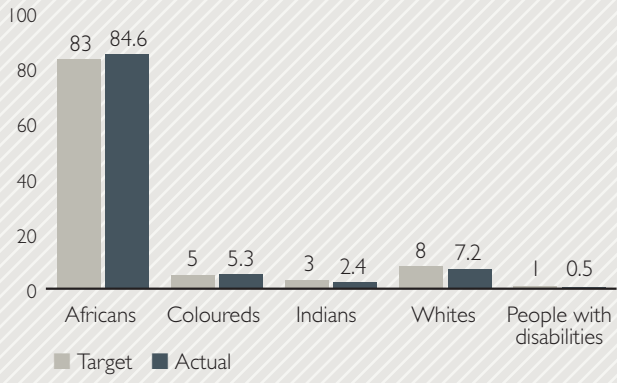
The graph below indicates the nature of staff mix required by **sefa's** business.

sefa headcount as at 31 March 2015

The composition of staff race groups is in line with **sefa's** employment equity plan. Overall African representation increased by 6.6% to 84.6% (2014: 78%). We experienced a decline in other racial groups' representation, due to attrition in the categories shown in the graph below. The focus for the new financial year will be to improve representation of people living with disabilities, and in categories where a decline was experienced.

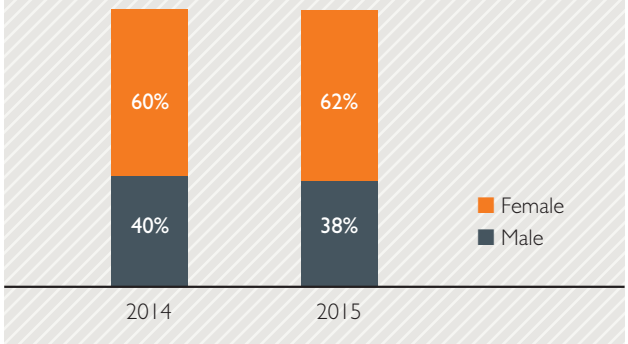
Staff turnover of critical strategic positions was in line with **sefa's** target of 7%.

Employment equity target vs actual (%)



The gender distribution for the year under review is depicted in the graph below. Overall female representation improved by 2% to 62% (2014: 60%).

Gender distribution



Sinmon Trading building an office building
Image courtesy of ***sefa***

Looking forward

Having bedded down the challenges faced with the merger between Khula and samaf, **sefa** is well positioned to focus on the following areas:

- Strengthening leadership capability
- Attracting and retaining talent
- Engaged employees
- Effective performance management
- Developing critical skills
- Enhancing Human Capital operational excellence

CORPORATE GOVERNANCE REPORT

Governance

sefa has adopted the principles of governance contained in King III where appropriate, and continues to improve and strengthen the application of the recommended best governance practices. **sefa** is also committed to good governance practices characterised by responsibility, fairness, accountability, and transparency.

Shareholding and shareholder engagement

sefa is a wholly-owned subsidiary of the IDC. The Company concluded a Shareholder's Compact with the IDC in accordance with the PFMA. The Shareholder's Compact is a corporate governance management agreement designed to enhance the governance of **sefa** through an effective relationship with its shareholder.

The relationship between **sefa** and its shareholder is further governed by the MOI. **sefa** reports regularly to shareholders through other channels, including the annual report.

Board of Directors

The Board provides strategic leadership and guidance to the Company. The Board is ultimately responsible for governance and effective control of **sefa**. It is responsible for providing sound judgement in directing **sefa** to achieve its mandate and growth in the best interest of all its stakeholders. The Board functions in accordance with King III and within the context of the PFMA, and the Companies Act. It further ensures that the Company complies with all applicable laws and regulations.

The MOI prescribes the size of the **sefa** Board, permitting a minimum of five and a maximum of fifteen directors. The appointment of directors and their term of office is governed by the Company's MOI. The current Board was appointed for a three-year term of office, ending on 31 March 2015. These terms have been extended to 25 August 2015.

The Chairperson of the Board of **sefa** is a non-executive director. No individual has unfettered powers and the roles of the Chairperson and CEO are separate to ensure a clear segregation of duties. The non-executive directors are not involved in the day-to-day running of the business of **sefa** and do not draw any remuneration from the Company, other than the fees paid for meeting attendance and other ad hoc duties assigned to them by the Chairperson and the Board.

The Board composition reflects the wide range of skills and knowledge necessary to meet **sefa's** strategic objectives.

The Board has unrestricted access to executive management to enhance communication and ensure effective achievement of the vision of the Company. Further communication with **sefa** employees is conducted through feedback sessions convened by the CEO.

The Board approved various strategies and policies during the year under review to ensure compliance with applicable legislation and adherence to sound governance practices.

Board and Committee meetings attendance

	Board	Audit Committee	Enterprise Risk Committee	Human Capital and Remun-eration Committee	Social and Ethics Committee	Wholesale Investment Committee	Direct Lending Committee	Khula Credit Guarantee (SOC) Limited Board
Number of meetings held during the year, including special meetings	11	8	7	6	1	9	4	3
Dr SM Magwentshu-Rensburg*	11	–	–	–	–	–	–	3
Ms BP Calvin	10	–	–	–	–	8	4	–
Mr M Ferreira	10	–	–	–	–	9	4	3
Mr GS Gouws	11	8	7	–	–	–	–	–
Ms HN Lupuwana	8	–	–	6	1	–	–	3
Mr TR Makhuvha√	11	–	6	–	0	8	4	3
Mr LB Mavundla	9	–	–	–	–	6	4	–
Mr SA Molepo	9	–	–	6	–	5	–	–
Mr LFV Mosupye°	–	–	–	–	–	–	–	1
Mr VG Mutshekwane	10	8	7	6	–	–	–	–
Ms K Schumann	9	–	–	–	1	7	3	3
Mr IAS Tayob	10	8	7	6	–	–	–	3

* *Chairperson*
√ *Chief Executive Officer*
– *Not a member*
° *Appointed December 2014*
The Social and Ethics Committee has two prescribed officers as members, CFO and Head of Legal

The Board has continued to improve its effectiveness and quality of governance. This is evidenced by the establishment of the Social and Ethics Committee, and revision on the Company's MOI to ensure its alignment with the business and mandate of **sefa**.

Conflicts of interest

The Board recognises the importance of acting in the best interests of the Company. The Board applies the provisions of the Companies Act by disclosing and avoiding conflicts of interests. Directors are required to declare their general interests annually and at each meeting in accordance with the Companies Act.

Board remuneration

sefa non-executive directors are remunerated for the meetings attended, and other ad hoc non-meeting duties performed on behalf of the Company and approved by the Chairperson, at a shareholder-approved rate. No performance-based remuneration or retainer fees are paid to directors.

Directors' remuneration is stated under note 28 to the financial statements.

Board evaluation

sefa employed the services of the IODSA to conduct a Board performance appraisal, to derive an independent view, and allow for candid responses from directors. The results of this appraisal will be used for the Board hand-over process for the incoming Board, and issues raised will, where appropriate, be addressed under the guardianship of the new Board.

Director development

In the best interest of the Company, **sefa** encourages ongoing director development to enhance governance practices within the Board.

Delegation of authority

The Board has delegated some of its authority to management while remaining responsible for the execution of the delegated authority. In line with Section 56 of the PFMA, the Board has reduced to writing all powers that have been delegated to management. The Board reviews and approves the DOA Matrix annually to ensure its relevance to **sefa** business requirements.

Board committees

The Board has established six committees, namely:

- Audit Committee (appointed by the shareholder)
- Direct Lending Committee
- Enterprise Risk Committee
- Human Capital and Remuneration Committee
- Social and Ethics Committee
- Wholesale Investment Committee

In compliance with the STIA, the Board established the KCG Board. KCG is a wholly-owned subsidiary of **sefa**, which is registered with the FSB as a short-term insurer. This Committee deals with all matters related to the short-term insurer.

The committees play an important role in enhancing good corporate governance. Each committee acts in accordance with a written charter setting out its mandate, membership, duties and reporting requirements.

Audit Committee (AC) (appointed by the shareholder)

The AC comprises two independent non-executive directors, and one non-executive director.

Details of meetings held by the AC during the year under review and attendance are provided on page 54 of the report.

The CEO and CFO attend AC meetings by invitation. Both internal and external auditors have unrestricted access to the AC through the Chairperson of the AC. The Internal Audit function reports its findings relating to systems of internal controls at each meeting of the AC.

The AC monitors the adequacy of financial controls and reporting, reviews audit plans and adherence to these plans by external and internal auditors, ascertains the reliability of the audit reports, ensures that financial reporting complies with IFRS, PFMA and the Companies Act, ensures the integrity of annual reporting, ensures that there are effective measures in place on IT risks as they relate to financial reporting; reviews and makes recommendations on all financial matters; and recommends the appointment and removal of auditors to the Board.

Direct Lending Committee (DLC)

The DLC comprises four non-executive directors, the majority of whom are independent. The CEO is also a member of the DLC.

The DLC has been mandated by the Board to ensure that strategies, policies and procedures are in place for effective granting and management of credit within the Direct Lending Division of **sefa**.

Enterprise Risk Committee (ERC)

The ERC consists of two independent non-executive directors, one non-executive director who is also the Chairperson of the ERC, as well as the CEO. The ERC held seven meetings during the year under review. Meeting attendance details are provided on page 54 of the annual report.

The primary function of the ERC is to assist the Board in discharging its duties and responsibilities related to the governance of risk. It reviews the Company's risk management processes, policies and plans. It also reviews procedures for the identification of risks, manages the impact of such risks on the Company and recommends the approval of risk policies to the Board.

Human Capital and Remuneration Committee (HCRC)

The HCRC comprises a minimum of four independent non-executive directors, one of whom is the Chairperson. The main objective of the HCRC is to assist the Board in the development of compensation and human resources policies, plans and performance goals, as well as specific compensation levels for **sefa**. It also assists the Board in fulfilling its oversight responsibilities and resolving overall compensation and human capital matters.

Social and Ethics Committee (SEC)

The Board of **sefa** established the SEC during the period under review, in terms of Section 72(4) of the Companies Act, read with Regulation 43 of the Companies Regulations, and King III. The Committee held one meeting during the 2014/15 financial year.

The SEC comprises an independent non-executive director who also chairs the SEC, one non-executive director, the CEO and two prescribed officers, (CFO and Head of Legal). The role of the SEC is to assist the Board with the oversight of social and ethical matters relating to the Company.

Wholesale Investment Committee (WIC)

The WIC consists of five non-executive directors, the majority of whom are independent. The CEO is a member of the WIC. Members of the WIC are individuals with small enterprise and micro enterprise skills and experience.

The WIC's main function is to consider Wholesale Lending transactions, strategy and policies. It also considers transactions where **sefa's** exposure is between R30 million and R60 million. The WIC also acts as a Committee of the KCG Board, by considering transactions relating to the credit indemnities valued between R5 million and R60 million.

Company Secretary

The Company Secretary is responsible to the Board for, inter alia, ensuring compliance with Board procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and unrestricted access to the Company Secretary. Directors regularly receive information relevant to the proper discharge of their duties through the Company Secretary.

Internal Audit

Internal Audit is an independent appraisal function which provides the Board with assurance on the adequacy and effectiveness of the Company's systems of Internal Control, as well as providing consultative and forensic investigation services. The Internal Audit Division assesses risk and conducts internal audit activities. The Division reports functionally to the Audit Committee and administratively to the CEO. The function is partially outsourced to the IDC.

Enterprise risk management

Effective risk management is integral to **sefa's** objective of consistently adding value to the business. Management continuously develops and enhances its risk and control procedures to improve mechanisms for identifying, monitoring and mitigating risks. The Audit and Enterprise Risk Committees and the Board of directors monitor areas of significant business risk on an ongoing basis. The Board is ultimately responsible for the management of risk and to ensure that management takes such action as required to mitigate and minimise all identified risks. Further information on **sefa's** risk management is detailed on page 27.

Internal control

The Board has the overall responsibility of establishing and maintaining the Company's internal controls and for reviewing the effectiveness thereof. The directors, through relevant committees have reviewed the effectiveness of the internal controls of **sefa's** operations throughout the year. The role of the Company's management is to implement approved policies on risk and internal control. **sefa's** management implements an ongoing risk management process for identifying, evaluating and managing significant risks faced by the Company. This process is reviewed by the Board during the course of the year.

sefa and its subsidiaries maintain financial and operational systems of internal controls in order to fulfil its responsibility in providing reliable financial information. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that assets are adequately protected against material loss or unauthorised acquisition, use, or disposal, and that transactions are properly authorised and recorded.

This system includes a documented organisational structure and division of responsibility, established policies and procedures, including a Code of Ethics to foster a strong ethical climate. This is communicated throughout the Company.

The internal auditors assist the Board in monitoring the operation of the internal control system and report their findings and recommendations to management and the Audit Committee. Corrective actions are taken to address identified control deficiencies and to improve controls. The Board, through the Audit Committee, provides supervision of the financial reporting process and internal control system.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Therefore, an effective internal control system only provides a reasonable assurance regarding the preparation of financial statements and safeguarding of assets. No significant breakdown or circumvention of controls has occurred to date.

Management structure

The Board has the overall responsibility for the Company and there is a formal schedule of matters specifically reserved for the Board. The CEO, as the executive director of the Company, together with senior management, constitute the EXCO, which meets regularly to discuss the day-to-day operational matters relating to the Company. The CEO also meets regularly with divisional heads and other members of the management team.

EXCO has established several management committees to which it has delegated some of its responsibilities. These Committees report to EXCO on a regular basis.

The Phakamani Foundation beneficiaries work like bees. Seen in this picture, are two sewers doing their finishing touches on their junior model's sophisticated attire.
Image courtesy of ***sefa***

PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The table below shows **sefa's** key performance indicators (KPIs) against which the group is measured. These targets are set on an annual basis and are reviewed and approved by the Board.

Perspective	Objective	KPI	Target
CLIENT	Access to finance by SMMEs and Cooperatives and development impact	Total approvals through Wholesale and Direct Lending channels	R974 400 000
		Disbursements to SMMEs and Cooperatives through Direct and Wholesale Lending channels	R800 000 000
		Approvals to productive industrial sectors identified in IPAP and NGP	20%
		Number of SMMEs and Cooperatives financed	37 758 SMMEs and Cooperatives
		Number of jobs[1] facilitated	57 255 jobs
		Percentage of facilities disbursed to youth-owned businesses (18 – 35 years old)	30%
		Percentage of facilities disbursed to enterprises in rural and peri-urban areas[2]	45%
		Percentage of facilities disbursed to women-owned[3] businesses	45%
		Percentage of facilities disbursed to black-owned[4] businesses	70%
		Percentage of facilities where less than R250 000 was disbursed to end users	40%
		Percentage of facilities disbursed to people living with disabilities	2%
		Level of client satisfaction	60%
FINANCIAL	Building **sefa's** financial sustainability	Cost-to-income ratio (excluding impairments and finance charges and the effects of the grant subsidy)	164%
		Impairment[5] charge as a percentage of total loans and advances	25%
		Growth in interest and administration fees generated from loans and advances	49%
		Percentage of non-performing loans[6] and advances within the loan portfolio	30%

(1) The IDC defines a job as "a regular activity, whether to produce goods or provide services, which is performed in exchange for payment or that generates income".
(2) Enterprises in rural and peri-urban areas refers to businesses that are located in priority provinces which include Mpumalanga, Limpopo, Northern Cape, North West, Eastern Cape and Northern Cape.
(3) Women-owned businesses refers to businesses in which females have a shareholding/voting interest greater than 50%.
(4) Black-owned businesses refers to businesses in which previously disadvantaged individuals have a shareholding/voting interest greater than 50%. Previously disadvantaged individuals includes amongst others individuals who are African, Indian and Coloured, as defined by the BBBEE Codes.
(5) Impairment charge refers to the impairment on the loans and advances.
(6) Non-performing loans and advances refers to loans and advances outstanding for more than 60 days.

Actual	Achievement of target	Reason for variance
R1 008 693 010	✓	The strengthening of internal capacity and increased marketing of **sefa's** loan programmes resulted in actual approvals exceeding target.
R1 294 026 352	✓	Many of the loan approvals of the prior financial year was disbursed in the current financial year. Operational departments (especially Direct Lending), exceeded disbursement targets due to its target driven approach. This resulted in more businesses being financed and jobs created.
42%	✓	
68 724 SMMEs and Cooperatives	✓	
60 169 jobs	✓	
23%	✗	**sefa's** targeted marketing initiatives successfully reached black-owned businesses as well as businesses based in rural and peri-urban areas. The following SMMEs and Cooperatives were however not successfully reached through marketing initatives: ▪ youth-owned businesses ▪ women-owned businesses ▪ businesses that require loans below R250 000 ▪ businesses owned by people living with disabilities
49%	✓	
37%	✗	
74%	✓	
21%	✗	
0%	✗	
80%	✓	Client relationship management processes were strengthened throughout the clients' interaction with **sefa**.
122%	✓	The cost to income ratio is below target due to income from loans and advances being more than anticipated and costs being contained.
22%	✓	**sefa** has implemented processes to improve recoveries on long outstanding debt.
104%	✓	Interest and fees received grew by 49% year-on-year as a result of increased disbursements and the growing loan portfolio.
33%	✗	The underachievement of the non-performing loans and advances is due to challenges created by poor collections and the rapid growth in the loan portfolio.

Perspective	Objective	KPI	Target
INTERNAL BUSINESS PROCESSES	Improve turnaround times for application approvals	Number of days for bridging loans and advances	10 days
		Number of days for term loans and advances	20 days
		Number of days for wholesale applications	50 days
	System availability (email, loan administration system, accounting software)	Uptime/availability of critical business information systems	99.90%
PEOPLE, LEARNING AND GROWTH	Alignment, development and motivation of Human Capital	Labour Turnover Rate of critical strategic positions	7%
		Percentage of staff who have received and implemented Individual Development Plans	80%
		Performance management assessments conducted for all employees for the year ending 31 March 2015	100%

Actual	Achievement of target (Yes/No)	Reason for variance
22 days	✗	Clients submit incomplete applications, which leads to extended approval time of loans and advances.
44 days	✗	**sefa** experienced internal constraints relating to human resources and processes that increased turnaround times.
41 days	✓	The improved response time is due to a better understanding of the Wholesale Lending Products
99.90%	✓	The proactive monitoring and effective and timely maintenance of all the IT systems within **sefa** resulted in continuous system availability.
7%	✓	The implementation of the talent and performance management framework contributed to a 7% Labour Turnover Rate and staff commitment to self-development and performance management.
90%	✓	
100%	✓	

GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

REGISTRATION NUMBER: 1995/011258/06

Statement of Responsibility by the Board of Directors	63
Report of the Audit Committee	64
Directors' Report	66
Declaration by the Group Company Secretary	68
Independent Auditor's Report	69
Statements of Financial Position	71
Statements of Profit or Loss and Other Comprehensive Income	72
Statements of Changes in Equity	73
Statements of Cash Flows	74
Notes to the Financial Statements	75

The financial statements have been prepared under the supervision of the Group's Chief Financial Officer, Ms RV Ralebepa.

The financial statements have been audited in compliance with Section 30 of the Companies Act, No 71 of 2008.

Statement of Responsibility by the Board of Directors

for the year ended 31 March 2015

The Board of Directors, are responsible for the preparation and fair presentation of the Group and Company annual financial statements of **sefa**, comprising the statements of financial position as at 31 March 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with IFRS and the requirements of the PFMA and Companies Act and the directors' report.

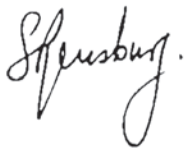
The Board of Directors, which also constitute the accounting authority, are also responsible for such internal control as the accounting authority determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board of Directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the Group and Company financial statements are fairly presented in accordance with IFRS and the requirements of the PFMA and Companies Act.

Approval of group annual financial statements and annual financial statements

The Group and Company annual financial statements of **sefa**, as identified in the first paragraph, were approved by the Board of Directors on 22 June 2015 and signed by



Dr Sizeka Magwentshu-Rensburg
Chairperson of the Board of Directors

18 August 2015

Mr Thakhani Makhuvha
Chief Executive Officer

18 August 2015

Report of the Audit Committee

for the year ended 31 March 2015

The Audit Committee ("the Committee") has pleasure in submitting this report to the shareholder as required by the Companies Act Regulation 27 (i) (10b) and (c) of the PFMA, and as recommended by King III.

Committee membership

The Committee, which had been appointed by the shareholder for the financial year ended 31 March 2015, consisted of Mr IAS Tayob (Chairperson), Mr GS Gouws and Mr VG Mutshekwane.

Committee responsibilities and Charter

The Audit Committee reports that it has complied with its responsibilities as contained in Section 38 (1)(a) of the PFMA, Treasury Regulation 3.1, the Companies Act and the STIA. The Audit Committee also reports that it has adopted an appropriate formal Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all of its responsibilities as stipulated therein.

The role of the Audit Committee

The Committee is satisfied that, during the year under review, it has performed the functions required by law including, *inter alia*, those requirements as set out in Section 94 (7) of the Companies Act, Treasury Regulations 27.1.8 – 10, the PFMA, STIA and King III. In this regard the Committee has, *inter alia*:

- ensured that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated and that the combined assurance received was appropriate to address all significant risks
- reviewed the effectiveness of the **sefa** Group policies, systems and procedures for detecting and preventing fraud
- reviewed and monitored the effectiveness and performance of the internal audit function, its standing, staffing plans, audit plans to provide adequate support to enable the committee to meet its objectives
- reviewed and approved the annual internal audit plan and the internal audit charter
- ensured that the scope of the internal audit function had no limitations imposed by management and that there was no impairment on its independence
- reviewed the results of the work performed by the internal audit function in relation to financial reporting, corporate governance, risk, internal controls and any significant investigation and management responses
- assisted the Board in carrying out its risk management responsibilities
- evaluated the independence, effectiveness and performance of the external auditors, and obtained assurance from the auditors that adequate accounting records were being maintained and appropriate accounting principles were in place and had been consistently applied
- evaluated the appointment of the external auditors on an annual basis
- approved the audit fee and fees in respect of any non-audit services
- reviewed and approved the external audit plan
- ensured that the scope of the external audit had no limitations imposed by management and that there was no impairment on its independence
- reviewed the external auditors' findings and reports submitted to management and the independence and objectivity of the external auditors
- reviewed the effectiveness of the **sefa** Group systems of internal controls, including internal financial control and risk management and ensured that effective internal control systems were maintained
- reviewed and addressed matters referred to it by the Board
- reviewed the annual report, as well as annual financial statements to ensure that they present a balanced, and true position and performance of the Group and Company
- reviewed interim reports, preliminary reports or/and other financial information prior to submission to and approval by the Board
- assisted the Board in its evaluation of the adequacy and efficiency of the internal systems, accounting practices, information systems and auditing processes applied by the short term insurer (KCG) in the day-to-day management of its business
- facilitated and promoted communication and liaison between the Board, management, external and internal auditors on matters concerning the short term insurer
- advised on matters referred to it by the Board
- provided as part of the annual report, a report of the Audit Committee

The effectiveness of internal controls

The **sefa** Group system of internal controls is designed to provide reasonable assurance, *inter alia*, that assets are safeguarded and that liabilities and working capital are effectively managed.

Based on the assessment of the system of internal financial controls conducted by internal audit, as well as information and explanations given by management and discussions held with the external auditor on the results of their audit, the Committee is of the opinion that the **sefa** Group system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review.

Risk management

Whilst the Board is ultimately responsible for the maintenance of an effective risk management process, the Committee, together with the Enterprise Risk Committee, assisted the Board in assessing the adequacy of the risk management process. The Chairperson of

the Committee is also a member of the Enterprise Risk Committee and this ensures that all relevant information is regularly shared. The Committee fulfills an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as they relate to financial reporting.

External Auditors

The Committee gave due consideration to the independence of the external auditors and is satisfied that KPMG Inc. is independent of the Company, its subsidiaries and management and therefore able to express an independent opinion on the Group's annual financial statements.

KPMG Inc. is afforded unrestricted access to the Group's records and management and presents any significant issues arising from the annual audit to the Committee.

Financial management

The Committee reviewed the annual financial statements of the company and the Group and related information and is satisfied that they comply with IFRS. In addition, the Committee has reviewed management's assessment of going concern and recommended to the Board that the going concern concept be adopted by the Group.

Approval

The committee recommended the approval of the annual financial statements to the Board of Directors.

On behalf of the Board Audit Committee:

Mr IAS Tayob
Chairperson of the Board Audit Committee

18 August 2015

Directors' Report

for the year ended 31 March 2015

Introduction

sefa is registered as a State Owned Company in terms of the Companies Act and is a Schedule 2 listed entity in terms of the PFMA and Treasury regulations. This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of **sefa**, as well as relevant statutory information requirements. The Board of Directors is the accounting authority as prescribed in the PFMA.

Nature of business

sefa is a DFI, which provides finance to SMMEs and Cooperatives directly through its branch network and indirectly through Financial Intermediaries and other suitable financial institutions. Finance is provided in the form of loans, equity capital and credit indemnities. The Group also owns a portfolio of business premises that are leased to commercial undertakings.

Funding

sefa's capital requirements are sourced mainly from grants received from the Economic Development Department through **sefa's** only shareholder, the IDC. In addition to grants received, the IDC committed to funding in the amount of R921 million (2014: R921 million) should this be required in the future.

A grant of R284 million (2014: R231 million) was received from government to support **sefa's** activities. The grant was paid to IDC, which is conducting the required oversight over **sefa's** operations, and was made available to **sefa** for operational purposes through a shareholder's loan.

Public Finance Management Act

sefa's Board is responsible for the development of the Company's strategic direction. The Company's strategy and business plan are captured in the Shareholder's Compact and which is agreed with the shareholder forms the basis for the Company's detailed action plans and on-going performance evaluation.

The responsibility for the day-to-day management of the Company vests in line management through a clearly defined organisational structure and through formal delegated authorities.

sefa has a comprehensive system of internal controls, which are designed to ensure that the Company's objectives are met, including the requirements of the Companies Act and the recommendations of King III. These systems and controls meet the requirements of the PFMA. There are processes in place to ensure that where these controls fail, such failure is detected and corrected.

Short Term Insurance Act

sefa's wholly owned subsidiary KCG's indemnity product is registered as an insurance product with the FSB and is regulated by the STIA. Quarterly and annual returns must be submitted to the FSB who also conducts compliance reviews. Certain non-compliance matters were identified by the FSB during a compliance review during the financial year.

A number of these findings has been addressed by 31 March 2015 and the following Items remained unresolved at year-end:

- Not all risk management policies/plans has been approved
- Inadequate coverage of the insurance operations in **sefa's** internal audit's scope of work
- Expenses that should be allocated to KCG is currently subsidised by **sefa**

Significant matters

Shareholder's loans amounting to R1.1 billion was renegotiated during the financial year. This resulted in the derecognition of loans that were previously classified as current liabilities. The renegotiated terms resulted in loans being classified as non-current liabilities and equity. Refer to note 17 of the financial statements.

As a result of changes in the definition of control imposed by IFRS 10, Khula Institutional Support Services NPC should have been consolidated with effect from 1 April 2013. This prior year error was corrected in the current year and the Group's comparatives were retrospectively adjusted to include the results of Khula Institutional Support Services NPC. Refer to note 35 of the financial statements.

Subsidiaries, joint ventures and associates

Details of each trading subsidiary, joint venture and associate are set out in the notes to the financial statements.

Dividends

No dividends have been declared during the year and none is recommended (2014: Rnil).

Share capital

The authorised and issued share capital remained unchanged during the year (2014: unchanged).

Materiality and significance

Materiality levels for reporting in terms of Section 55(2)(b)(i) of the PFMA

Section 55(2)(b)(i) of the PFMA states that the annual report and financial statements should include particulars of any material losses through criminal conduct and irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. The term material has not been defined in the Act. Significance levels detailed below were used for materiality levels.

Significance levels related to Sections 51(1)(g) and 54(2) of the PFMA

Sections 51(1)(g) and 54(2) of the PFMA read in conjunction with the related practice note requires the use of a significance framework.

Based on the guidelines in the practice note and after evaluating the total assets, total revenue and loss after tax for the **sefa** Group, a significance level of R44 million has been adopted.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2014: Rnil).

Fruitless and wasteful expenditure

The PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure for the year amounted to R14 951 (2014: R333 000).

Irregular expenditure

Irregular expenditure signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have been implemented to ensure compliance with the PFMA, relevant tender regulations as well as any other relevant procurement regulations.

	2015	2014
	R'000	R'000
Opening balance	–	493
Irregular expenditure for the year	**722**	3 068
Condoned or written off by Accounting Authority	**(722)**	(3 561)
Closing balance	–	–

Audit Committee information

Audit Committee members have attended the following Audit Committee meetings during the reporting period:

Name of director	14/05	12/06	06/07	07/08	29/10	11/11	01/12	27/01
IAS Tayob	✓	✓	✓	✓	✓	✓	✓	✓
VG Mutshekwane	✓	✓	✓	✓	✓	✓	✓	✓
GS Gouws	✓	✓	✓	✓	✓	✓	✓	✓

✓ *Present*

Directors

The directors in office during the financial year and up to the date of the approval of the annual financial statements were:

Executive:
TR Makhuvha (Chief Executive Officer)

Non-Executive:
SM Magwentshu-Rensburg (Chairperson)
IAS Tayob
M Ferreira
HN Lupuwana
SA Molepo
K Schumann
LB Mavundla
VG Mutshekwane
GS Gouws
BP Calvin

There were no new appointments or resignations during the year under review.

Post reporting date events

The Directors are not aware of any other matter or circumstance arising since the end of the financial year and 18 August 2015, not otherwise dealt with in the report that would affect the operations of the company or the Group significantly.

Declaration by the Group Company Secretary

for the year ended 31 March 2015

I hereby certify that, to the best of my knowledge and believe, the Company has lodged with the Companies and Intellectual Property Commission, all such returns required In terms of the Companies Act, in respect of the financial year ended 31 March 2015 and all such returns are true, correct and up to date.

Ms NB Mongali
Company Secretary

18 August 2015

Independent Auditor's Report

To Parliament on Small Enterprise Finance Agency SOC Limited

Report on the financial statements

We have audited the Group financial statements and financial statements of the Small Enterprise Finance Agency SOC Limited (**sefa**) as set out on pages 71 to 127, which comprise the statements of financial position as at 31 March 2015, the statements of profit or loss and other comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and the notes, which include a summary of significant accounting policies and other explanatory information to the financial statements.

The Directors' responsibility for the financial statements

The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the Small Enterprise Finance Agency SOC Limited as at 31 March 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2015, we have read the report of the Audit Committee, the Directors' Report, and the Declaration by the Group Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

Public Audit Act requirements

In accordance with the Public Audit Act of South Africa (PAA) and the *General Notice* issued in terms thereof, we report the following findings relevant to the reported performance against predetermined objectives, compliance with laws and regulations and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of information in the Performance Against Predetermined Objectives section as set out on pages 58 to 61 of the annual report, and reported thereon to the accounting authority. The procedures performed were limited to the following selected objectives:

- Access to finance by SMMEs and Cooperatives and development impact;
- Building **sefa's** financial sustainability

Independent Auditor's Report continued

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The usefulness of information in the reported performance against predetermined objectives relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are well defined, verifiable, specific, measurable, time bound and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in the reported performance against predetermined objectives is assessed to determine whether it is valid, accurate and complete.

We report that there were no material findings on the Performance Against Predetermined Objectives concerning the usefulness and reliability of the information for the selected objectives.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, audit of predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

KPMG Inc.

Per WGE Pretorius
Chartered Accountant (SA)
Registered Auditor
Director

18 August 2015

KPMG Crescent
85 Empire Road
Parktown
Johannesburg
Gauteng
2193

Statements of financial position

as at 31 March 2015

		GROUP			COMPANY	
		2015	Restated 2014	Restated 1 April 2013	**2015**	2014
	Note	**R'000**	R'000	R'000	**R'000**	R'000
ASSETS						
Cash and cash equivalents	4	**534 199**	776 140	971 886	**396 180**	589 392
Trade and other receivables	5	**34 586**	25 287	21 356	**30 579**	26 361
Tax receivable	31	**37**	–	60	**–**	–
Loans and advances	6	**652 772**	479 363	303 060	**553 985**	387 412
Investment properties held-for-sale	13	**17 420**	25 567	–	**17 420**	25 567
Equipment, furniture and other tangible assets	14	**10 833**	12 794	14 062	**10 111**	11 549
Intangible assets	15	**89**	620	1 887	**84**	611
Deferred tax asset	11	**130 953**	11 782	75 193	**158 807**	12 581
Investment properties	12	**152 381**	159 146	171 435	**152 381**	159 146
Investments	7	**7 350**	18 189	26 409	**7 350**	18 189
Investments in subsidiaries	8	**–**	–	–	**151 805**	170 652
Investments in associates	9	**679 087**	641 261	604 914	**115 509**	114 344
Investments in joint ventures	10	**173 256**	133 530	53 037	**129 437**	89 208
TOTAL ASSETS		**2 392 963**	2 283 679	2 243 299	**1 723 648**	1 605 012
EQUITY AND LIABILITIES						
Share capital	16	**308 300**	308 300	308 300	**308 300**	308 300
Retained earnings		**1 372 712**	641 503	817 916	**743 575**	7 714
Equity attributable to owners of the parent		**1 681 012**	949 803	1 126 216	**1 051 875**	316 014
Non-controlling interest		**5 662**	2	–	**–**	–
Total equity		**1 686 674**	949 805	1 126 216	**1 051 875**	316 014
Liabilities						
Trade and other payables	18	**133 761**	135 092	139 384	**112 901**	100 480
Tax payable	31	**–**	163	–	**–**	–
Deferred tax liability	11	**160 333**	11 541	15 628	**158 807**	12 581
Outstanding claims reserve	19	**6 881**	6 282	11 073	**–**	–
Unearned risk reserve	19	**5 249**	4 859	6 456	**–**	–
Post-retirement medical liability	20	**437**	416	–	**437**	416
Shareholder's loans	17	**399 628**	1 175 521	944 542	**399 628**	1 175 521
Total liabilities		**706 289**	1 333 874	1 117 083	**671 773**	1 288 998
TOTAL EQUITY AND LIABILITIES		**2 392 963**	2 283 679	2 243 299	**1 723 648**	1 605 012

Statements of profit or loss and other comprehensive income

for the year ended 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
	Note	**R'000**	R'000	**R'000**	R'000
Interest and dividend income	21	**106 303**	87 700	**91 090**	72 619
Fee income from loans and indemnities	22	**17 439**	14 978	**16 302**	13 385
Interest charged on shareholder's loan	17	**(22 455)**	–	**(22 455)**	–
Net interest and dividend income		**101 287**	102 678	**84 937**	86 004
Movement on impairments and bad debt provisions	26	**(220 326)**	(89 926)	**(225 902)**	(92 789)
Net interest and dividend income after impairments		**(119 039)**	12 752	**(140 965)**	(6 785)
Investment property rental income		**33 484**	36 171	**33 484**	36 171
Investment property expenses		**(47 962)**	(42 944)	**(47 962)**	(42 944)
Net fair value (loss)/gain on investment properties	25	**(13 057)**	15 677	**(13 057)**	13 278
		(146 574)	21 656	**(168 500)**	(280)
Other income	23	**10 486**	6 087	**10 442**	6 035
Personnel expenses		**(122 303)**	(98 363)	**(122 300)**	(98 363)
Other operating expenses		**(94 613)**	(94 914)	**(65 973)**	(66 046)
Operating loss	26	**(353 004)**	(165 534)	**(346 331)**	(158 654)
Profit from equity accounted investments, net of tax		**31 235**	33 368	**–**	–
Grant income	24	**–**	15 947	**–**	8 983
Loss before tax		**(321 769)**	(116 219)	**(346 331)**	(149 671)
Income tax expense	27	**(29 662)**	(59 996)	**–**	(97 339)
Net loss for the year		**(351 431)**	(176 215)	**(346 331)**	(247 010)
Other comprehensive income for the year, net of tax		**–**	–	**–**	–
Loss and total comprehensive loss for the year		**(351 431)**	(176 215)	**(346 331)**	(247 010)
Loss and total comprehensive loss attributable to:					
Owners of the parent		**(350 841)**	(176 217)		
Non-controlling interest (I/S)		**(590)**	2		
Total comprehensive loss and loss for the year		**(351 431)**	(176 215)		

The presentation of the statement of profit or loss and other comprehensive income has been enhanced to align with reporting formats used by the financial sector, refer to note 34 for more information.

Statements of changes in equity

for the year ended 31 March 2015

	Note	Share capital R'000	Danida reserve* R'000	Retained earnings R'000	Non-controlling interest R'000	Total R'000
GROUP						
Balance at 31 March 2013 as previously stated		308 300	10 155	746 746	–	1 065 201
Correction of prior year error	35	–	–	61 015	–	61 015
Restated opening balance		308 300	10 155	807 761	–	1 126 216
Transfer to retained earnings		–	(10 155)	10 155	–	–
Distribution		–	–	(196)	–	(196)
Total comprehensive loss for the year		–	–	(176 217)	2	(176 215)
Balance at 31 March 2014		**308 300**	**–**	**641 503**	**2**	**949 805**
Distribution		–	–	(142)	–	(142)
Day one gain on shareholder's loan	17	–	–	396 038	–	396 038
Shareholder's loan recognised in equity	17	–	–	477 960	–	477 960
Advances received on shareholder's loan	17	–	–	208 194	–	208 194
Capital contribution received		–	–	–	6 250	6 250
Total comprehensive loss for the year		–	–	(350 841)	(590)	(351 431)
Balance at 31 March 2015		**308 300**	**–**	**1 372 712**	**5 662**	**1 686 674**
COMPANY						
Balance at 31 March 2013		308 300	–	254 724	–	563 024
Total comprehensive loss for the year		–	–	(247 010)	–	(247 010)
Balance at 31 March 2014		**308 300**	**–**	**7 714**	**–**	**316 014**
Day one gain on shareholder's loan	17	–	–	396 038	–	396 038
Shareholder's loan recognised in equity	17	–	–	477 960	–	477 960
Advances received on shareholder's loan	17	–	–	208 194	–	208 194
Total comprehensive loss for the year		–	–	(346 331)	–	(346 331)
Balance at 31 March 2015		**308 300**	**–**	**743 575**	**–**	**1 051 875**

* *This reserve arose from expired credit indemnities funded by the government of Denmark out of which KCG may issue its own further credit terms of the indemnities. In accordance with the funding agreement , all the funds remaining after a relevant loan has been discharged accrues to KCG, provided that such funds should be used solely for the purpose of any credit guarantee scheme conducted by KCG in support of the South African small business sector. These funds have accrued to KCG and as such have been transferred to retained earnings.*

Statements of cash flows

for the year ended 31 March 2015

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
	Note	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities					
Cash utilised by operations	30	**(136 178)**	(138 958)	**(118 308)**	(123 343)
Increase in loans and advances		**(391 253)**	(265 573)	**(370 543)**	(259 153)
Grant income received		**–**	8 983	**–**	8 983
Tax paid	31	**(240)**	(450)	**–**	(355)
Net cash utilised by operating activities		**(527 671)**	(395 998)	**(488 851)**	(373 868)
Cash flows from investing activities					
Purchase of equipment, furniture and other tangible assets		**(2 325)**	(2 563)	**(2 317)**	(2 555)
Purchase of intangible assets		**(64)**	–	**(64)**	–
Repayments from En Commandite partnership		**8 408**	10 878	**8 408**	10 878
Interest and dividends received		**46 174**	49 873	**40 110**	42 963
Acquisition of investments		**(52 155)**	(88 725)	**(36 325)**	(127 778)
Proceeds from sale of equipment, furniture and other tangible assets		**11**	6	**–**	6
Proceeds from sale of investment properties		**1 983**	–	**1 983**	–
Net cash generated/(utilised) by investing activities		**2 032**	(30 531)	**(11 795)**	(76 486)
Cash flows from financing activities					
Dividends paid		**(146)**	(196)	**–**	–
Capital funding received from shareholders		**283 844**	230 979	**283 844**	230 979
Net cash from financing activities		**283 698**	230 783	**283 844**	230 979
Net decrease in cash and cash equivalents		**(241 941)**	(195 746)	**(193 212)**	(219 375)
Cash and cash equivalents at beginning of year		**776 140**	971 886	**589 392**	808 767
Cash and cash equivalents at end of year		**534 199**	776 140	**396 180**	589 392

Notes to the financial statements

for the year ended 31 March 2015

1 ACCOUNTING POLICIES

1.1 Reporting entity

sefa is domiciled in the Republic of South Africa. The company's registered office is Eco Fusion 5, Block D, 1004 Teak Close, Witch-Hazel Avenue, Centurion, 0157. The Group financial statements as at and for the year ended 31 March 2015 comprise **sefa**, its subsidiaries and the Group's interest in associates and joint ventures (referred to as the Group). Where reference is made to the Group in the financial statements, it applies to the Company also, unless otherwise noted.

The Group is primarily involved in providing access to finance to SMMEs and Cooperatives directly through its branch network and indirectly through Financial Intermediaries and other suitable financial institutions. Finance is provided in the form of loans, equity capital and credit indemnities. The group also owns a portfolio of business premises that are leased to commercial undertakings.

The financial statements were authorised for issue by the Board of Directors on 18 August 2015.

1.2 Statement of compliance

The Group and Company financial statements have been prepared in accordance with IFRS, the Companies Act as well as the requirements of the PFMA.

1.3 Basis of preparation

The Group and Company financial statements are presented in South African Rand, which is the Company's functional currency, rounded to the nearest thousand.

These Group and Company financial statements are prepared on the historical cost basis, except for the following:

- investment properties are measured at fair value
- investment properties held-for-sale are measured at fair value
- selected financial instruments carried at fair value

1.4 IFRS, amendments and interpretations effective for the first time in the current year:

- As part of its annual improvement project the IASB has issued improvements. The annual improvement project aims to clarify and improve the current accounting standards. The improvements include items involving terminology or editorial changes, with minimal effect on recognition and measurement. There are no significant changes from the improvement project for the current year that will affect the Group.

1.5 Standards, amendments and interpretations to existing standards not yet effective and also not early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2016, and have not been applied in preparing these Group and Company financial statements. Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

- *Effective 2017 financial year:*
  - *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective 2017 financial year)*

    The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

    The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

    The Group does not currently have intangible assets and plants that are amortised or depreciated using a revenue-based method, the straight-line method is used.

  - *Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective 2017 financial year)*

    The amendments allow an entity the option to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures.

    The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The Company has not yet concluded its assessment of the impact on its financial statements.

1.5 Standards, amendments and interpretations to existing standards not yet effective and also not early adopted

– *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective 2017 financial year)*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain
to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

It is not anticipated that this amendment will have a material impact on the Group or Company's annual financial statements.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

– *Disclosure Initiative (Amendments to IAS 1) (effective 2017 financial year))*

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

- *Effective 2018 financial year:*

– *IFRS 15 Revenue from Contracts with Customers (effective 2018 financial year)*

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 30 June 2015 financial statements.

The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted under IFRS.

- *Effective 2019 financial year:*

– *IFRS 9 Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Group, which will include changes in the measurement basis of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

1.6 Investments in subsidiaries

Subsidiaries are entities controlled by **sefa**. Control exists when **sefa** is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by **sefa**. The consideration transferred in the acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The assets, liabilities and contingent liabilities (a contingent liability acquired in a business combination is recognised in the acquisition accounting if it is a present obligation and its fair value can be measured reliably) acquired are assessed and included in the statement of financial position at their estimated fair value to the Group. If the cost of acquisition is higher than the net assets acquired, any difference between the net asset value and the cost of acquisition of a subsidiary is treated in accordance with the Group's accounting policy for goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the **sefa's** interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

When the group loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in subsidiaries in the Company's financial statements are carried at cost less impairment.

1.7 Business combinations and common control

Group financial statements

- *Recognition*
  The receiving entity recognises the assets and liabilities acquired through a transfer of businesses on the effective date of the transfer. All income and expenses that relate to the businesses transferred are also recognised from the effective date of the transfer.

- *Measurement*
  Assets and liabilities acquired, by the receiving entity, through a business combination under common control are measured at initial recognition at the same carrying value that they were held by the transferring entity immediately prior to the transfer. The difference between the carrying value of the assets and liabilities transferred and any consideration paid for the assets and liabilities transferred is recognised in retained earnings/accumulated loss. The carrying value at which the assets and liabilities are initially recognised is therefore the book value. Therefore for the subsequent measurement of these assets and liabilities the accounting policies relevant to those assets and liabilities are followed.

- *Derecognition*
  The transferring entity derecognises the assets and liabilities on the effective date of the transfer of businesses. These transferred assets and liabilities are measured at their carrying values upon derecognition. The resulting difference between the carrying value of the assets and liabilities transferred and any consideration received for the assets and liabilities transferred is recognised in retained earnings/accumulated loss.

Company financial statements

When a common control transaction is effected through the acquisition of assets and liabilities constituting a business rather than by acquiring shares in that business.

The investment in a subsidiary acquired in a common control transaction is accounted for at the book value of the investment recognised by the transferring entity. The difference between the book value of the investment recognised and the amount paid for the investment, if any, is included in equity as it is in substance a transaction with the shareholder.

1.8 Interest in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are all entities over which the Group has significant influence but not control or joint control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost, which includes transaction costs. Subsequent to the initial recognition, the Group financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

The Group's investment in equity-accounted investees includes goodwill identified on acquisition. The cumulative post-acquisition movements are adjusted for against the carrying amount of the investment. Distributions received from associates reduce the carrying amount of the investment. When the Group's share of losses in an equity-accounted investee equals or exceeds its interest in the equity-accounted investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investee.

Unrealised gains and losses arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

Investments in incorporated associates and joint ventures in the Company's financial statements are carried at cost less impairment.

1.9 Financial instruments

1.9.1 Financial assets

The Group's financial assets fall into the loans and receivables category only.

Management determines the classification of its financial assets at initial recognition.

1.9.1.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the near future. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

- *Recognition and measurement*
  - Loans and receivables are initially recognised at fair value.
  - Loans and receivables are carried at amortised cost using the effective interest method less impairment loss.

    Loans and advances (or, where applicable, a part of loans and advances) are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership, without retaining control. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

1.9.1.2 Investments

Investments are non-derivative financial assets consisting of equity investments where the Group does not control the entity to such an extent where consolidation is required. These investments do not have fixed or determinable payments and do not have a quoted market price in an active market. They arise when the Group invest in entities with no intention of trading the investment.

- *Recognition and measurement*
  - Investments are recognised at cost, including transaction costs.
  - Investments are carried at cost less impairment loss.
  - Investments (or, where applicable, a part of an investment) are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership, without retaining control. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

1.9.2 Financial liabilities

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities, other than those at fair value through profit or loss, are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing of an existing liability are substantially modified, 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.

Indemnity contracts – classification

Contracts under which the Group accepts significant indemnity risk (insurance risk) from another party (the indemnity holder) by agreeing to compensate the indemnity holder or other beneficiary if a specified uncertain future event (the indemnified event) adversely effects the indemnity holder, are classified as indemnity contracts. Indemnity risk is a risk other than financial risk. Indemnity contracts may also transfer some financial risk.

Unearned risk provision

Unearned risk provision consists of:

- *Provision for unearned premiums*
  Unearned fees, which represents the proportion of fees written in the current year which relate to risks that have not expired by the end of the financial year, are calculated on the 365th basis.
- *Provision for unexpired risk*
  Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to class of business that are managed together, after taking into account the relevant investment returns.

Outstanding claims provision

Provision is made for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid based on calculations performed by independent actuaries. Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to indemnity holders. The group's own assessors individually assess claims.

The claims reserve includes an estimated portion of the direct expenses of processing the claims. Provision is also made for claims arising from indemnified events that occurred before the close of the accounting period, but which had not been reported to the Group by that date, also referred to as incurred but not reported (IBNR) provisions. Whilst the directors consider that the gross reserve is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. The methods used to calculate the reserve, and the estimates made, are reviewed regularly.

Claims incurred consist of claims and claims handling expenses paid during the financial year. The movement in the provision for outstanding claims is disclosed separately in the notes to the financial statements.

Receivables and payables related to indemnity contracts

Receivables and payables are recognised when due. These include amounts due to and from indemnity contract holders and are included under receivables and payables. If there is objective evidence that the indemnity receivable is impaired, the Group reduces the carrying amount of the premium receivable accordingly and recognises the impairment loss in profit or loss. The Group gathers the objective evidence that an indemnity receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for loans and receivables.

Salvage reimbursement

The indemnity contracts require the indemnified party to make all reasonable efforts to recover as much of the loss as possible and to refund the Group its proportionate share of the claim recovered. Estimates of these salvage recoveries are included as an allowance in the measurement of the indemnity liability for claims. The allowance is the assessment of the Group's share of the amount that can be recovered from the action against the liable third party.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

The ultimate liability arising from claims made under indemnity contracts

The estimation of the ultimate liability arising from claims made under indemnity contracts is one of the Group's most critical accounting estimates. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

1.10 Share capital

Share capital consists of ordinary shares and is classified as equity. Issued share capital are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the Par value of the shares issued is presented as share capital.

1.11 Impairment of assets

1.11.1 Impairment of financial assets carried at amortised cost

The Group assesses whether there is objective evidence that a financial asset or group of financial assets not carried at fair value is impaired at each reporting date. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as default of delinquency in interest or principal payments
- The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider
- It becoming probable that the borrower will enter bankruptcy or other financial re-organisation
- The disappearance of an active market for that financial asset resulting in financial difficulties
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group

1.11 Impairment of assets continued

1.11.1 Impairment of financial assets carried at amortised cost continued

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, referred to as specific impairments, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group (portfolio) of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of specific impairments raised is the amount needed to reduce the carrying value of the asset to the present value of the expected ultimate cash flows, taking into consideration the financial status of the underlying client and any security in place for the recoverability of the financial asset.

The recoverable amount of the asset is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

Impairment of non-financial assets

The carrying amounts for the Group's non-financial assets, other than deferred tax assets and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of non-financial assets is the greater of fair value less cost of disposal and its value in use. Fair value less cost of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an orderly transaction between market participants at the measurement date, less the costs of disposal. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

The recoverable amount for intangible assets that have an indefinite useful life or intangible assets that are not yet available-for-use is estimated at each reporting date.

Impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Amortisation is calculated on the cost less any impairment and expected residual value. The estimated useful lives for the current and comparative periods are as follows:

Computer software	3 – 4 years
Intellectual property	3 years

The residual values, useful lives and amortisation methods are re-assessed at each financial year-end and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

1.13 Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill acquired in a business combination is initially measured at cost, being the difference between the fair values of the consideration of the business combination over the interest of **sefa** in the fair value of the net identifiable assets acquired.

The recoverable amount for goodwill is estimated at each reporting date. Impairment losses are recognised in profit or loss. Impairment losses relating to goodwill are not reversed.

Gain on bargain purchase arising on acquisition is recognised directly in profit or loss. Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill that is allocated to cash-generating units is tested annually for

impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.14 Investment property

Investment property is property held to earn rental income or for capital appreciation or for both.

Measurement

Investment property is measured initially at cost, including transaction costs and directly attributable expenditure in preparing the asset for its intended use. Subsequently, all investment properties are measured at fair value.

Valuation takes place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received in similar properties in the neighbourhood, less associated costs (insurance, maintenance, repairs, and management fees). A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations.

The fair value of undeveloped land held as investment property is based on comparative market prices after intensive market surveys.

Gains or losses arising from a change in fair value are recognised in profit or loss.

External, independent valuators having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued, perform valuations on the portfolio every three years.

Gain or loss on the disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit and loss.

1.15 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Measurement

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with the applicable IFRS. Then, on initial classification as held-for-sale, the non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Reclassification

The non-current asset held-for-sale will be reclassified immediately when there is a change in intention to sell. At that date, it will be measured at the lower of: its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held-for-sale; and its recoverable amount at the date of the subsequent decision not to sell.

1.16 Equipment, furniture and other tangible assets

Measurement

All items of equipment, furniture and other tangible assets recognised as assets, are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. All items of equipment, furniture and other tangible assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Where parts of an item of equipment, furniture and other tangible assets have significantly different useful lives, they are accounted for as separate items of equipment, furniture and other tangible assets. Although individual components are accounted for separately, the financial statements continue to disclose a single asset.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in profit or loss within "other income"

Subsequent costs

The Group recognises the cost of replacing part of such an item of equipment, furniture and other tangible assets in the carrying amount of the item when that cost is incurred and if it is probable that future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other costs are recognised in profit or loss as an expense as they are incurred.

1.16 Equipment, furniture and other tangible assets continued

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Depreciation is calculated on the cost less any impairment and expected residual value. The estimated useful lives for the current and comparative periods are as follows:

Computer equipment	3 – 5 years
Office equipment	2 – 6 years
Furniture and fittings	5 – 6 years
Motor vehicles	4 – 5 years
Leasehold improvements	expected lease period

The residual values, useful lives and depreciation method are re-assessed at each financial year-end and adjusted if appropriate.

Derecognition

The carrying amount of items of equipment, furniture and other tangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

Gains or losses arising from derecognition are determined as the difference between the net disposal proceeds and the carrying amount of the item of equipment, furniture and other tangible assets and included in profit or loss when the items are derecognised.

1.17 Leases

Operating leases

Leases of assets under which the lessor effectively retains substantially all the risks and benefits of ownership are classified as operating leases.

Operating leases – Group as lessee

Lease payments arising from operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

Operating leases – Group as lessor

Receipts in respect of operating leases are accounted for as income on the straight-line basis over the period of the lease.

The assets subject to operating leases are presented in the statement of financial position according to the nature of the assets.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon re-assessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

1.18 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments and bank overdrafts, all of which are available for use by the Group unless otherwise stated. Cash and cash equivalents are available within three months.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

1.19 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

After their initial recognition, contingent liabilities identified in business combinations that are separate are subsequently measured at the higher of:

- The amount that would be recognised as a provision
- The amount initially recognised less cumulative amortisation

1.20 Contingent liabilities and commitments

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position of the Group but disclosed in the notes.

Commitments

Items are classified as commitments where the Group has committed itself to future transactions.

1.21 Taxation

Income tax

Income tax expenses comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in other comprehensive income or equity.

Deferred tax

Deferred tax is recognised in respect of all temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income.

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

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax will be realised.

Deferred tax is not recognised if the temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit or loss

Temporary differences relating to investments in associates, subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary difference is controlled.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged to other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of Investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year. It is measured using tax rates enacted or substantively enacted at the reporting date. Current taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, in other comprehensive income or in equity.

Current tax also includes any adjustment to tax payable in respect of previous years when necessary.

1.22 Revenue

Revenue comprises net invoiced indemnity premiums, dividends, interest, rental income and management fee income, but excludes value-added-tax, and is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Indemnity premiums

Indemnity premiums earned is included in revenue and comprise the premiums earned on active contracts. Premiums are earned and recognised as income from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten.

1.22 Revenue continued

Dividends

Dividend income is recognised in profit or loss on the date the Group's right to receive payment is determined. Capitalisation shares received are not recognised as income.

Interest

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

Fees

- Income earned on the execution of a significant act is recognised when the significant act has been performed
- Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service

Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

Grants received from donors

Donor funding is recognised at its fair value where there is reasonable assurance that the funding will be received and the Group will comply with all attached conditions.

Funding relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs for which they are intended to compensate and is included in Trade and other payables.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants whose primary condition is that the Group should purchase, otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Rental

See policy on leases. Note 1.17

1.23 Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised when directly attributable to the acquisition of a qualifying asset.

1.24 Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plan

The Group has a provident fund scheme which is a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the year to which they relate.

Defined benefit plans

The Group has a post-retirement medical obligation which is classified as a defined benefit plan. A defined benefit plan are post-employment benefit plans other than defined contribution plans.

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income (OCI). The Group determines the net interest expense (or income) on the net defined benefit liability (or asset) for the period by applying the discount

rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (or asset), taking into account any changes in the net defined benefit liability (or asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

1.25 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment property and investment property held-for-sale

Valuation methods and assumptions used in determining the fair value of investment property and investment property held-for-sale:

- *Capitalisation method*
  The **sefa** property portfolio is mostly made up of Income producing properties, with the result that the Income Capitalisation method has been adopted for the determination of value. The value of the property reflects the present value of the sum of the future benefits which an owner may expect to derive from the property. These benefits are expressed in monetary terms and are based upon the estimated rentals such a property would fetch, i.e. the market-related rental between a willing landlord and tenant. The usual property outgoings are deducted to achieve a net rental, which is then capitalised at a rate an investor would require receiving the income.

- *Comparative method*
  Of the entire portfolio, two properties are Sectional Title in nature and one comprises of vacant land. These properties have been valued on the Direct Comparison Basis, as this is how they trade in the open market. The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property.

Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

1.26 Critical accounting policies and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

- *Income taxes*
  Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

1.26 Critical accounting policies and judgements continued

- *Deferred tax asset*
  Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which it can be utilised

- *Fair value of financial instruments*
  Financial instruments are initially recognised at fair value. None of the Group's financial instruments are measured at fair value after initial recognition. The present value technique is used at a market related rate to determine the fair value of financial instruments on initial recognition

Impairment of financial assets

The Group follows the guidance of IAS 39: Financial Instruments: Recognition and Measurement in assessing specific and collective impairment. The impairment method used depends on the nature of the asset. The following impairment methods are currently used by the Group:

- Loans and advances – Direct Lending: The repayment history and ageing of the receivable is used to determine the impairment in accordance with an impairment matrix
- Loans and advances – Wholesale Lending: Available information is assessed for indications of impairment and a valuation is performed on the debtor's ability to repay
- Equity investments: Available information is assessed for indications of impairment and a valuation is performed on the debtor's ability to repay
- Rental debtors: The repayment history and ageing of the receivable is used to determine the impairment in accordance with an impairment matrix

The ultimate liability arising from claims made under indemnity contracts

The estimation of the ultimate liability arising from claims made under indemnity contracts is a critical accounting estimates. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

Effective rate used in determining the fair value of the shareholder's loan

Judgement were applied in the determination of the effective interest rate used to discount the interest-free shareholder's loan that is repayable after 10 years. **sefa** has never applied for external finance and therefore a market related rate similar to the average rate at which IDC borrows external funds were used.

1.27 Related parties

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of executive management up to the Board of Directors are regarded as key management per the definition of the standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals in their dealings with the entity.

2 FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group and Company's classification of each class of financial assets and liabilities, and their fair values:

	GROUP			
	2015			
	Loans and receivables R'000	Cost less impairment* R'000	Other amortised cost R'000	Total R'000
Assets				
Loans and advances	652 772	–	–	652 772
Investments	–	7 350	–	7 350
Trade receivables	32 869	–	–	32 869
Cash and cash equivalents	534 199	–	–	534 199
	1 219 840	7 350	–	1 227 190
Liabilities				
Shareholder loan	–	–	399 628	399 628
Trade payables	–	–	133 761	133 761
	–	–	533 389	533 389
Total financial assets and liabilities	1 219 840	7 350	(533 389)	693 801

	GROUP			
	Restated – 2014			
	Loans and receivables R'000	Cost less impairment* R'000	Other amortised cost R'000	Total R'000
Assets				
Loans and advances	479 363	–	–	479 363
Investments	–	18 189	–	18 189
Trade receivables	23 755	–	–	23 755
Cash and cash equivalents	776 140	–	–	776 140
	1 279 258	18 189	–	1 297 447
Liabilities				
Shareholder loans	–	–	1 175 521	1 175 521
Trade and other payables	–	–	135 092	135 092
	–	–	1 310 613	1 310 613
Total financial assets and liabilities	1 279 258	18 189	(1 310 613)	(13 166)

* *Any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at its cost, including transaction costs, less impairment.*

** *The carrying values of financial assets and liabilities approximate the fair values shown in the statement of financial position.*

2 FINANCIAL ASSETS AND LIABILITIES continued

	COMPANY			
	2015			
	Loans and receivables R'000	**Cost less impairment* R'000**	**Other amortised cost R'000**	**Total R'000**
Assets				
Loans and advances	553 985	–	–	553 985
Investments	–	7 350	–	7 350
Trade receivables	29 218	–	–	29 218
Cash and cash equivalents	396 180	–	–	396 180
	979 383	7 350	–	986 733
Liabilities				
Shareholder loans	–	–	399 628	399 628
Trade payables	–	–	112 901	112 901
	–	–	512 529	512 529
Total financial assets and liabilities	979 383	7 350	(512 529)	474 204

	COMPANY			
	2014			
	Loans and receivables R'000	Cost less impairment* R'000	Other amortised cost R'000	Total R'000
Assets				
Loans and advances	387 412	–	–	387 412
Investments	–	18 189	–	18 189
Trade receivables	25 328	–	–	25 328
Cash and cash equivalents	589 392	–	–	589 392
	1 002 132	18 189	–	1 020 321
Liabilities				
Shareholder loans	–	–	1 175 521	1 175 521
Trade payables	–	–	100 480	100 480
	–	–	1 276 001	1 276 001
Total financial assets and liabilities	1 002 132	18 189	(1 276 001)	(255 680)

* *Any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at its cost, including transaction costs, less impairment.*

** *The carrying values of financial assets and liabilities approximate the fair values shown in the statement of financial position.*

3 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks:

- Operational risk
- Credit risk
- Liquidity risk
- Market risk
- Indemnity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit & Enterprise Risk Committees, which are responsible for developing and monitoring the Group's risk management policies. The committees report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Enterprise Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group. The Enterprise Risk Committee is assisted by the Internal Audit function which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit & Enterprise Risk Committees.

3.1 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It is associated with human error, system failures and inadequate procedures and controls. Operational risk also includes legal risk, which arises when a transaction proves unenforceable in law, but excludes strategic and reputation risk.

Management has identified the following risks as **sefa's** operational risks:

- Clients, products and business practices
- Execution, delivery and process management
- Employment practice & workplace safety
- External and internal fraud and theft
- Damage to physical assets
- Business disruption and systems failure

3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

Due to the nature of the business, the Group's cash management process aims to maintain flexibility in funding by keeping committed credit lines available. Cash requirements and inflows are monitored by management to ensure that sufficient cash is available to meet all financial commitments including operational expenditure. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted; such as natural disasters.

3 FINANCIAL RISK MANAGEMENT continued

3.2 Liquidity risk continued

Liquidity risk exposure

The following are the remaining contractual maturities at the end of the reporting period of recognised and unrecognised financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	GROUP				
	2015				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	45 737	45 737	45 737	–	–
Credit guarantees/indemnities issued to financial institutions[1]	12 130	12 130	12 130	–	–
Shareholder's loan	399 628	399 628	–	–	399 628
Off-balance sheet items					
Undrawn financing facilities approved	–	203 365	203 365	–	–
Operating lease commitments	–	28 786	6 777	21 684	325
	457 495	689 646	268 009	21 684	399 953

(1) Total credit guarantees/indemnities issued to financial institutions amount to R50.7 million. However, it is not considered likely that the full balance indemnified will result in future outflows of cash. The calculations by external actuaries were used to calculate the liability recognised at year end and represents an estimate of possible future cash outflows within 1 year. It amounts to 23% required reserves of the total portfolio indemnified.

	GROUP				
	Restated – 2014				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	53 929	53 929	53 929	–	–
Credit guarantees/indemnities issued to financial institutions[1]	11 141	11 141	11 141	–	–
Shareholder's loan	1 175 521	1 175 521	–	–	1 175 521
Off-balance sheet items					
Undrawn financing facilities approved	–	104 522	104 522	–	–
Operating lease commitments	–	37 721	7 822	29 148	751
Undrawn credit guarantees/indemnities approved[2]	–	66	66	–	–
	1 240 591	1 382 900	177 480	29 148	1 176 272

(1) Total credit guarantees/indemnities issued to financial institutions amount to R69.3 million. However, it is not considered likely that the full balance indemnified will result in future outflows of cash. The calculations by external actuaries were used to calculate the liability recognised at year end and represents an estimate of possible future cash outflows within 1 year. It amounts to 16% required reserves of the total portfolio indemnified.

(2) Undrawn credit guarantees/indemnities approved amounts to R410k. It is estimated that 16% of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

3 FINANCIAL RISK MANAGEMENT continued

3.2 Liquidity risk continued

	COMPANY				
	2015				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	24 873	24 873	24 873	–	–
Shareholder's loan	399 628	399 628	–	–	399 628
Off-balance sheet items					
Operating lease commitments	–	28 786	6 777	21 684	325
Undrawn financing facilities approved	–	194 757	194 757	–	–
	424 501	648 044	226 407	21 684	399 953

	COMPANY				
	2014				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	19 313	19 313	19 313	–	–
Shareholder's loan	1 175 521	1 175 521	–	–	1 175 521
Off-balance sheet items					
Operating lease commitments	–	37 721	7 822	29 148	751
Undrawn financing facilities approved	–	87 766	87 766	–	–
	1 194 834	1 320 321	114 901	29 148	1 176 272

3.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group does not deal in derivatives.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's income and operating cash flows are substantially dependent on changes in market interest rates and the Group has significant interest-bearing assets. The Group's policy is to maintain most of its investments in the form of money market instruments. Interest rate risk is limited to the Group's investment in floating-rate instruments such as deposits, negotiable certificates of deposits and banker's acceptances as well as loans which are normally issued at rates linked to the prime interest rate. The investment management function has been outsourced to the IDC. Regular management and Board sub-committee meetings are held in order to review **sefa's** interest rate view, which would affect the level of interest rate risk taken in respect of surplus funds.

Money market investments are reflected as cash and cash equivalents.

Capital management

The Board's policy is to achieve a capital base that will ensure the long term sustainability of **sefa** and monitors progress towards this goal so as to maintain shareholder, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between sustainable returns and its developmental mandate. There were no changes in the Group's approach to capital management during the year. A subsidiary, KCG is subject to capital requirements imposed on it by the FSB in terms of the STIA. Neither the company nor any of its other subsidiaries are subject to externally imposed capital requirements.

3 FINANCIAL RISK MANAGEMENT continued

3.3 Market risk continued

The Group's objectives when managing capital are:

- To comply with capital requirements required for insurers as determined by the STIA
- To safeguard the Group's ability to continue as a going concern so that it can provide returns for the shareholder and benefits for other stakeholders

KCG submits quarterly and annual returns to the FSB in terms of the STIA. The Company is required at all times to maintain a statutory surplus asset ratio as defined in the STIA. Adequate capital requirements were met throughout the year.

3.4 Indemnity risk

Indemnity risk arises from normal operations of the Group, through credit indemnities provided by KCG on facilities granted to SMEs by commercial banks and other financial institutions. The percentage of the facilities indemnified varies between 60% and 90%. All applications for credit are thoroughly scrutinised covering financial, technical and reputational risks by the banks, other financial institutions and by KCG staff. KCG, being a DFI, has a different risk profile compared to traditional commercial insurers.

The Board and executive committee manage the indemnity risk according to the Group's risk appetite.

The risk under any one indemnity contract is the likelihood that the indemnified event will occur, and the uncertainty of the amount of the resulting claims. For a portfolio of indemnity contracts where the theory of probability is applied to provisioning, the principle risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of the indemnity liabilities. By the very nature of an indemnity contract, the risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as economical and geographical circumstances, may result in unexpectedly large claims. Indemnified events are random and from one year to the next and the actual number of claims will vary from the estimate established by means of statistical techniques.

Factors that aggravate indemnity risk include lack of risk diversification in terms of type and amount of risk and geographical location covered. Experience shows that the larger the portfolio of similar indemnity contracts, the smaller the relative variability of the expected outcome will be, therefore a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group only underwrites indemnity contracts in South Africa.

The Group does not have the right to re-price and change the conditional risks on renewal of individual indemnities.

The Group establishes a provision for claims using independent actuarial methods.

Limiting exposure to indemnity risk

The Group limits its exposure to indemnity risk through setting a clearly defined underwriting strategy and adopting appropriate risk assessment techniques. Each of these risk management aspects is dealt with below in more detail.

(i) Underwriting strategy and limits and policies for mitigating indemnity risk

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio of indemnity risks. To this end the Group underwrites a wide variety of risks spread across financial and commercial indemnity holders, which includes the underwriting of risks in niche markets with favourable claims expectations.

On an annual basis the Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital, its developmental mandate as well as existing concentrations of indemnity risk.

3 FINANCIAL RISK MANAGEMENT continued

3.4 Indemnity risk continued

(ii) Risk assessment

The Group relies on a rigorous process followed by the indemnified parties before they propose and accept a specific indemnity risk. Some of the factors considered during the underwriting stage include:

- past loss experience associated with the proposed risk
- indemnifiable interest
- probability of success
- level of mitigation procedures adopted
- location of the proposed risk
- past and proposed rating terms of the risk
- scope and terms of cover considered
- results of surveys completed, where applicable
- possible variations that may be applied to the risks indemnified

Concentration of indemnity risks

The Group's insurance portfolio consists of indemnity risks. The concentration of indemnity risks is managed by different levels of diversification mainly through the financial institutions that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

3.5 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Loans and advances and trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and the country, in which customers operate, is also taken into account. No significant percentage of the Group's revenue can be contributed to transactions with one customer and there is no geographical concentration of credit risk.

Risk Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group will transact with the customer. The Group's review includes external ratings, when available, due diligence exercises and in some cases, bank references.

Loans and advances are subject to comprehensive and substantial security clauses to protect the Group in the event of non-payment.

All credit risk arises from normal operations of the Group, with the major credit risk arising from the Group's receivables and loans and advances. The WIC and DLC established by the Board of Directors review the Group's loan portfolio on an on-going basis. All applications for credit are thoroughly scrutinised covering financial, technical and market risks. **sefa**, being a DFI, has a different risk profile compared to traditional commercial banks.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables, loans and advances and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment for similar assets.

Investments

The Group limits its exposure to credit risk in respect of its money market transactions by only investing in funds that have approved high credit quality financial ratings and public sector institutions in accordance with predetermined limits approved by Executive Management and the Board. Money market investments are reflected as cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT continued

Sector analysis of loans and advances and investments at carrying value

	GROUP			
	2015		2014	
	Loans and advances **R'000**	Investments **R'000**	Loans and advances R'000	Investments R'000
Agriculture, forestry and fishing	**65 334**	**–**	47 774	–
Basic chemicals	**623**	**–**	207	–
Beverages	**4 033**	**–**	4 801	–
Building construction	**119 970**	**–**	61 225	–
Business services	**43 763**	**–**	1 180	–
Catering and accommodation services	**9 647**	**–**	5 850	–
Communication	**1 638**	**–**	1 429	–
Electricity, gas and steam	**2 006**	**–**	2 491	–
Finance and insurance	**1 050**	**7 350**	1 426	18 189
Food	**13 128**	**–**	4 975	–
Footwear	**856**	**–**	–	–
Machinery and equipment	**–**	**–**	1 789	–
Medical, dental and other health and veterinary services	**7 115**	**–**	3 350	–
Metal products excluding machinery	**2 080**	**–**	–	–
Motor vehicles, parts and accessories	**9 983**	**–**	2 600	–
Non-metallic minerals	**2 571**	**–**	2 403	–
Other community, social and personal services	**6 802**	**–**	1 669	–
Other chemicals and man-made fibres	**2 934**	**–**	131	–
Other industries	**11 231**	**–**	15 502	–
Other mining	**8 095**	**–**	183	–
Other services	**222 424**	**–**	72 233	–
Paper and paper products	**157**	**–**	115	–
Plastic products	**306**	**–**	443	–
Printing, publishing and recorded media	**5 518**	**–**	1 790	–
Television, radio and communication equipment	**1 564**	**–**	582	–
Textiles	**2 180**	**–**	1 139	–
Transport and storage	**61 554**	**–**	11 754	–
Wearing apparel	**2 245**	**–**	2 085	–
Wholesale and retail trade	**38 547**	**–**	229 663	–
Wood and wooden products	**5 418**	**–**	574	–
	652 772	**7 350**	479 363	18 189

3 FINANCIAL RISK MANAGEMENT continued

Sector analysis of loans and advances and investments at carrying value continued

	COMPANY			
	2015		2014	
	Loans and advances R'000	Investments R'000	Loans and advances R'000	Investments R'000
Agriculture, forestry and fishing	9 773	–	242	–
Basic chemicals	519	–	–	–
Beverages	2 395	–	4 566	–
Building construction	118 535	–	61 446	–
Business services	42 153	–	–	–
Catering and accommodation services	8 868	–	5 271	–
Electricity, gas and steam	–	–	898	–
Finance and insurance	1 050	7 350	1 426	18 189
Food	12 244	–	3 211	–
Footwear	856	–	–	–
Machinery and equipment	–	–	1 789	–
Medical, dental and other health and veterinary services	7 115	–	3 239	–
Metal products excluding machinery	2 080	–	–	–
Motor vehicles, parts and accessories	9 935	–	2 403	–
Other community, social and personal services	5 192	–	391	–
Other chemicals and man-made fibres	2 761	–	–	–
Other industries	7 331	–	12 566	–
Other mining	8 095	–	183	–
Other services	222 420	–	72 179	–
Printing, publishing and recorded media	4 456	–	–	–
Television, radio and communication equipment	1 464	–	–	–
Textiles	2 180	–	1 139	–
Transport and storage	56 868	–	4 817	–
Wholesale and retail trade	22 776	–	211 410	–
Wood and wooden products	4 919	–	236	–
	553 985	7 350	387 412	18 189

Credit risk exposure

The Group and Company is exposed to the following credit risk:

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Cash and cash equivalents	534 199	776 140	396 180	589 392
Trade receivables	55 679	60 325	51 672	61 399
Loans and advances	975 046	641 276	821 844	503 885
Investments	53 594	62 002	53 594	62 002
Total exposure	1 618 518	1 539 743	1 323 290	1 216 678
Allowance for impairment – trade receivables	(21 093)	(35 038)	(21 093)	(35 038)
Allowance for impairment – loans and advances	(322 274)	(161 913)	(267 859)	(116 473)
Allowance for impairment – investments	(46 244)	(43 813)	(46 244)	(43 813)
Carrying amount	1 228 907	1 298 979	988 094	1 021 354

3 FINANCIAL RISK MANAGEMENT continued

Credit risk exposure continued

	GROUP		COMPANY	
	2015		2015	
	Loans and advances R'000	Investments R'000	Loans and advances R'000	Investments R'000
Individually impaired	91 986	7 350	74 880	7 350
Past due but not impaired	232 232	–	193 819	–
Neither past due nor impaired	328 554	–	285 286	–
Total carrying value	652 772	7 350	553 985	7 350
Individually impaired				
Low risk client	107 265	–	101 516	–
Medium risk client	65 928	48 594	47 332	48 594
High risk client	199 868	5 000	152 709	5 000
Gross amount	373 061	53 594	301 557	53 594
Allowance for impairment	(281 075)	(46 244)	(226 677)	(46 244)
Carrying amount	91 986	7 350	74 880	7 350
Past due but not impaired				
Low risk client	222 716	–	193 819	–
Medium risk client	5 452	–	–	–
High risk client	4 064	–	–	–
Carrying amount	232 232	–	193 819	–
Past due but not impaired comprises:				
0 – 30 days	213 278	–	187 202	–
31 – 60 days	1 017	–	462	–
61 – 90 days	1 198	–	642	–
91 – 120 days	2 550	–	1 957	–
120 days +	14 189	–	3 556	–
Carrying amount	232 232	–	193 819	–
Neither past due nor impaired				
Low risk	325 617	–	283 894	–
Medium risk	43 470	–	42 234	–
High risk	666	–	340	–
Carrying amount	369 753	–	326 468	–
Portfolio impairment	(41 199)	–	(41 182)	–
Total carrying amount	328 554	–	285 286	–

3 FINANCIAL RISK MANAGEMENT continued

Credit risk exposure continued

	GROUP		COMPANY	
	Restated – 2014		2014	
	Loans and advances R'000	Investments R'000	Loans and advances R'000	Investments R'000
Individually impaired	210 014	18 189	183 209	18 189
Past due but not impaired	211 329	–	202 541	–
Neither past due nor impaired	58 020	–	1 662	–
Total carrying value	479 363	18 189	387 412	18 189
Individually impaired				
Low risk client	219 862	–	211 945	–
Medium risk client	28 038	57 002	3 462	57 002
High risk client	113 732	5 000	73 980	5 000
Gross amount	361 632	62 002	289 387	62 002
Allowance for impairment	(151 618)	(43 813)	(106 178)	(43 813)
Carrying amount	210 014	18 189	183 209	18 189
Past due but not impaired				
Low risk client	203 072	–	197 771	–
Medium risk client	6 776	–	4 770	–
High risk client	1 481	–	–	–
Carrying amount	211 329	–	202 541	–
Past due but not impaired comprises:				
0 – 30 days	190 158	–	189 316	–
31 – 60 days	401	–	–	–
61 – 90 days	850	–	–	–
91 – 120 days	591	–	–	–
120 days +	19 329	–	13 225	–
Carrying amount	211 329	–	202 541	–
Neither past due nor impaired				
Low risk	63 736	–	11 939	–
Medium risk	4 012	–	–	–
High risk	567	–	18	–
Carrying amount	68 315	–	11 957	–
Portfolio impairment	(10 295)	–	(10 295)	–
Total carrying amount	58 020	–	1 662	–

Low risk – no impairment triggers exist.
Medium risk – impairment triggers exist, debtor responding to legal action – recovery likely.
High risk – impairment triggers exist, debtor not responding to legal action – recovery not likely.

Credit quality of loans neither past due nor impaired

The Group has every reason to believe that the underlying debtors have the ability and intention to repay these loans and that the likelihood of default is low.

Collateral held

Collateral ranges from cessions over moveable and immoveable assets to personal surety. Due to the nature of the business of **sefa**, the value of collateral held is low compared to the carrying value of the related loans.

3 FINANCIAL RISK MANAGEMENT continued

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
Variable rate instruments				
Financial assets	**935 951**	1 083 588	**742 875**	901 892
Financial liabilities	**–**	(163)	**–**	–
Balance at end of the year	**935 951**	1 083 425	**742 875**	901 892
Cash flow sensitivity analysis for variable rate instruments				
A change in 100 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2014.				
100 basis points increase	**9 360**	10 834	**7 429**	9 019
100 basis points decrease	**(9 360)**	(10 834)	**(7 429)**	(9 019)

Fair values

Fair values versus carrying amounts

The fair value of financial assets and liabilities approximate the carrying amounts shown in the statement of financial position, due to the following reasons:

- The general short-term nature of financial assets
- Decreases in credit risk ratings result in impairments of loans
- Loans are issued at rates linked to the prime interest rate
- The shareholder's loan was recognised at fair value in the current financial year and the accumulated finance charges is based on market rates

4 CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Cash in bank and in hand	**131 288**	195 241	**91 966**	115 452
Cash managed by shareholder	**402 911**	580 899	**304 214**	473 940
	534 199	776 140	**396 180**	589 392

Cash and cash equivalents are all current assets. Cash managed by IDC are immediately available as and when requested.

5 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Trade receivables	10 912	9 858	7 261	6 042
Rental debtors	31 344	46 476	31 344	46 476
Pre-payments	1 717	1 532	1 361	1 033
Related party loans (refer to note 33)	10 198	831	10 198	6 676
Study loans	1 508	1 628	1 508	1 172
Trade and other receivables before bad debt provision	55 679	60 325	51 672	61 399
Bad debt provision on rental debtors	(21 093)	(35 038)	(21 093)	(35 038)
Closing carrying value	34 586	25 287	30 579	26 361

Trade and other receivables are current assets and not pledged as security.

6 LOANS AND ADVANCES

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Loans and advances to clients	975 046	641 276	821 844	503 885
Impairments of loans and advances	(322 274)	(161 913)	(267 859)	(116 473)
	652 772	479 363	553 985	387 412
Reconciliation of impairment of loans and advances				
Specific allowances for impairment				
Balance at 1 April	161 913	233 151	116 473	196 988
Loans and advances acquired through business combination	–	1 200	–	–
Impairment loss for the year				
– Charge for the year	217 655	92 353	204 020	84 240
– Recoveries	–	–	–	–
Write offs	(57 294)	(164 791)	(52 634)	(164 755)
Closing balance	322 274	161 913	267 859	116 473
Maturity of loans and advances				
– Due within one year	477 678	312 142	390 602	252 711
– Due after one year but within two years	175 203	119 176	145 275	86 812
– Due after two years but within three years	134 118	91 239	117 058	72 527
– Due after three years but within four years	133 519	60 314	122 298	44 833
– Due after four years but within five years	52 549	54 867	46 611	44 194
– Due after five years	1 979	3 538	–	2 808
– Impairment of loans and advances	(322 274)	(161 913)	(267 859)	(116 473)
	652 772	479 363	553 985	387 412

Loans and advances are both current and non-current assets, balances recoverable within 12 months are current.

7 INVESTMENTS

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Unlisted equities	**5 000**	5 000	**5 000**	5 000
Investment in En Commandite partnership	**48 594**	57 002	**48 594**	57 002
	53 594	62 002	**53 594**	62 002
Impairment of unlisted equities	**(5 000)**	(5 000)	**(5 000)**	(5 000)
Impairment of investment in En Commandite partnership	**(41 244)**	(38 813)	**(41 244)**	(38 813)
	7 350	18 189	**7 350**	18 189
Specific allowances for impairment – Unlisted equities				
Opening balance	**5 000**	5 000	**5 000**	5 000
Closing balance	**5 000**	5 000	**5 000**	5 000
Specific allowances for impairment – En Commandite partnership				
Opening balance	**38 813**	41 471	**38 813**	41 471
Increase/(decrease) in impairment	**2 431**	(2 658)	**2 431**	(2 658)
Closing balance	**41 244**	38 813	**41 244**	38 813

These investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. They are therefore stated at cost, including transaction costs, less impairment. All investments are non-current assets.

8 INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2015	2014
	R'000	R'000
Unlisted shares in subsidiaries	**55 002**	55 002
Loans receivable	**233 461**	243 623
Total company exposure before impairments	**288 463**	298 625
Impairment of loans	**(136 658)**	(127 973)
Closing carrying value	**151 805**	170 652

	2015	2014		**2015**	2014
Companies	% interest	% interest	Nature of activities	**Total company exposure before impairments R'000**	Total company exposure before impairments R'000
Identity Development Fund Partnership	**100%**	100%	SME Financing	**48 500**	48 753
Khula Akwandze Fund (Pty) Ltd	**75%**	75%	SME Financing	**45 510**	56 413
Khula Business Premises (Pty) Ltd	**100%**	100%	Property rental	**–**	–
Khula Credit Guarantee (SOC) Ltd	**100%**	100%	Credit indemnities	**55 229**	55 002
Khula Emerging Contractors Fund	**100%**	100%	SME Financing	**20 394**	20 394
Khula-Enablis SME Acceleration Fund	**80%**	80%	SME Financing	**25 000**	25 000
Khula Institutional Support Services NPC	**100%**	100%	Capacity building	**764**	–
MKN Equity Fund (Pty) Ltd	**100%**	100%	Private equity funding	**4 850**	4 850
New Business Finance (Pty) Ltd	**100%**	100%	SME Financing	**51 298**	51 296
New Cape Equity Fund (Pty) Ltd	**100%**	100%	Private equity funding	**13 955**	13 955
Small Business Growth Trust Fund	**81%**	81%	SME Financing	**22 963**	22 962
				288 463	298 625

All subsidiaries are incorporated in the Republic of South Africa and have the same reporting date as the holding company.

The entities classified as subsidiaries are all under the control of **sefa**, which has rights to the variable returns and has the ability to use its control to affect the amount of returns. The investments in subsidiaries are all non-current assets.

The aggregate net profits and losses after taxation of subsidiaries attributable to **sefa** were as follows:

	GROUP	
	2015	Restated 2014
	R'000	R'000
Profits	**14 359**	4 435
Losses	**(19 658)**	(6 229)
	(5 299)	(1 794)

9 INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Unlisted shares in associates	**98 622**	98 622	**98 622**	98 622
Accumulated equity-accounted income, losses and impairments	**560 839**	524 702	**–**	–
Loans receivable	**19 626**	17 937	**19 626**	17 937
Impairment of loans	**–**	–	**(2 739)**	(2 215)
Closing carrying value	**679 087**	641 261	**115 509**	114 344

				COMPANY	
	2015	2014		**2015**	2014
Companies	**% interest**	% interest	Nature of activities	**Total company exposure before impairments R'000**	Total company exposure before impairments R'000
Business Partners Limited	**21%**	21%	SME Financing	**98 622**	98 622
The Utho SME Infrastructure Fund[1]	**49%**	49%	SME Financing	**19 626**	17 937
				118 248	116 559

(1) Although the ownership interest in The Utho SME Infrastructure Fund is 49%, the voting interest is only 40%.

The following information summarises the financial information of the associates as included in its own financial statements adjusted for differences in accounting policies. The table also reconciles the summarised information to the carrying amount of the Group's interest:

	GROUP	
	2015	2014
	R'000	R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	**3 504 698**	3 211 837
Current assets	**543 630**	478 935
Non-current liabilities	**(1 035 548)**	(864 401)
Current liabilities	**(148 825)**	(126 149)
Net assets at 100%	**2 863 955**	2 700 222
Group's share of net assets	**596 994**	560 860
Loan to associate	**19 626**	17 936
Costs capitalised on shares acquired	**62 467**	62 465
	679 087	641 261
Statement of comprehensive income		
Revenue	**517 502**	477 254
Expenses	**(333 621)**	(317 408)
Profit and total other comprehensive income at 100%	**183 881**	159 846
Group's share of profit and total comprehensive income	**41 526**	35 208

There are no significant restrictions on the ability of the associates to transfer funds to **sefa** in the form of cash dividends or to repay loans advanced. There are no additional risks associated with **sefa's** investments other than impairment recognised and the risks identified in the financial risk management note. All investments in associates are non-current assets.

10 INVESTMENTS IN JOINT VENTURES

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Accumulated equity-accounted income, losses and impairments	**10 923**	21 662	**–**	–
Loans receivable	**162 333**	111 868	**162 332**	111 868
Impairment of loans	**–**	–	**(32 895)**	(22 660)
Closing carrying value	**173 256**	133 530	**129 437**	89 208

Investments in joint arrangements were assessed and it was concluded that these agreements should be classified as joint ventures. In performing the assessment, the group considered the structure of the arrangements, the legal form of any separate vehicle, the contractual terms of the arrangements and other facts and circumstances.

	2015	2014		**2015**	2014
Companies	**% interest**	% interest	Nature of activities	**Total exposure R'000**	Total exposure R'000
Anglo Khula Mining Fund (Pty) Ltd	**50%**	50%	Financing mining activities	**70 764**	38 442
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	**50%**	0%	SME Financing	**16 342**	–
Enablis Khula Loan Fund	**40%**	40%	SME Financing	**6 652**	6 652
Izibulo SME Trust Fund	**65%**	65%	SME Financing	**21 728**	21 728
sefa Awethu Youth Fund (Pty) Ltd	**50%**	50%	SME Financing	**46 846**	45 046
				162 332	111 868

	GROUP	
	2015	2014
	R'000	R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	**71 431**	32 964
Current assets	**255 686**	109 345
Non-current liabilities	**(219 280)**	(55 412)
Current liabilities	**(77 452)**	(34 825)
Net assets at 100%	**30 385**	52 072
Group's share of net assets	**10 924**	21 662
Loans to joint ventures	**162 332**	111 868
	173 256	133 530
Statement of comprehensive income		
Revenue	**20 364**	10 545
Expenses	**(45 164)**	(14 207)
Loss and total other comprehensive income at 100%	**(24 800)**	(3 662)
Group's share of loss and total comprehensive loss	**(10 291)**	(1 840)

There are no significant restrictions on the ability of the joint ventures to transfer funds to **sefa** in the form of cash dividends or to repay loans advanced. There are no additional risks associated with **sefa's** investments other than impairment recognised and the risks identified in the financial risk management note. All investments in joint ventures are non-current assets.

11 DEFERRED TAX ASSETS AND LIABILITIES

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
11.1 Deferred taxation asset				
Composition of deferred taxation asset is as follows:				
Income received in advance	**105**	63	**98**	52
Equipment, furniture and other tangible assets	**575**	51	**575**	51
Tax loss	**8 965**	–	**–**	–
Other provisions	**108 800**	7 945	**100 262**	8 755
Day 1 loss – loans and advances	**335**	–	**335**	–
Impairment of investments	**12 173**	–	**57 537**	–
Fair value adjustments on investment property	**–**	3 723	**–**	3 723
	130 953	11 782	**158 807**	12 581
Movement on the deferred taxation asset is as follows:				
At beginning of the year	**11 782**	75 193	**12 581**	113 338
– Temporary differences recognised in profit and loss	**119 171**	(63 411)	**146 226**	(100 757)
– Current year	**119 171**	(65 874)	**146 226**	(103 220)
– Previous year	**–**	2 463	**–**	2 463
At end of the year	**130 953**	11 782	**158 807**	12 581
Unrecognised deductible temporary differences, unused tax losses and unused tax credits				
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:				
Tax losses (Revenue in nature)	**171 157**	158 205	**220 030**	142 939

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
11.2 Deferred taxation liability				
Composition of deferred taxation liability is as follows:				
Prepaid expenses	**(185)**	(136)	**(185)**	(136)
Debtor allowances	**(26 318)**	(11 405)	**(24 792)**	(12 445)
Fair value adjustments on investment property	**(29 227)**	–	**(29 227)**	–
Day 1 gain on shareholder's loan	**(104 603)**	–	**(104 603)**	–
	(160 333)	(11 541)	**(158 807)**	(12 581)
Movement on the deferred taxation liability is as follows:				
At beginning of the year	**(11 541)**	(15 628)	**(12 581)**	(16 354)
Current year	**(148 792)**	4 087	**(146 226)**	3 773
At end of the year	**(160 333)**	(11 541)	**(158 807)**	(12 581)

12 INVESTMENT PROPERTIES

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Opening carrying amount	**159 146**	171 435	**159 146**	171 435
Reinstatement of properties previously held in terms of instalment sales agreements	**570**	–	**570**	–
Reclassification from Investment Properties held-for-sale	**7 000**	–	**7 000**	–
Reclassification to Investment Properties held-for-sale	**(1 278)**	(25 232)	**(1 278)**	(25 232)
Fair Value Adjustments	**(13 057)**	12 943	**(13 057)**	12 943
Closing carrying amount	**152 381**	159 146	**152 381**	159 146

Investment properties are valued externally by independent valuators every three years. All investment properties were valued on 31 March 2014, by Spectrum Valuators (Pty) Ltd. Investment properties are non-current assets.

The fair value measurement for investment property has been categorised as level 3 fair value based on **sefa's** fair value hierarchy due to unobservable inputs used.

The assumptions used in the valuations conducted at 31 March 2014 were assessed to be appropriate for the current financial year and no fair value adjustments were recognised except for a decline in the fair value of two properties that have been fire damaged.

The following summarises the valuation technique used in measuring the fair value of Investment Properties, as well as the significant unobservable inputs used:

Valuation technique

Income capitalisation Method and Direct Comparison Basis: **sefa's** property portfolio consists mainly of income producing properties and this is the fundamental basis on which the valuation of investment properties is determined. Investment properties produce a perpetual income stream and the capitalisation of such net revenue flow is an accurate means of determining the value. Included in the portfolio, are two properties which are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis.

	Highest	Lowest	Average
Significant unobservable inputs			
– Budgeted capital expenditure growth rate	33%	2%	11%
– Capitalisation percentage	17%	10%	13%

The estimated fair value would increase/(decrease) if:

- Budgeted capital expenditure growth were (lower)/higher
- Capitalisation percentage were (decreased)/increased

13 INVESTMENT PROPERTIES HELD-FOR-SALE

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Opening carrying amount	25 567	–	25 567	–
Reclassification from Investment Properties	1 278	25 232	1 278	25 232
Reclassification to Investment Properties	(7 000)	–	(7 000)	–
Disposals at fair value	(2 425)	–	(2 425)	–
Fair value adjustment	–	335	–	335
Closing carrying amount	17 420	25 567	17 420	25 567

On 20 November 2013, the Board of Directors approved the sale of certain properties in the property portfolio. Investment properties held-for-sale are current assets.

Purchase offers for six of the sixteen properties reclassified for sale have been concluded and are awaiting registration at the relevant Deeds office. The remaining ten properties are in the process of negotiations.

14 EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS

	GROUP			COMPANY		
	2015			**2015**		
	Cost R'000	**Accumulated depreciation and impairment R'000**	**Carrying value R'000**	**Cost R'000**	**Accumulated depreciation and impairment R'000**	**Carrying value R'000**
Motor vehicle	354	336	18	308	308	–
Computer equipment	9 951	8 307	1 644	9 396	7 773	1 623
Office equipment	4 098	2 917	1 181	3 817	2 675	1 142
Furniture and fittings	8 701	5 783	2 918	5 538	3 264	2 274
Lease improvements	7 963	2 891	5 072	7 963	2 891	5 072
	31 067	20 234	10 833	27 022	16 911	10 111

	Restated – 2014			2014		
	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
Motor vehicle	354	336	18	309	309	–
Computer equipment	9 620	7 739	1 881	9 051	7 203	1 848
Office equipment	3 658	2 553	1 105	3 377	2 332	1 045
Furniture and fittings	8 667	4 442	4 225	5 505	2 414	3 091
Lease improvements	7 104	1 539	5 565	7 104	1 539	5 565
	29 403	16 609	12 794	25 346	13 797	11 549

14 EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS continued

The movement in the carrying value of office equipment, furniture and other tangible assets is as follows:

	GROUP					
	2015					
	Motor vehicles R'000	**Computer Equipment R'000**	**Office equipment R'000**	**Furniture and fittings R'000**	**Lease improve-ments R'000**	**Total R'000**
Opening carrying value	18	1 881	1 105	4 225	5 565	12 794
Additions	–	894	532	33	859	2 318
Disposals	–	(40)	(8)	–	–	(48)
Depreciation charges	–	(1 091)	(448)	(1 340)	(1 352)	(4 231)
Closing carrying value	18	1 644	1 181	2 918	5 072	10 833

	Restated – 2014					
	Motor vehicles R'000	Computer Equipment R'000	Office equipment R'000	Furniture and fittings R'000	Lease improve-ments R'000	Total R'000
Opening carrying value	107	2 130	1 392	5 307	5 126	14 062
Additions	–	826	104	236	1 389	2 555
Disposals	(77)	(13)	–	(1)	–	(91)
Depreciation charges	(12)	(1 062)	(391)	(1 317)	(950)	(3 732)
Closing carrying value	18	1 881	1 105	4 225	5 565	12 794

	COMPANY					
	2015					
	Motor vehicles R'000	**Computer Equipment R'000**	**Office equipment R'000**	**Furniture and fittings R'000**	**Lease improve-ments R'000**	**Total R'000**
Opening carrying value	–	1 848	1 045	3 091	5 565	11 549
Additions	–	894	531	33	859	2 317
Disposals	–	(39)	(8)	–	–	(47)
Depreciation charges	–	(1 080)	(426)	(850)	(1 352)	(3 708)
Closing carrying value	–	1 623	1 142	2 274	5 072	10 111

	2014					
	Motor vehicles R'000	Computer Equipment R'000	Office equipment R'000	Furniture and fittings R'000	Lease improve-ments R'000	Total R'000
Opening carrying value	88	2 075	1 311	3 679	5 127	12 280
Additions	–	827	103	236	1 389	2 555
Disposals	(76)	(14)	–	–	–	(90)
Depreciation charges	(12)	(1 040)	(369)	(824)	(951)	(3 196)
Closing carrying value	–	1 848	1 045	3 091	5 565	11 549

No equipment, furniture or other tangible assets are pledged as security for liabilities (2014: Rnil) and all assets are non-current assets.

15 INTANGIBLE ASSETS

	GROUP			COMPANY		
	2015			2015		
	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000
Software	3 956	3 891	65	3 434	3 374	60
Intellectual property	2 200	2 176	24	2 200	2 176	24
Goodwill	31 899	31 899	–	–	–	–
	38 055	37 966	89	5 634	5 550	84

	Restated – 2014			2014		
	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000
Software	3 990	3 909	81	3 468	3 395	73
Intellectual property	2 200	1 661	539	2 200	1 662	538
Goodwill	31 899	31 899	–	–	–	–
	38 089	37 469	620	5 668	5 057	611

The movement in the carrying value of intangible assets are as follows:

	GROUP			
	2015			
	Software R'000	Intellectual Property R'000	Goodwill R'000	Total R'000
Opening carrying value	81	539	–	620
Additions	65	–	–	65
Amortisation	(81)	(515)	–	(596)
Closing carrying value	65	24	–	89

	Restated – 2014			
	Software R'000	Intellectual Property R'000	Goodwill R'000	Total R'000
Opening carrying value	617	1 271	–	1 888
Amortisation	(536)	(732)	–	(1 268)
Closing carrying value	81	539	–	620

15 INTANGIBLE ASSETS continued

	COMPANY			
	2015			
	Software R'000	Intellectual Property R'000	Goodwill R'000	Total R'000
Opening carrying value	72	539	–	611
Additions	63	–	–	63
Amortisation	(75)	(515)	–	(590)
Closing carrying value	60	24	–	84

	2014			
	Software R'000	Intellectual Property R'000	Goodwill R'000	Total R'000
Opening carrying value	428	1 271	–	1 699
Amortisation	(356)	(732)	–	(1 088)
Closing carrying value	72	539	–	611

No intangible assets are pledged as security for liabilities (2014: Rnil). All intangible assets are non-current assets.

16 SHARE CAPITAL

	GROUP		COMPANY	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Authorised				
500 000 000 ordinary shares at R1 each	500 000	500 000	500 000	500 000
Issued and paid				
308 300 000 ordinary shares at R1 each	308 300	308 300	308 300	308 300

Share Capital is fully paid.

17 SHAREHOLDER'S LOANS

The shareholder loans agreements were formalised during the 2015 financial year between the shareholder and **sefa**. The impact of these agreements were as follows:

i. A loan amounting to R773 million which was previously repayable on demand, has been rescheduled and formalised with the following terms and conditions:

- the loan bears no interest;
- the loan is repayable after 10 years commencing 11 June 2024; and
- the loan has been subordinated in favour of other 3rd party creditors

As a result of the substantial change in the terms and conditions of the loan, the previous loan has been de-recognised and the revised loan has been accounted for at fair value taking into account the revised terms and conditions. The impact of the revised terms and conditions on the fair value of the loan resulted in the recognition of a day one gain of R396 million to equity. In addition a deemed interest charge of R22 million has been recognised in profit and loss during the financial year to realise a portion of the day 1 gain as required in terms of **sefa's** accounting policy that is in accordance with IFRS.

ii. A loan amounting to R478 million which was previously repayable on demand, has been rescheduled and formalised as being a non-repayable shareholders' loan. As a result of the substantial change in the terms and conditions, the loan has been de-recognised and recognised as equity. The loan is unsecured, interest free and does not attract any fees.

A grant of R284 million (R231 million: 2014) was received from government to support **sefa's** activities. The grant was paid to the IDC who is conducting the required oversight of **sefa's** operations and was made available for the operational purposes through a non-repayable loan.

17.1 Movement on shareholder's loan balances that were de-recognised

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Opening balance	1 175 521	944 542	1 175 521	944 542
Funding received prior to changes in terms	75 650	230 979	75 650	230 979
De-recognition of balance relating to loan 1	(773 211)		(773 211)	
De-recognition of balance relating to loan 2	(477 960)	–	(477 960)	–
Closing balance	–	1 175 521	–	1 175 521

17.2 Movement on shareholder's loan classified as a non-current liability

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Amount de-recognised under previous terms	773 211		773 211	
Day 1 gain recognised in equity	(396 038)	–	(396 038)	–
Finance charges	22 455	–	22 455	–
Closing balance	399 628	–	399 628	–

17.3 Movement on shareholder's loan classified as equity

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Recognition of loan directly in equity	477 960	–	477 960	–
Funding received after changes in terms	208 194		208 194	
Closing balance	686 154	–	686 154	–

18 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Trade payables	45 737	53 929	24 873	19 313
Deferred grant	1 945	819	1 945	819
Accrued bonus (refer to 18.1)	21 217	16 842	21 217	16 842
Accrued leave pay (refer to 18.2)	1 724	3 564	1 724	3 564
Managed funds (refer to 18.3)	63 138	59 938	63 142	59 942
	133 761	135 092	112 901	100 480

Trade and other payables are current liabilities.

18.1 Accrued Bonuses

Opening balance	16 842	10 989	16 842	10 989
Accruals raised during the year	12 209	16 842	12 209	16 842
Utilised during the year	(7 834)	(10 989)	(7 834)	(10 989)
Closing balance	21 217	16 842	21 217	16 842

18.2 Accrued leave pay

Opening balance	3 564	3 727	3 564	3 727
Accruals (reversed)/raised during the year	(138)	1 251	(138)	1 251
Utilised during the year	(1 702)	(1 414)	(1 702)	(1 414)
Closing balance	1 724	3 564	1 724	3 564

18.3 Managed funds

The group is managing funds and holding cash balances on behalf of the following parties:

Unops	44 869	42 267	44 873	42 271
Norad	7 447	7 160	7 447	7 160
European Union	10 822	10 511	10 822	10 511
	63 138	59 938	63 142	59 942

All trade and other payables are current liabilities. The Group is currently engaging with parties that provided funding to conclude on the best future use of unused balances.

19 UNEARNED RISK PROVISION AND OUTSTANDING CLAIMS PROVISION

The provisions recognised in the statements of financial position are current and non-current liabilities and are detailed below and are determined as described in the following paragraphs:

	GROUP	
	2015	2014
	R'000	R'000
Unearned risk reserve		
– At beginning of the year	**4 859**	6 456
– Movement recorded in profit or loss	**390**	(1 597)
At end of the year	**5 249**	4 859
Outstanding claims reserve		
– At beginning of the year	**6 282**	11 073
– Movement recorded in profit or loss	**599**	(4 791)
At end of the year	**6 881**	6 282
Unearned risk reserve		
– Unearned Premium Reserve	**377**	464
– Additional Unexpired Risk Reserve	**4 872**	4 395
	5 249	4 859
Movement recorded in profit or loss	**390**	(1 597)
Outstanding claims provision		
– Notified Outstanding Claims Reserve	**2 220**	504
– Incurred But Not Reported Reserve	**4 661**	5 778
	6 881	6 282
Movement recorded in profit or loss	**599**	(4 791)
Total exposure		
Credit indemnities issued to financial institutions	**50 705**	69 295
Less technical reserves already provided	**(12 130)**	(11 141)
	38 575	58 154

The calculation of the reserves was performed by an independent actuarial consulting firm, Matlotlo Group Proprietary Limited.

The summary of the valuation method is as follows:

The Unearned Premium Reserve is calculated on a straight line basis, assuming indemnity premiums received are earned uniformly over the 12 months for which they have been paid for. The Additional Unexpired Risk Reserve ("AURR") is the additional reserve required should the net discounted value of the expected claims from active policies not be covered by the Unearned Premium Reserve and the net present value of expected future indemnity fees. The AURR is held at a 75% sufficiency level as a result of simulating claims severity and frequency.

The Outstanding Claims Reserve ("OCR") is in respect of those policies of KCG that may result in claims due to a claim event that has happened prior to the financial year end. For each policy, the OCR is determined as (probability of claiming) x (current indemnity) x (claim severity). The total OCR is raised at a 75% sufficiency level by simulating the claim severity.

All reserves have been calculated on a run-off basis (assuming KCG does not write new business) and allowance for claim handling expenses has been made.

19 UNEARNED RISK PROVISION AND OUTSTANDING CLAIMS PROVISION continued

The principal valuation assumptions are as follows:

	2015	2014
Average ultimate probability of claim	26%	26%
Claim severity	81%	81%
Claim expense rate	4,55%	4,56%
Recovery rate	8,02%	n/a
Discount rates (per government bond yield curve)	5.65 – 8.31%	5.68% – 8.8%

The sensitivity of the total provisions to the key assumptions is as follows:

	2015	2014	2015	2014
	R'000	R'000	%	%
Probability of claim (+10%)	394	484	26%	443%
Claim severity (+10%)	1 284	1 570	81%	1437%
Claim expense rate (+1%)	101	122	5%	112%
Discount rates (+1%)	(38)	(29)	8%	(27%)

20 POST-RETIREMENT MEDICAL LIABILITY

	GROUP		COMPANY	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Post-retirement Liability	437	416	437	416

sefa provides a subsidy towards medical aid contributions payable to selected employees who retire in the employment of **sefa**.

Approximately 24 employees are eligible for the benefit. This subsidy is unfunded and is provided for based on actuarial valuations performed annually.

The value of this liability was determined by Matlotlo Group Proprietary Limited an independent actuarial consulting firm and is dependent on amongst others the demographic profile of employees, mortality, consumer price inflation and bond yields.

20 POST-RETIREMENT LIABILITY continued

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Analysis of the defined post retirement liability:				
Present value of unfunded obligations	**437**	416	**437**	416
Present value of Obligations in excess of plan assets	**437**	416	**437**	416
Changes in the present value of the defined benefit obligation are as follows:				
Opening post-employment medical aid obligation	**416**	–	**416**	–
Liability raised	**–**	379	**–**	379
Current service cost	**41**	41	**41**	41
Interest cost	**40**	34	**40**	34
Actuarial gain	**(60)**	(38)	**(60)**	(38)
Closing defined benefit obligation	**437**	416	**437**	416

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2015	2014
Discount rate at 31 March	**8.51% naca**	9.70% naca
Medical inflation rate per annum	**8.68% naca**	9.00% naca
Take-up rate by retired employees	**100%**	100%
Retirement age	**60 years**	60 years
Pre retirement mortality	**SA85-90 Light PA (90)**	SA85-90 Light PA (90)
Post retirement mortality	**3 year reduction**	3 year reduction

The table below shows the sensitivity of **sefa's** obligations, as at 31 March 2015, with respect to post-retirement medical aid benefits to key assumptions:

	Variation	% change in provision	Change in value of provision R'000
Assumption			
Long-term interest rates	1%	(22%)	(96)
	(1%)	15%	66
Retirement Age	+1 year	(11%)	(45)
	–1 year	10%	41
Withdrawal Rate	50%	(18%)	(76)
	(50%)	15%	63
Post-Retirement mortality	+1 year	(10%)	(42)
	–1 year	10%	43

21 INTEREST AND DIVIDEND INCOME

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Interest received on cash and cash equivalents	31 378	45 246	25 407	37 636
Interest received on loans and advances to clients	68 263	41 514	53 278	30 055
Other interest earned	6 662	940	6 349	881
Dividends received	–	–	6 057	4 046
	106 303	87 700	91 091	72 618

22 FEE INCOME FROM LOANS AND INDEMNITIES

	GROUP		COMPANY	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Fee income	16 302	13 474	16 302	13 385
Indemnity premiums earned	1 137	1 504	–	–
	17 439	14 978	16 302	13 385

23 OTHER INCOME

	GROUP		COMPANY	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Bad debts recovered	65	305	39	253
Management fee – Related parties	5 264	648	5 264	648
Other sundry income	5 157	5 134	5 139	5 134
	10 486	6 087	10 442	6 035

24 GRANT INCOME

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
Opening balance of deferred grant liability	819	11 588	819	11 588
Deferred grants from business combination	–	6 964	–	–
Grants received during the year	1 471	–	1 471	–
Grants recognised as income during the year	–	(15 947)	–	(8 983)
Grants utilised to reduce expenses during the year	(345)	(1 786)	(345)	(1 786)
Closing balance of deferred grant liability	1 945	819	1 945	819

Grants were received by **sefa** in addition to the annual amount allocated from the EDD.
Grants are required to be returned to the Department if funds are not utilised for the specific intended purpose.

25 NET FAIR VALUE GAIN ON FINANCIAL AND OTHER ASSETS

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Investments	–	2 399	–	–
Investment properties	(13 057)	13 278	(13 057)	13 278
	(13 057)	15 677	(13 057)	13 278

26 OPERATING LOSS

		GROUP		COMPANY	
		2015	Restated 2014	**2015**	2014
		R'000	R'000	**R'000**	R'000
	Is arrived at after taking into account the following:				
26.1	Specific items:				
	Contributions to defined contribution plans	9 479	8 977	9 479	8 977
	Depreciation	4 231	3 732	3 708	3 196
	Amortisation	596	1 268	590	1 088
	Penalties and interest – South African Revenue Services	32	50	13	50
	Operating lease charges – Equipment	805	911	805	911
	Operating lease charges – Property	12 081	14 587	12 081	14 587
		27 224	29 525	26 676	28 809
26.2	The following increases/(decreases) on impairment provisions were recognised:				
	Impairment of investments in associates	–	–	531	532
	Impairment of joint ventures	–	–	10 235	671
	Impairment of Investment in En Commandite partnership	2 431	(2 658)	2 431	(2 658)
	Impairment of subsidiaries	–	–	8 684	10 004
	Increase/(decrease) in bad debt provision – Loans and advances	160 600	(72 207)	151 386	(80 515)
	Irrecoverable debt written off – Loans and advances	57 295	164 791	52 635	164 755
	Total impairments on investments and loans and advances	220 326	89 926	225 902	92 789
	(Decrease)/increase in bad debt provision – Rental debtors	(13 945)	722	(13 945)	722
	Irrecoverable debt written off – Rental debtors	3 220	4	3 220	4
	Total net impairments	209 601	90 652	215 177	93 515
26.3	The following items relating to the credit indemnity product were recognised:				
	Indemnity claims incurred	3 328	6 891	–	–
	Decrease in claims provision	599	(4 791)	–	–
	Decrease in indemnity reserves	390	(1 597)	–	–
		4 317	503	–	–

26 OPERATING LOSS continued

	GROUP		COMPANY	
	2015	Restated 2014	2015	2014
	R'000	R'000	R'000	R'000
26.4 Net increase/(decrease) in impairments				
Agriculture, forestry and fishing	5 050	2 942	4 897	2 030
Basic chemicals	1 576	763	1 473	763
Beverages	4 029	634	4 061	344
Building construction	73 401	13 675	74 045	16 387
Business services	(4 116)	(1 122)	(4 723)	1 794
Catering and accommodation services	7 145	1 378	7 145	756
Communication	–	(533)	–	–
Electricity, gas and steam	(2 826)	2 316	(2 826)	2 819
Finance and insurance	3 213	(2 228)	3 233	9 464
Food	10 091	8 121	9 642	5 676
Footwear	822	–	822	–
Glass and glass products	–	27	–	–
Machinery and equipment	(135)	135	(135)	135
Medical, dental and other health and veterinary services	3 173	700	3 196	1 202
Metal products excluding machinery	547	–	547	–
Motor vehicles, parts and accessories	2 750	831	2 756	877
Other community, social and personal services	1 419	17 623	2 025	92
Other chemicals and man-made fibres	5 155	31	5 155	–
Other industries	470	4 933	481	4 294
Other mining	4 102	14	4 102	14
Other services	62 417	4 339	62 463	13 738
Paper and paper products	–	36	–	–
Plastic products	–	212	–	–
Printing, publishing and recorded media	2 195	501	1 506	178
Professional and scientific equipment	–	(15)	–	–
Television, radio and communication equipment	238	3	238	–
Textiles	(1 203)	1 005	(1 203)	1 694
Transport and storage	3 712	9 479	3 893	8 576
Water supply	(1 615)	1 615	(1 615)	1 615
Wearing apparel	–	31	–	–
Wholesale and retail trade	(17 479)	(146 075)	(26 259)	(158 584)
Wood and wooden products	(3 531)	6 422	(3 533)	5 621
	160 600	(72 207)	151 386	(80 515)

26 OPERATING LOSS continued

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Bad debts written off/(recovered) – Loans and advances				
Agriculture, forestry and fishing	(7)	92	–	90
Basic chemicals	1 999	–	1 999	–
Beverages	4 170	–	4 170	–
Building construction	14 677	10	14 677	10
Business services	4 854	–	4 854	–
Catering and accommodation services	–	5	–	5
Electricity, gas and steam	1 130	–	1 130	–
Finance and insurance	5 077	–	481	–
Food	3 967	21	3 969	–
Machinery and equipment	1 303	–	1 303	–
Medical, dental and other health and veterinary services	754	–	741	–
Motor vehicles, parts and accessories	7	–	7	–
Other community, social and personal services	322	–	322	–
Other industries	3 552	–	3 553	–
Other services	4 851	(71)	4 850	(43)
Printing, publishing and recorded media	2 183	–	2 167	–
Television, radio and communication equipment	110	–	110	–
Textiles	509	–	509	–
Transport and storage	749	–	749	–
Wholesale and retail trade	7 023	164 429	7 004	164 440
	57 230	164 486	52 595	164 502

27 INCOME TAX EXPENSE

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Current tax expense	**40**	672	**–**	355
– Current year	**40**	317	**–**	–
– Prior year under/(over) provision	**–**	355	**–**	355
Deferred taxation	**29 622**	59 324	**–**	96 984
– Current year	**29 622**	61 787	**–**	99 447
– Prior year under/(over) provision	**–**	(2 463)	**–**	(2 463)
Income tax expense	**29 662**	59 996	**–**	97 339
Reconciliation of taxation amount				
Loss before taxation	**(321 769)**	(116 219)	**(346 331)**	(149 671)
Taxation at standard rate of 28% (2014: 28%)	**(90 095)**	(32 541)	**(96 973)**	(41 908)
Tax effect of permanent differences	**110 471**	(6 504)	**112 065**	(1 584)
Tax effect of deferred tax asset not recognised	**23 056**	102 182	**(15 092)**	142 939
Tax loss recognised	**(13 770)**	(967)	**–**	–
Taxation – Relating to prior year	**–**	(2 174)	**–**	(2 108)
Taxation charged to statement of comprehensive income	**29 662**	59 996	**–**	97 339
Taxation expense relating to current year	**29 662**	62 170	**–**	99 447
Effective tax rate – Based on current year taxation expense	**(9.22%)**	(53.49%)	**0.00%**	(66.44%)

28 DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Prescribed officers as prescribed by the Companies Act, are individuals who, despite not being a director of the Company:

- exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company; or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Company

The Company considers all individuals at the level of executive management as the prescribed officers.

Key management, as defined in IAS 24 Related Party Disclosure, are individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of executive management up to the Board of Directors are regarded as key management. The remuneration of the directors and prescribed officers is disclosed below as per the Companies Act requirements.

28 DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

28.1 Board of Directors:

The non-executive directors are not involved in day-to-day operations of the business and do not draw any remuneration from **sefa** other than for board fees.

		2015	2014
		R'000	R'000
SM Magwentshu-Rensburg (Chairperson)		349	206
IAS Tayob		328	165
M Ferreira		283	241
VG Mutshekwane		324	257
BP Calvin		264	151
HN Lupuwana		143	127
SA Molepo		216	219
LB Mavundla		197	174
LFV Mosupye(2)	Appointed 4 December 2014	6	–
GS Gouws(1)		–	–
K Schumann(1)		–	–
		2 110	1 540

(1) Mr Gouws and Ms Schumann are employed by the IDC and do not earn Director's fees for services rendered to **sefa**.
(2) This director only serves on the Board of the subsidiary company, KCG.

28.2 Executive management:

	GROUP		COMPANY	
	2015	2014	2015	2014
	R'000	R'000	R'000	R'000
Short-term employee benefits	8 863	8 488	8 863	8 488
Post-employment benefits	943	653	943	653
	9 806	9 141	9 806	9 141

		2015				
		Basic salary R'000	Incentive bonus R'000	Retirement, medical and other benefits R'000	Acting allowance R'000	Total R'000
TR Makhuvha(1)		1 612	811	522	–	2 945
RV Ralebepa	Appointed 1 January 2015	362	–	56	–	418
N Shwala	Appointed 1 July 2014	1 026	155	45	–	1 226
LG Mashishi	Resigned 31 July 2014	1 570	–	74	–	1 644
ZR Coetzee(1)	Appointed 1 August 2014	824	429	394	–	1 647
PC Swanepoel	Resigned 31 May 2014	327	–	36	–	363
D Hansen	Contract ended 30 September 2014	397	–	–	–	397
GN Nadasan	Appointed 16 February 2015	196	–	7	–	203
L Van Lelyveld	Resigned 30 June 2014	428	–	24	87	539
VV Matsiliza		1 413	231	229	–	1 873
AD Dirks(2)		–	–	–	124	124
L Van Schalkwyk(2)		–	–	–	53	53
		8 155	1 626	1 387	264	11 432

(1) Seconded to the company by the IDC and no remuneration has been paid by **sefa**.
(2) Acted in executive positions during the financial year.

28 DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

28.2 Executive management: continued

		2014				
		Basic salary R'000	Incentive bonus R'000	Retirement, medical and other benefits R'000	Acting allowance R'000	Total R'000
TR Makhuvha[1]		1 527	752	340	–	2 619
AMA Ramavhunga	Resigned 30 November 2013	843	–	65	–	908
LG Mashishi		1 011	–	217	–	1 228
D Jackson	Contract ended 31 October 2013	868	–	–	–	868
L van Lelyveld	Appointed 15 April 2013	1 417	–	–	–	1 417
PC Swanepoel	Appointed 1 July 2013	1 168	–	163	–	1 331
VV Matsiliza	Appointed 1 November 2013	553	97	91	–	741
AD Dirks[2]	Appointed 1 July 2013	–	–	–	29	29
		7 387	849	876	29	9 141

(1) Seconded to the company by the IDC and no remuneration has been paid by **sefa**.
(2) Acted in executive positions during the financial year.

No member of executive management earned any income from any other company within the Group.

29 OPERATING LEASES

The future minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Land and buildings	**28 786**	37 721	**28 786**	37 721
Within 1 year	**6 777**	7 822	**6 777**	7 822
From 2 to 5 years	**21 684**	29 148	**21 684**	29 148
More than 5 years	**325**	751	**325**	751

Lease agreements range from 2 to 9 years, the last one ending 31 December 2020. There are lease agreements for each branch as well as for head office.

The annual escalations range between 8% and 15% per annum.

30 RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH UTILISED BY OPERATIONS

	GROUP		COMPANY	
	2015	Restated 2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Loss before tax	**(321 769)**	(116 219)	**(346 331)**	(149 671)
Adjustments for:				
Depreciation	**4 231**	3 733	**3 708**	3 195
Amortisation	**596**	1 268	**590**	1 088
Fair value adjustment	**13 057**	(15 677)	**13 057**	(13 278)
Impairment provision – Investments	**2 431**	(2 658)	**2 431**	(2 658)
Impairment provision – Subsidiaries and joint ventures	**–**	–	**18 919**	10 675
Impairment provision – Equity accounted investments (Associates)	**–**	–	**531**	532
Income from associate	**(28 476)**	(31 988)	**–**	–
Dividends received from associate	**(2 759)**	(1 380)	**(5 837)**	(5 252)
Decrease in indemnity reserves	**390**	(1 597)	**–**	–
Interest charged on shareholder's loan	**22 455**	–	**22 455**	–
Investment income	**(40 337)**	(44 621)	**(34 274)**	(37 710)
Grant income	**–**	(8 983)	**–**	(8 983)
Profit on sale of investment properties	**(127)**	–	**(128)**	–
Loss on sale of equipment	**36**	86	**47**	86
Provision for bad debts	**146 602**	(70 541)	**137 388**	(78 858)
Bad debts written off	**60 515**	164 795	**55 854**	164 759
Realisation of day-one-loss	**–**	(1 858)	**–**	(1 858)
Post-retirement liability	**21**	416	**21**	416
Provision for claims	**599**	(4 791)	**–**	–
Operating loss before changes in working capital	**(142 535)**	(130 015)	**(131 569)**	(117 517)
Changes in working capital	**6 357**	(8 943)	**13 261**	(5 826)
Increase/(decrease) in trade and other receivables	**10 796**	(4 973)	**10 030**	(177)
Loans (made to)/received from related parties	**(9 368)**	(5 352)	**(7 694)**	(8 579)
Increase in trade and other payables and provisions	**4 929**	1 382	**10 925**	2 930
Cash utilised by operations	**(136 178)**	(138 958)	**(118 308)**	(123 343)

31 TAX PAID

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Tax (payable)/receivable at the beginning of the year	**(163)**	60	**–**	–
Tax as per statement of comprehensive income (net of deferred tax)	**(40)**	(673)	**–**	(355)
Tax paid	**240**	450	**–**	355
Tax receivable/(payable) at the end of the year	**37**	(163)	**–**	–

32 COMMITMENTS

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Off-balance sheet items				
Undrawn financing facilities approved	**203 365**	104 522	**194 757**	87 766
Undrawn credit guarantee facilities approved	**–**	410	**–**	–
	203 365	104 932	**194 757**	87 766

Commitments will be financed by loans and internally generated funds.

33 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

sefa is a wholly owned subsidiary of the IDC.

Other related parties

Description	Relationship
Khula Land Reform Empowerment Facility	Wholly owned subsidiary of **sefa**[1]
GJE Watson	Previous shareholder of New Business Finance and an employee of **sefa** until 31 March 2015
Thetha Import and Export CC	GJE Watson is a member of Thetha Import and Export and signed personal surety for a loan repayable to New Business Finance
Gain Props 1017 CC	Business owned by GJE Watson
EDD	Shareholder of the IDC

(1) Registered as a Non-profit Company. This Company has been exempted from consolidation as **sefa** *is acting as an agent.*

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the Group financial statements, however these are not eliminated in the individual Company financial statements.

33 RELATED PARTY TRANSACTIONS continued

The following transactions were entered into with related parties:

	GROUP		COMPANY	
	2015	2014	**2015**	2014
	R'000	R'000	**R'000**	R'000
Rental income received from related parties				
EDD	**5 567**	4 654	**5 567**	4 654
Investment income received from related parties				
IDC	**25 904**	40 067	**23 825**	36 290
Management fees charged to related parties				
Khula Land Reform Empowerment Facility[1]	**5 264**	648	**5 264**	648
Related party balances receivable/(payable)				
Khula Land Reform Empowerment Facility[1]	**10 198**	831	**10 198**	831
New Business Finance (Pty) Ltd	**–**	–	**(1 496)**	178
GJE Watson	**265**	400	**–**	–
Thetha Import and Export CC	**334**	694	**–**	–
IDC – Cash managed	**402 911**	580 899	**304 214**	473 940
IDC – Shareholder's loan (liability)	**399 628**	1 175 521	**399 628**	1 175 521
IDC – Shareholder's loan (equity)	**686 154**	–	**686 154**	–
	1 499 490	1 758 345	**1 398 698**	1 650 470

(1) Registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** *is acting as an agent.*

Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received. No expenses have been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Transactions with key management personnel

No material contracts were entered into involving the interest of any director or executive management member. All compensation paid to key management is disclosed under note 28.

34 RECLASSIFICATIONS

Where necessary, certain comparatives have been enhanced to conform to current year presentations. These changes did not affect any of the amounts disclosed in the primary statements.

Comparatives were enhanced as follows:

34.1 Change in presentation of statement of profit or loss and other comprehensive income

Management has reassessed the business and the way that information is presented and organised in the financial statements during the current financial year. Based on this re-assessment, management has concluded to change the presentation of the format of the income statement to better reflect the nature of the operations of the Group and Company.

In the past the following line items that are currently presented separately formed part of a single line item called revenue:

- Interest and dividend income
- Fee income from loans and indemnities
- Investment property rental income

34.2 Disclosure enhancements on equity accounted investments

Comparatives were enhanced to reconcile total assets, liabilities and profit or loss to amounts included in **sefa's** consolidated annual financial statements. In the prior year disclosure was limited to the portion of assets, liabilities and profit or loss attributable to **sefa**.

Refer to note 9 – Investments in associates and note 10 – Investments in Joint Ventures.

34.3 Changes to disclosure of directors' and prescribed officers' remuneration

Acting allowances paid to prescribed officers were previously not reflected separately. The total remuneration paid to prescribed officers acting in executive positions were previously disclosed regardless of it relating to acting responsibilities. The current year and comparative amounts were adjusted to only include remuneration earned that relates directly to acting responsibilities.

Refer to note 28.2.

35 CORRECTION OF PRIOR YEAR ERROR

A section of IAS 27 – Consolidated and separate financial statements were replaced by IFRS 10 – Consolidated financial statements in the prior financial year.

Changes in the statement specifically affected the definition of control.

Under both statements an entity should be consolidated if the definition of control is met. Khula Institutional Support Services NPC did not meet the requirements under IAS 27 but is considered to be controlled under IFRS 10.

IFRS 10 should have been applied for all periods beginning on or after 1 January 2013 and therefore Khula Institutional Support Services NPC should have been consolidated with effect from 1 April 2013.

The comparatives were retrospectively adjusted to include the results of Khula Institutional Support Services NPC in the Group's results.

The table below reflects the impact of the adjustments on the primary statements:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
	2014			2013		
	Restated R'000	As previously reported R'000	Change due to consolidation of subsidiary R'000	Restated R'000	As previously reported R'000	Change due to consolidation of subsidiary R'000
ASSETS						
Cash and cash equivalents	776 140	715 208	60 932	971 886	909 998	61 888
Trade and other receivables	25 287	30 904	(5 617)	21 356	21 303	53
Equipment, furniture and other tangible assets	12 794	11 635	1 159	14 062	12 401	1 661
Intangible assets	620	611	9	1 888	1 875	13
TOTAL ASSETS			56 483			63 615
EQUITY AND LIABILITIES						
Retained earnings	641 503	585 018	56 485	817 916	756 901	61 015
Trade and other payables	135 092	135 094	(2)	139 384	136 784	2 600
TOTAL EQUITY AND LIABILITIES			56 483			63 615

	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
	2014		
	Restated R'000	As previously reported R'000	Change due to consolidation of subsidiary R'000
Interest and dividend income	87 700	84 271	3 429
Grant income	15 947	8 983	6 964
Other operating expenses	(94 914)	(79 991)	(14 923)
			(4 530)

35 CORRECTION OF PRIOR YEAR ERROR continued

	CONSOLIDATED STATEMENT OF CASH FLOWS		
	2014		
	Restated R'000	As previously reported R'000	Change due to consolidation of subsidiary R'000
Cash flows from operating activities			
Cash utilised by operations	(138 958)	(134 573)	(4 385)
Interest and dividends received	49 873	46 444	3 429
Net cash utilised by operating activities	(346 125)	(345 169)	(956)
Net decrease in cash and cash equivalents	(195 746)	(194 790)	(956)
Cash and cash equivalents at beginning of year	971 886	909 998	61 888
Cash and cash equivalents at end of year	776 140	715 208	60 932

36 UNAUTHORISED, FRUITLESS AND WASTEFUL AND IRREGULAR EXPENDITURE

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2014: Rnil).

Fruitless and wasteful expenditure

The PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure for the year amounted to R14 951 (2014: R333 000).

Irregular expenditure

Irregular expenditure signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have been implemented to ensure compliance with the PFMA, relevant tender regulations as well as any other relevant procurement regulations.

	2015	2014
	R'000	R'000
Opening balance	–	493
Irregular expenditure for the year	**722**	3 068
Condoned or written off by Accounting Authority	**(722)**	(3 561)
Closing balance	–	–

ACRONYMS AND ABBREVIATIONS

BBBEE	Broad-Based Black Economic Empowerment
CA(SA)	Chartered Accountant South Africa
CEO	Chief Executive Officer
CFI	Cooperative Financial Institution
CFO	Chief Financial Officer
CGMA	Chartered Global Management Accountant
CIPE	Center for International Private Enterprise
Companies Act	Companies Act 71 of 2008
DBSA	Development Bank of Southern Africa
DEDEA	Department of Economic Development, Environmental Affairs and Tourism
DFI	Development Finance Institution
DLC	Direct Lending Committee
DOA	Delegation of Authority
DSBD	Department of Small Business Development
ECDC	Eastern Cape Development Corporation
ECF	Employment Creation Fund
EDD	Economic Development Department
EXCO	Executive Committee
FCMA	Fellow Chartered Management Accountant
FICA	Financial Intelligence Centre Act
FSB	Financial Services Board
GDP	Gross Domestic Product
GIBS	Gordon Institute of Business Science
GLSA	Gold Loan Scheme Administrator
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAS	Institute for Counselling and Advisory Services
ICT	Information and communications technology
IDC	Industrial Development Corporation of South Africa Limited
IDC Act	Industrial Development Corporation Act, No 22 of 1940
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ILO	International Labour Organisation
IMC	Investment Monitoring Committee
IOBSA	Institute of Bankers South Africa
IODSA	Institute of Directors in Southern Africa
IPAP	Industrial Policy Action Plan
IT	Information Technology
KCG	Khula Credit Guarantee (SOC) Limited
Khula	Khula Enterprise Finance Agency (SOC) Limited
King III	King Report on Corporate Governance for South Africa
MANCOM	Management Credit Committee
MCEP	Manufacturing Competitive Enhancement Programme
MFI	Micro Finance Institution
MOI	Memorandum of Incorporation
NCA	National Credit Act, 2005
NCR	National Credit Regulator
NDP	National Development Plan
NEF	National Empowerment Fund
NGP	New Growth Path
NYDA	National Youth Development Agency
OCI	Other Comprehensive Income
OHS	Occupational Health and Safety
PFMA	Public Finance Management Act 1 of 1999 (as amended)
PPP	Public Private Partnership
RFI	Retail Finance Intermediary
SAICA	South African Institute of Chartered Accountants
samaf	South African Micro-Finance Apex Fund
seda	Small Enterprise Development Agency
sefa	Small Enterprise Finance Agency (SOC) Limited
SFSs	Structured Finance Solutions
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
STIA	Short Term Insurance Act 53 of 1998
UCT	University of Cape Town
UJ	University of Johannesburg
UNISA	University of South Africa
UP	University of Pretoria
Wits	University of Witwatersrand
WLC	Wholesale Lending Committee

Small Enterprise Finance Agency (SOC) Limited
Company Registration Number: 1995/01/1258/06
Licensed Credit Provider: NCRCP 160

Eco Fusion 5
Block D
1004 Teak Close, With-Hazel Avenue
Eco Park
Centurion
0157

PO Box 11011
Zwartkop
0051

+27 12 748 9600
helpline@sefa.org.za
www.sefa.org.za

National offices

Braamfontein	+27 11 403 1761	sefagpsouth@sefa.org.za
Bloemfontein	+27 51 436 0150	sefafs@sefa.org.za
Cape Town	+27 21 418 0126	sefawc@sefa.org.za
Durban	+27 31 368 3485	sefakzn@sefa.org.za
East London	+27 43 721 1510	sefael@sefa.org.za
Ekurhuleni	+27 10 492 3655	sefagpeast@sefa.org.za
George	+27 44 874 4770	sefawc@sefa.org.za
Kimberley	+27 53 832 2275	sefanc@sefa.org.za
Mthatha	+27 43 721 1510	sefael@sefa.org.za
Nelspruit	+27 13 755 3923	sefamp@sefa.org.za
Polokwane	+27 15 294 0900	sefalp@sefa.org.za
Port Elizabeth	+27 41 373 4153	sefape@sefa.org.za
Qwaqwa	+27 51 436 0150	sefafs@sefa.org.za
Rustenburg	+27 14 592 6391	sefanw@sefa.org.za
Saldanha	+27 22 714 1731	sefawc@sefa.org.za
Tshwane	+27 12 441 0480	sefagpnorth@sefa.org.za

STUDIO 5

sefa
Small Enterprise Finance Agency

Eco Fusion 5 | Block D | 1004 Teak Close | Witch-Hazel Avenue | Centurion 0157
PO Box 11011 | Zwartkop 0051

Client liaison centre: +27 12 748 9600
e-mail: helpline@sefa.org.za

Fraud hotline number: 0800 30 33 36 (Tip off anonymous)