sefa

Small Enterprise Finance Agency

# 2016 ANNUAL REPORT

*Investing in the growth and sustainability of SMMEs and Co-operatives*

# Contents

# About this Report

The Honourable Minister of the Department of Small Business Development, **sefa** is pleased to present its Annual Report for the period 1 April 2015 to 31 March 2016. **sefa** continues to serve as a catalyst for developing of sustainable SMMEs and Co-operatives through the provision of finance.

In preparing this report, we have communicated **sefa**'s strategy, governance, performance, risk management and value creation. The financial statements were prepared in accordance with IFRS and the requirements of the PFMA and the Companies Act of South Africa.

## Board of Directors Responsibility

The Board of Directors is responsible for the integrity of this Annual Report. It has applied its collective mind to the preparation and presentation of this report and is of the opinion it addresses all material issues and fairly represents the company's performance.

**Mr Setlakalane Molepo**
***Acting Chairperson***
*20 June 2016*

**Mr Thakhani Makhuvha**
***Chief Executive Officer***
*20 June 2016*

# List of Acronyms

| | |
|---|---|
| **abi** | Amalgamated Beverage Industries |
| AGM | Annual General Meeting |
| BBBEE | Broad-Based Black Economic Empowerment |
| CA(SA) | Chartered Accountant South Africa |
| CEO | Chief Executive Officer |
| CFI | Co-operative Financial Institution |
| CFO | Chief Financial Officer |
| CGMA | Chartered Global Management Accountant |
| CIPE | Center for International Private Enterprise |
| Companies Act | Companies Act 71 of 2008 |
| COSO | Committee of Sponsoring Organisations |
| DBSA | Development Bank of Southern Africa |
| DFI | Development Finance Institution |
| DLC | Direct Lending Committee |
| DOA | Delegation of Authority |
| DSBD | Department of Small Business Development |
| **dti** | Department of Trade and Industry |
| EDD | Economic Development Department |
| ERC | Enterprise Risk Committee |
| ERM | Enterprise Risk Management |
| ERMF | Enterprise Risk Management Framework |
| ESD | Enterprise and Supplier Development |
| EXCO | Executive Committee |
| FCMA | Fellow Chartered Management Accountant |
| FI | Financial Institution |
| FICA | Financial Intelligence Centre Act |
| FMPPI | Framework for Managing Programme Performance Information |
| FSB | Financial Services Board |
| GDP | Gross Domestic Product |
| GDED | Gauteng Department of Economic Development |
| GIBS | Gordon Institute of Business Science |
| HCM | Human Capital Management |
| HCRC | Human Capital and Remuneration Committee |
| HPO | High-Performance Organisation |
| HPOI | High-Performance Organisation Index |
| IAS | International Accounting Standard |
| IASB | International Accounting Standards Board |
| 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 |
| IMC | Investment Monitoring Committee |
| IOBSA | Institute of Bankers South Africa |
| IODSA | Institute of Directors in Southern Africa |
| IPAP | Industrial Policy Action Plan |
| IPR | Industrial Property Revitalisation |
| 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 |
| MFI | Micro finance Institution |
| MOI | Memorandum of Incorporation |
| MTSF | Medium-Term Strategic Framework |
| NAFCOC | National African Federated Chamber of Commerce |
| NCA | National Credit Act, 2005 |
| NCR | National Credit Regulator |
| NDP | National Development Plan |
| NEF | National Empowerment Fund |
| NGP | New Growth Path |
| NSBA | National Small Business Act of 1996 as amended in 2004 |
| NYDA | National Youth Development Agency |
| OCI | Other Comprehensive Income |
| OHS | Occupational Health and Safety |
| PFMA | Public Finance Management Act 1 of 1999 (as amended) |
| PIM | Post Investment Monitoring |
| PPP | Public Private Partnership |
| RFI | Retail Finance Intermediary |
| SAICA | South African Institute of Chartered Accountants |
| SASSA | South African Social Security Agency |
| **samaf** | South African Micro finance Apex Fund |
| SEC | Social and Ethics Committee |
| 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 |
| WIC | Wholesale Investment Committee |

# FOREWORD BY THE HONOURABLE MINISTER OF SMALL BUSINESS DEVELOPMENT

Ms Lindiwe Zulu, MP
Minister of Small Business Development

***There is recognition across the globe that Small, Medium and Micro-enterprise (SMME) development is a key policy instrument to promote economic growth and job creation, as well as to encourage innovation and enhance global competitiveness. SMMEs account for more than 95% of enterprises globally and provide approximately 60% of the private sector's employment.***

There is broad consensus in South Africa that SMME and Co-operative enterprise development can contribute towards defeating the scourges of unemployment, poverty and inequality.

The National Development Plan (NDP) envisages that the small business sector will create 90% of the proposed 11 million jobs by 2030. An enabling business environment will be required for the NDP's SMME targets to be met. According to the Goldman Sachs Report: "South Africa's Economic Management and Leadership published in November 2015, the South African economy can grow by 5% over the next five years provided the government and the private sector, among others, invest USD 900 million on average per year on 300 000 youth through the National Youth Service Initiative and the fiscus gives incentives to 300 000 new SMMEs per year.

In 2014, government established the Department of Small Business Development (DSBD) to provide small businesses with support, and to address common challenges that these entities experience, in a co-ordinated manner.

The DBSD's deliverables are aligned to the Medium-Term Expenditure Framework (MTEF). In this regard, the department plans to:

- Increase the participation of small businesses and co-operatives in the mainstream economy;
- Advocate for a conducive regulatory environment for small businesses and co-operatives to enable access to finance, investment, trade and market in an equitable and sustainable manner;
- Facilitate the development and growth of small businesses and co-operatives to contribute to inclusive and shared economic growth and job creation, through public and private sector procurement; and
- Facilitate partnerships with all spheres of government as well as the private sector to ensure mutual co-operation that will benefit small businesses and co-operatives.

A large percentage of SMMEs and Co-operative enterprises operate outside the formal financial market. Commercial banks perceive such enterprises as high-risk. They prefer servicing clients with a track record, and are, therefore, generally reluctant to fund emerging entrepreneurs or start-up SMMEs.

The situation is exacerbated by the fact that Development Finance Institutions (DFIs) serving the SMME and Co-operative enterprise sector have qualifying criteria that are difficult to meet but are important to promote responsible lending.

An additional challenge emanates from the fact that the interest rates for their loan products are high. Our approach, as a developmental state, is to pursue a policy that recognises the legacy of the economic injustices of the past and the need to urgently build an economy that benefits all our people. As a department, we need a more coherent, scaled-up government intervention to address the SMME and Co-operative market segments.

SMMEs and Co-operatives require both financial and non-financial support to drive inclusive growth. Government has called on its institutions and the private sector to revitalise township economies, which this will also help reduce the high-levels of youth unemployment.

**sefa** has made huge strides to position itself as a catalyst for creating sustainable SMMEs and Co-operatives through the provision of finance. Despite tough economic conditions, during the past four financial years (2012-2016), **sefa** has approved R3.6 billion in loans to SMMEs and Co-operatives and disbursed R3.2 billion into the South African economy. More than 160 000 enterprises have benefited from **sefa** funding. Collectively, these funding initiatives have created more than 300 000 formal and informal sector jobs.

Notwithstanding these achievements, transformation and the need for inclusive growth remain national imperatives. The DSBD and **sefa** are committed to working together with other stakeholders to increase access to finance by SMMEs and Co-operatives.

In conclusion, I would like to thank **sefa**'s Board of Directors, management and staff for their dedication and continued commitment to building a sustainable organisation.

Lindiwe Zulu

**Ms Lindiwe Zulu, MP**
***Honourable Minister of Small Business Development***
*20 June 2016*

# Highlights

Total loan approvals **R1.1 billion**

**54 833** businesses financed

Total loan disbursements to SMMEs and Co-operatives **R1.2 billion**

**75 670** jobs facilitated

# Developmental Impact

**R275 million** } disbursed to **13 111** youth-owned businesses

**R474 million** } disbursed to **52 987** women-owned businesses

**R923 million** } disbursed to **53 063** black-owned businesses

**R739 million** } disbursed to the **productive sectors** of the economy

# Challenges

| | |
|---|---|
| **Challenging and difficult economic environment** | • Low levels of GDP growth<br>• High levels of business failure and closure |
| Growth in the level of **impairments** | |
| **sefa** alone can not fulfill the demand for **SMME financial and non-financial** support | |
| Building **sefa** towards **financial sustainability** | |
| Maximising the **impact of the property portfolio** | |

# About **sefa**

## Background

**sefa** was established on 1 April 2012 in terms of Section 3(d) of the IDC Act as a DFI to contribute towards job creation and economic growth by providing financial and non-financial support to SMMEs and Co-operatives.

The agency derives its legislative mandate to be a catalyst of SMME and Co-operative enterprise development, growth and sustainability from the IDC Act of 1940 (amended in 2001).

**sefa** reports to the Minister of Small Business Development.

## Mandate

**"To be the leading catalyst for the development of sustainable SMMEs and Co-operatives through the provision of finance."**

## Corporate Plan

**sefa**'s Corporate Plan contributes to the DSBD's medium-term expenditure objectives and is guided by the following legislation, policies and strategies:

- The Public Finance Management Act of 1999 as amended (PFMA);
- National Small Business Act of 1996 and as amended in 2004;
- The National Credit Act;
- The Short Term Insurance Act;
- The Co-operatives Act of 2013;
- B-BBEE Act;
- The Integrated Small Business Development Strategy (2004);
- The Medium Term Strategic Framework (Outcome 4: Decent employment through inclusive growth);
- The New Growth Path;
- The Industrial Policy Action Plan;
- The National Development Plan; and
- The DSBD 2015-2019 Strategic Plan

**sefa** is implementing a five-year strategy to achieve High-Performance Organisation (HPO) status. This positioning will ensure high levels of delivery against its mandate. **sefa** recognises that it has a critical role to play in assisting government to achieve small business job creation targets in the NDP. The agency has also implemented a Gearing for Growth strategy to expand its support to SMMEs and Co-operatives. This imperative is also aligned to support government's small business job creation targets.

# Mission

**sefa**'s mission is to provide simple access to finance in an efficient and sustainable manner to SMMEs and Co-operatives throughout South Africa by:

- Providing loan and credit facilities to SMMEs and Co-operative enterprises;
- Providing credit guarantees;
- Supporting the institutional strengthening of financial intermediaries so that they can effectively assist SMMEs and Co-operatives;
- Creating strategic partnerships with a range of institutions for sustainable SMME and Co-operative enterprise development and support;
- Developing, through partnerships, innovative finance products, tools and channels to speed up increased market participation in the provision of finance; and
- Monitoring the effectiveness and impact of our financing, credit guarantee, and capacity development activities.

# Values

## *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

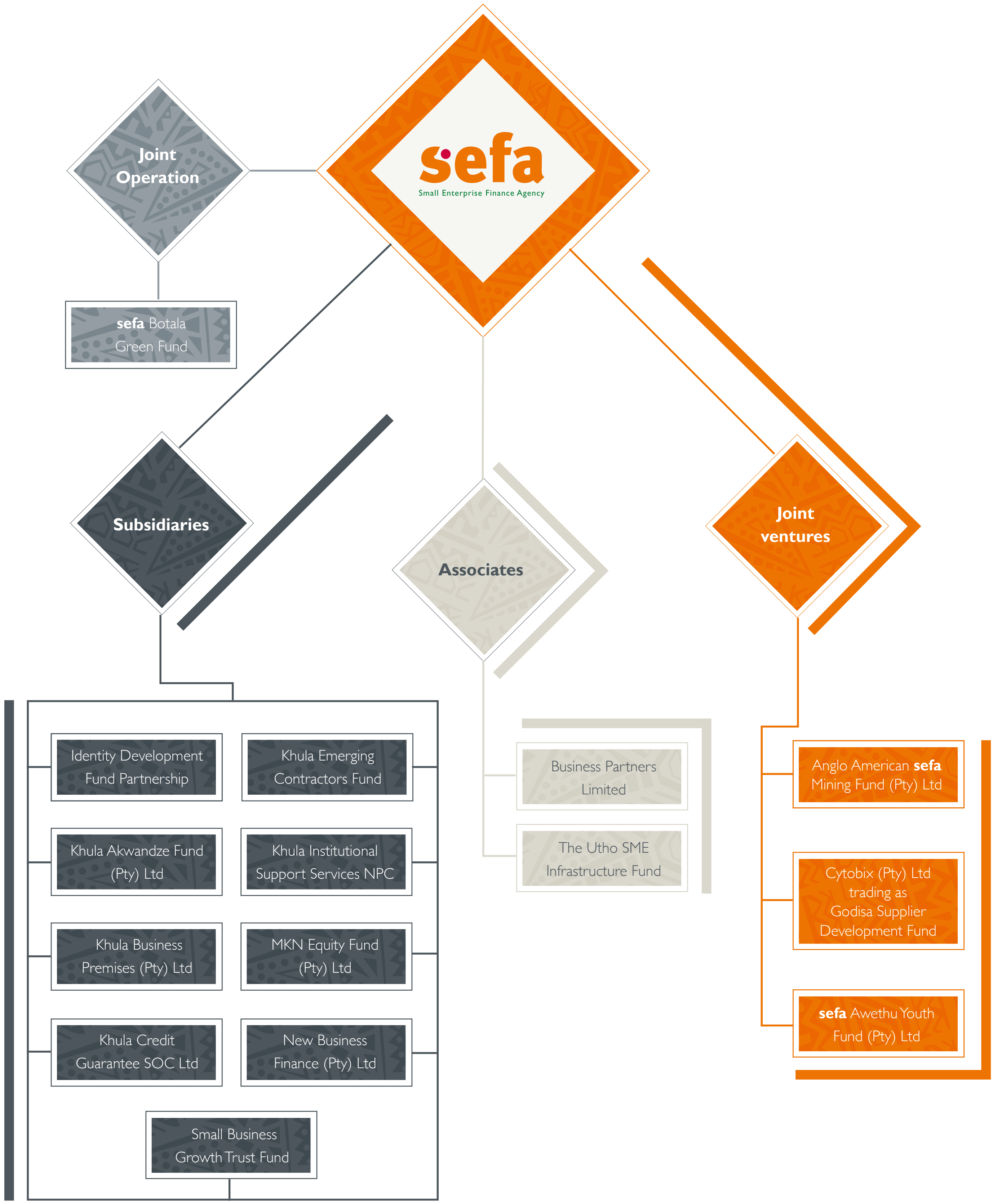
Ensuring compliance with best practice in the dissemination and sharing of information with all stakeholders.

## Innovation

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

# Group Structure

**Subsidiaries and Investee Companies**



# Operating Model

**sefa** delivers its products and services through Direct and Wholesale Lending programmes. It also offers various non-financial support products, which have been devised to facilitate and unlock funding bottlenecks. Non-financial products mitigate the risk of defaulting loans and strengthen SMMEs and Co-operatives by enhancing operating capacity and sustainability.

## Distribution channels and products

SMMEs and Co-operatives

**CLIENTS**

- Commercial Banks
- Co-operative Financial Institutions (CFIs)
- Microfinance Institutions (MFIs)
- Retail Finance Intermediaries (RFIs)
- **sefa** Co-locations
- **sefa** Regional Offices
- Strategic Partnerships

**DISTRIBUTION CHANNELS**

### DIRECT LENDING

through **sefa**'s Main Offices and Co-locations

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

**R50 000 - R5 MILLION**

### WHOLESALE LENDING

through MFIs, CFIs, Commercial Banks and Strategic Partnerships

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

**R500 - R5 MILLION**

### NON-FINANCIAL SUPPORT

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

**PRODUCT PORTFOLIO**

### ENABLING/SUPPORT

- Finance and Procurement
- Human Capital Management
- IT Systems
- Marketing and Communications
- Risk Management
- Post Investment Monitoring
- Workout and Restructuring
- Legal Services

### CORPORATE GOVERNANCE

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

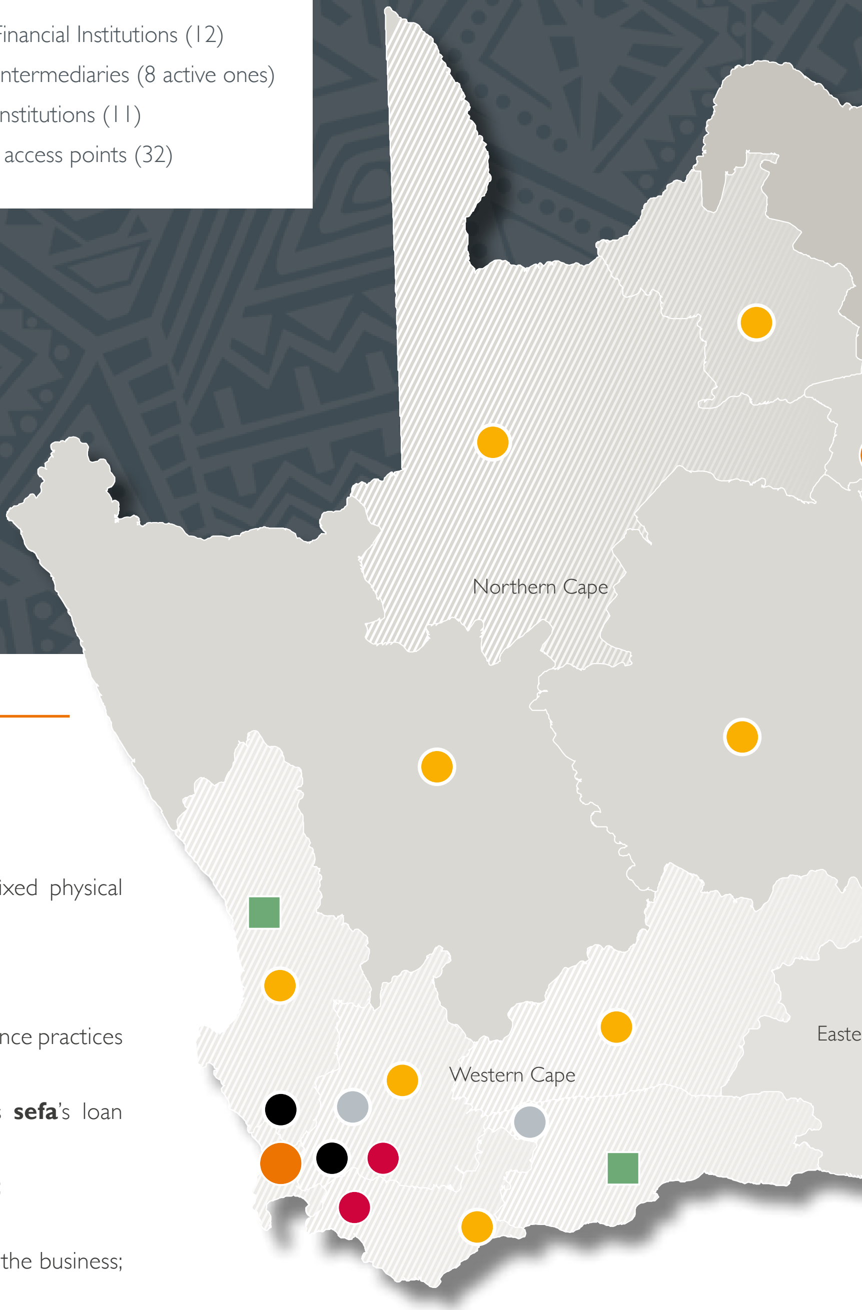
## Geographic Footprint

In line with the agency's Gearing for Growth strategy, **sefa** continues to expand its geographic footprint.

SMMEs and Co-operatives can access **sefa's** products and services through:

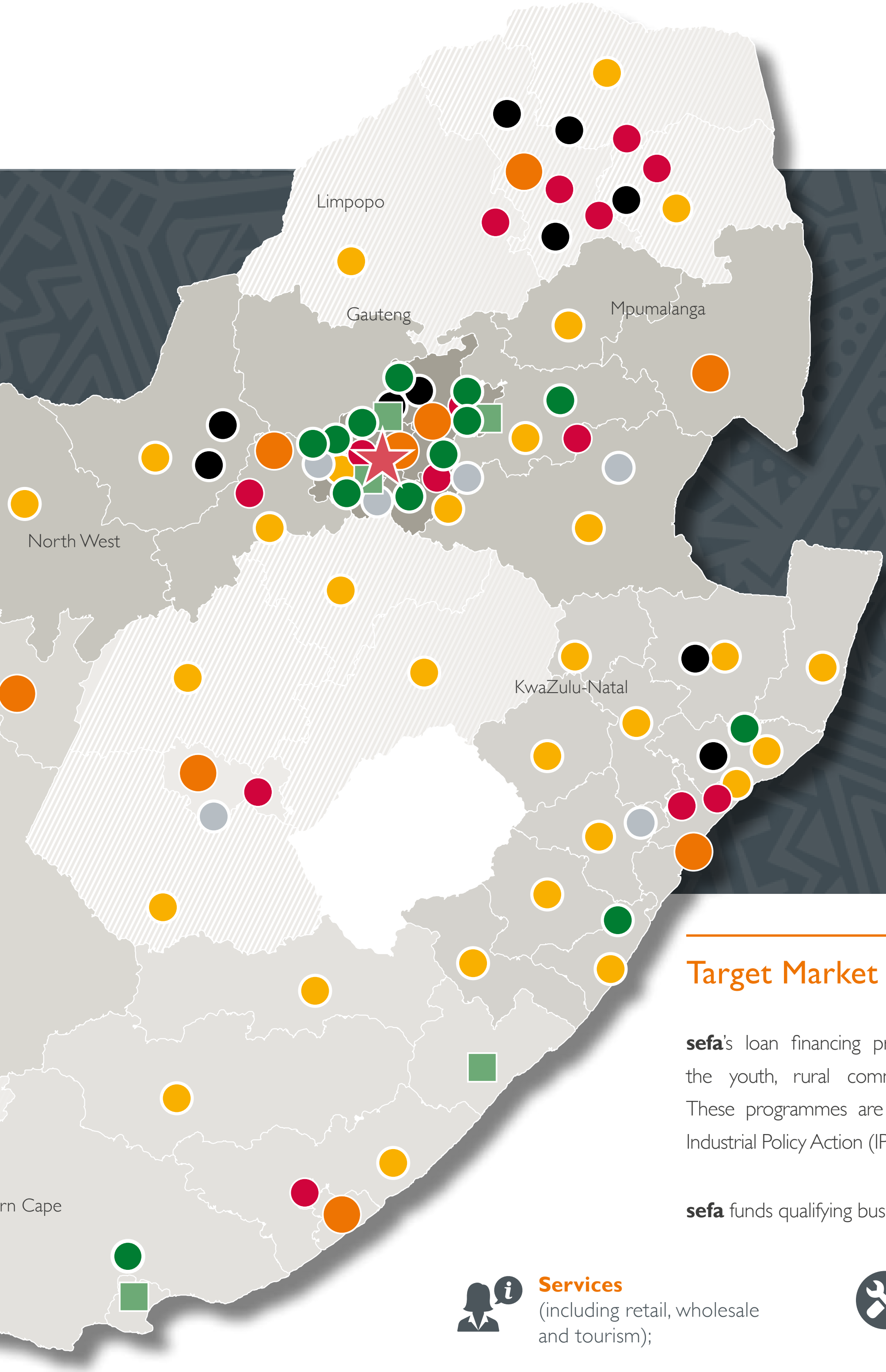
- Head Office (1)
- **sefa** Regional Offices (10)
- Strategic Partnerships (13)
- Co-locations (12)
- Co-operative Financial Institutions (12)
- Retail Finance Intermediaries (8 active ones)
- Micro finance Institutions (11)
- Proposed new access points (32)

Financial intermediaries play a critical role in facilitating access to finance for SMMEs and Co-operatives. **sefa** enters into strategic partnerships with established intermediaries, which have a wide geographic footprint. Bulk capital is lent to intermediaries to enable them to serve as wholesale distributors of **sefa**'s products.




## Loan Criteria

- 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; and
- have a valid Tax Clearance Certificate.




## Target Market

**sefa**'s loan financing programme focuses on women, black people, the youth, rural communities and people living with disabilities. These programmes are aligned with the New Growth Path (NGP), Industrial Policy Action (IPAP) and the National Development Plan (NDP).

**sefa** funds qualifying business ventures primarily in the following sectors:

**Services**
(including retail, wholesale and tourism);

**Construction**
(small construction contractors);

**Manufacturing**
(including agro-processing);

**Mining**
(specifically small-scale miners); and

**Agriculture**
(especially land reform beneficiaries and contract-farming activities);

**Green industries**
(renewable energy, waste and recycling management.

# Strategic Overview

***sefa's strategic objectives, and corporate plan, are aligned to its mandate, government policies and strategies.***

***During the period under review, sefa had two strategic objectives and three strategic enablers.***

## Strategic Objectives

### Strategic objective 1

**Increase access and provision of finance to SMMEs[1] and contribute towards job creation**

1

| Key Performance Indicators | Performance against the targets |
|---|---|
| Expand Direct Lending through partnerships in all provinces. | In partnership with the IDC and local chambers of commerce, **sefa** opened co-location offices in Gauteng (Soweto), Eastern Cape (Mthatha), North West (Mahikeng), Northern Cape (Upington) and KwaZulu-Natal (Pietermaritzburg). |
| Introduce innovative programmes to expand access to cost effective microenterprise credit. | A R24.5 million pilot project for the provision of affordable credit to informal traders, buying through the Municipal Fresh Produce Markets of Durban and Mangaung is under implementation.<br><br>Upon successful implementation of the pilot, the project will be extended to other Municipal Fresh Produce Markets. |
| Establish stronger partnerships with institutions to increase access to finance for SMMEs and Co-operatives. | Enterprise and Supplier Development - an initiative to build strategic partnerships (leverage skills, market access and financial resources). Partnerships have been implemented with:<br>• Amalgamated Beverage Industries - market distribution centres in townships;<br>• Barclays Africa Group Limited - Electronic funding platform;<br>• Super Grand (Pty) Ltd - Co-operative Enterprise Development (chicken broiler production); and<br>• **sefa** initiated Co-operative Enterprise Development programmes with the Chris Hani Local District Municipality (agriculture) and Dr Kenneth Kaunda District Municipality (Waste Recycling Project). |
| Increase the utilisation of the Credit Guarantee Scheme by both banks and other partners. | Introduction of the Portfolio and Supplier Credit Guarantee Programmes with non-banking institutions to increase access to trade credit. |

[1] *SMMEs include Co-operatives*

# Strategic objective 2

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

2

| Key Performance Indicators | Performance against the targets |
|---|---|
| Create, develop and retain a dynamic human capital with values and culture aligned to **sefa**'s mandate. | Improving synergies, alignment and simplifying systems and efficiencies within **sefa**. Key focus areas included:<br>• Talent management;<br>• Implementation of a comprehensive people development approach;<br>• Drive culture integration by reviving values;<br>• Optimise high-performance culture;<br>• Improve employee relations and discipline; and<br>• Effective implementation of human capital management policies. |
| Build an effective **sefa** with robust and efficient business processes, systems and infrastructure. | • Enhancement to in-house loan management system (**sefa**Las);<br>• Expansion of the wide area network to include all regional offices. |
| Build a financially sustainable and viable **sefa.** | • Project initiated on the development of **sefa** sustainability model (activity based costing, product pricing);<br>• Five year financial projection model developed. |

KWE ladies at work

# Strategic Enablers

## Strategic enabler 1

**Build a learning organisation**

1

| Strategic enabler | Performance against the targets |
|---|---|
| • Develop and implement a dynamic research and development capacity;<br>• Develop effective **sefa** monitoring and evaluation, and knowledge management system and practices. | • **sefa** research management strategy;<br>• Initiated strategic partnerships with research institutions; and<br>• Established the **sefa** Knowledge Bank - online repository to support loan operations with due diligence and other key small business policy and economic information. |

## Strategic enabler 2

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

2

| Strategic enabler | Performance against the targets |
|---|---|
| Ensure an effectively governed and compliant organisation. | • Proactive management of risk in line with the enterprise risk management strategy; and<br>• Embedding compliance through monitoring and training interventions on the applicable priority legislation. |

## Strategic enabler 3

**Build a strong and effective sefa brand**

3

| Strategic enabler | Performance against the targets |
|---|---|
| Develop and implement an effective marketing and promotion programme to communicate **sefa**'s product offering to SMMEs and Co-operatives. | • 173 strategic client outreach events (stakeholder events to promote and market **sefa**'s product and services); and<br>• Marketing campaigns: community radio and print media to reach SMMEs and Co-operative enterprises in local language and townships. |

A broiler at Super Grand

# CHAIRPERSON'S STATEMENT

Mr Setlakalane Molepo
Acting Chairperson

## Governance

The **sefa** Board is confident that the company and its leadership possess an appropriate balance of skills, experience and backgrounds needed to support and guide the organisaiton. Despite challenges experienced during the reporting period, **sefa** has maintained strong, constructive working relationships with its stakeholders, enabling the organisation to achieve its objectives.

## Strategy and Operational Performance

Economic transformation and inclusion remain government's priorities; prerequisites to addressing the triple challenges of poverty, inequality and high-levels of unemployment facing South Africa. Against this background, economic transformation and growth are critical to enabling government to address these challenges.

However, growth in the local economy has been significantly low, with the country recording real GDP growth of only 1.3% for the 2015 calender year. Expectations are that growth will weaken even further in the year ahead. This makes the task of creating jobs onerous considering the challenging economic environment.

Despite these challenges, **sefa** acknowledges that consistent and sustained growth is critical to restoring business confidence thus boosting economic activity. We are cognisant though of the fact that some factors, such as the persistently low demand and consequently, depressed economic activity, are externally driven. The latter is driven largely by the sustained shocks from South Africa's key trading partners, particularly China, the persistent global financial volatility, and sovereign debt credit rating downgrades. This state of affairs has diminished the already weak opportunities for entrepreneurs to thrive in this economic climate.

Working in partnership with the public and the private sectors, **sefa** is determined to foster an environment that is conducive a high and inclusive growth, which could potentially create more jobs.

The organisation has set targets to stimulate anaemic growth in the SMME and Co-operative sector. Despite facing strong headwinds in the reporting period, **sefa** made considerable strides towards meeting the demands of small businesses and co-operatives recording significant levels of approvals and disbursements.

**sefa** remains focused on pursuing beneficial partnerships that support its mandate so that it can impact positively on the lives of South Africans and broader beneficiaries of its services. In addition, we continue to explore possible collaborative partnerships that seek to enhance entrepreneurship and grow small businesses. Strategic partnerships have been established and these include our collaboration with SAB Miller's soft drinks division Amalgamated Beverage Industries (**abi**), which helps smaller distributors; the Aluminium Beneficiation Facility aimed at developing and funding small businesses operating in the supply chains and aluminium fabrication, and the Barclays Africa Group Enterprise and Supplier Development (ESD) Lending Platform aimed at offering small businesses a convenient and yet an affordable alternative to conventional banking channels.

## Challenges

**sefa**'s new business and developmental achievements were not without challenges. These included heightened levels of impairments, which accumulated during the past three years of the foundational stage of the organisation and largely as a result of the weak economic activity, which in turn compromised our clients' profitability and their ability to pay.

During the foundational stage of **sefa**, the organisation had to set up a new Direct Lending division. This brought about a new set of challenges that relate to the adequate deployment of human capital, development of collection strategies and loan management systems.

We have developed strategies to address them, including improving new business processes, systems and skills to achieve the necessary efficiencies and effectiveness levels.

## Prospects

The 2017 financial year will see strengthened focus on consolidating the organisation's performance. Imperatives include cost containment, prudent lending and aggressive revenue growth. Expected outcomes include material growth and new business development initiatives, which will be supported by efficient funding solutions and delivery mechanisms for our loan programmes. Lastly, in pursuing this growth, **sefa** will remain focused on continued and closer alignment with government policy ideals and outcomes.

## Acknowledgements

On behalf of our Board, I would like to thank the Honourable Minister Lindiwe Zulu and the Portfolio Committee for their continued support and guidance throughout the year. Special thanks too, to our shareholder the IDC, for its on-going support.

We are also grateful to Dr Sizeka Magwentshu-Rensburg for her leadership and commitment to small business development in our country and importantly to ensuring that **sefa** continued to grow during her tenure as chairman of the Board. We wish her every success in her future endeavours. I also wish to acknowledge Ms Barbara Calvin and Ms Katinka Schumann for their dedication and commitment to **sefa** business during their tenure as Board members.

To my fellow Board members, my heartfelt gratitude for your unwavering commitment, focus on **sefa**'s strategic priorities and for keeping the company going amidst tough market and economic conditions. Special thanks also go to the CEO, Mr Thakhani Makhuvha, and his management team for holding **sefa** steady during the turbulent times.

**Mr Setlakalane Molepo**
***Acting Chairperson***
*20 June 2016*

# Board of Directors

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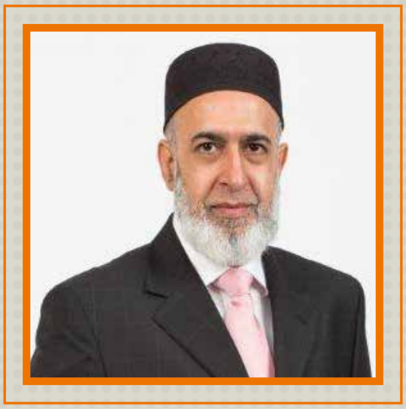

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# Board of Directors

## 1. MR SETLAKALANE MOLEPO (54)
### ACTING CHAIRPERSON

**QUALIFICATIONS**
MBL (UNISA, SBL), BSc Engineering (Civils) (Wits)
Certificate in Financial Management (UJ),
National Diploma in Civil Engineering (Northern Transvaal Technikon)

**CURRENT EMPLOYMENT**
*Divisional Executive:* SME & Rural Development NEF

**sefa COMMITTEES**
*Member:* Wholesale Investment Committee, Human Capital and Remuneration Committee

**OTHER DIRECTORSHIPS**
*Director:* BusaMed Holdings (Pty) Ltd,
South Africa Metals Equity (Pty)Ltd,
Zastrovect Investments (Pty) Ltd t/a Goseame Fresh Produce Market

## 2. MR THAKHANI MAKHUVHA (47)
### CHIEF EXECUTIVE OFFICER

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

**CURRENT EMPLOYMENT**
*Chief Executive Officer:* **sefa**

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

**OTHER DIRECTORSHIPS**
*Director:* **seda**

## 3. MS HLONELA LUPUWANA-PEMBA (47)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

**QUALIFICATIONS**
MBA (UP), BSc Social Sciences, (UCT),
Associate in Management (UCT)

**CURRENT EMPLOYMENT**
*Managing Director:* Anglo American Zimele

**sefa COMMITTEES**
*Chairperson:* Social and Ethics Committee
*Member:* Human Capital and Remuneration Committee

**OTHER DIRECTORSHIPS**
*Director:* Khula Business Premises (Pty) Ltd

## 4. MR GERT GOUWS (57)
### NON-EXECUTIVE DIRECTOR

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

**CURRENT EMPLOYMENT**
*Divisional Executive:* Transaction Support and Post Investment, IDC

**sefa COMMITTEES**
*Chairperson:* Enterprise Risk Committee
*Member:* Audit Committee

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

## 5. MS OLIVIA HENWOOD (49)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

**QUALIFICATIONS**
BCom (UNISA), BBA (Honours) (University of Stellenbosch), MBA (University of Stellenbosch)

**CURRENT EMPLOYMENT**
*Executive Director:* The Kuyasa Fund

**sefa COMMITTEES**
*Member:* Wholesale Investment Committee,
Direct Lending Committee

**OTHER DIRECTORSHIPS**
None

## 6. MR LAWRENCE MAVUNDLA (51)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

**QUALIFICATIONS**
Business Management , Cranefield College, UK,
Chamber Management, CIPE, USA, Business Management and Development, Swedish Chamber

**CURRENT EMPLOYMENT**
Businessman

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

**OTHER DIRECTORSHIPS**
*President:* NAFCOC
*Vice President:* The Black Business Council
*Chairperson:* Adiflash Investment, Silver Vanity Investments, Medi Card (Pty) Ltd, Khula Business Premises (Pty) Ltd

## 7. MR VUSIMUZI (RICHARD) MUTSHEKWANE (66)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

**QUALIFICATIONS**
Advanced Executive Programme (UNISA) (Graduate School of Business Leadership), Credit Diploma, Certificate in Banking (IBSA)

**CURRENT EMPLOYMENT**
*Shareholder & Director:* Pennie Energy Innovation (Pty) Ltd

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

**OTHER DIRECTORSHIPS**
*Vice Chairperson:* Midrand Child Welfare
*Member:* SavvyLoo CC, Swan Electrical Africa CC

## 8. MR MARIUS FERREIRA (61)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

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

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

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

**OTHER DIRECTORSHIPS**
*Director:* Various Imalivest related companies, Khula Credit Guarantee (SOC) Ltd

## 9. MR ISMAIL TAYOB (51)
### INDEPENDENT NON-EXECUTIVE DIRECTOR

**QUALIFICATIONS**
CA (SA) BCom (Accounting), University of Durban Westville, Post Graduate Diploma in Accounting, University Durban Westville

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

**sefa COMMITTEES**
*Chairperson:* Audit Committee,
*Member.* Enterprise Risk Committee

**OTHER DIRECTORSHIPS**
*Director:* Khula Credit Guarantee (SOC) Limited
Khula Business Premises (Pty) Ltd

# CHIEF EXECUTIVE OFFICER'S STATEMENT

Mr Thakhani Makhuvha
Chief Executive Officer

***Small, Medium and Micro-enterprises and Co-operatives are drivers of increased business activity, job creation, inclusive economic growth and societal development, particularly in developing countries. This recognition is underpinned by SMMEs and Co-operatives' propensity to promote diversification through the development of new and unsaturated economic sectors.***

The agency is tasked with the responsibility to play a catalytic role and address market failure that characterises the supply of funding to SMMEs and Co-operatives. The general perception among providers of finance is that SMMEs and Co-operatives are high-risk businesses. Their lack of collateral and high default rates make it difficult for them to access funding from commercial lenders such as banks. **sefa** addresses this challenge through its creative financial products, diverse financing channels and wide-ranging strategic partnerships with public and private sector partners. These partnerships add value to **sefa**'s efforts and extend its reach and developmental impact.

Most of the SMMEs and Co-operatives face challenges of access to finance from commercial banks that have very stringent financing criteria and usually require collateral. **sefa's** funding criteria is developmental and takes into account the need to support start-ups, informal businesses and other high-risk innovative ventures. In addition, **sefa** has a credit guarantee scheme, which indemnifies commercial banks and other financial institutions against SMME credit defaults, and therefore encourages them to lend to SMMEs. These indemnities can be up to 90%.

**sefa's** two lending divisions, Direct Lending and Wholesale Lending, have continued to play a critical role in supporting investments in government-prioritised sectors. A significant number of these investments are in start-up businesses, which face considerable challenges in meeting their loan repayment obligations. These challenges have, however, not slowed down **sefa**'s lending activities.

In 2015/16, loans valued at R1.1 billion were approved, with investment funds to the tune of R1.2 billion injected into the South African economy. These achievements enabled **sefa** to support 54 833 new small businesses, and create and preserve 75 670 jobs. The Direct Lending activities resulted in a 26% increase in jobs created and sustained compared to the 2014/15 year. This was a notable achievement in the current low growth cycle, where unemployment and retrenchment rates are high.

The Wholesale Lending division introduced innovative structures for financing co-operatives. One such groundbreaking innovation was the Dr Kenneth Kaunda District Municipality Waste Recycling Project, which paves the way for new strategic partnerships to support co-operatives, and also increases **sefa's** developmental impact in priority regions. **sefa** remains confident and optimistic that further milestones will be achieved, ensuring the agency's sustainability.

## Risk and Compliance

The market that we serve carries inherent risks. In an endeavour to redress SMME market failure, we have embarked on activities such as crowding-in the private sector to rehabilitate and correct adverse SMME conditions. Our mandate compels us to operate in high-risk environments, where the private sector would not ordinarily participate. Furthermore, the size of SMMEs and amount of funding required are the major impediments to access to funding since smaller loans are expensive to administer.

## Human Capital Management and other Support Functions

Our performance measures, together with incentives, are in line with the company's objectives, including the implementation of leadership development initiatives. Positive progress has been made to inculcate a high-performance culture.

## 2016/17 Financial Year

**sefa**'s strategic intent will be guided by the following objectives:

**Consolidate the Loan Book**

- Expand access to credit and finance to the informal and micro-enterprise sector;
- Improve the Direct Lending loan book performance;
- Facilitate a programme of Wholesale Lending through strategic partnerships; and
- Increase the utilisation of the credit indemnity scheme.

**Build and strengthen sefa's Post Investment Management Capacity**

- Implement a proactive approach to identify early warning signals for portfolio investments;
- Establish workout and restructuring capacity;
- Enhance the **sefa** Mentorship Programme to improve client business sustainability; and
- Establish partnerships to provide value-added services to **sefa** clients.

**Strengthen and build sefa's Human Resource Capacity**

- Focused initiatives on enhancement of **sefa** employee skills base;
- Building **sefa** entrepreneurial culture and values-based system;
- Investing in organisational development and change management programmes; and
- Improving employee well being and harmonised working environment.

**Improve organisational efficiencies, cost management and organisational sustainability**

- Reduction in operating costs; and
- Implementation of Business Process Optimisation programme.

## Statement of Appreciation

I am grateful to have this opportunity to work with the Honourable Minister Lindiwe Zulu and the Department of Small Business Development. Together, we have continued to show our determination to develop and support small businesses countrywide. While much remains to be done, **sefa**'s Corporate Plan will serve as the organisation's compass, enabling it to deliver against its mandate.

I extend my heartfelt gratitude and appreciation to our shareholder, the IDC, for the continuous support that has enabled us to carry on rendering assistance to our target market amid a challenging environment. I also thank the **sefa** Board of Directors for their commitment and support that continues to drive us to strive harder to serve, and has also inspired us to be innovative, and proactively address our clients' needs.

Finally, I thank my the management team and staff at large, for your hard work and dedication. We will continue to work in unison and build a better **sefa**.

Let us raise the bar higher in the coming year as we endeavour to contribute to addressing the triple challenges that our country faces.

**Mr Thakhani Makhuvha**
***Chief Executive Officer***
*20 June 2016*

# Executive Management

**1. MR THAKHANI MAKHUVHA** (47)
**CHIEF EXECUTIVE OFFICER**

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

**2. MS NOKONWABA SHWALA** (48)
**EXECUTIVE MANAGER: HUMAN CAPITAL MANAGEMENT**

**QUALIFICATIONS**
BA (Economics)
Management Advancement Programme
Executive Leadership Programme

**3. MS VUYELWA MATSILIZA** (49)
**EXECUTIVE MANAGER: WHOLESALE LENDING**

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

**4.MR RIAN COETZEE** (49)
**EXECUTIVE MANAGER: DIRECT LENDING**

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

**5.MS RESHOKETSWE RALEBEPA** (39)
**CHIEF FINANCIAL OFFICER**

**QUALIFICATIONS**
BCom (Tax and Business Administration)
BCompt (Hons)
CA (SA)
Advanced Certificate in Accountancy
Executive Development Programme in Inclusive Finance

**6.MR NATHAN NADASAN** (57)
*** EXECUTIVE MANAGER: POST INVESTMENT MONITORING AND WORKOUT**

**QUALIFICATIONS**
BPaed (Commerce)
BCom (Hons)
Executive Leadership Programme

* Effective December 2015 the Board resolved to collapse the position of Chief Risk Officer into the position of Executive Manager: Post Investment Monitoring and Workout.

# CHIEF FINANCIAL OFFICER'S STATEMENT

Ms Reshoketswe Ralebepa
Chief Financial Officer

## Highlights

**Interest and dividend** income increased by **29%**

**Cash holding remained stable,** mainly driven by the cash injection from the **Economic Competitiveness Support Programme** grant allocation of **R204 million**

**Strategic partnerships** in properties resulted in **net fair value gain** on investment properties of **R39.8 million**

## Challenges and Interventions

| Challenges | Interventions |
|---|---|
| High movement on impairments and bad debts. | Collapsed role of Chief Risk Officer and instead created a dedicated Executive Manager: Post Investment Monitoring and Workout; |
| | Implementing a collection improvement project with dedicated resources; |
| | Review of the credit policy and credit lending practices; and |
| | Reduced capital allocation to Direct Lending in the short term. |

***The Finance division plays a critical role in the maintenance and provision of valid, accurate and complete financial information. It also strives to serve as a business finance partner to the agency, thereby ensuring that sefa meets its strategic objectives.***

## Financial Performance

**sefa** continues to work in a challenging economic climate, and remains committed to serving its target market. Low collateral levels combined with the tough economic climate contributed to the organisation's financial performance, especially the levels of impairment, bad debts written off and operating costs. Small business lending is labour intensive and requires large investment in human capital to create physical access to SMMEs and Co-operatives.

The financial performance of **sefa** should be assessed in the context of the growing loan book, rollout of its infrastructure to facilitate access to finance to SMMEs and Co-operatives and the overall performance of SMMEs and Co-operatives in relation to the overall economic cycle.

The total comprehensive loss for the **sefa** Group amounted to R378.4 million (2015: R351.4 million). The higher losses incurred in 2016 are mainly attributed to the increase in bad debt provisions on loans and receivables.

**sefa** continues to rely heavily on government grants over the medium term on supporting and facilitating access to finance for SMMEs and Co-operatives, thus stimulating economic growth and creating jobs in line with the objectives and developmental agenda of **sefa**.

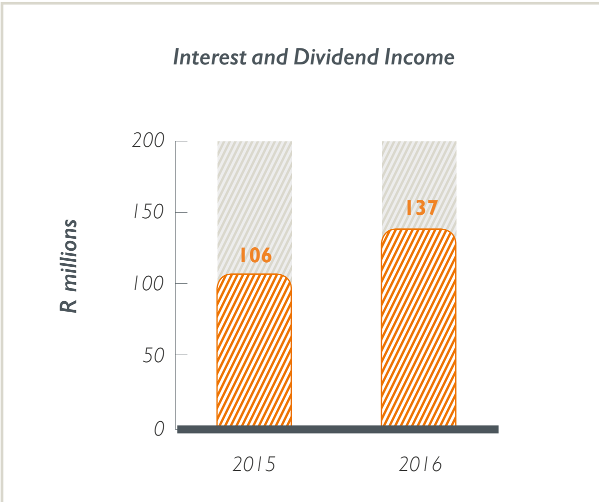
## Revenue

Interest from loans and receivables (R106.8 million) is the main driver of income, followed by interest received on cash and cash equivalents (R30.3 million), investment property rental income (R29.5 million) and fee income (R12.9 million).

Included in the financial results are the following significant items:

- property portfolio valuation gain of R39.8 million;
- profit on disposal of investment of R42.9 million; and
- profit from equity accounted investment of R39.4 million.

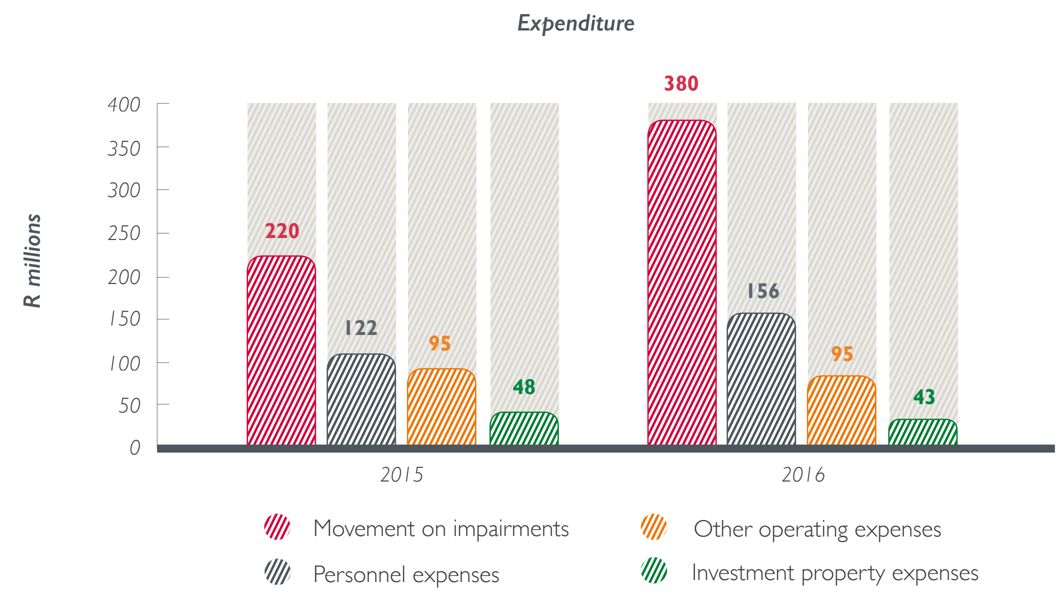
**Historical Trend of Interest and Dividend Income**




*Income Mix*

| | |
|---|---|
| Interest received on loans and advances to clients | **55%** |
| Interest received on cash and cash equivalents | **15%** |
| Investment property rental income | **15%** |
| Other income | **8%** |
| Fee income from loans and indemnities | **7%** |

### Operating Expenses Comparison




### Group Operating Expenses ratios

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| Impairments as a % of average loans and advances | 25% | 33% | 50% |
| Investments property expenses as a % of properties values | 23% | 28% | 21% |
| Personnel expenses as a % of average loans and advances | 16% | 15% | 15% |
| Other operating expenses as a % of average loans and advances | 15% | 12% | 9% |

## Expenditure

Personnel costs have increased year-on-year by R33 million (27%), mostly driven by recruiting personnel for existing approved vacancies - in line with business growth and our Gearing for Growth strategy, salary increases and recovery of salaries for certain executive management members seconded from the IDC and therefore not directly paid by **sefa**. This IDC cost recovery commenced in 2016.

For three years in a row, other operating costs have remained stable at R95 million, indicating a strong commitment from management to cost containment initiatives

## Sources of Funding

Cash utilised by **sefa**'s operations (which includes loans and advances) amounted to R416.3 million (2015: R527.7 million). The cash holdings of **sefa** remain stable, with cash and cash equivalents at the end of the financial year amounting to R551.7 million (2015: R534.2 million).

**sefa** received a significantly higher allocation from the MTEF budget amounting to R406 million (compared to R283.8 million in the previous financial year).

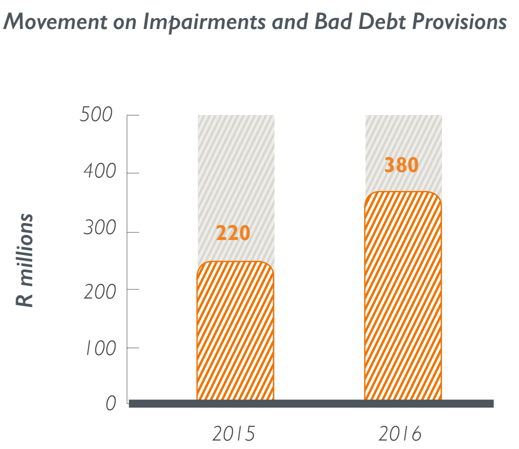
This was augmented by a R204 million allocation from the Economic Competitiveness Support Programme, which accounts for 50% of the total government grant allocation. As a result, cash and cash equivalents, were relatively stable despite loan collection challenges.

**sefa**'s shareholder, the IDC, has made a R921 million loan facility available to **sefa** and it is anticipated that a portion of it will be utilised during the 2018 financial year. **sefa** has adequate cash resources available to fund its operations in the medium term.

## Impairments

The higher losses incurred in 2016 are attributed to the high movement on impairments and debts written off, amounting to R379.9 million, compared to R220.3 million in 2015, a 72% increase. The Direct Lending portfolio is the main contributor to the high impairment movement and accounted for R285.7 million of the impairment and bad debt amount, followed by the Wholesale Lending portfolio, which contributed R52.2 million. Impairments remain a concern and may impact the future financial sustainability of **sefa**. Therefore, substantial focus is spent in this area on targeted interventions.

**Impairments during the Year**




## Properties Portfolio

The strategic objective of the **sefa** property portfolio is to preserve, maintain and strategically utilise the properties to provide affordable infrastructure to SMMEs that are aligned to the **sefa** organisational strategy.

The Property Portfolio was at year end is valued at R207 million and consists of 53 properties (comprising of 31 Industrial, 22 Retail Properties and one vacant land) that have been ring-fenced into a standalone special purpose company named Khula Business Premises (KBP) and are managed by a 100% black-owned property managing agent.

In the 2016 financial year, **sefa** forged a strategic partnership with the Gauteng Economic Development Department to revitalise the industrial parks in Gauteng as part of the Township Economy Revitalisation. The total value refurbishments done were valued at R37.1 million. Refurbishments and other efforts resulted in an increase in a net fair value on investment properties of R39.8 million.

**sefa** has also aligned itself with the Department of Trade and Industry's Programme on Industrial Property Revitilisation and an application for grant funding of R165 million has been submitted to refurbish qualifying properties.

For the remaining retail properties, continued effort is in place to find strategic partners for the redevelopment of these retail properties.

The property portfolio rental revenue of R29.6 million is R4 million below income generated in 2015 due to four properties that were refurbished during the current year.

The Gelvandale Shopping Centre (Nelson Mandela Bay, Port Elizabeth) suffered a fire damage during 2013 and was reinstated at a cost of R6.5 million. The Victoria Street Market property, that is situated in central Durban, has lost an anchor tenant and management is in the process of identifying a suitable tenant.

Production at KWE Co-operative

# Direct Lending

## Highlights

**R407 million** of funding approvals to **275 enterprises**

**6 847 jobs** created and maintained **the highest since inception**

**R113 million** of funding disbursed to **youth-owned businesses**

**R351 million** of funding disbursed to **black entrepreneurs**

**R118 million** of funding disbursed to **women-owned businesses**

**R147 million** disbursed to entrepreneurs based in **rural provinces**

**Implementing** a **geographic expansion plan** with **sefa access points** in every district of **South Africa**

## Challenges and Interventions

| Challenges | Interventions |
|---|---|
| Improving client service with reduced turnaround times. | Inculcating a client centric culture driven by a dedicated Client Relationship Management Unit. |
| Enhancing investment quality with lower associated impairments. | Implementing initiatives to improve **sefa**'s due diligence capacity and procedures. |
| Diversifying the portfolio away from its current bias in construction-related investments. | Proactively supporting SMME and Co-operative initiatives driven by the broader government and private sector. |
| Obtaining cessions for **sefa** funded contracts. | Engaging with different government institutions to support the drive to obtain cessions. |

# DIRECT LENDING

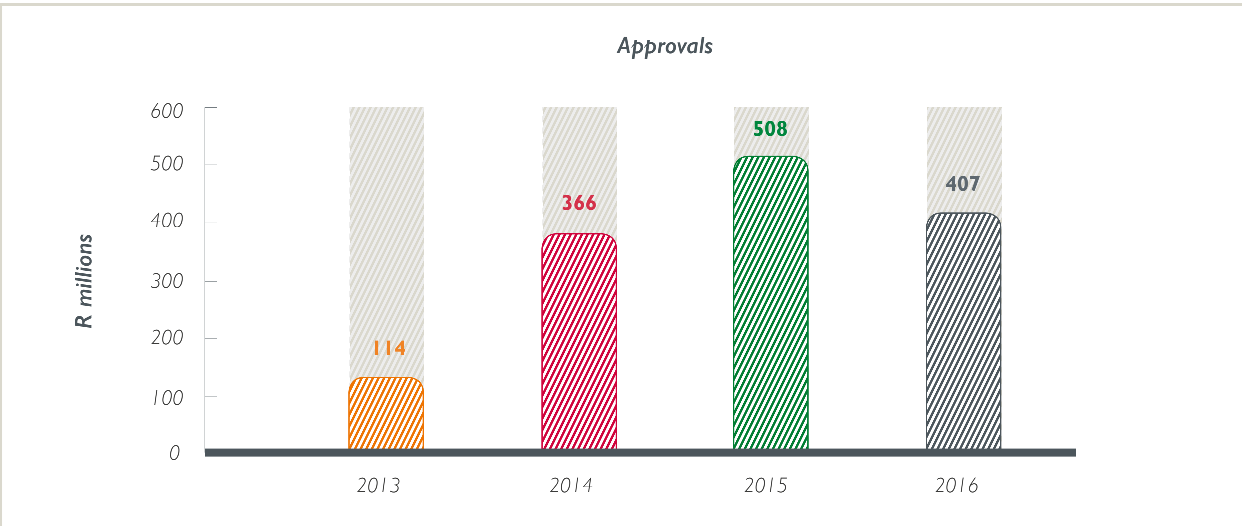
Mr Rian Coetzee
Executive Manager: Direct Lending

**Through the provision of finance directly to a large number of entrepreneurs, sefa's Direct Lending investment activities seek to maximise job creation and inclusive economic growth.**

The Direct Lending product offering focuses on small, medium-sized and co-operative enterprises in the formal sector of the economy and is available for start-up ventures and business expansions requiring working capital and asset finance. We pride ourselves on structuring customised solutions (inclusive of business support services) for each entrepreneur, addressing the unique cash flow needs of every business. This is provided in close proximity to the entrepreneur through our office and co-location network.

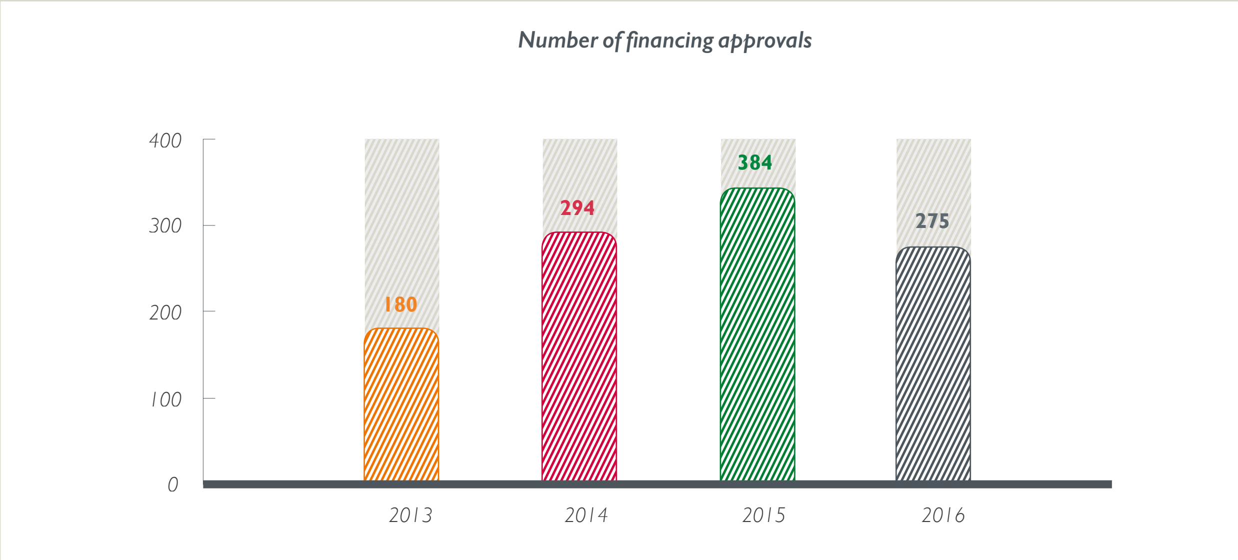
## The Year Under Review

The Direct Lending Division maintained a relatively high level of funding approvals. These amounted to R407 million in 2016 compared to R508 million in the previous year. The decrease can be attributed to macro-economic challenges experienced with weak GDP growth

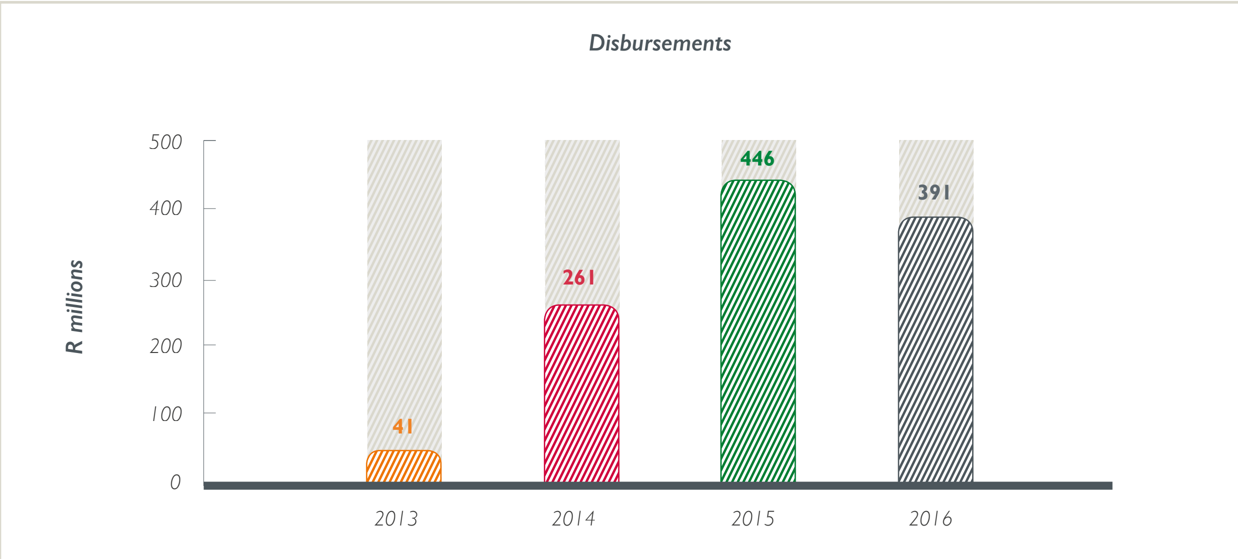


and a decline in the level of real private sector fixed investment. **sefa** also consciously tightened its lending criteria, as the exponential growth experienced since establishment combined with low collection rates led to unsustainable high levels of impairments.

The number of enterprises supported by our funding approvals declined to 275 in 2016. This is, however, 52% higher than the level in 2013. On average, **sefa** increased its support to investee companies from R600 000 in 2013 to R1.5 million in 2016.




R391 million was advanced through new loans into the economy, which is 12% lower than the R446 million disbursed in the preceding year.




In our pursuit to maximise **sefa**'s development impact, Direct Lending increased its developmental outcomes for every Rand invested. Through rigorous selection of investment opportunities, the R391 million injected into the economy resulted in a 26% increase in the number of jobs created compared to the previous year. The anticipated income multiplier effect of salaries and wages associated with the 6 847 job opportunities should play a role in lightening the financial burden experienced by households in the economy.

Direct Lending investments also contributed meaningfully to facilitating inclusive economic growth and addressing inequalities. This is apparent in the 90% of disbursements that supported black-owned businesses, 29% allocated to youth-owned businesses and 30% provided to women-majority-owned businesses. In addressing the market failure experienced, specifically by small enterprises, **sefa** ensured that 73% of the funding approvals were directed to them and only 27% to medium-sized enterprises.

Inclusive economic growth cannot be achieved without special efforts to assist entrepreneurs living with disabilities. During the year under review, only 2% of the Direct Lending funding was provided to this targeted group. During the new financial year, **sefa** will consider special interventions to address this challenge by means of a financing scheme specifically focused on the needs of businesses owned by people living with disabilities.

Regional equity through the development and support of production capacity in less-developed provinces remains a key strategic focus. The total disbursements in rural provinces amounted to 37% of the total disbursements. In improving the spatial impact (inclusive of townships), **sefa** is implementing a cost-effective geographic expansion plan (through co-locations) that strives to have a **sefa** presence in every district of South Africa.

New **sefa** co-locations were opened in Soweto, Mthatha, Mahikeng, Upington and Pietermaritzburg. We are also at an advanced stage in opening a Regional Office in Riversands, Diepsloot.

The active participation of SMEs and Co-operatives in certain productive value chains of the economy has been identified by various government policy documents and remains an important objective of **sefa**. Two-thirds of approvals during 2016 were directed to these priority productive sectors. The challenge, however, remains to diversify the portfolio away from its bias towards construction-related activities. During the financial year, 25% of the Direct Lending approvals were in the manufacturing industry (see graph below), which is an increase from the 14% achieved in the previous year.

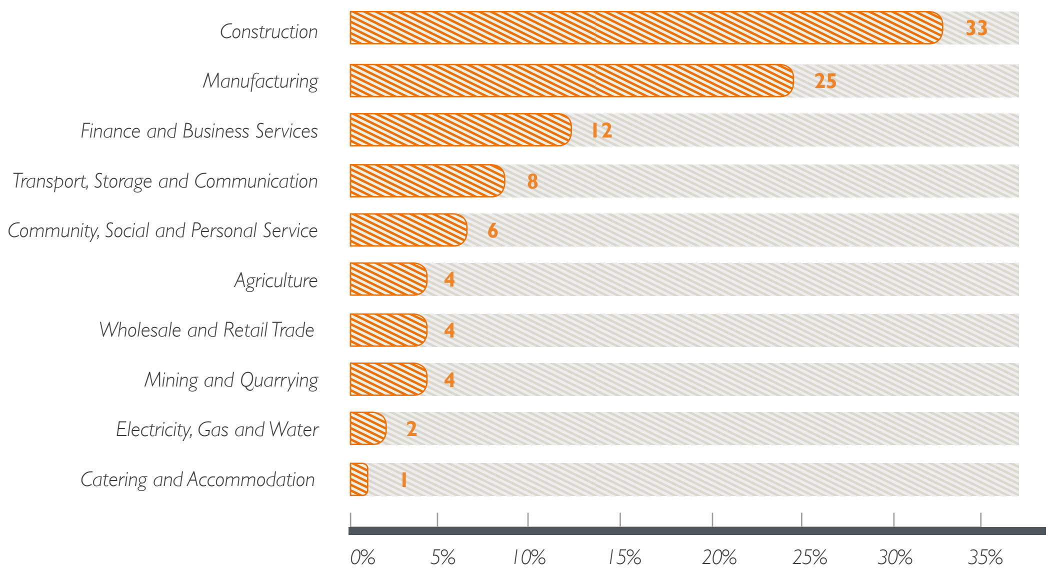
The uniqueness of every entrepreneur and business proposal, as well as the relatively high-risk profile of **sefa's** target market, requires extensive support to entrepreneurs and prudent risk assessment. Thorough due diligence of financing proposals might prolong **sefa's** processing of funding. The Direct Lending activities did not achieve their targeted turnaround times during the reporting period. This is being addressed on a wide front, including improved systems and procedures, staff training, the establishment of a Client Relationship Management Unit, client complaint resolution mechanisms and improved client communication protocols.

The Direct Lending's target market is high-risk by nature. The investment activities address the financing needs of start-ups and relatively new entrepreneurs, who are often not fundable by commercial financiers. Independent studies have also confirmed that these entities have a high probability of failure in the first few years of operations.

The rise in Direct Lending impairments is the main risk affecting the sustainability of **sefa**. In its fourth year of operations, **sefa** implemented an impairment reduction strategy that focused on the following main areas:

- improved quality of investments through improved due diligences, tighter application of the credit policy and strengthened credit committees;
- establishment of collection mechanisms such as a debit order system, an active legal collections capacity, external collection support and the utilisation of cessions of proceeds in contract-based financing;

***Sector Allocation of Approvals***



- the decentralization, co-ordination and development of collection and Post Investment Monitoring activities;
- the alignment of key performance indicators throughout the Direct Lending Division to focus on reduced impairments;
- the utilization of information technology (real time exception reporting) and credit bureau information.
- the segmentation of the portfolio with differentiated strategies for the legacy and new loan components;
- increased client interaction, mentorship and support; and
- Continuous analysis of the portfolio to derive lessons learnt and enhance the effectiveness of impairment reduction initiatives.

## The Year Ahead

In the year ahead, **sefa**'s Direct Lending activities will focus on proactively supporting SMMEs and Co-operatives linked to government policy initiatives. These include:

- the procurement set-aside across all spheres of government;
- the support of small black industrialists (also known as the National Gazelle Initiative);
- support to youth-owned enterprises and enterprises owned by people living with disabilities;
- Inclusion of SMMEs and Co-operatives in value chains through enterprise development support; and
- the improvement of our accessibility.

A dedicated and focused division will be created in the new financial year that will lead the impairment reduction initiatives of the organization.

The containment of the Direct Lending impairment charge requires, however, the curtailing and consolidation of investment activities in 2017 and a deliberate drive towards improved portfolio quality.

Computer training room at a **sefa** Botala Facility funded client

Funded Client

# WP Timber Products CC

## Key Information

- **Location:** Stutterheim, Eastern Cape
- **Job creation:** 5 jobs created and 136 jobs maintained
- **Funding amount:** R5 million
- **sefa** client since: May 2015
- **Sector:** Wood product manufacturing

Transformation in the manufacturing sector is an important component of inclusive economic growth in South Africa. In addition, the protection and maintenance of production capacity and job opportunities in rural areas are of high importance.

WP Timber Products CC is a 100% black-owned wood product manufacturing business based in Stutterheim in the Eastern Cape. It manufactures and supplies pine wood doors, door frames and windows, as well as laminated boards and muldings for hardware stores in the Eastern Cape and beyond.

The owner, Mr Sikukula, approached **sefa** for funding of R5 million to participate in financing the 100% acquisition of WP Timber Products CC. Due to **sefa**'s funding limit of R5 million, the acquisition was co-funded by the Masisizane Fund, an incubator owned by Old Mutual Investments Limited.

Mr Sikukula holds a Bachelor of Technology degree and has held various management positions at different companies.

WP Timber Products CC was previously white-owned and sold due to the age of the owners. The opportunity was presented to Mr Sikukula to take over the business.

The loan from **sefa** and Masisizane allowed WP Timber Products CC to maintain a total of 136 employees (mainly women) and to create five more jobs. The business continues to hold a significant share of the wood product manufacturing sector in the Eastern Cape.

Mr Sikukula is a new industrialist in the wood product manufacturing industry he is hands-on and involved full-time in the business. As a true entrepreneur and industrialist he has many plans to expand and diversify his business towards growth and success.

Funded Client

# Kopanong Women Enterprise Transport Logistics & Multi-Purpose trading as KWE Co-operative

## Key Information

- **Location:** Thaba Nchu, Free State
- **Job creation:** 50 jobs created and 25 jobs maintained
- **Funding amount:** R475 691
- **sefa** client since: February 2016
- **Sector:** Clothing manufacturing

**sefa** supports government's drive to procure goods and services from SMMEs and Co-operatives. Kopanong Women Enterprise Transport Logistics & Multi-Purpose, trading as KWE Co-operative, is a 80% black women, and 40% youth-owned co-operative based in Thaba Nchu in the Free State Province.

The Co-operative was registered in 2010 and operated on a small scale for three years. In the ensuing years it was manufacturing clothing and school uniforms and also specialising in cut, make and trim activities for larger retailers.

Mr Phato Moroe and Ms Geslina Lesetla, both Directors of KWE Co-operative, approached **sefa** after they had been awarded a contract by the South Africa Social Society Agency (SASSA) in partnership with the Department of Social Development for the production of school uniforms for orphaned and vulnerable children in the Free State and Northern Cape.

At the time that they were assisted by **sefa**, they had been awarded purchase orders to supply school uniforms in Upington, Warrenton, Qwaqwa and Bloemfontein.

The loan from **sefa** allowed KWE Co-operative to maintain 25 jobs and create 50 new jobs. The factory size at KWE Co-operative is now large enough to accommodate 73 sewing machines and it is set up to provide adequate space to all sections of production processes.

Through this investment, **sefa** assisted a Women and Youth-owned Co-operative to address the need for school uniforms in deep rural areas.

Funded Client

## Sihlalo Trading CC

## Key Information

- **Location:** KwaZulu Natal – Glencoe
- **Job creation:** 3 jobs created
- **Funding amount:** R1 677 570
- **sefa** client since: May 2015
- **Sector:** Meat value chain

Entrepreneurs living with disabilities need support to ensure enterprise sustainability and growth.

Sihlalo Trading CC, which trades as Webster Butchery, is a start-up business founded by Mr Webster Cele. The entrepreneur registered the company in 2001, but it had been inactive due to an incident that led to permanent damage to Mr Cele's spinal cord.

The business supplies a large retail group with beef and lamb carcasses.

Mr Cele approached **sefa** after battling to obtain funding from other financial institutions. **sefa** assisted him with a term loan facility of R1 677 570 to fund start-up operating costs and working capital requirements.

A specialist mentor was appointed to assist Mr Cele in meeting his objectives.

The **sefa** loan enabled Mr Cele to create three jobs, and he is hoping to increase this when he realises his plan to open up a meat-processing facility to vertically integrate his business.

# Wholesale Lending

## Highlights

**Approvals increased** from **R469 million** (2014/15) **R701 million**

**Developed a lending channel** for traders at the Durban and Mangaung Fresh Produce Markets. **Approved micro-enterprise partnerships** with corporates in the retail sector and an international organisation.

Laid a foundation for growth of local communities through increase in the co-operatives loan book from **R2 million** (2014/15) **to R37 million** (2015/16) in replicable projects.

**Initiated** an Enterprise and Supplier **Development Programme**

Approved a facility for a digital lending platform in partnership with a commercial bank.
Approved funding for Agri-Business farming partners to the value of **R280 million**

**Developing and implementing** projects along **targeted value chains** with strategic partners

## Challenges and Interventions

| Challenges | Interventions |
|---|---|
| Slow take-up of the indemnity product by financial institutions. | Develop, pilot and market new products and services to increase the uptake of the indemnity facility. |
| Slow take-up of approved SFS facilities. | Streamlining of approval processes and alignment of Loan Administration System to accommodate SFS transactions. |
| Project implementation for the new funding channels. | Ensure adequate project management capacity, technical support and market access at approval stage. |
| Enterprise support. | Partnerships with strong technical partners who provide support to SMMEs and Co-operatives on a continuous basis. |

# WHOLESALE LENDING

Ms Vuyelwa Matsiliza
Executive Manager: Wholesale Lending

***The Wholesale Lending Division facilitates the establishment, survival and growth of SMMEs and Co-operatives in South Africa, with the goal of contributing towards poverty alleviation and job creation through enterprise development partners.***

## Overview

During the year under review, **sefa**'s Wholesale Lending division focused on the development of innovative partnerships to ensure that SMMEs and Co-operatives access financial support to build sustainable businesses. As a result, the division developed innovative instruments that directly strengthen the SMMEs and Co-operatives. Notable among these are the **sefa**/Botala Facility, which is a partnership with the Development Bank of Southern Africa that specialises in financing SMME participation in the green economy; the technology based lending platform for traders who purchase produce at the Durban and Mangaung Fresh Produce Markets; the co-operatives' waste recycling project that involves a partnership with the Dr Kenneth Kaunda District Municipality; the Credit Guarantees to Corporates actively funding SMMEs; and participation in Enterprise and Supplier Development programmes.

The division has two distinct units that target different types of businesses, and these are the Microenterprise Finance Unit and SME and Co-operatives (including Agri-Business) Unit. In addition, it is responsible for the operations of **sefa**'s 100% owned subsidiary, Khula Credit Guarantee (SOC) Ltd and the Land Reform Empowerment Facility (NPC) (LREF) funded by the Department of Rural and Land Reform.

## Strategic Partners

**sefa** is a small Development Finance Institution (DFI) with a huge client base. As a result, it has developed key strategic partnerships in different localities and regions to support this huge and varied client base. The partnerships have enabled **sefa** to offer a broad base of services to small businesses, increase its developmental impact and geographic footprint, and also support government initiatives such as the NDP.

In the year under review, **sefa** established a number of new strategic partnerships, including a partnership with Amalgamated Beverage Industries (**abi**), Siza Capital (Pty) Ltd, Chris Hani District Co-operative Development Centre, Super Grand (Pty) Ltd and the Dr Kenneth Kaunda District Municipality Waste Recycling Project. A few case studies have been included in this report, to illustrate the impact of these strategic partnerships.

## Microenterprise Finance

Despite a number of challenges that include human resource shortages, a need for quick and adaptive learning and constrained funding environment, the Micro-enterprise Unit managed to fulfil its expected mandate within **sefa**. New micro-enterprises were supported, with 48 552 jobs created and sustained. Inroads into previously unsupported provinces such as Northern Cape, Western Cape and Eastern Cape were made through relationships with Northern Cape SMME Trust, Siza Capital (Pty) Ltd, Y2K10 (Pty) Ltd and AJ Containers. Additional support was provided to the two largest **sefa** micro finance Intermediaries (MFI) partners, the Small Enterprise Foundation and Phakamani Foundation. **sefa**'s partnership with Siza Capital (Pty) Ltd enabled the institution to reach a small and almost forgotten town of Pofadder in the Northern Cape. There are hopes of catalysing strong and sustainable economic activity in conjunction with the huge solar projects of Abengoa/ Kaxu Solar One.

In addition to the traditional micro-enterprise lending channel of MFIs, **sefa** took a bold and innovative step in 2015/16 to develop a Direct Microenterprise Lending channel. Among the five approved direct micro-enterprise lending initiatives, the Fresh Produce Market (FPM) focused lending platform is the best example of this innovation. **sefa** established a partnership with two FPMs, Durban and Mangaung Fresh Produce Markets, and an IT company, Freshmark Systems, to build an IT-based lending platform to provide quick and affordable credit to informal business buyers at the markets. The lending platform, named **sefa**Credit, will be piloted in 2016/17 and is expected to deliver loans to around 11 600 borrowers over three years.

Given the complexities of lending small amounts of money to tiny businesses, **sefa** faces the challenges of building efficient systems and building appropriate and adequate human resources to support the activity. As a result, disbursements on the Direct Microenterprise Lending platforms have been slow. The combination of the IT lending systems under construction and planned resourcing of the department with appropriate and adequate skills should bring a significant improvement in the 2016/17 disbursements to end users.

## Co-operatives

It is worth noting the specific efforts put in place by the division to elevate the reputation of Co-operative enterprises and demonstrate their importance in growing rural and township economies. The Division conducted an investigation on various sectors where Co-operative enterprises are successful. These sectors include agriculture, largely poultry, greenhouse farming and waste recycling. It was established that these sectors have a critical role to play in restructuring local economies and creating jobs. They also increase disposable income available to communities as well as its circulation within those communities. There is a huge potential for vertical and horizontal integration within the abovementioned sectors over the medium and long term.

During the period under review, Wholesale Lending developed different structures of financing co-operatives, to compliment the Co-operative Financial Institutions and expand reach to enterprising co-operatives. In 2015/16, **sefa** developed financing package programmes in partnership with municipalities and/ or with other strategic partners to support co-operatives, such as the Chris Hani District Co-operative Development Centre, Super Grand (Pty) Ltd, and the Dr Kenneth Kaunda District Municipality Waste Recycling Project.

**sefa** has provided funding support to different forms of co-operatives, including participation of members in value chain activities. The products and services offered focused on promoting the growth of co-operatives and ensured that a quality **sefa** loan book is maintained. The Co-operatives Unit loan book grew from R2 million in 2014/15 to R37 million in 2015/16. This significant growth was underpinned by disbursement to enterprising co-operatives in greenhouse farming, poultry, waste recycling and the services sector (delivery of services to school feeding schemes).

## SME Wholesale

During 2015/16 financial year, **sefa** initiated an Enterprise and Supplier Development programme to promote the development, sustainability and growth of SMMEs and Co-operatives. This is a partnership between **sefa** and corporates aimed at developing SMMEs and Co-operatives by providing them with financial support, access to markets and nonfinancial support. The programme will be fully operationalised in 2016/17 once the set-up of the ESD fund has been finalised.

A partnership with a reputable trailer manufacture, Alf Finn Road Industrial Trailers, was established, which culminated into a financial solution aimed at providing financial assistance to SMEs in the transport and logistics industry. In line with international trends, **sefa** has formed a strategic partnership with Barclays Africa Group Limited to fund SMMEs on the co-lending platform. Through this partnership, the SMMEs will be able to apply for funding via internet anywhere in the country and assessed online, thus ensuring quick turnaround times. Investors will bid to fund SMMEs based on risk appetite. This will be operationalised during 2016/17.

## The Agri-Business Unit

The Agri-Business Unit establishes funding partnerships with private sector companies that enable **sefa** to diversify and increase its SMMEs funding footprint, particularly in priority provinces. Through the organisation's grower initiatives, emerging black farmers are linked to higher value chains that reduce the transaction, marketing and credit risk costs embedded in small-scale farm production.

## The Credit Indemnity Scheme

KCG has created appetite of the scheme with non-banking financial institutions and these included micro-enterprise funding companies and private corporates. KCG has worked tirelessly to create partnerships with private corporates that have Enterprise and Supplier Development programmes so that KCG can guarantee the loans thereof.

The following guarantees were approved during the year under review:

- Portfolio Guarantees - R20 million was approved for Real People micro-enterprise Funding;
- Supplier Credit Guarantee - R30 million was approved for Macsteel and this was piloted at R10 million. The approved credit guarantees approved during the year were R12 million and a total of R10.2 million was taken up.

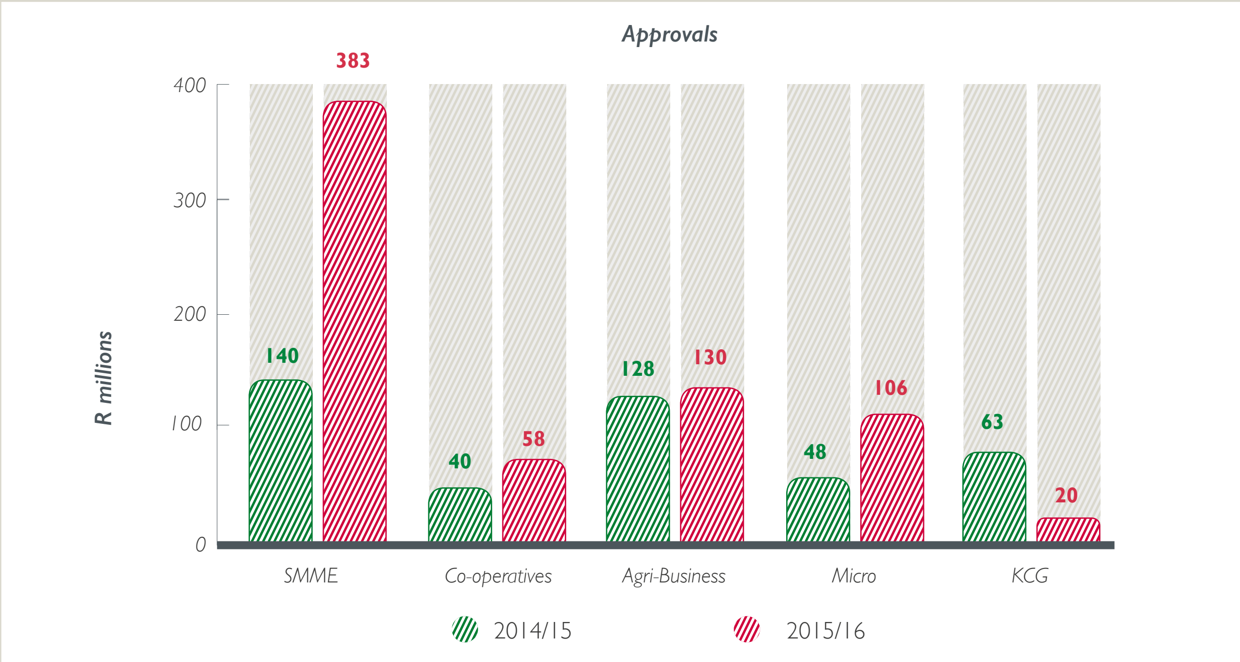
KCG also focused on weaknesses that were identified in the current product - Individual Guarantees. Major weaknesses included pricing, flexibility and limited product offering. KCG introduced risk-based pricing on the guarantees, improved flexibility of terms and conditions such as coverage ratios and quicker claim payout turnaround time and increased attractiveness of the scheme's products to targeted SMME financiers, banks, non-banks and corporates.

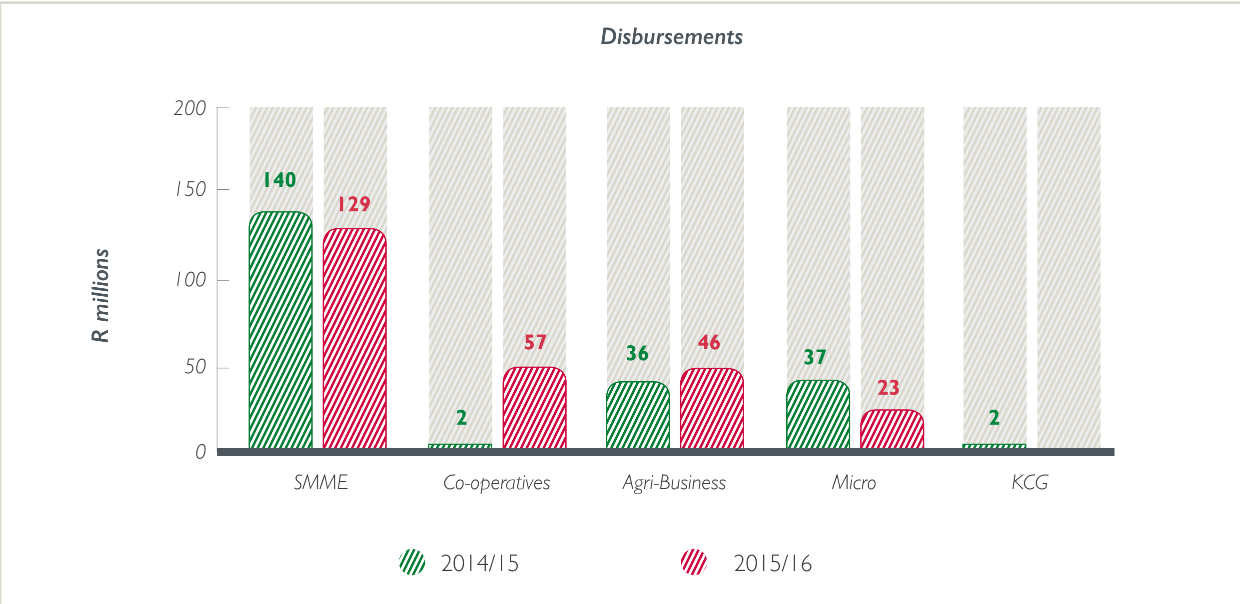
The aim was to re-engineer the programme to facilitate the attractiveness and ease of use to participating institutions. This was achieved by developing new agreements, enhanced business processes and development of IT systems. The major commercial banks are all in discussion with KCG to formulate new portfolio guarantees with new terms and conditions, the most attractive change being the scrapping of co-vetting of transactions with the banks.


Jennifer's Platters

## Approvals and Disbursements

**The Wholesale Lending Division's Performance**




The Wholesale Lending Division exceeded its annual approval target by 48%. Approvals increased significantly from R469 million in the 2014/15 financial year to R701 million. The Agri-Business Unit (includes LREF), which approved R130 million, was the key driver of this performance. The Unit has successfully leveraged relationships with intermediaries to facilitate value chain financing.

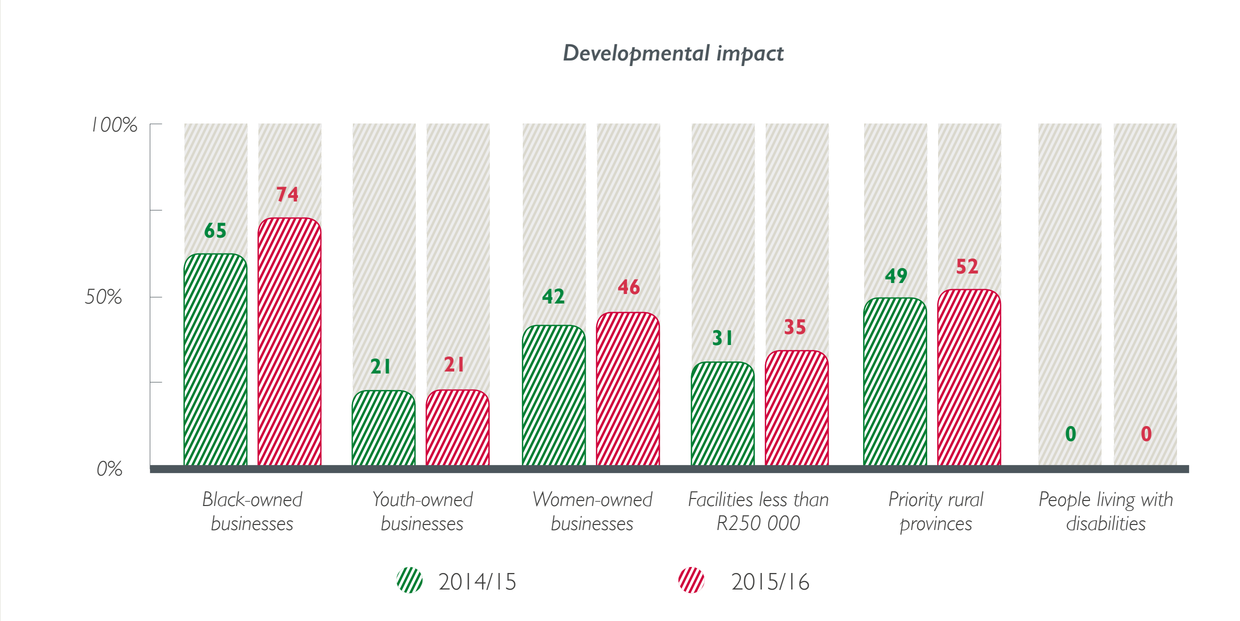
The microfinance Unit also doubled its value of approvals to R106 million. The approvals for co-operatives grew by 38% from R40 million in the 2014/15 financial year to R58 million in the year under review. The substantial growth was mainly due to the adoption of new strategies to fund enterprising co-operatives with strategic partners.

Co-operatives have signficantly increased disbursments from, R2 million in 2014/15 to R57 million in 2015/16 financial year. This is mainly due to the focused strategy on enterprising co-operatives. Disbursements to agriculture-related investments also increased by 22%.

Initiatives to grow the KCG business will translate into new approvals and take-up in 2016/17.

## Developmental Statistics

### The Developmental Impact of the Wholesale Lending Division




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

74% of all funding benefited black-owned businesses. Reaching women, youth and people living with disabilities is an ongoing challenge. The disbursement of facilities less than R250 000 was below target. However, 99.7% of micro finance facilities were below R250 000.

Camdeboo Satellite Aquaculture Project staff

Funded Client

## Siza Capital Supports Microenterprises

## Key Information

- **Location:** Northern Cape and Gauteng
- **Micro-enterprises to be supported:** 1 415
- **Funding amount approved:** R15 million

Siza Capital (Pty) Ltd, (Siza), is one of **sefa'**s distinctive clients that works in the greater Soweto townships. Siza provides funding and technical support to micro-enterprises, focusing most of its energies on unemployed youths and women. Its distinctive trait is to develop people who have not previously engaged in any micro-enterprise activity into entrepreneurs. As a result, it provides strong and focused entrepreneurial training to willing participants and later provides them with low cost start-up loans.

Siza builds strategic public and private partnerships that provide business development services and market access opportunities to existing and aspiring young entrepreneurs to enable them to set up or expand market-driven micro-enterprises.

Siza partnered with Abengoa/Kaxu Solar One plant in the Northern Cape to support micro-enterprises receiving contracts from its solar farms in the surroundings of Pofadder. The Abengoa Enterprise Development programme has registered more than 100 SMMEs, which are already receiving business training. Siza Capital will offer credit services to graduating SMMEs that qualify for Abengoa contracts. It is anticipated that approximately 1 415 micro-enterprises will be supported in that area in the next two years. Of the R26 million total facility granted to Siza, R15 million is allocated to the Pofadder project, with the rest being for the Soweto area.

## Funded Client
## Siza Capital Supports SMMEs

### Key Information

- **Location:** Soweto
- **Jobs created:** three created
- **Funding amount disbursed:** R40 000

Mr Nkhwashu, a 47-year-old widower and father of two, makes wooden pallets for packaging produce when transporting, or for storage. His business has grown over the past three years from a small carpentry stand behind his house to a business with three employees operating from his own yard. Mr Nkhwashu joined Siza Capital in 2015. He was struggling to meet demand as he was using hammers and nails to produce pallets this made the production process very slow.

He applied for a R40 000 loan to purchase a compressor, connector three-way extension, hose tail, hose rubber, quick in german, coil and a ring shank coil nails. These tools have reduced the time it takes to produce a pallet. Production has increased from 200 pallets a day to 1 900 pallets. This has resulted in a sharp increase in his profits. He has increased his workers' wages and has been able to service his old bakkie.

Mr Nkhwashu is servicing his loan and plans to pay it off early. He wants to apply for another loan to purchase a second-hand vehicle for deliveries.

Funded Client

## Dr Kenneth Kaunda District Municipality Waste Recycling Project Supports co-operatives

## Key Information

- **Location:** Dr Kenneth Kaunda District Municipality, North West
- **Primary Co-operatives supported:** 64
- **Jobs created:** 320 created
- **Funding amount approved:** R25 million

**sefa** and the Dr Kenneth Kaunda District Municipality entered into a waste recycling joint venture to benefit eight recycling co-operatives operating in four local municipalities in the district. The eight Primary co-operatives have established a Secondary co-operative which, will own and operate the bailing plant. Fifty-six Primary co-operatives will collect and sort the waste from different wards and supply the eight Primary co-operatives for bailing. The project will create 320 jobs. The project is 100% black owned, and shareholders include women and the youth.

**sefa** approved R25 million in business loans to establish a waste recycling plant in the municipality. The municipality committed R6.2 million in funding to finance the building renovation costs.

The project demonstrates that municipalities and government agencies can successfully work together to empower local communities and improve their livelihoods by creating jobs.

## Funded Client
## Super Grand Supports Co-operatives

### Key Information

- **Location:** Mpumalanga and Limpopo
- **Primary Co-operatives supported:** 4
- **Jobs created:** 27 created
- **Funding amount approved:** R20 million

A group of co-operatives in Mpumalanga and Limpopo provinces are participating in broiler production activities for commercial purposes. The Department of Agriculture provided a R3.5 million grant in 2010 to build broiler production houses on the land reform farms that the Co-operatives were leasing. These projects experienced challenges due to lack of technical experience, high input costs and a lack of markets.

Super Grand (Pty) Ltd, a 100% black-owned investment holding company that manages and operates agricultural assets, partnered with these co-operatives in 2013. It provided technical support and inputs to run these projects successfully and create market access.

These projects have proved to be very successful. The co-operatives approached **sefa** for funding to expand their operations. During the past financial year, **sefa** has approved R20 million in funding of four Primary co-operatives.

**sefa** has entered into a partnership agreement with Super Grand to serve as a technical partner in the project.

Funded Client

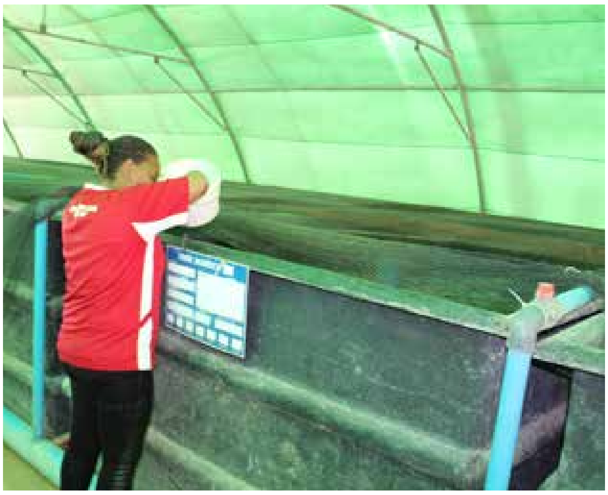
## **sefa** Botala Facility Supports the Camdeboo Satellite Acquaculture Project

## Key Information

- **Location:** Eastern Cape
- **Projects supported:** 1
- **Jobs created:** 2 751
- **Funding amount disbursed:** R2.8 million

**sefa** and the Green Fund, managed by the Development Bank of South Africa (DBSA), entered into a joint operation to set up the **sefa** Botala Facility. This 12-month pilot project to fund SMMEs is based on an innovative short-term financing model using SMMEs invoices and purchase orders. The partners have each committed R30 million to the project. The facility is funding SMMEs in existing incubators, corporate-aligned SMEs and existing SMMEs in the green sector.

**sefa** Botala Facility funded the Camdeboo Satellite Aquaculture Project, a Blue Karoo Trust project, which has established a preserved freshwater fish industry aquaculture project in the Eastern Cape. The project needed R2.8 million in short-term financing. The project enjoys broad support from government departments and agencies and has created 2 751 jobs to date.



Funded Client

# **sefa** Botala Facility Supports Roof 60 Four Energy

## Key Information

- **Location:** Ekurhuleni Metropolitan Municipality
- **Projects supported:** 1
- **Jobs created:** 14 jobs maintained
- **Funding amount:** R4 million

Roof 60 Four Energy is a 100% black-owned company, which provides low emissions and renewable energy solutions. **sefa** Botala Facility provided Roof 60 Four with a R4 million facility to supply, install and maintain 2 X 250kWp roof top solar PV power for the Ekurhuleni Metropolitan Municipality, for plants in Boksburg and Kempton Park. Roof 60 Four Energy was able to maintain eight jobs at each site, and employ six part-time staff. Asunim is Roof 60 Four Energy's technical partner. Access to finance was a fundamental challenge in implementing the contract.

Funded Client

# Khula Credit Guarantee SOC Ltd (KCG) Jennifer's Platters (Pty) Ltd

## Key Information

- **Location:** Pretoria
- **Jobs created:** 7 permanent maintained and 5 temporary jobs created
- **Funding amount:** R370 200

An Exchange Control Officer at Nedbank, Ms Jennifer Matsapola, a young black South African mother of two, received training and signed a franchise agreement with Sandwich Baron and took over the Sandwich Baron Lynnwood outlet. She managed to borrow money from Standard Bank with an indemnity from KCG through her business - Jennifers Platter's (Pty) Ltd.

Sandwich Baron Lynnwood is in Murrayfield Forum, five minutes from the busy Lynnridge Mall. The franchise is popular in Lynnwood, Menlyn and all of east Pretoria and it is a one of the preferred caterers to corporates in the Pretoria CBD.

The business has performed well, to the point where she would like to acquire another franchise in the future.

# POST INVESTMENT MONITORING AND WORKOUT

Mr Nathan Nadasan
Executive Manager: Post Investment Monitoring and Workout

***sefa* is experiencing a huge challenge in containing impairments and increasing collections, especially in its Direct Lending portfolio. This challenge is exacerbated by the high-risk nature of the business segment it serves. It is for this reason that a focused approach to the management of the total loan book is required. To this end, the Board moved the CRO to Executive Manager: Post Investment Monitoring and Workout tasked with the responsibility of turning around the portfolio.**

The focus of **sefa**'s mandate is on providing access to finance to previously disadvantaged individuals and targeted groups that do not qualify for financing from formal commercial financial institutions. Many of these clients' business profiles are in the start-up cycle of the business development curve, which is associated with high entrepreneurial risk and business failure. The **sefa** loan portfolio as it relates to impairment should, therefore, be interpreted and analysed based on the market segment and the profile of the client it serves.

The role of Post Investment Monitoring is to monitor and manage the investment portfolio and ensure that impairments are minimised and collections are increased. This will contribute to the building of sustainable enterprises by proactively mitigating risks, thereby minimising business failure through effective:

- Portfolio monitoring;
- Restructuring;
- Mentorship and business support; and
- Portfolio risk management.

The following principles guide post investment activities:

- A holistic approach to the management of impairments from origination, due diligence, investment decision, Post Investment Monitoring and exit;
- A relationship-based monitoring of the portfolio with high-levels of client interaction and a greater in-depth understanding of the underlying businesses;
- A developmental approach to the management of the portfolio, with an increased utilisation of mentorship and support services for first-time entrepreneurs;
- A proactive approach to the identification of potential client challenges to provide the necessary support for sustainable development on time;
- A differentiated approach for effective post investment management of the portfolio; and
- Quick decision making for businesses in distress.

This approach will ensure that the growth in the portfolio at risk, which is a proxy for impairments, is contained.

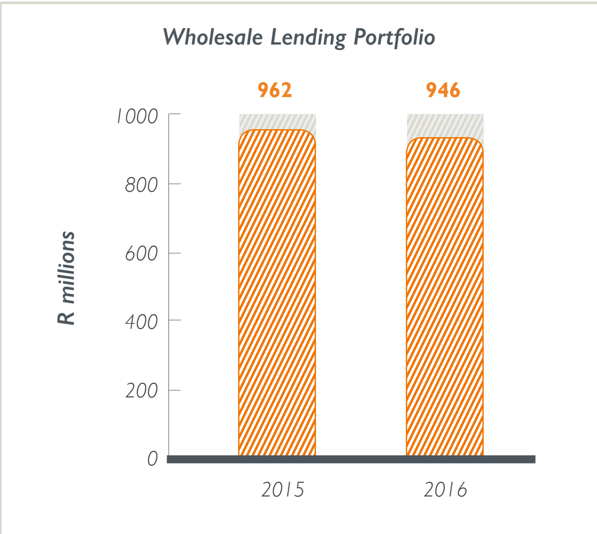
## The Total Portfolio

**sefa**'s total amortised balance at 31 March 2016 was R1.7 billion this consists of R946 million in Wholesale Lending and R710 million in Direct Lending.

The overall impairment rate is 44% which, is largely driven by Direct Lending.

## The Wholesale Lending Portfolio

The total Wholesale Lending portfolio of R946 million consists of 72 funding partners. The funding partners comprise of R588 million in strategic partnerships, R73 million in micro finance institutions, R247 million in Retail Finance Intermediaries and R38 million in co-operatives. Furthermore, R159 million in Land Reform Empowerment Facilities (LREF) is managed on behalf of the Department of Rural Development and Land Reform. This is excluded from the Wholesale Lending Portfolio.




The portfolio reduced from R962 million (2014/15) to R946 million (2015/16). This was largely due to capital repayments and write-offs. These write-offs were legacy transactions from Khula and samaf which, were fully impaired before **sefa** was incorporated.

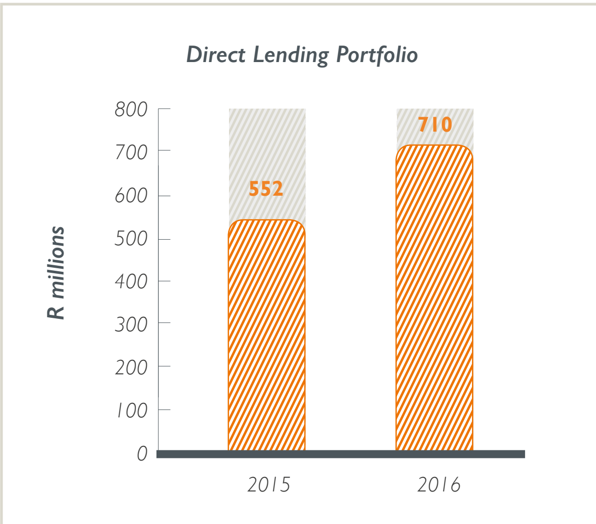
## Wholesale Lending Collections

The total collections during the year for Wholesale Lending were R182 million. This represents a 54% increase from the previous year. This improvement was largely due to repayments of capital by MFIs, RFIs and capital reflows from strategic partnerships.


It must be noted that the balance of the portfolio is repayable as per the individual agreements in the form of equity and quasi-equity repayment structures or term loans. This is also dependent on the tenor of the investments (5 to 10 years) and the type of facilities.

## The Direct Lending Portfolio

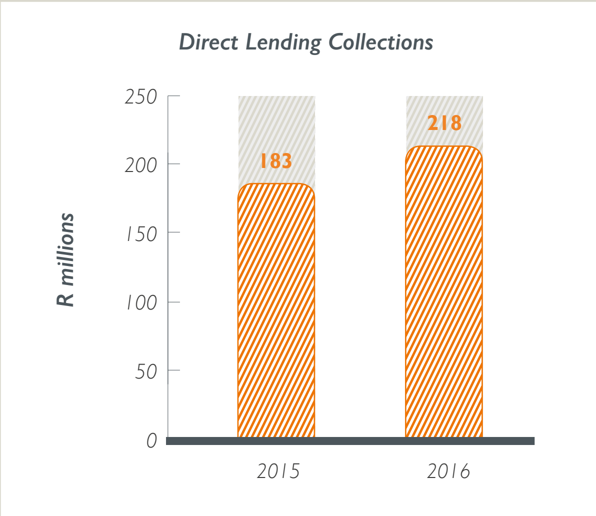
The Direct Lending loan book has 274 clients, accounting for the total amortised balance of R710 million at 31 March 2016. The book grew by 28% during the year under review, from R552 million in the 2014/15 financial year. The loan portfolio consists of term loans (R357 million), revolving credit facilities (RCF) (R110 million), instalment sale agreements (ISA) (R135 million) and bridging loans (R108 million).




- The largest growth was in ISA, at 128%, followed by RCF by 37%.

## Direct Lending Collections

Direct Lending collected R218 million during the year, which was a 19% increase year on-year from R183 million. Special and concerted interventions have been put in place to improve the collection rates and results are expected to be realised in the new financial year.




## Trends in the Portfolio at Risk (PAR)

The Portfolio at Risk, defined as the total amortised balances of all accounts that grew are more than 60 days in arrears, has grown from 59% (2015) to 66% (2016); this includes the legal book in litigation. It has to be noted that **sefa** is applying a conservative approach to determine the PAR index at 60 days in arrears rather than 90 days due to the high-risk nature of its core business. However, if the book that has been handed over for legal action is excluded, the PAR improves to 35%.

Going forward, the plan is to restructure the loans that are in arrears, where the underlying businesses are operational, have the potential to turn around and can demonstrate the ability to repay.

Key interventions and approaches that have been identified to deal with the challenges of managing the portfolio, include:

- Revising the Post Investment Monitoring (PIM) operating model;
- Upskilling the post investment officials on the basic tenets of portfolio management;
- Reducing the PAR by rescheduling and restructuring the loans in arrears showing good potential;
- Entering into collaborative partnerships with specialists in the construction sector;
- Greater collaboration with public sector institutions; and
- The establishment of a comprehensive regional panel of diverse mentors and business support consultants.

## Deliquency Management

An aggressive approach has been taken to manage the accounts that manifest any signs of delinquency by deploying breach letters, letters of demand and subsequently formal legal processes. These processes are strictly adhered to to manage the collection challenges being experienced in the Direct Lending Portfolio, which are more pronounced on the bridging and term loans. These products are largely designed for contract based finance, where funding is provided predominantly to entrepreneurs in the construction sector.

### Challenges Associated with High Levels of Impairments

The management of impairments remains an overall strategic challenge for the organisation as well as the overall performance and contribution of small businesses and co-operatives to the economy.

An analysis of the investment portfolio reflects the following weaknesses with regards to funded clients.

- Wholesale Lending Portfolio - one of **sefa**'s catalytic roles is to leverage resources of strategic partners to increase access to credit and development finance to small businesses and co-operatives with which formal commercial institutions are reluctant to transact. Some of the financial intermediary institutions are in the start-up phase of their lending operations and struggle with the optimal mix of debt to equity funding and rely on **sefa** for funding.
- Direct Lending Portfolio - the growth of the South African economy is integrally linked to the development of a vibrant small business sector. Commercial Financial Institutions, while acknowledging the important role of small business, do not lend to the target market that **sefa** aims to integrate into the formal economy. Firstly, same are clients do not have own contribution and collateral. Secondly, these are start-up businesses playing in competitive market structures characterised by marginal cash flows. This is further exacerbated by the negative developments in the prevailing South African economic cycle.

### Initiatives to Reduce Impairments

- Workout and restructuring

  Proactive restructuring of clients in distress as a rehabilitative intervention is picking up pace as the workout and restructuring function is being capacitated. This intervention will assist in managing and arresting the growth of the PAR. Further improvement will be achieved after the setting up of a mentorship and business support panel that will include financial mentors, who will assist in the compilation of management accounts for the identified clients.

- Credit granting adjustments
  - Tightening of credit and development of enhanced Credit Policy; and
  - Frequent analysis of portfolio feedback into the credit granting process.
- Organisational structure
  - Dedicated division focusing on collections, Post investment monitoring and workout and restructuring; and
  - Decentralisation of post investment activities (relationship-based post investment philosophy).

Timber transformation at WP Timber CC

# HUMAN CAPITAL MANAGEMENT

Ms Nokonwaba Shwala
Executive Manager: Human Capital Management

***High-performance organisations (HPO) achieve financial and non-financial results over a five-year period, or more, which exceed those of their peers. All Human Capital Management (HCM) interventions are geared towards enabling sefa to obtain HPO status. Strategies are also aligned to sefa's Gearing for Growth strategy.***

***HCM's strategic focus for the year was to provide strategic and human capital services to the business.***

## Achievements at a Glance

The Human Capital Management division focused on enabling the organisation to progress to the next phase of its journey to achieve HPO status. In **sefa**'s context, HPO is a concerted effort to continuously improve on talent management interventions to effectively execute its mandate. Highlights during the period include:

- Reviewed the organisational design to meet the businesses needs;
- Continued with Leadership and Management Development programmes;
- Continued with capacity-building programmes;
- Improved high-performance culture; and
- Enhanced communications with internal stakeholders.

Each of these achievements is aligned to **sefa**'s strategy.

### sefa's HPO Journey

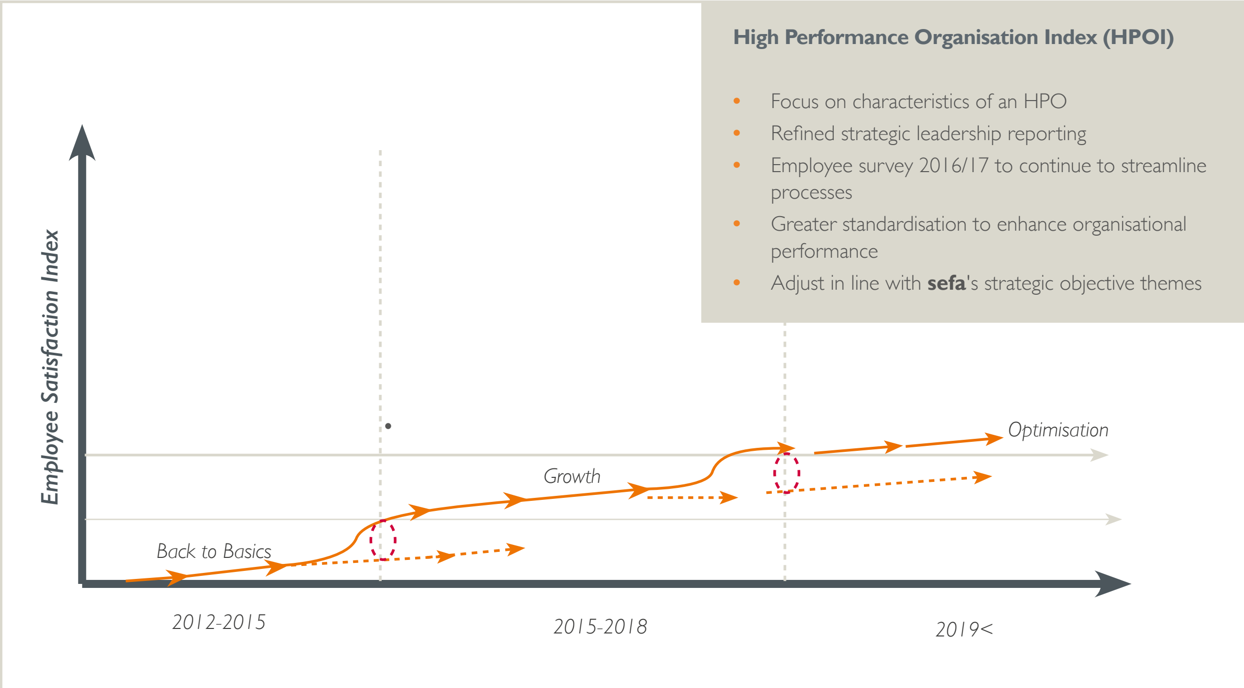
HCM has developed an action plan to enable **sefa** to achieve HPO status. The HPO journey began in 2014 and the goal is to achieve HPO status by 2019. The progressive journey has been divided into three phases:

- Back to basics;
- Growth; and
- Optimisation.

**sefa** has completed the first phase of its journey. During the period under review, the organisation entered the second phase, the Growth phase of its journey.

The following graph provides a snapshot of **sefa's** journey to become an HPO.

**Working towards being an HPO Organisation**




### HCM's Strategic Work Plan

The 2015/16 HCM Strategic Work Plan execution was centred on improving synergies, alignment and simplifying systems and efficiencies within **sefa**. Key focus areas included the following;

- Streamlining talent management processes;
- Implementation of a comprehensive people development approach;
- Culture integration – one-**sefa**-one-culture;
- Optimising high-performance culture;
- Improving employee wellbeing and harmonised working environment;
- Effective implementation of HCM policies; and
- Providing an adequate, safe and secure employee working environment.

### Talent Management

An agile talent management structure, capable of meeting changing business needs and sustainable organisational performance, lies at the heart of the HCM strategy. There were a number of important achievements in this regard. Workforce planning was mainstreamed through its integration into annual organisational planning. There was also an increased focus on redeployment and realignment of skills to meet business needs.

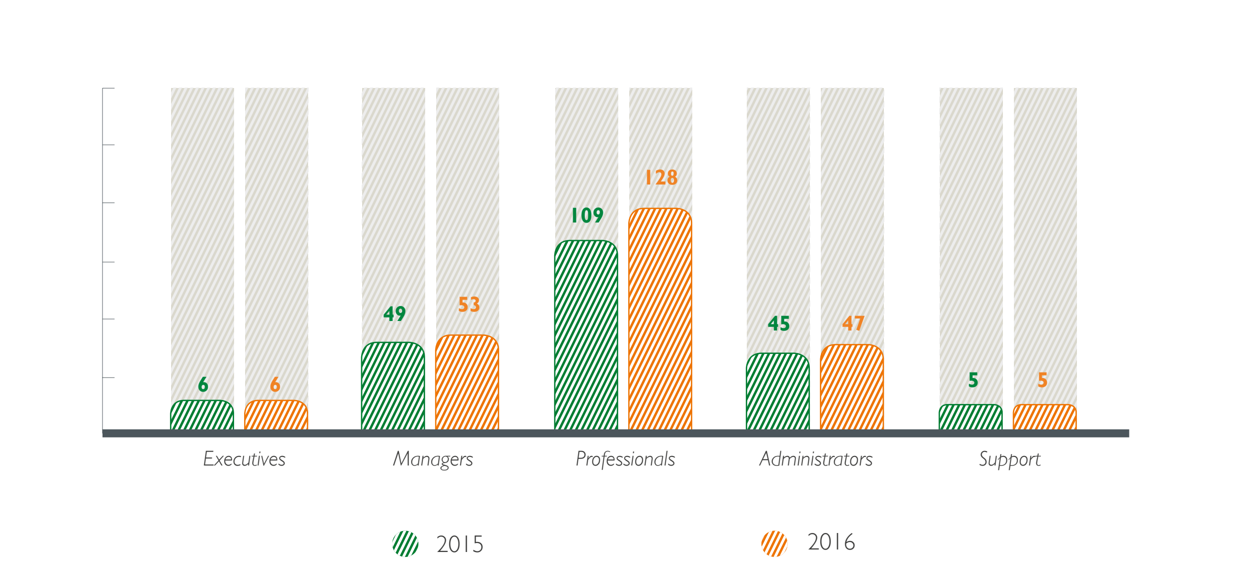
### Talent Acquisition

When **sefa** acquires talent, it brings in people who have the requisite skills to support its decision-making process. These are people with competencies in finance, with a deep understanding of due diligence, who can review **sefa**'s investments and analyse whether the agency is making correct investment decisions when it invests in small business. The division has continued to hire top talent in critical positions and increased its headcount from 214 to 239. The 2015/16 financial year was the first year in which **sefa** had a full leadership complement, on a permanent basis.

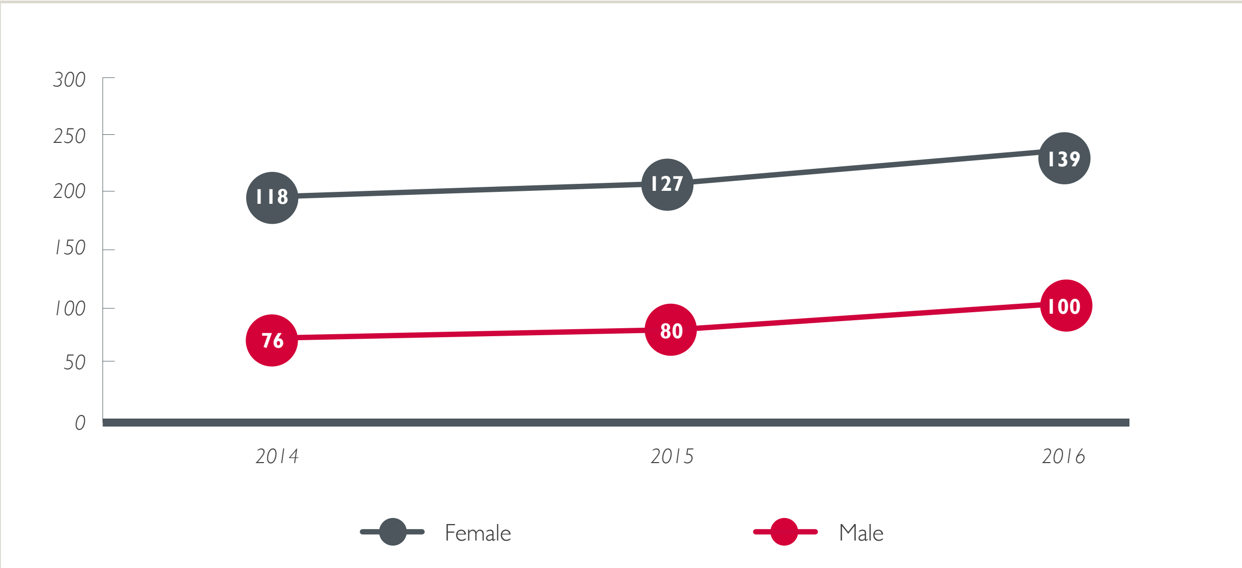
### Headcount

The following graph depicts the **sefa** workforce by level, including fixed-term contractors. During the past financial year, there were minor variances in staff categories. The number of, managers increased from 49 to 53; professionals increased from 109 to 128, and administrators increased from 45 to 47. **sefa** will continue to keep the flexible component of its workforce at a minimal level, with a view to achieving cost containment and limiting long-term financial liabilities.

### Headcount According to Staff Categories



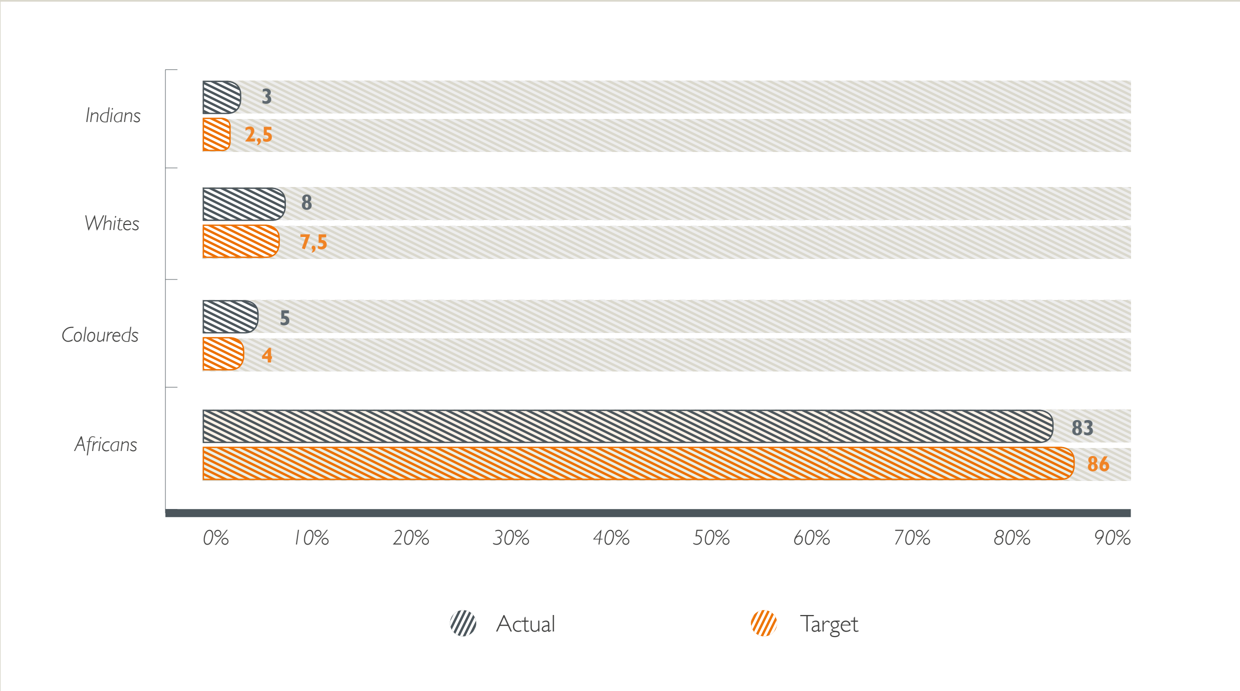

### Gender Representation Graph over a three-year Period




The graph reflects a steady increase in both male and female representation over a three-year period.

**sefa** outreach event

**Employment Equity: Actual versus Target**




An analysis of **sefa**'s staff employment equity metrics confirms that the organisation has exceeded its target for Africans by 3%. The category of people living with disabilities and white employees indicate slight variances of about 1% between targets and actuals. **sefa** is making progress to meet its target on employment of persons with disability representation.

### Talent Retention

Staff turnover on critical roles was around 5.5% against a target of 7% and an industry average of around 10%. In line with its vision to achieve HPO status, **sefa** wants to become an employer of choice.

### Implementation of a Comprehensive People Development Approach

People are a key determinant of **sefa**'s success. As much as new talent is brought in, the agency remains focused on growing and developing its talent pool.

### Leadership Capability

HCM implemented a new Learning and Development Framework (3E Development). The framework has been devised to facilitate learning and development and to reduce skills gaps. All learning interventions now need to be aligned to the Corporate Plan. When executives approve a learning intervention, it needs to be supported by a Performance Improvement Plan or an Individual Development Plan.

The 3E Development Framework depicted below constituted the basis for our people development interventions. The framework ensures that learning is applied on the job, hence the requirement that 70% of the time employees must be acquiring on-the-job experience.


The division implemented a series of educational and exposure training interventions. Executives and managers were exposed to a Leadership Development Programme, which included mentorship and coaching by an external coach.

Team effectiveness sessions were implemented to enhance working relations among team members. An employee survey revealed that there were some areas of business where leadership needed to be more visible, strengthen the understanding of organisational strategy and how various areas of business impact its achievement.

### Comprehensive Learning Solutions

Capacity gaps were assessed at divisional level, and appropriate learning solutions were developed. The division organised a number of cross-functional group training sessions and leveraged its partnerships with other DFIs such as the IDC Academy and Business Partners; and institutions of higher learning for staff development solutions, which targeted core competencies. These arrangements helped to curb costs and ensured that **sefa** maintains similar training standards to its counter associates. Employees went through an intense development phase of continuous training, development and awareness on critical business and functional core competencies. **sefa** exeeced the targeted skills enhancement interventions of 80% by 29%.

Twenty-nine percent of employees were on the tertiary skills development programme.

Approximately 30% of the training budget focused on developing the following core competencies, which are key to **sefa** delivering against its mandate and also achieving HPO status:

- Financial analysis;
- Interpretation of financial statements;
- Financial modelling;
- Due diligence;
- Workout and restructuring;
- Compliance and governance;
- Credit control and collections; and
- Project management.

The other training interventions offered included training in the following areas:

- Legislation;
- Information Technology;
- Administration; and
- Human capital management.

### Driving Culture Integration

Culture integration - one-**sefa**-one-culture was a priority during the period. Initiatives to drive culture integration included the following:

- The CEO conducted engagements (coffee sessions) with employees. He engaged in and invited ideas to contribute to the organisation's effective functioning;
- Monthly divisional meetings were held to share strategic and operational information; and
- The CEO shared strategic information with employees in the CEO's quarterly forums.

The employee engagement index for the 2015/16 financial year was 69%, and the participation rate was 76%.This serves as a premise from which the above mentioned culture integration interventions are being implemented.

### Optimise High-Performance Culture

As part of continued efforts to strengthen organisational and individual performance, the division managed talent through a performance dialogue programme. The programme entails monitoring performance against annual targets including the identification of individual development areas. Line managers and staff now have a clear understanding of what the organisation expects from them.

### Improve Employee Relations and Discipline

Constructive workplace relationships (informed employer/employee rights and responsibilities) were entrenched through the following initiatives:

- Consultative forums and bi-laterals with stakeholders;
- Meaningful consultation processes;
- Consistent interpretation of **sefa** conditions of employment
- Employee relations training conducted to equip employees with information about the latest developments in labour relations;
- Harmonised relationships with all stakeholders; and
- Established effective working partnerships with stakeholders.

### Effective implementation of HCM policies and procedures

All HCM processes and interventions need to be aligned towards enabling the organisation to achieve HPO status. To improve operational efficiency, systems, policies and processes were streamlined through the effective harnessing of resources by doing more with less, careful workforce management and integration of best practices and systems.

### Focus in the Year Ahead

The future is about stepping up, and taking lessons learnt in previous years, to ensure continuous improvement. In the year ahead, HCM plans to take its current interventions to the next level. Some of the interventions will focus on how the organisation manages change. This typically takes into consideration the creation of an enabling environment to continuously improve on delivery of **sefa**'s mandate.


**sefa** outreach event

# Marketing and Communications

***Marketing and Communications plays a critical role in enabling sefa to deliver on its mandate. The department ensures that sefa enjoys a high profile in all corners of South Africa, particularly among its target market, SMMEs and Co-operatives.***

## Strategic Outreach and Marketing Programme

Marketing and Communications worked very closely with Direct Lending and Wholesale Lending to assist them in extending their geographic footprint, by raising awareness about **sefa** products and services.

The Unit's strategic outreach and marketing programme with stakeholder/partner organisations included 16 events arranged by Head Office; ten were **sefa** initiated and implemented events and the other six were collaborations: 10 events were held in the previous financial year. The increase in the number of events is in line with **sefa**'s Gearing for Growth strategy.

These sessions enable **sefa** to engage with prospective clients, existing clients and business structures within the province. **sefa** always invites a local beneficiary of **sefa** funding to share his other experience with **sefa**. (Beneficiary success stories in the Direct and Wholesale Lending sections are featured in this report).

The agency receives many invitations from stakeholders. These provide very important platforms for **sefa** to extend its reach. During the past financial year, **sefa** participated in 173 events nationally.

## Customer Relationship Management Strategy

The Unit completed the first phase of its project to implement a customer relationship management strategy. The project, which consists of four phases, will be rolled out over a five-year period. The first phase included an internal survey to ascertain employees' understanding of what constitutes customer service. Thereafter, the division developed a strategy, a policy and procedures, which will be rolled out during the next financial year.

## Marketing Campaigns

In line with the agency's Gearing for Growth strategy and its organisational vision to achieve HPO status, marketing initiatives were designed to have the maximum impact. The department deployed a range of platforms including radio, community radio, community print and regional print to reach SMME and Co-operatives.

Radio, particularly provincial and community radio stations, played a critical role in enabling **sefa** to reach its target market. One of the highlights during the period was a month-long radio campaign on a **sefa**-funded youth radio station, Energy FM, in Limpopo. Listeners were able to ask the **sefa** CEO and Direct and Wholesale Lending executives questions. Although callers may not have necessarily qualify for **sefa** funding, the agency was able to respond to them directly.

Community radio stations play a critical role in enabling **sefa** to reach prospective SMMEs and Co-operatives in all corners of the country. During the past financial year, **sefa** executives were interviewed by various community radio stations.

During the period, **sefa** also ran very successful advertising campaigns on 11 community radio stations, which targeted listeners in its target market.

The unit ran a print media campaign, where print advertisements were placed in targeted publications nationwide, including national newspapers, community newspapers, regional newspapers, and business and specialist magazines.

Additionally, **sefa** participated in the Tourism Indaba, the Rand Easter Show and the annual Franchise Association of South Africa (FASA) convention. These events enabled **sefa** to engage directly with its target market.

**sefa**'s Gearing for Growth strategy resulted in the opening of it's access points. Marketing and Communications branded these offices in **sefa**'s corporate colours to ensure brand consistency.

## The Year Ahead

Marketing and Communication will continue to disseminate information about **sefa**. It wants to ensure that SMMEs and Co-operatives do not fail to realise their business dream because of a lack of information about **sefa**'s products and services.

Marketing and Communications will also continue to support **sefa**'s Gearing for Growth strategy and will continue to extend its geographic reach.


**sefa** outreach event in KZN

# Strategic Risks

***Strategic risks are a combination of uncertainties and untapped opportunities embedded in an organisation's strategic intent and the execution thereof.***

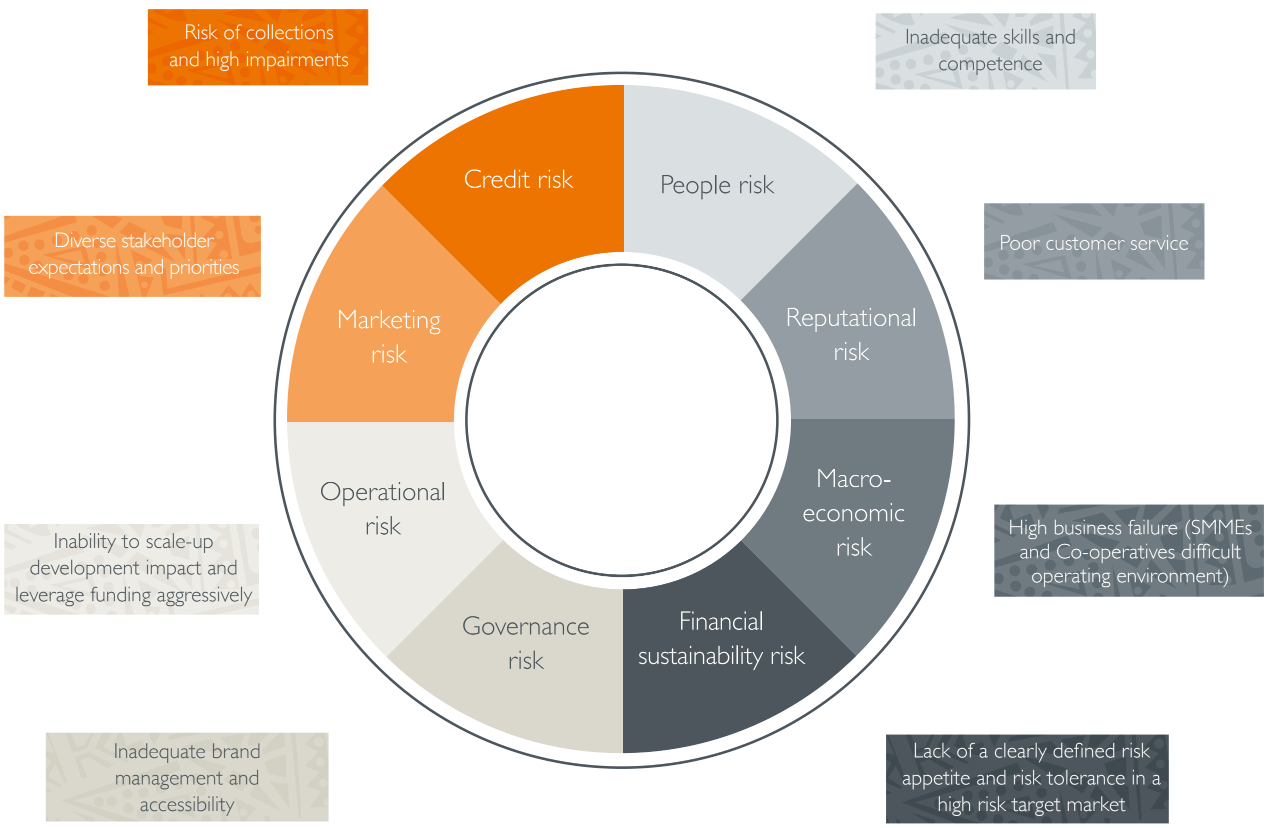
***Risks may be triggered internally or externally. They may arise from changes in the operating environment, poor business decisions, inadequate resources or the poor execution of business decisions. The management of these risks has a significant impact on an organisation's ability to achieve its strategic objectives.***

## Strategic Risks

**sefa** has integrated its risk management into its strategy, planning, budgeting, funding and operational processes.

The agency's risk register constitutes a critical component of the risk management strategy. A robust process of risk identification is in place. Action plans are compiled and implemented, and risk owners and control owners are appointed to manage **sefa**'s top strategic risks.

**sefa's Strategic Risks**



Risk management plays a critical role in ensuring **sefa**'s sustainability, its ability to deliver against its mandate and its ability to add value to its stakeholders.

The developed financial sector and effective legal systems in South Africa bear testimony to the excellent work that has gone into establishing firm foundations. In spite of the subdued growth, inflationary risks and notable social risk presented by poverty, unemployment and inequality, South Africa has avoided a credit rating downgrade this reflects the stellar work that has gone into building a resilient nation. It is in this turbulent operating context that **sefa** finds itself.

The market that **sefa** funds is high risk **sefa** is thus prone to higher risks than those that would be acceptable to an entity pursuing commercial gains. This is often reflected in the higher impairment rates that **sefa** experiences. As a Development Finance Institution, **sefa** is expected to crowd-in investment and invest in entities that have a higher development yield.

The post investment function is responsible for the timeous collection of amounts owing to **sefa** and the rendering of assistance to clients who are unable to service their debt. This increased credit risk results in the long-term deterioration of **sefa**'s capital base. Collection risk has been flagged as a critical and strategic risk. To reduce the high impairment rates, strategies to collect **sefa** money need to be more effective and aggressive.

**sefa** also notes strides made by industry in a move towards an integrated risk management approach, which is reflected in the Enterprise Risk Management Framework. Best practice standards such as the Committee of Sponsoring Organisations (COSO) have often called for enterprise risk management. In light of the 2008 credit crunch, it became apparent that a holistic approach to risk management was required. Enterprise risk management also answers this call, given that it does not look at risks in silos, but considers an integrated portfolio approach at all levels within the organisation. In the mitigation of risks to **sefa**, risk registers are formulated to track risks and mitigation measures accordingly. These are presented to the different governance structures such as the Executive Committee (Exco), the Enterprise Risk Committee (ERC) and the Board.

Key pillars in **sefa**'s Enterprise Risk Management system include:

- **Risk Governance and Oversight:** This is the oversight provided by the respective governance structures, including the Board.
- **Risk Control and Management:** This speaks to the capacitation of business and management by the risk function to ensure that they can manage the risks inherent in their business endeavours.
- **Risk Assurance:** It is the assurance offered by assurance providers to the governance structures.

Furthermore, **sefa** has established its risk universe. This articulates risk exposures that are applicable to the **sefa** environment.

**sefa Risk Universe**

| Strategic Risk | Operational Risk | Financial Risk | Governance Risk | IT Risk |
|---|---|---|---|---|
| People | Clients, products and business practices | Credit | Corporate governance | IT governance |
| Stakeholder | Execution, delivery and process management | Market | Stakeholder risk | IT security |
| Macroeconomics | Employment practice and workplace safety | Concentration | Regulatory risk | |
| Reputation | External and Internal fraud and theft | Liquidity | Supply chain | |
| | Damage to physical assets | Capital structure | Legal | |
| | Business disruptions and systems failure | Financial sustainability | | |

**sefa** also provides outsourcing services to its subsidiary, namely Khula Credit Guarantee SOC Ltd (KCG) and Land Reform Empowerment Facility (LREF). Through this initiative KCG has been able to undergo its own risk and solvency assessment as prescribed by the Financial Services Board. KCG was able to timeously submit its Mock-ORSA report detailing the risk imperatives in its dynamic operating environment and subsequent capital requirements.

## Enterprise Risk Management

During the period under review, the ERM function achieved the following:

- Trained risk champions;
- Developed a Risk Management Strategy and a Risk Management Plan;
- Developed 19 risk registers and a Strategic Risk Register for **sefa**;
- Reviewed the Enterprise Risk Management Framework;
- Reviewed the risk assessment process to include control and control assessment;
- Conducted a benchmark with peer organisations;
- Formulated the Mock-ORSA report for Financial Services Board submission;
- Developed a Risk Register - Own Risk Self Assessment (ORSA) policies and procedures; and the Mock-ORSA Report for the subsidiary Khula Credit Guarantee (SOC); and
- Reported quarterly on the risk profile to Enterprise Risk Committee.

## Credit Risk Management

In the fulfilment of **sefa**'s mandate, to provide access to finance for survivalist, SMMEs and Co-operatives as well as financial intermediaries throughout South Africa, **sefa** is highly exposed to various credit risks that are material and require comprehensive controls and ongoing oversight.

Credit risk is defined as the economic loss arising from the failure of a counterparty to fulfil its contractual obligations to **sefa** when due. The credit risk that **sefa** faces arises mainly from providing finance to survivalist, SMMEs, Co-operatives and financial intermediaries throughout South Africa.

Credit risk management encompasses the process of identification, measuring, monitoring and controlling of all credit decisions and exposures within **sefa**.

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.

In situations where **sefa** holds equity in funds, **sefa**'s position could suffer loss arising from the decline in the value of **sefa**'s investment.

### Credit Risk Management Overview

Credit risk management is an integral part of **sefa**'s core business, its management is embedded within the institution's operations and represents a significant risk to **sefa** that mainly arises from exposures to small business and financial intermediaries.

The Board holds the ultimate approval and oversight responsibility for ensuring that strategies are set in which the underlying risks are identified, understood and responded to in a proactive and coherent manner. Furthermore, the Board requires that risks assumed are assessed, measured, mitigated, managed and reported on an on-going basis and with due regard to the monitoring overlapping nature of risks and that the necessary tools and IT systems for overall risk management and monitoring are in place.

To keep credit risk management at the centre of the executive agenda, the Board expects credit risk management to be embedded in the everyday management of **sefa**.

Given the nature of the inherent risk contained in small business transactions, **sefa**'s 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.

### The Credit Risk Unit

The Credit Risk Unit is a dedicated resource within the Risk division. Its role is to assist **sefa** in setting and maintaining best practice credit risk management practices, by providing analytical and advisory services in of risk taking, control, measuring and reporting on credit risk exposures, trends and quality of assets at portfolio level. The primary objective of the unit is, therefore, 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 Unit performs an independent credit risk assessment of all transactions and indicates support or no support and the basis thereof. Risk assessment critically identifies and assesses the risks and proposes appropriate additional mitigations.

### Credit Risk Control and Governance: Committee Structure

The primary management level governance committees overseeing credit risk and evaluating all transactions are as follows:

- Executive Credit Committee
- Management Credit Committee
- Small Enterprise Credit Committee

These credit committees have clearly defined mandates and members. Additionally, delegated authorities are regularly reviewed. Responsibilities include:

- Providing oversight of governance and risk appetite;
- Ensuring that all transactions under consideration are within **sefa**'s mandate and meet its 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; and
- The largest credit exposures above the defined amounts are approved by the Board investment committees.

The following committees have portfolio monitoring oversight over the **sefa** investment portfolio:

- Executive Committee; and
- Investment Monitoring Committee.

These monitoring committees have, amongst others, the following responsibilities:

- Monitor the investment portfolio;
- Ensure adequate business support; and
- Portfolio risk triggers - collections, portfolio at risk and impairments.

### Credit Risk Management Enhancement

The Credit Risk Unit continues to review existing policies and procedures to avoid undue credit risk and potential loss, without compromising 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;
- Identifying, assessing and measuring credit risk across both Direct and Wholesale divisions;
- Maintaining a culture of responsible lending and a robust risk policy and control framework;
- Ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions; and
- Proactive identification of potential client defaults

During the year under review, the Credit Risk unit reviewed and enhanced the internally developed rating models. These models quantify and rank the credit profile of **sefa**'s clients. They assist in frontline credit decisions on new transactions, the management of existing portfolios and ensuring that **sefa** has a credit risk rating for each client.

### Credit Risk Grading

Credit risk ratings are critical to the credit risk management function. These ratings ensure that **sefa** prudently classifies loans in terms of their riskiness as a basis for determining the appropriate pricing and loan loss provisioning.

Although **sefa** is not subject to Basel III, it adopted best practices in terms of the quantification of its assets and funding. As part of the credit process, the organisation has undertaken extensive research on second generation credit risk models and has developed these models for both its Wholesale and Direct Lending divisions. These models have been improved in terms of predictability, accuracy and reliability. **sefa** intends to continue to refine 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, to price transactions accordingly.

The risk classification process 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 that reflects the discounted risk margin associated with a particular grade.

### Reporting

**sefa**'s financial sustainability is critical. Therefore, resources have been dedicated to gain 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. The portfolio report was enhanced to include the quantification 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, it is envisaged that portfolio reporting will be enhanced further as more granular data becomes available.

This process can be summarised in the following broad stages:

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

### Credit Risk Mitigation

In view of the lessons learnt and the increasing level of impairments, collaterals have become an important instrument to enhance the quality of credit and mitigate credit risk inherent in **sefa**'s lending transactions. **sefa** business units pursue the procurement of acceptable collateral on credit transactions on a case-by-case basis. The decision to which kind of collateral can be acceptable will depend on the circumstances of a particular transaction, and it has taken only after a thorough credit appraisal process.

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. The credit risk mitigation policy and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet risk requirements of operational management for legal, practical and timely enforcement.

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

Regulatory compliance refers to an organisation's adherence to laws, regulations, guidelines and directives applicable and relevant to its business. Increasingly businesses are seeing a number of laws applicable to their operations and adherence to the laws is critical to their success. **sefa** has identified legislations applicable to it and appropriate controls have been set up to mitigate the risks associated with non-compliance with those legislations. Violations of regulatory compliance obligations often result in sanctions, including the withdrawal of **sefa**'s lending licence and fines. Regulatory compliance provides **sefa**'s clients and other stakeholders with the confidence that the **sefa** business is reliable.

**sefa** has an established a compliance function to facilitate the regulatory compliance process. Regulatory compliance controls are set up to ensure that the business is aware of and applies the relevant provisions of legislation in its day-to-day operations. Ongoing liaison with and reporting to regulators are integral to **sefa**'s compliance culture. Where regulators raise exceptions in their supervisory process, **sefa** ensures prompt and timeous resolution of such matters.

In embedding a compliance culture within **sefa**, the agency conducts monitoring exercises and training interventions on the applicable priority legislation to provide assurance on the level of compliance to ensure that the business is skilled in the legislative provisions and kept abreast of developments.

# Corporate Governance Report

***sefa views good governance as vital for operating a successful and sustainable business. The company is committed to good governance practices and promotes the highest standards of corporate governance as contained in the King III Report.***

## Shareholding and Shareholder Engagement

**sefa** concluded the shareholder's compact with IDC in accordance with the PFMA. **sefa** fulfilled its reporting obligations to the shareholder in line with the requirements of the PFMA and the Companies Act of South Africa.

The shareholder, the IDC, approved **sefa**'s amended memorandum of incorporation (MOI) at the Annual General Meeting held on 25 August 2015. The MOI sets out rights, duties and responsibilities of the shareholder, directors and others in relation to **sefa**.

## Governance Structures

### Board of Directors

The Board is ultimately responsible for governance and effective control of **sefa** It provides **sefa** with strategic leadership and guidance. It is tasked with approving **sefa**'s strategy, budgets, Corporate Plan and directing **sefa** to achieve its mandate and strategic objectives. The Board is further responsible for monitoring **sefa**'s performance against targets outlined in the Corporate Plan and Balanced Scorecard.

Without renouncing its responsibilities, the Board has delegated certain of its powers to its committees, CEO and management. The Board operates in accordance with good governance practices, the MOI and the Board Charter.

The Board approved various policies during the year under review and ensured compliance with all applicable laws and regulations.

The Board periodically assessed **sefa**'s performance against the targets outlined in the Corporate Plan and the Balanced Scorecard.

The MOI permits a minimum of five and a maximum of 15 directors. At the end of the financial year, the Board comprised eight non-executive directors and one executive director, who is also the CEO.

The term of office of the current Board, which ended on 31 March 2015, was extended to 31 August 2016.

The Board has unrestricted access to management and employees.

### The Chairperson and the CEO

The roles of the Chairperson and the CEO are separate. The Chairperson is responsible for providing overall leadership to the Board, while the CEO is an executive director, who provides **sefa** with operational leadership. The CEO recommends strategies and policies to the Board for approval and ensures implementation of Board resolutions. The Executive Committee assists the CEO to discharge his duties.

The Chairperson Dr Magwentshu-Rensburg retired from the Board with effect 29 February 2016 and was replaced by Mr Setlakalane Molepo as the Acting Chairperson.

### Board Strategy

During the year under review, Board committees responsible for lending activities held strategy sessions to address matters of strategic importance. These sessions fed into the Board strategy session. The Board held several workshops to unpack and gain a better understanding of the **sefa** loan portfolio.

### Conflict of Interest

Directors maintain independence and impartiality in making decisions on **sefa**'s behalf. They recognise the importance of acting in **sefa**'s best interests. Directors disclose direct or indirect interest in any matters before the Board or committee. General interests are declared annually. The Company Secretary maintains the Directors' Declaration of Interests Register.

**Board Remuneration**

Directors' remuneration is fixed by the shareholder. Non-Executive directors are remunerated for attending meetings. The Board and committee remuneration details are contained in the Annual Financial Statements on page 146 of this report.

**Delegation of Authority**

The Board has delegated certain of its responsibilities to the CEO and management through a formal delegation of authority matrix.

**Board Committees**

Board committees' roles and responsibilities are documented in the formal charters, which have been approved by the Board. Committees function within the parameters set out in these charters and the powers delegated to them by the Board. The Board established the Audit Committee and Social and Ethics Committee in line with the Companies Act. Additionally, the following committees are in place: Enterprise Risk Committee, Human Capital and Remuneration Committee, Wholesale Investment Committee and Direct Lending Committee. The Board also appoints ad hoc Board subcommittees from time-to-time to perform specific tasks.

**Audit Committee**

Audit Committee members were reappointed by the shareholder at the AGM held on 25 February 2016. The Committee comprises two independent non-executive directors and one non-executive director. Members of the Committee possess the financial acumen and literacy required to fulfil the responsibilities bestowed upon them.

The Audit Committee fulfils the duties prescribed by the Companies Act, including monitoring the adequacy of financial controls and integrity of financial reporting, and ensures that these are reliable and comply with IFRS, PFMA and the Companies Act. It reviews internal and external audit plans and monitors adherence to these plans.

The Committee oversees the internal audit function and reviews its effectiveness. It recommends the appointment of external auditors to the shareholder.

Both internal and external auditors attend all meetings of the Audit Committee and held meetings with the Committee without management being present.

**Social and Ethics Committee**

The Social and Ethics Committee was established in 2015 to ensure compliance with Section 72 and Regulation 43 of the Companies Act. It is chaired by an independent non-executive director and it has one non-executive director and three prescribes officers as members. The CEO, CFO and the Head of Legal are also committee members. The Committee's duties include monitoring **sefa**'s activities in relation to compliance with consumer relations and compliance with consumer protection laws. It reviews and recommends health and safety, anti-fraud and corruption and code of ethics policies to the Board.

**Enterprise Risk Committee**

The Committee oversees organisational enterprise risk management activities on the Board's behalf. The Committee's membership comprises two independent non-executive and one non-executive director and the CEO. The Chairperson of the Committee is a non-executive director. The Enterprise Risk Committee provides assurance to the Board on the effectiveness of the vompany's risk management systems, practices and procedures. It reviews the risk management framework and risk-related policies and plans.

**Human Capital and Remuneration Committee**

The Committee assists the Board in discharging and monitoring human capital and remuneration-related matters. It reviews human capital and remuneration policies and ensures that these are aligned with relevant legislation, regulatory regulations and the Code of Best Practices. The Human Capital and Remuneration Committee makes recommendations to the Board regarding remuneration and human capital matters, including strategies, policies, plans and performance targets. The Committee comprises four independent non-executive directors.

**Wholesale Investment Committee**

The Board established the Wholesale Investment Committee with the core mandate of considering and approving wholesale lending transactions within its delegated authority. The Committee also considers credit indemnity transactions prior to recommendation for KCG Board approval. It is also charged with monitoring the performance of the Wholesale Lending loan portfolio. The Committee reviews wholesale investment policies and strategies and recommends these to Board for approval. The committee comprises five non-executive directors, the majority of whom are independent. The CEO is also a member of this Committee.

**Direct Lending Committee**

The Direct Lending Committee performs an oversight role for direct lending activities. It ensures that proper strategies and policies are in place for granting and management of credit. It reviews and recommends direct lending annual plans and budgets. The Committee consists of four non-executive members, majority of whom are independent. The CEO is a member of this Committee.

**Company Secretary**

The Company Secretary is responsible for executing duties set out in the Companies Act and other regulatory requirements. Directors have full, unrestricted access to the Company Secretary. The **sefa** Company Secretariat fulfils the role for all Group companies. The Company Secretary is accountable to the Board for ensuring that all processes and procedures are complied with and that sound corporate governance practices are adhered to.

The table below provides more information about Board and Committee members and attendance of meetings.

| | Board | Audit Committee | Enterprise Risk Committee | Human Capital and Remuneration Committee | Social and Ethics Committee | Wholesale Investment Committee | Direct Lending Committee |
|---|---|---|---|---|---|---|---|
| **Number of meetings** | **10** | **6** | **4** | **4** | **1** | **5** | **5** |
| Dr SM Magwentshu-Rensburg *× | 10 | ... | ... | ... | ... | ... | ... |
| Mr SA Molepo*I | 7 | ... | ... | 4 | ... | 4 | ... |
| Mr T R Makhuvha √ | 10 | ... | 4 | ... | 1 | 4 | 3 |
| Ms BP Calvin× | 1 | ... | ... | ... | ... | 2 | 2 |
| Ms O Henwood° | 5 | ... | ... | ... | | 2 | 2 |
| Mr M Ferreira | 9 | ... | ... | ... | ... | 5 | 5 |
| Mr GS Gouws | 9 | 6 | 4 | ... | ... | ... | ... |
| Ms H Lupuwana-Pemba | 8 | ... | ... | 3 | 1 | ... | ... |
| Mr LB Mavundla | 9 | ... | ... | ... | ... | 2 | 2 |
| Mr VG Mutshekwane | 9 | 6 | 4 | 4 | ... | ... | ... |
| Ms K Schumann | 7 | ... | ... | ... | 1 | 5 | 5 |
| Mr IAS Tayob | 10 | 4 | 4 | 4 | ... | ... | ... |

*× Chairperson until 29 February 2016 when she retired
*I Acting Chairperson from 1 March 2016
√ Chief Executive Officer

... not a member
° Appointed - 8 October 2015
× Retired - 25 August 2015

- The Social and Ethics Committee also has its members, two prescribed officers, the CFO and the Head of Legal.
- The number of meetings includes special meetings.
- Two Board ad hoc meetings were held during the year under review, with Mses Lupuwana-Pemba and Schumann as members and management in attendance.

# Report on the Performance Against Predetermined Objectives

The table provides more information about **sefa**'s key performance indicators against which the agency is measured. Targets are set annually and are reviewed and approved by the Board.

| Perspective | Objective | KPI | Target | Actual | Achievement of target | Reason for variance |
|---|---|---|---|---|---|---|
| **Customer perspective** | Access to finance by SMMEs and developmental impact | Total approvals through Wholesale and Direct Lending portfolios | R1 267 124 790 | R1 108 653 334 | No | The underachievement in approvals is due to the tough economic environment, lack of receipt of bankable quality applications and slowdown in the Direct Lending loan book. In addition, the pilot Credit Guarantee Programme took longer than estimated. The completion date impacted negatively on the overall Khula Guarantee Programme's approvals. |
| | | Total approvals via Direct Lending | R540 600 000 | R407 288 800 | No | |
| | | Total approvals via Wholesale Lending | R726 524 790 | R701 364 534 | No | |
| | | Total disbursements to SMMEs via all loan product channels | R885 400 000 | R1 168 164 837 | Yes | Many of the approvals of the previous financial year were disbursed in the current financial year. Many of the Wholesale loan facilities are revolving, which implies that the intermediaries will turn their loan book/ facility amount three to four times a year. |
| | | Approvals in terms of productive to industrial sectors identified in IPAP and NGP | 20% | 67% | Yes | Overachievement in the development indicators is linked to targeted marketing and outreach campaigns especially to targeted groups (black-owned, women-owned, youth-owned, and SMMEs and Co-operatives located in urban and peri-urban areas). In additon, the majority of SMMEs and Co-operatives supported is in the informal and microenteprise sector where the cost of job creation is lower and loan amount averages R4 500 per SMME/ Co-operative. |
| | | Number of SMMEs financed | 41 798 | 54 833 | Yes | |
| | | Number of jobs facilitated | 67 912 | 75 670 | Yes | |
| | | Facilities disbursed to youth-owned (18-35 years old) businesses (1) | R265 620 000 | R274 787 197 | Yes | |
| | | Facilities disbursed to enterprises in rural and peri-urban areas (2) | R398 430 000 | R549 851 015 | Yes | |

(1) The target for this KPI was based on 30% of the targeted total disbursements.
(2) The target for this KPI was based on 45% of the targeted total disbursements.

| Perspective | Objective | KPI | Target | Actual | Achievement of target | Reason for variance |
|---|---|---|---|---|---|---|
| | | Facilities disbursed to women-owned businesses [1] | R398 430 000 | R474 193 759 | Yes | |
| | | Facilities disbursed to black-owned businesses [2] | R619 780 000 | R922 566 767 | Yes | |
| | | Facilities less than R250K [3] | R177 080 000 | R280 661 969 | Yes | |
| | | Facilities disbursed to people living with disabilities [4] | R17 708 000 | R8 512 633 | No | Underachievement is due to the low loan uptake by entrepreneurs living with disabilities. |
| | | Level of customer satisfaction | 60% | 77% | Yes | **sefa** has improved and strengthened the customer management processes (that is policies, processes and systems). |
| **Financial perspective** | Building **sefa**'s financial sustainability | Cost-to-income ratio (excluding impairments and finance charges and the effects of the grant subsidy) [5] | 157% | 130% | Yes | Adherence to the cost containment programme and increased collections on the **sefa** property portfolio have both contributed to this overachievement. |
| | | Accumulated impairment provision as a percentage of total loans and advances Wholesale SMME | 17.50% | 23% | No | The recent economic conditions are tough, especially for small busineeses, that are in the start-up phase. **sefa** has funded a substantial number of such small businesses whose failure rate is considerably high Adding to that is the dependency of funded clients on payments from their business debtors. Delays on non-payment impacted their cash flow, which in turn affects their ability to honour their debt facilities with **sefa**. This has led to a rapid rise of **sefa**'s impairments book. |
| | | Accumulated impairment provision as a percentage of total loans and advances Wholesale micro finance | 10.90% | 24% | No | |
| | | Accumulated impairments provision as a percentage of total loans and advances Direct Lending | 39% | 67% | No | |
| | | Growth in interest and admin fees generated from loans | 76% | 41% | No | The reversal of interest income on impaired loans has had a negative impact in the interest growth. |

(1) The target for this KPI was based on 45% of the targeted total disbursements.
(2) The target for this KPI was based on 70% of the targeted total disbursements.
(3) The target for this KPI was based on 20% of the targeted total disbursements.
(4) The target for this KPI was based on 2% of the targeted total disbursements.
(5) Cost-to-income ratio excludes all line items which are not included in the operating profit/loss.

| Perspective | Objective | KPI | Target | Actual | Achievement of target | Reason for variance |
|---|---|---|---|---|---|---|
| **Internal business processes** | Improve turnaround times for application approvals | Number of days for bridging loans | 10 | 25 | No | For the Direct Lending portfolio, capacity constraints have contributed to the slow turnaround times. |
| | | Number of days for term loans | 20 | 36 | No | |
| | | Number of days for Wholesale application | 50 | 27 | Yes | Overachievement is due to the strengthening of the Wholesale application and due diligence procedure. |
| | System availability | Uptime availability of critical business information systems | 99.9% | 99.9% | Yes | |
| | System development | Enhancement to **sefa**Las and the development of portfolio management system to facilitate better reporting on the quality of the **sefa** loan book | 100% | 100% | Yes | Achievement is linked to proactive monitoring and effective and timely maintenance of all the IT systems within **sefa**. This resulted in continuous systems availability and application enhancements. |
| **People learning and growth** | Alignment, development and motivation of human capital | Labour turn over rate of critical strategic positions | 7% | 5.5% | Yes | Achievement is linked to maturity of the organisational human capital policies and procedures, building and strengthening of the organisational culture and team cohesion, and implementation of the performance management system. |
| | | 80% of staff have individual development plans (IDPs) received and implemented | 80% | 109% | Yes | |
| | | Formal performance management assessments of all staff conducted by 31 March 2016 | 100% | 100% | Yes | |

# GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

## *FOR THE YEAR ENDED 31 MARCH 2016*

**REGISTRATION NUMBER: 1995/011258/06**



The annual 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 of South Africa.

# Statement of Responsibility by the Board of Directors
## for the year ended 31 March 2016

The Board of Directors is responsible for the preparation and fair presentation of the Group and Company annual financial statements of **sefa** (the Company), comprising the statements of financial position as at 31 March 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of 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 of South Africa, and the Directors' Report.

The Board of Directors, which also constitutes the accounting authority, is also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The Board of Directors has made an assessment of the ability of the company and its subsidiaries to continue as going concerns and has 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 the applicable financial reporting framework and the requirements of the applicable legislation.

**Approval of Group and Company 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 20 June 2016 and signed by

**Mr Setlakalane Molepo**
***Acting Chairperson of the Board of Directors***
***Authorised Director***
20 June 2016

**Mr Thakhani Makhuvha**
***Chief Executive Officer***
***Authorised Director***
20 June 2016

# Report of the Audit Committee
## for the year ended 31 March 2016

The Audit Committee has pleasure in submitting this report to the shareholder as required by the Companies Act of South Africa, 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 year ended 31 March 2016, 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 of South Africa 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 those requirements as set out in Section 94 (7) of the Companies Act of South Africa, Treasury Regulations 27.1.8 – 10, the PFMA, the 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 **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 and 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 of Directors 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 **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 of Directors;
- reviewed the annual report, as well as the 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 of Directors;
- assisted the Board of Directors 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 of Directors, management, external and internal auditors on matters concerning the short term insurer;
- advised on matters referred to it by the Board of Directors; and
- 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 auditors 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 for the year under review.

**Risk Management**

Whilst the Board of Directors is ultimately responsible for the maintenance of an effective risk management process, the Committee, together with the Enterprise Risk Committee, assisted the Board of Directors 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 fulfils 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 and Company 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 of Directors that the going concern assumption continued to 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 Audit Committee:

**Mr IAS Tayob**
***Chairperson of the Audit Committee***
20 June 2016

# Directors' Report
## for the year ended 31 March 2016

### Introduction

**sefa** is registered as a State Owned Company in terms of the Companies Act of South Africa 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 defined in the PFMA.

### Nature of business

**sefa** is a DFI, which provides finance to SMMEs and Co-operatives 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 funding 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 R921m (2015: R921m) should this be required in the future.

A grant of R406 million (2015: R284 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 which is agreed with the shareholder and 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 a formal delegation of authority.

**sefa** has a comprehensive system of internal controls, which is designed to ensure that the Company's objectives are met, including the requirements of the Companies Act of South Africa 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, which also conducts compliance reviews. Certain non-compliance matters were identified by the FSB during a compliance review during the year. A number of these findings had been addressed by 31 March 2016 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; and
- Expenses that should be allocated to KCG are currently subsidised by **sefa.**

### Significant matters

The investment property portfolio was reclassified as held-for-sale during the year due to the board resolution to transfer the properties into Khula Business Premises (Pty) Ltd. The reclassification had no impact on the Group financial statements.

### Subsidiaries, joint ventures and associates

Details of trading subsidiaries, joint ventures, joint operations and associates are set out in the notes to the financial statements.

### Dividends

No dividends have been declared during the year and none is recommended (2015: Rnil).

### Share capital

The authorised and issued share capital remained unchanged during the year (2015: 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 year. The term material has not been defined in the Act. Significance levels detailed below were used for the purpose of determining materiality.

***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 R47 million has been adopted.

### Unauthorised, fruitless and wasteful, irregular expenditure and losses through criminal conduct

***Unauthorised expenditure***

No expenditure was classified as unauthorised during the year (2015: 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 R1 235 (2015: R14 951).

***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.

| Irregular Expenditure | 2016 | 2015 |
|---|---|---|
| | R'000 | R'000 |
| Opening balance | - | - |
| Irregular expenditure for the year | 2 981 | 722 |
| Condoned or written off by Accounting Authority | (2 981) | (722) |
| **Closing balance** | **-** | **-** |

***Losses through criminal conduct***

No losses through criminal conduct were identified during the year (2015: Rnil).

**Audit Committee information**

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

| Name of director | 14/05 | 10/06 | 05/08 | 19/11 | 26/01 | 16/02 |
|---|---|---|---|---|---|---|
| IAS Tayob | ✓ | ✓ | ✓ | × | ✓ | × |
| VG Mutshekwane | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| GS Gouws | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

✓- Present

× - Apology

**Directors**

The Directors in office during the 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 (Retired as Director and Chairperson of the Board of Directors effective from 29 February 2016 )

SA Molepo (Appointed as Acting Chairperson of the Board of Directors effective from 1 March 2016)

IAS Tayob

M Ferreira

HN Lupuwana-Pemba

K Schumann – Retired on 30 April 2016

LB Mavundla

VG Mutshekwane

GS Gouws

BP Calvin – Retired on 25 August 2015

O Henwood – Appointed on 8 October 2015

**Events after the year**

The Directors are not aware of any other matter or circumstance arising since the end of the year until 20 June 2016, 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 2016

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 of South Africa, in respect of the year ended 31 March 2016 and all such returns are true, correct and up to date.

**Ms NB Mongali**
***Group Company Secretary***
20 June 2016

# Independent Auditor's Report

**To Parliament and the Shareholder on the Small Enterprise Finance Agency SOC Limited (sefa)**

## Report on the Financial Statements

We have audited the group financial statements and financial statements of **sefa** as set out on pages 87 to 151, which comprise the statements of financial position as at 31 March 2016, 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, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

***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 PFMA 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 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 **sefa** as at 31 March 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the IFRS and the requirements of the PMFA 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 2016, 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 and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual report, compliance with legislation 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 the reported performance information for the following selected objectives presented in the Report on the Performance Against Predetermined Objectives as set out on pages 74 to 76 of the annual report of **sefa** for the year ended 31 March 2016, and reported thereon to the accounting authority.

- Access to finance by SMMEs and Co-operatives and the development impact on pages 74 and 75;
- Building **sefa** financial sustainability on page 75.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether the indicators and targets were welldefined, verifiable, specific, measurable, time bound and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

***Compliance with legislation***

We performed procedures to obtain evidence that the company has complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act.

***Internal control***

We considered internal control relevant to our audit of the financial statements, the Report on the Performance against Predetermined Objectives and compliance with legislation, but not for the purpose of expressing an opinion on the effectiveness of internal control. We did not identify any significant deficiencies in internal control.

**KPMG Inc.**
**Registered Auditor**

**Per T Malakalaka**
Chartered Accountant (SA)
Registered Auditor
Director
29 July 2016

KPMG Hillside
Corner of the Hillside Street and Klarinet Road
Lynnwood
Pretoria
0081

# Statements of financial position
## as at 31 March 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | NOTE | R'000 | R'000 | R'000 | R'000 |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 4 | 551 667 | 534 199 | 420 048 | 396 180 |
| Trade and other receivables | 5 | 36 657 | 34 586 | 32 304 | 30 579 |
| Tax receivable | 33 | - | 37 | - | - |
| Loans and advances | 6 | 562 349 | 652 772 | 485 644 | 553 985 |
| Investment properties held-for-sale | 14 | 13 621 | 17 420 | 207 806 | 17 420 |
| Equipment, furniture and other tangible assets | 15 | 9 012 | 10 833 | 8 757 | 10 111 |
| Intangible assets | 16 | 1 090 | 89 | 1 090 | 84 |
| Investment properties | 13 | 194 186 | 152 381 | - | 152 381 |
| Investments | 7 | 7 799 | 7 350 | 7 799 | 7 350 |
| Investments in subsidiaries | 8 | - | - | 123 432 | 151 805 |
| Investments in joint operations | 9 | - | - | 3 978 | - |
| Investments in associates | 10 | 721 613 | 679 087 | 126 929 | 115 509 |
| Investments in joint ventures | 11 | 203 116 | 173 256 | 164 082 | 129 437 |
| **TOTAL ASSETS** | | **2 301 110** | **2 262 010** | **1 581 869** | **1 564 841** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| Share capital | 17 | 308 300 | 308 300 | 308 300 | 308 300 |
| Shareholder reserves | 18.3 | 1 092 551 | 686 154 | 1 092 551 | 686 154 |
| Retained earnings/(Accumulated loss) | | 308 125 | 686 558 | (368 005) | 57 421 |
| **Equity attributable to owners of the parent** | | **1 708 976** | **1 681 012** | **1 032 846** | **1 051 875** |
| Non-controlling interest | | - | 5 662 | - | - |
| **Total equity** | | **1 708 976** | **1 686 674** | **1 032 846** | **1 051 875** |
| | | | | | |
| **Liabilities** | | | | | |
| Trade and other payables | 19 | 131 174 | 133 761 | 119 229 | 112 901 |
| Tax payable | 33 | 188 | - | - | - |
| Outstanding claims reserve | 20 | 6 686 | 6 881 | - | - |
| Unearned risk reserve | 20 | 2 865 | 5 249 | - | - |
| Deferred tax liability | 12 | 21 427 | 29 380 | - | - |
| Post-retirement medical liability | 21 | 415 | 437 | 415 | 437 |
| Shareholder's loans | 18.2 | 429 379 | 399 628 | 429 379 | 399 628 |
| **Total liabilities** | | **592 134** | **575 336** | **549 023** | **512 966** |
| **TOTAL EQUITY AND LIABILITIES** | | **2 301 110** | **2 262 010** | **1 581 869** | **1 564 841** |

# Statements of profit or loss and other comprehensive income

## for the year ahead 31 March 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | NOTE | R'000 | R'000 | R'000 | R'000 |
| Interest and dividend income | 22 | 137 476 | 106 303 | 121 364 | 91 090 |
| Fee income from loans and indemnities | 23 | 12 927 | 17 439 | 12 173 | 16 302 |
| Interest expense on shareholder's loans | 18.2 | (29 751) | (22 455) | (29 751) | (22 455) |
| **Net interest and dividend income** | | **120 652** | **101 287** | **103 786** | **84 937** |
| Movement on impairments and bad debt provisions | 28.2 | (379 868) | (220 326) | (340 998) | (225 902) |
| **Net interest and dividend income after impairments** | | **(259 216)** | **(119 039)** | **(237 212)** | **(140 965)** |
| Investment property rental income | | 29 580 | 33 484 | 29 580 | 33 484 |
| Investment property expenses | | (43 151) | (47 962) | (43 151) | (47 962) |
| Net fair value gain/(loss)on investment properties | 25 | 39 842 | (13 057) | 39 842 | (13 057) |
| | | **(232 945)** | **(146 574)** | **(210 941)** | **(168 500)** |
| Other income | 24 | 15 446 | 10 486 | 19 144 | 10 442 |
| Personnel expenses | | (155 802) | (122 303) | (155 592) | (122 300) |
| Other operating expenses | | (95 185) | (94 613) | (78 037) | (65 973) |
| **Operating loss** | **28** | **(468 486)** | **(353 004)** | **(425 426)** | **(346 331)** |
| Profit from equity accounted investments, net of tax | 26 | 39 417 | 31 235 | - | - |
| Profit on disposal of investments | 27 | 42 880 | - | - | - |
| **Loss before tax** | | **(386 189)** | **(321 769)** | **(425 426)** | **(346 331)** |
| Income tax credit/(charge) | 29 | 7 756 | (29 662) | - | - |
| **Loss and total comprehensive income for the year** | | **(378 433)** | **(351 431)** | **(425 426)** | **(346 331)** |

| | | | |
|---|---|---|---|
| Loss and total comprehensive income attributable to: | | | |
| Owners of the parent | | (378 433) | (350 841) |
| Non-controlling interest | | - | (590) |
| **Total comprehensive income and loss for the year** | | **(378 433)** | **(351 431)** |

# Statements of changes in equity
## for the year ended 31 March 2016

| GROUP | NOTE | SHARE CAPITAL R'000 | RETAINED EARNINGS/ (ACCUMULATED LOSS) R'000 | SHAREHOLDER RESERVES R'000 | NON-CONTROLLING INTEREST R'000 | TOTAL R'000 |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2014** | | **308 300** | **641 503** | **-** | **2** | **949 805** |
| Distribution | | - | (142) | - | - | (142) |
| Day one gain on shareholder's loans | 18.2 | - | 396 038 | - | - | 396 038 |
| Shareholder's loans recognised in equity | 18.3 | - | - | 477 960 | - | 477 960 |
| Advances received on shareholder's loans | 18.3 | - | - | 208 194 | - | 208 194 |
| Capital contribution received | | - | - | - | 6 250 | 6 250 |
| Total comprehensive income for the year | | - | (350 841) | - | (590) | (351 431) |
| **Balance at 31 March 2015** | | **308 300** | **686 558** | **686 154** | **5 662** | **1 686 674** |
| Loss of subsidiary control | | - | - | - | (5 662) | (5 662) |
| Advances received on shareholder's loans | 18.3 | - | - | 406 397 | - | 406 397 |
| Total comprehensive income for the year | | - | (378 433) | - | - | (378 433) |
| **Balance at 31 March 2016** | | **308 300** | **308 125** | **1 092 551** | **-** | **1 708 976** |
| **COMPANY** | | | | | | |
| **Balance at 31 March 2014** | | **308 300** | **7 714** | **-** | **-** | **316 013** |
| Day one gain on shareholder's loans | 18.2 | - | 396 038 | - | - | 396 038 |
| Shareholder's loans recognised in equity | 18.3 | - | - | 477 960 | - | 477 960 |
| Advances received on shareholder's loans | 18.3 | - | - | 208 194 | - | 208 194 |
| Total comprehensive income for the year | | - | (346 331) | - | - | (346 331) |
| **Balance at 31 March 2015** | | **308 300** | **57 421** | **686 154** | **-** | **1 051 874** |
| Advances received on shareholder's loans | 18.3 | - | - | 406 397 | - | 406 397 |
| Total comprehensive income for the year | | - | (425 426) | - | - | (425 425) |
| **Balance at 31 March 2016** | | **308 300** | **(368 005)** | **1 092 551** | **-** | **1 032 846** |

# Statements of cash flows
## for the year ended 31 March 2016

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | NOTE | R'000 | R'000 | R'000 | R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash utilised by operations | 32 | (116 260) | (136 166) | (115 896) | (118 308) |
| Loans and advances awarded to customers or investees | | (300 102) | (391 706) | (328 727) | (370 986) |
| Tax received/(paid) | 33 | 29 | (240) | - | - |
| **Net cash utilised by operating activities** | | **(416 333)** | **(528 112)** | **(444 623)** | **(489 294)** |
| **Cash flows from investing activities** | | | | | |
| Purchase of equipment, furniture and other tangible assets | 15 | (2 480) | (2 318) | (2 480) | (2 317) |
| Purchase of intangible assets | 16 | (1 259) | (65) | (1 259) | (63) |
| Payments from/(to) En Commandite partnership | | 12 721 | 8 408 | (1 004) | 8 408 |
| Interest and dividends received | | 38 093 | 46 174 | 30 626 | 40 110 |
| (Acquisition)/Disposal of investments | | (21 671) | (52 155) | 34 816 | (36 325) |
| Acquisition of subsidiary (net of cash acquired) | | - | - | (605) | - |
| Proceeds from sale of investment properties | 14 | 2 000 | 2 425 | 2 000 | 2 425 |
| **Net cash generated by investing activities** | | **27 404** | **2 469** | **62 094** | **12 238** |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | - | (142) | - | - |
| Capital funding received from shareholders | 18.3 | 406 397 | 283 844 | 406 397 | 283 844 |
| **Net cash generated by financing activities** | | **406 397** | **283 702** | **406 397** | **283 844** |
| **Net increase/(decrease) in cash and cash equivalents** | | **17 468** | **(241 941)** | **23 868** | **(193 212)** |
| Cash and cash equivalents opening balance | 4 | 534 199 | 776 140 | 396 180 | 589 392 |
| **Cash and cash equivalents closing balance** | **4** | **551 667** | **534 199** | **420 048** | **396 180** |

# Notes to the financial statements
## for the year ended 31 March 2016

## 1. ACCOUNTING POLICIES

### 1.1 Reporting entity

**sefa** (the Company) 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 2016 comprise the financial information of **sefa**, its subsidiaries, joint operations, associates and joint ventures. 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 Co-operatives directly through its branch network and indirectly through Financial Intermediaries (FI's) 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 Group and Company financial statements were authorised for issue by the Board of Directors on 20 June 2016.

### 1.2 Statement of compliance

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

### 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; and
- 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 financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

- ***Effective for financial year commencing 1 April 2017:***

- *Disclosure Initiative (Amendments to IAS 7) (effective 2017 financial year)*

  The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

  The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted

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- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*

  The amendments provide additional guidance on the existence of deductible temporary

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

differences, which depend solely on a comparison of the carrying value of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying values or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying value, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

- ***Effective for financial year commencing 1 April 2018:***

- *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 not have a significant impact on the Group.

The amendments apply for annual periods beginning on or after 1 January 2018 and early application is permitted.

- *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 not have a significant impact on the Group. The standard changes the measurement basis of 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 may increase the provision for bad debts recognised in the Group.

The amendments apply for annual periods beginning on or after 1 January 2018 and early application is permitted.

- ***Effective for financial year commencing 1 April 2019:***

- *IFRS 16 Leases*
On 13 January 2016, the IASB issued the final IFRS 16 Leases Standard, which replaces earlier versions of IFRS 16. The standard provides a single lease accounting model, requiring lessees to recognise assets

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

and liabilities for all leases unless the lease is 12 months or less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance leases, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The amendments apply for annual periods beginning on or after 1 January 2019 and early application is permitted.

Earlier adoption is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

### 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 consideration transferred is higher than the net assets acquired, any difference between the net asset value and the consideration transferred of a subsidiary is treated in accordance with the Group's accounting policy for goodwill. If the consideration transferred 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 entities 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

- ***Measurement***
  The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as and when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequently, the carrying value of non-controlling interest is the amount of the interest at initial recognition plus the non-controlling interest's share of the subsequent change in equity. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree's and the acquisition-date fair value of any previous equity interest in the acquiree's over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss and other comprehensive income.

- ***Derecognition***

  When the Group loses control of a subsidiary it stops consolidating the subsidiary by derecognising the assets (including goodwill) and liabilities of the subsidiary and NCI in the subsidiary. As a consequence, the amount recognised in profit or loss on loss of control of a subsidiary is measured as the difference between:
  - The sum of :
    - The fair value of the consideration received, if any;
    - The fair value of any retained non-controlling investment; and
    - The carrying value of the NCI in the former subsidiary.
  - The carrying value of the former subsidiary's net assets.

### 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. Any excess of the acquisition price over the acquired net asset value is not separately recognised as goodwill, but rather is included in the cost of the investment.

The cumulative post-acquisition movements are adjusted for against the carrying value of the investment. Distributions received from equity-accounted interests reduce the carrying value 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.

The equity interest in an equity accounted investee includes, for this purpose, the carrying value of the investment under the equity method and other long term interests that in substance form part of the entity's net investment in the associate or joint venture.

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 as per accounting policy 1.11 below.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 1. ACCOUNTING POLICIES (continued)

### 1.9 Financial instruments

#### 1.9.1 Financial assets

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

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. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

- Initial recognition
  Loans and receivables are initially recognised at cost, which includes the consideration paid to clients as a disbursement plus any fees and other transaction costs.
- Subsequent measurement
  Loans and receivables are carried at amortised cost using the effective interest method less impairment loss.
- Derecognition
  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.

- Initial recognition
  Investments in equity assets are initially recognised at cost, which includes the consideration paid for the investment plus any fees and other transaction costs.
- Subsequent measurement
  Subsequent to initial recognition investments in equity assets are carried fair value less impairment loss. Where the fair value of an equity instrument cannot be measured reliably it should be measured at cost. Movement in the fair value movement is recognised in the statement of profit or loss and other comprehensive income.
- Derecognition
  - Investments in equity assets (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

The Group's financial liabilities fall into the other liabilities category. Management determines the classification of its financial liabilities at initial recognition. Financial liabilities are all items that give rise to a contractual to deliver cash or another financial asset to another entity.

- Initial recognition
  Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred.
- Subsequent measurement
  Subsequent to initial recognition investments in financial liabilities are carried at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.
- Derecognition
  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 value is recognised in profit or loss.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

### 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; and
- Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at year end 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 at year end, 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 Board of 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 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 value 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 year end, 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

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 is 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. Subsequent to initial recognition, equity is not re-measured.

### 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 year end. 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; and
- 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.

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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 values for the Group's non-financial assets, other than deferred tax assets and investment properties are reviewed at each year end 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 value 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 year end.

Impairment losses recognised in the prior periods are assessed at each year end 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 value does not exceed the carrying value 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 | 2 - 4 years |
| Intellectual property | 3 years |

The residual values, useful lives and amortisation methods are re-assessed at each 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 year end. 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

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 value 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**

***Initial 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.

***Subsequent measurement***

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 value 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 value 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 items of equipment, furniture and other tangible assets 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 value 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

### 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 value 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 value 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 value of the part that is replaced is derecognised. All other costs are recognised in profit or loss as an expense as they are incurred.

**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 year end and adjusted if appropriate.

**Derecognition**

The carrying value 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 value 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

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 statement of cash flows, 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

A provision is a liability of uncertain timing or amount.

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.

### 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 value 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 year end 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; and
- 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 year end.

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 year end, to recover or settle the carrying value of its assets and liabilities. For this purpose, the carrying value 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 year end. 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, volume rebates, suspended interests and suspended rental income.

#### 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.

#### Dividends

Dividend income is recognised in profit or loss on the date the Group's right to receive payment is determined.

#### 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 value 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; and
- 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.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 1. ACCOUNTING POLICIES (continued)

**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.

### 1.23 Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

### 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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); and
- 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 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

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 values of assets and liabilities within the next 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.
- 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; and
- Rental debtors: The repayment history and ageing of the receivable is used to determine the impairment in accordance with an impairment matrix.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 1. ACCOUNTING POLICIES (continued)

**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.

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.

# Notes to the financial statements

## for the year ended 31 March 2016 (continued)

## 2. FINANCIAL ASSETS AND LIABILITIES

The table below sets out the Group and Company's classification of each class of financial assets and liabilities. The carrying value of each class of financial asset or liability approximates fair value.

| | GROUP - 2016 | | | |
|---|---|---|---|---|
| | Loans and receivables | Cost less impairment* | Other amortised cost | Total |
| | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | |
| Loans and advances | 562 349 | - | - | 562 349 |
| Investments | - | 7 799 | - | 7 799 |
| Trade and other receivables | 33 444 | - | - | 33 444 |
| Cash and cash equivalents | 551 667 | - | - | 551 667 |
| | **1 147 460** | **7 799** | **-** | **1 155 259** |
| **Liabilities** | | | | |
| Shareholder's loans | - | - | (429 379) | (429 379) |
| Trade and other payables | - | - | (101 732) | (101 732) |
| | **-** | **-** | **(531 111)** | **(531 111)** |
| **Total financial assets and liabilities** | **1 147 460** | **7 799** | **(531 111)** | **624 148** |

| | GROUP - 2015 | | | |
|---|---|---|---|---|
| | Loans and receivables | Cost less impairment* | Other amortised cost | Total |
| | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | |
| Loans and advances | 652 772 | - | - | 652 772 |
| Investments | - | 7 350 | - | 7 350 |
| Trade and other receivables | 32 869 | - | - | 32 869 |
| Cash and cash equivalents | 534 199 | - | - | 534 199 |
| | **1 219 840** | **7 350** | **-** | **1 227 190** |
| **Liabilities** | | | | |
| Shareholder's loans | - | - | (399 628) | (399 628) |
| Trade and other payables | - | - | (108 875) | (108 875) |
| | **-** | **-** | **(508 503)** | **(508 503)** |
| **Total financial assets and liabilities** | **1 219 840** | **7 350** | **(508 503)** | **718 687** |

* *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.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 2. FINANCIAL ASSETS AND LIABILITIES (continued)

| | COMPANY - 2016 | | | |
|---|---|---|---|---|
| | Loans and receivables | Cost less impairment* | Other amortised cost | Total |
| | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | |
| Loans and advances | 485 644 | - | - | 485 644 |
| Investments | - | 7 799 | - | 7 799 |
| Trade and other receivables | 29 408 | - | - | 29 408 |
| Cash and cash equivalents | 420 048 | - | - | 420 048 |
| | **935 100** | **7 799** | **-** | **942 899** |
| **Liabilities** | | | | |
| Shareholder's loans | - | - | (429 379) | (429 379) |
| Trade and other payables | - | - | (89 787) | (89 787) |
| | **-** | **-** | **(519 166)** | **(519 166)** |
| **Total financial assets and liabilities** | **935 100** | **7 799** | **(519 166)** | **433 934** |

| | COMPANY - 2015 | | | |
|---|---|---|---|---|
| | Loans and receivables | Cost less impairment* | Other amortised cost | Total |
| | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | |
| Loans and advances | 553 985 | - | - | 553 985 |
| Investments | - | 7 350 | - | 7 350 |
| Trade and other receivables | 29 218 | - | - | 29 218 |
| Cash and cash equivalents | 396 180 | - | - | 396 180 |
| | **979 383** | **7 350** | **-** | **986 733** |
| **Liabilities** | | | | |
| Shareholder's loans | - | - | (399 628) | (399 628) |
| Trade and other payables | - | - | (88 015) | (88 015) |
| | **-** | **-** | **(487 643)** | **(487 643)** |
| **Total financial assets and liabilities** | **979 383** | **7 350** | **(487 643)** | **499 090** |

* *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.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT

The Group and Company 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 of Directors has established the Audit & Enterprise Risk Committees, which are responsible for developing and monitoring the Group's risk management policies. These 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; and
- 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

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 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Total | Within 1 year | 2 - 5 years | More than 5 years |
| **31 March 2016** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| **Recognised financial liabilities** | | | | | |
| Trade payables | 39 006 | 39 006 | 39 006 | - | - |
| Credit guarantees/indemnities issued to financial institutions (1) | 9 551 | 9 551 | 9 551 | - | - |
| Shareholder's loans | 429 379 | 429 379 | - | - | 429 379 |
| | **477 936** | **477 936** | **48 557** | **-** | **429 379** |
| **Off-balance sheet items** | | | | | |
| Undrawn financing facilities approved | - | 72 353 | 72 353 | - | - |
| Operating lease commitments | - | 26 381 | 8 725 | 17 656 | - |
| | **-** | **98 734** | **18 078** | **17 656** | **-** |
| | **471 936** | **576 670** | **129 635** | **17 656** | **429 379** |

*(1) Total credit guarantees/indemnities issued to financial institutions amount to R40,5m. 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 | | | | |
|---|---|---|---|---|---|
| | Carrying value | Total | Within 1 year | 2 - 5 years | More than 5 years |
| **31 March 2015** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| **Recognised financial liabilities** | | | | | |
| 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 |
| | **457 595** | **457 595** | **57 867** | **-** | **399 628** |
| **Off-balance sheet items** | | | | | |
| Undrawn financing facilities approved | - | 203 365 | 203 365 | - | - |
| Operating lease commitments | - | 28 786 | 6 777 | 21 684 | 325 |
| | **-** | **232 151** | **210 142** | **21 684** | **325** |
| | **457 495** | **689 646** | **268 009** | **21 684** | **399 953** |

*(1) Total credit guarantees/indemnities issued to a 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.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

| | COMPANY | | | | |
|---|---|---|---|---|---|
| | Carrying value | Total | Within 1 year | 2 - 5 years | More than 5 years |
| **31 March 2016** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| **Recognised financial liabilities** | | | | | |
| Trade payables | 26 032 | 26 032 | 26 032 | - | - |
| Shareholder's loans | 429 379 | 429 379 | - | - | 429 379 |
| | **455 411** | **455 411** | **26 032** | **-** | **429 379** |
| **Off-balance sheet items** | | | | | |
| Operating lease commitments | - | 26 381 | 8 725 | 17 656 | - |
| Undrawn financing facilities approved | - | 72 353 | 72 353 | - | - |
| | **-** | **98 734** | **81 078** | **17 656** | **-** |
| | **455 411** | **554 145** | **107 110** | **17 656** | **429 379** |

| | COMPANY | | | | |
|---|---|---|---|---|---|
| | Carrying value | Total | Within 1 year | 2 - 5 years | More than 5 years |
| **31 March 2015** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| **Recognised financial liabilities** | | | | | |
| Trade payables | 24 873 | 24 873 | 24 873 | - | - |
| Shareholder's loans | 399 628 | 399 628 | - | - | 399 628 |
| | **424 501** | **424 501** | **24 873** | **-** | **399 628** |
| **Off-balance sheet items** | | | | | |
| Operating lease commitments | - | 28 786 | 6 777 | 21 684 | 325 |
| Undrawn financing facilities approved | - | 194 757 | 194 757 | - | - |
| | **-** | **223 543** | **201 534** | **21 684** | **325** |
| | **424 501** | **648 044** | **226 407** | **21 684** | **399 953** |

### 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| At the year end the interest rate profile of the Group's interest-bearing financial instruments was: | | | | |
| **Variable rate instruments** | | | | |
| Financial assets | 1 213 634 | 935 951 | 1 043 136 | 742 875 |
| Financial liabilities | (188) | - | - | - |
| | **1 213 446** | **935 951** | **1 043 136** | **742 875** |
| **Cash flow sensitivity analysis for variable rate instruments** | | | | |
| A change in 100 basis points in the interest rates at year end 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 was performed on the same basis for 2015. | | | | |
| 100 basis points increase | **12 134** | **9 360** | **10 431** | **7 429** |
| 100 basis points decrease | **(12 134)** | **(9 360)** | **(10 431)** | **(7 429)** |

**Fair values**

***Fair values versus carrying values***

The fair value of financial assets and liabilities approximate the carrying values 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; and
- The shareholder's loan was initially recognised at fair value and the accumulated finance charges is based on market rates.

Money market investments are reflected as cash and cash equivalents.

***Capital management***

The Board of Director'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 of Directors 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.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 3. FINANCIAL RISK MANAGEMENT (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 of Directors 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.

*(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;

# Notes to the financial statements

## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

- 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; and
- 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 of Directors. Money market investments are reflected as cash and cash equivalents.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 3. FINANCIAL RISK MANAGEMENT (continued)

*Sectoral analysis of loans and advances and investments at carrying value*

| | GROUP | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | R'000 | R'000 | R'000 | R'000 |
| | Loans and advances | Investments | Loans and advances | Investments |
| Agriculture, forestry and fishing | 88 121 | - | 65 334 | - |
| Basic chemicals | 4 504 | - | 623 | - |
| Beverages | - | - | 4 033 | - |
| Building construction | 58 600 | - | 119 970 | - |
| Business services | 102 668 | - | 43 763 | - |
| Catering and accommodation services | 1 211 | - | 9 647 | - |
| Communication | 1 890 | - | 1 638 | - |
| Electricity, gas and steam | 4 875 | - | 2 006 | - |
| Finance and insurance | 43 464 | 7 799 | 1 050 | 7 350 |
| Food | 16 006 | - | 13 128 | - |
| Footwear | 234 | - | 856 | - |
| Furniture | 168 | - | - | - |
| Government | 10 162 | - | - | - |
| Medical, dental and other health and veterinary services | 7 393 | - | 7 115 | - |
| Metal products excluding machinery | 3 831 | - | 2 080 | - |
| Motor vehicles, parts and accessories | 12 526 | - | 9 983 | - |
| Non-metallic minerals | 2 808 | - | 2 571 | - |
| Other community, social and personal services | 6 291 | - | 6 802 | - |
| Other chemicals and man-made fibres | 222 | - | 2 934 | - |
| Other industries | 48 205 | - | 11 231 | - |
| Other mining | 11 030 | - | 8 095 | - |
| Other services | 53 162 | - | 222 424 | - |
| Paper and paper products | 192 | - | 157 | - |
| Plastic products | 200 | - | 306 | - |
| Printing, publishing and recorded media | 1 972 | - | 5 518 | - |
| Television, radio and communication equipment | - | - | 1 564 | - |
| Textiles | 5 439 | - | 2 180 | - |
| Transport and storage | 22 512 | - | 61 554 | - |
| Wearing apparel | 2 599 | - | 2 245 | - |
| Wholesale and retail trade | 46 366 | - | 38 547 | - |
| Wood and wooden products | 5 698 | - | 5 418 | - |
| | **562 349** | **7 799** | **652 772** | **7 350** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

| | COMPANY | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | R'000 | R'000 | R'000 | R'000 |
| | Loans and advances | Investments | Loans and advances | Investments |
| Agriculture, forestry and fishing | 44 674 | - | 9 773 | - |
| Basic chemicals | 4 373 | - | 519 | - |
| Beverages | - | - | 2 395 | - |
| Building construction | 58 600 | - | 118 535 | - |
| Business services | 102 535 | - | 42 153 | - |
| Catering and accommodation services | 172 | - | 8 868 | - |
| Electricity, gas and steam | 2 368 | - | - | - |
| Finance and insurance | 43 464 | 7 799 | 1 050 | 7 350 |
| Food | 14 897 | - | 12 244 | - |
| Footwear | 234 | - | 856 | - |
| Furniture | 168 | - | - | - |
| Government | 10 162 | - | - | - |
| Medical, dental and other health and veterinary services | 7 393 | - | 7 115 | - |
| Metal products excluding machinery | 3 831 | - | 2 080 | - |
| Motor vehicles, parts and accessories | 12 526 | - | 9 935 | - |
| Other community, social and personal services | 4 963 | - | 5 192 | - |
| Other chemicals and man-made fibres | - | - | 2 761 | - |
| Other industries | 46 297 | - | 7 331 | - |
| Other mining | 11 030 | - | 8 095 | - |
| Other services | 50 804 | - | 222 420 | - |
| Printing, publishing and recorded media | 1 506 | - | 4 456 | - |
| Television, radio and communication equipment | - | - | 1 464 | - |
| Textiles | 5 439 | - | 2 180 | - |
| Transport and storage | 17 804 | - | 56 868 | - |
| Wholesale and retail trade | 37 406 | - | 22 776 | - |
| Wood and wooden products | 4 998 | - | 4 919 | - |
| | **485 644** | **7 799** | **553 985** | **7 350** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk exposure

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Cash and cash equivalents | 551 667 | 534 199 | 420 048 | 396 180 |
| Trade and other receivables | 51 967 | 53 962 | 47 931 | 50 311 |
| Loans and advances | 1 130 419 | 975 046 | 1 029 808 | 821 844 |
| Investments | 54 598 | 53 594 | 54 598 | 53 594 |
| **Gross exposure** | **1 788 651** | **1 616 801** | **1 552 385** | **1 321 929** |
| Allowance for impairment - trade and other receivables | (18 523) | (21 093) | (18 523) | (21 093) |
| Allowance for impairment - loans and advances | (568 070) | (322 274) | (544 164) | (267 859) |
| Allowance for impairment - investments | (46 799) | (46 244) | (46 799) | (46 244) |
| **Carrying value** | **1 155 259** | **1 227 190** | **942 899** | **986 733** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

More details is provided on loans and advances and investments:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | | 2016 | |
| | R'000 | R'000 | R'000 | R'000 |
| | Loans and advances | Investments | Loans and advances | Investments |
| Individually impaired | 66 320 | 7 799 | 51 312 | 7 799 |
| Past due but not impaired | 54 863 | - | 31 937 | - |
| Neither past due nor impaired | 441 166 | - | 402 395 | - |
| **Total carrying value** | **562 349** | **7 799** | **485 644** | **7 799** |
| | | | | |
| **Individually impaired** | | | | |
| Low risk client | 8 746 | - | 6 188 | - |
| Medium risk client | 71 843 | 49 598 | 55 998 | 49 598 |
| High risk client | 514 106 | 5 000 | 493 612 | 5 000 |
| **Gross amount** | **594 695** | **54 598** | **555 798** | **54 598** |
| Allowance for impairment | (528 375) | (46 799) | (504 486) | (46 799) |
| **Carrying value** | **66 320** | **7 799** | **51 312** | **7 799** |
| | | | | |
| **Past due but not impaired** | | | | |
| Low risk client | 48 762 | - | 31 855 | - |
| Medium risk client | 3 927 | - | - | - |
| High risk client | 2 174 | - | 82 | - |
| **Carrying value** | **54 863** | - | **31 937** | - |
| | | | | |
| **Past due but not impaired comprises:** | | | | |
| 0 - 30 days | 42 624 | - | 30 942 | - |
| 31 - 60 days | 1 218 | - | 746 | - |
| 61 - 90 days | 581 | - | 55 | - |
| 91 - 120 days | 650 | - | 43 | - |
| 120 days + | 9 790 | - | 151 | - |
| **Carrying value** | **54 863** | - | **31 937** | - |
| | | | | |
| **Neither past due nor impaired** | | | | |
| Low risk | 445 762 | - | 408 112 | - |
| Medium risk | 18 203 | - | 17 371 | - |
| High risk | 16 896 | - | 16 590 | - |
| **Gross amount** | **480 861** | - | **442 073** | - |
| Portfolio impairment | (39 695) | - | (39 678) | - |
| **Total carrying value** | **441 166** | - | **402 395** | - |

*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*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2015 | | 2015 | |
| | R'000 | R'000 | R'000 | R'000 |
| | Loans and advances | Investments | Loans and advances | Investments |
| 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 value** | **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 value** | **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 value** | **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 | - |
| **Gross amount** | **369 753** | - | **326 468** | - |
| Portfolio impairment | (41 199) | - | (41 182) | - |
| **Total carrying value** | **328 554** | - | **285 286** | - |

*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*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 3. FINANCIAL RISK MANAGEMENT (continued)

**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.

## 4. CASH AND CASH EQUIVALENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **R'000** | **R'000** | **R'000** | **R'000** |
| Cash in bank and in hand | 149 571 | 131 288 | 109 463 | 91 966 |
| Cash managed by shareholder | 402 096 | 402 911 | 310 585 | 304 214 |
| | **551 667** | **534 199** | **420 048** | **396 180** |

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

## 5. TRADE AND OTHER RECEIVABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **R'000** | **R'000** | **R'000** | **R'000** |
| Trade receivables | 6 014 | 10 912 | 1 978 | 7 261 |
| Pre-payments | 3 213 | 1 717 | 2 896 | 1 361 |
| Rental debtors | 39 745 | 31 344 | 39 745 | 31 344 |
| Gross rental debts | 90 338 | 67 094 | 90 338 | 67 094 |
| Suspended rental income | (45 017) | (31 282) | (45 017) | (31 282) |
| Suspenended interest income | (5 576) | (4 468) | (5 576) | (4 468) |
| Related party loans (refer to note 35) | 5 000 | 10 198 | 5 000 | 10 198 |
| Study loans | 1 208 | 1 508 | 1 208 | 1 508 |
| Trade and other receivables before bad debt provision | 55 180 | 55 679 | 50 827 | 51 672 |
| Bad debt provision on rental debtors | (18 523) | (21 093) | (18 523) | (21 093) |
| | **36 657** | **34 586** | **32 304** | **30 579** |

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

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 6. LOANS AND ADVANCES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Loans and advances to clients | 1 130 419 | 975 046 | 1 029 808 | 821 844 |
| Gross loans and advances to clients | 1 192 962 | 1 004 523 | 1 092 351 | 851 321 |
| Suspended interest income | (62 543) | (29 477) | (62 543) | (29 477) |
| Impairments of loans and advances | (568 070) | (322 274) | (544 164) | (267 859) |
| **Net loans and advances** | **562 349** | **652 772** | **485 644** | **553 985** |
| | | | | |
| **Reconciliation of impairment of loans and advances** | | | | |
| | | | | |
| Specific allowances for impairment | | | | |
| Opening balance | 322 274 | 161 913 | 267 859 | 116 473 |
| Impairment loss for the year | | | | |
| • Reclassification from Investments | 17 754 | - | 24 680 | - |
| • Charge for the year | 379 314 | 217 655 | 372 252 | 204 020 |
| • Recoveries | (6 679) | - | - | - |
| Write offs | (144 593) | (57 294) | (120 627) | (52 634) |
| **Closing balance** | **568 070** | **322 274** | **544 164** | **267 859** |
| | | | | |
| **Maturity of loans and advances** | | | | |
| | | | | |
| • Due within one year | 453 755 | 477 678 | 401 257 | 390 602 |
| • Due after one year but within two years | 303 055 | 175 203 | 278 627 | 145 275 |
| • Due after two years but within three years | 214 227 | 134 118 | 200 517 | 117 058 |
| • Due after three years but within four years | 123 154 | 133 519 | 116 405 | 122 298 |
| • Due after four years but within five years | 35 355 | 52 549 | 33 002 | 46 611 |
| • Due after five years | 873 | 1 979 | - | - |
| • Impairment of loans and advances | (568 070) | (322 274) | (544 164) | (267 859) |
| **Net loans and advances** | **562 349** | **652 772** | **485 644** | **553 985** |

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

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 7. INVESTMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Unlisted equities | 5 000 | 5 000 | 5 000 | 5 000 |
| Investment in En Commandite partnership | 49 598 | 48 594 | 49 598 | 48 594 |
| | 54 598 | 53 594 | 54 598 | 53 594 |
| Impairment of unlisted equities | (5 000) | (5 000) | (5 000) | (5 000) |
| Impairment of investment in En Commandite partnership | (41 799) | (41 244) | (41 799) | (41 244) |
| | **7 799** | **7 350** | **7 799** | **7 350** |
| ***Specific allowances for impairment - Unlisted equities*** | | | | |
| Opening and closing balance | 5 000 | 5 000 | 5 000 | 5 000 |
| ***Specific allowances for impairment - En Commandite partnership*** | | | | |
| **Opening balance** | **41 244** | **38 813** | **41 244** | **38 813** |
| Increase in impairment | 555 | 2 431 | 555 | 2 431 |
| **Closing balance** | **41 799** | **41 244** | **41 799** | **41 244** |

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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 8. INVESTMENTS IN SUBSIDIARIES

| | COMPANY | |
|---|---|---|
| | **2016** | **2015** |
| | **R'000** | **R'000** |
| Unlisted shares in subsidiaries | 55 002 | 55 002 |
| Loans receivable | 181 132 | 233 461 |
| **Total company exposure before impairments** | **236 134** | **288 463** |
| Impairment of loans | (112 702) | (136 658) |
| **Closing carrying value** | **123 432** | **151 805** |

| | **2016** | **2015** | | **2016** | **2015** |
|---|---|---|---|---|---|
| **Companies** | **% interest** | **% interest** | **Nature of activities** | **Total company exposure before impairments R'000** | **Total company exposure before impairments R000** |
| Identity Development Fund Partnership | 100% | 100% | SME Financing | 44 500 | 48 500 |
| Khula Akwandze Fund (Pty) Ltd | 75% | 75% | SME Financing | 35 885 | 45 510 |
| Khula Business Premises (Pty) Ltd | 100% | 100% | Property Rental | - | - |
| Khula Credit Guarantee SOC Ltd | 100% | 100% | Credit indemnities | 55 000 | 55 229 |
| Khula Emerging Contractors Fund | 100% | 100% | SME Financing | 20 394 | 20 394 |
| Khula Enablis SME Acceleration Fund | 0% | 80% | SME Financing | - | 25 000 |
| Khula Institutional Support Services NPC | 100% | 100% | Capacity building | 1 244 | 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 | 51 298 |
| New Cape Equity Fund (Pty) Ltd | 0% | 100% | Private Equity Fund | - | 13 955 |
| Small Business Growth Trust Fund | 81% | 81% | SME Financing | 22 963 | 22 963 |
| | | | | **236 134** | **288 463** |

All subsidiaries are incorporated in the Republic of South Africa and have the same year end as **sefa**.

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 | |
|---|---|---|
| | **2016** | **2015** |
| | **R'000** | **R'000** |
| Profits | - | 14 359 |
| Losses | (9 699) | (19 658) |
| | **(9 699)** | **(5 299)** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 9. INVESTMENTS IN JOINT OPERATIONS

| | COMPANY | |
|---|---|---|
| | 2016 | 2015 |
| | R'000 | R'000 |
| Loans receivable | 3 978 | - |
| Closing carrying value | **3 978** | **-** |

| Companies | 2016 % interest | 2015 % interest | Nature of activities | 2016 Total company exposure before impairments R'000 | 2015 Total company exposure before impairments R'000 |
|---|---|---|---|---|---|
| **sefa** Botala Green Fund | 50% | 0% | SME Financing | 3 978 | - |

All joint operations are incorporated in the Republic of South Africa and have the same year end as the **sefa**.

The investments in joint operations are all non-current assets.

The aggregate net profits after taxation of joint operations attributable to **sefa** were as follows:

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| | R'000 | R'000 |
| Profits | 8 | - |
| | **8** | **-** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 10. INVESTMENTS IN ASSOCIATES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | 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 | 593 938 | 560 839 | - | - |
| Loans receivable | 29 053 | 19 626 | 29 053 | 19 626 |
| Impairment of loans | - | - | (746) | (2 739) |
| | **721 613** | **679 087** | **126 929** | **115 509** |

| | | | | COMPANY | |
|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 |
| **Companies** | **% interest** | **% interest** | **Nature of activities** | **Total company exposure before impairments R'000** | **Total company exposure before impairments R'000** |
| Business Partners Limited [1] | 21% | 21% | SME Financing | 98 622 | 98 622 |
| The Utho SME Infrastructure Fund [1] [2] | 49% | 49% | SME Financing | 29 053 | 19 626 |
| | | | | **127 675** | **118 248** |

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 value of the Group's interest:

| | GROUP | |
|---|---|---|
| | 2016 | 2015 |
| | R'000 | R'000 |
| The aggregate amounts attributable to **sefa** were as follows: | | |
| | | |
| ***Statement of financial position*** | | |
| Non-current assets | 4 105 009 | 3 504 698 |
| Current assets | 637 591 | 543 630 |
| Non-current liabilities | (1 393 142) | (1 035 548) |
| Current liabilities | (275 082) | (148 825) |
| **Net assets at 100%** | **3 074 376** | **2 863 955** |
| | | |
| Group's share of net assets | 637 904 | 596 994 |
| Loan to associate | 29 053 | 19 626 |
| Costs capitalised on shares acquired | 54 656 | 62 467 |
| | **721 613** | **679 087** |
| | | |
| ***Statement of profit or loss and other comprehensive income*** | | |
| Revenue | 585 950 | 517 502 |
| Expenses | (404 838) | (333 621) |
| **Profit and total comprehensive income at 100%** | **181 112** | **183 881** |
| | | |
| Group's share of profit and total comprehensive income | 39 122 | 41 525 |

*[1] 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.*
*[2] Although the ownership interest in The Utho SME Infrastructure Fund is 49%, the voting interest is only 40%.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 11. INVESTMENTS IN JOINT VENTURES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Accumulated equity-accounted income, losses and impairments | 36 673 | 10 924 | - | - |
| Loans receivable | 166 443 | 162 332 | 166 443 | 162 332 |
| Impairment of loans | - | - | (2 361) | (32 895) |
| | **203 116** | **173 256** | **164 082** | **129 437** |

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.

| Companies | 2016 | 2015 | | COMPANY 2016 | COMPANY 2015 |
|---|---|---|---|---|---|
| | % interest | % interest | Nature of activities | Total company exposure before impairments R'000 | Total company exposure before impairments R'000 |
| Anglo Khula Mining Fund (Pty) Ltd | 50% | 50% | Financing Mining Activities | 90 708 | 70 764 |
| Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund | 50% | 50% | SME Financing | 19 023 | 16 342 |
| Enablis Khula Loan Fund | 0% | 40% | SME Financing | - | 6 652 |
| Izibulo SME Trust Fund | 0% | 65% | SME Financing | - | 21 728 |
| **sefa** Awethu Youth Fund (Pty) Ltd | 50% | 50% | SME Financing | 56 712 | 46 846 |
| | | | | **166 443** | **162 332** |

| | GROUP 2016 | GROUP 2015 |
|---|---|---|
| | R'000 | R'000 |
| The aggregate amounts attributable to **sefa** were as follows: | | |
| ***Statement of financial position*** | | |
| Non-current assets | 157 680 | 71 431 |
| Current assets | 119 544 | 255 686 |
| Non-current liabilities | (137 022) | (219 280) |
| Current liabilities | (66 855) | (77 452) |
| ***Net assets at 100%*** | **73 347** | **30 385** |
| Group's share of net assets | 36 673 | 10 924 |
| Loans to joint ventures | 166 443 | 162 332 |
| | **203 116** | **173 256** |
| ***Statement of profit or loss and other comprehensive income*** | | |
| Revenue | 32 088 | 20 364 |
| Expenses | (31 870) | (45 164) |
| ***Profit/(Loss) and total other comprehensive income at 100%*** | **218** | **(24 800)** |
| Group's share of Profit/(Loss) and total comprehensive income | 295 | (10 291) |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

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.

## 12. DEFERRED TAX ASSETS AND LIABILITIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **R'000** | **R'000** | **R'000** | **R'000** |
| **12.1 Deferred taxation asset** | | | | |
| **Composition of deferred taxation asset is as follows:** | | | | |
| Income received in advance | 6 | 105 | - | 98 |
| Equipment, furniture and other tangible assets | - | 575 | - | 575 |
| Tax loss | 12 458 | 8 965 | - | - |
| Provisions and accruals [1] | 139 502 | 108 800 | 135 621 | 100 262 |
| Day one loss - loans and advances | 189 | 335 | 189 | 335 |
| Impairment of investments | 8 541 | 12 173 | 45 530 | 57 537 |
| | **160 696** | **130 953** | **181 340** | **158 807** |
| **Movement on the deferred taxation asset is as follows:** | | | | |
| **Opening balance** | **130 953** | **13 822** | **158 807** | **12 581** |
| • *Temporary differences recognised in profit and loss* | 29 743 | 117 131 | 22 533 | 146 226 |
| • Current year | 29 743 | 117 131 | 22 533 | 146 226 |
| **Closing balance** | **160 696** | **130 953** | **181 340** | **158 807** |

**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:

| | | | | |
|---|---|---|---|---|
| Provisions and accruals [1] | 63 338 | - | 63 338 | 9 370 |
| Tax losses (Revenue in nature) | 188 814 | 171 157 | 182 094 | 114 035 |
| | **252 152** | **171 157** | **245 432** | **123 405** |

The above amounts presented, reflect the unrecognised deferred tax balances applied at a tax rate of 28% (2015: 28%). In instances where the deferred tax assets have not been recognised, this is due to the legal entity to which the deferred tax asset relates to, is not likely to have sufficient taxable temporary differences in the foreseeable future against which to utilise the deferred tax assets.

[1] *Provisions and accruals consist of impairment provisions on loans and advances, suspended rental income and suspended interest income balances, accrued bonuses and accrued leave pay.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 12. DEFERRED TAX ASSETS AND LIABILITIES (continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **12.2 Deferred taxation liability** | | | | |
| **Composition of deferred taxation liability is as follows:** | | | | |
| Equipment, furniture and other tangible assets | (26) | - | (26) | - |
| Prepaid expenses | (167) | (185) | (167) | (185) |
| Debtor allowances | (48 625) | (26 318) | (47 842) | (24 792) |
| Fair value adjustments on investment property | (37 032) | (29 227) | (37 032) | (29 227) |
| Day one gain on shareholder's loan | (96 273) | (104 603) | (96 273) | (104 603) |
| | **(182 123)** | **(160 333)** | **(181 340)** | **(158 807)** |
| **Movement on the deferred taxation liability is as follows:** | | | | |
| **Opening balance** | **(160 333)** | **(11 541)** | **(158 807)** | **(12 581)** |
| • *Temporary differences recognised in profit and loss* | (21 790) | (148 792) | (22 533) | (146 226) |
| • Current year | (21 790) | (148 792) | (22 533) | (146 226) |
| **Closing balance** | **(182 123)** | **(160 333)** | **(181 340)** | **(158 807)** |

### 12.3 Net deferred taxation liability

| | GROUP 2016 R'000 | GROUP 2015 R'000 | COMPANY 2016 R'000 | COMPANY 2015 R'000 |
|---|---|---|---|---|
| **Movement on net deffeffed tax liability is as follows** | | | | |
| **Opening balance** | **(29 380)** | **282** | **-** | **-** |
| • *Temporary differences recognised in profit and loss* | 7 953 | (29 662) | - | - |
| • Current year | 7 953 | (29 662) | - | - |
| **Closing balance** | **(21 427)** | **(29 380)** | **-** | **-** |

**sefa** has lodged an application for Khula Institutional Support Services NPC to be granted an income taxation exemption as a Non-Profit Organisation. The application is pending and at this stage no assessment of the potential outcome of the application and the impact on the tax liability can be made.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 13. INVESTMENT PROPERTIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Opening carrying value** | **152 381** | **159 146** | **152 381** | **159 146** |
| 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) | (152 381) | (1 278) |
| Fair Value Adjustments | 41 805 | (13 057) | - | (13 057) |
| **Closing carrying value** | **194 186** | **152 381** | **-** | **152 381** |

Investment properties are valued externally by independent valuators every three years. All investment properties were valued on 31 March 2016, 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 2016 were assessed to be appropriate for the current year .

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.

| ***Significant unobservable inputs*** | Highest | Lowest | Average |
|---|---|---|---|
| • Budgeted capital expenditure growth rate | 33% | 2% | 11% |
| • Capitalisation percentage | 16% | 10% | 13% |

***Inter-relationship between key unobservable inputs and fair value measurement***

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

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

### Property Revitilisation

During the year **sefa** went on a massive drive to revitilise the property portfolio. As a result **sefa** entered into a Memorandum of Understanding with the Gauteng Department of Economic Development ("GDED) to refurbish and revitilise some of the **sefa** owned properties as part of GDED's Township Economy Revitilisation Program (TER). The GDED injected approximately R34 million in the properly portfolio during the year.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 14. INVESTMENT PROPERTIES HELD-FOR-SALE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Opening carrying value** | **17 420** | **25 567** | **17 420** | **25 567** |
| Reclassification from Investment Properties | - | 1 278 | 152 381 | 1 278 |
| Reclassification to Investment Properties | - | (7 000) | - | (7 000) |
| Disposals at fair value | (2 000) | (2 425) | (2 000) | (2 425) |
| Fair value adjustment | (1 799) | - | 40 005 | - |
| **Closing carrying value** | **13 621** | **17 420** | **207 806** | **17 420** |

Investment properties held-for-sale are valued on the same basis as the investment properties.

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.

Additionally in a board meeting held on 25 May 2015 a resolution was approved to transfer all of the **sefa** owned properties to Khula Business Premises (Pty) Ltd, and thus all of the properties at a **sefa** Company level were reclassified from Investment Properties to Investment Properties Held-For-Sale. The resolution to transfer the Investment Properties and however not have an impact on Group level as Khula Business Premises (Pty) Ltd is a 100% held subsidiary company of the Group.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 15. EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS

| | GROUP | | |
|---|---|---|---|
| | Cost R'000 | Accumulated depreciation and impairment R'000 | Carrying value R'000 |
| **2016** | | | |
| Motor vehicles | 671 | (394) | 277 |
| Computer equipment | 10 726 | (9 340) | 1 386 |
| Office equipment | 4 469 | (3 381) | 1 088 |
| Furniture and fittings | 8 822 | (7 049) | 1 773 |
| Lease improvements | 8 775 | (4 287) | 4 488 |
| | **33 463** | **(24 451)** | **9 012** |
| **2015** | | | |
| Motor vehicles | 354 | (336) | 18 |
| Computer equipment | 9 951 | (8 307) | 1 644 |
| Office equipment | 4 098 | (2 917) | 1 181 |
| Furniture and fittings | 8 701 | (5 783) | 2 918 |
| Lease improvements | 7 963 | (2 891) | 5 072 |
| | **31 067** | **(20 234)** | **10 833** |

| | COMPANY | | |
|---|---|---|---|
| | Cost R'000 | Accumulated depreciation and impairment R'000 | Carrying value R'000 |
| **2016** | | | |
| Motor vehicles | 626 | (366) | 260 |
| Computer equipment | 10 170 | (8 799) | 1 371 |
| Office equipment | 4 187 | (3 117) | 1 070 |
| Furniture and fittings | 5 658 | (4 090) | 1 568 |
| Lease improvements | 8 775 | (4 287) | 4 488 |
| | **29 416** | **(20 659)** | **8 757** |
| | | | - |
| **2015** | | | |
| Motor vehicles | 308 | (308) | - |
| Computer equipment | 9 396 | (7 773) | 1 623 |
| Office equipment | 3 817 | (2 675) | 1 142 |
| Furniture and fittings | 5 538 | (3 263) | 2 274 |
| Lease improvements | 7 963 | (2 891) | 5 072 |
| | **27 022** | **(16 910)** | **10 111** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 15. 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**

| | Motor vehicles R'000 | Computer equipment R'000 | Office equipment R'000 | Furniture and fittings R'000 | Lease improvements R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Opening carrying value** | **18** | **1 644** | **1 181** | **2 918** | **5 072** | **10 833** |
| Additions | 317 | 790 | 371 | 189 | 813 | 2 480 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (58) | (1 048) | (464) | (1 334) | (1 397) | (4 301) |
| **Closing carrying value** | **277** | **1 386** | **1 088** | **1 773** | **4 488** | **9 012** |
| **2015** | | | | | | |
| **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 | - | (1 091) | (448) | (1 340) | (1 352) | (4 231) |
| **Closing carrying value** | **18** | **1 644** | **1 181** | **2 918** | **5 072** | **10 833** |

**COMPANY**

| | Motor vehicles R'000 | Computer equipment R'000 | Office equipment R'000 | Furniture and fittings R'000 | Lease improvements R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| **Opening carrying value** | **-** | **1 623** | **1 142** | **2 274** | **5 072** | **10 111** |
| Additions | 318 | 789 | 371 | 189 | 813 | 2 480 |
| Disposals | - | - | - | - | - | - |
| Depreciation | (58) | (1 041) | (443) | (895) | (1 397) | (3 834) |
| **Closing carrying value** | **260** | **1 371** | **1 070** | **1 568** | **4 488** | **8 757** |
| **2015** | | | | | | |
| **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 | - | (1 080) | (426) | (850) | (1 352) | (3 708) |
| **Closing carrying value** | **-** | **1 623** | **1 142** | **2 274** | **5 072** | **10 111** |

No equipment, furniture or other tangible assets are pledged as security for liabilities (2015: Rnil) and all assets are non-current assets.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 16. INTANGIBLE ASSETS

| | GROUP | | | COMPANY | | |
|---|---|---|---|---|---|---|
| **2016** | **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 | 4 693 | 3 603 | 1 090 | 4 693 | 3 603 | 1 090 |
| Intellectual property | - | - | - | - | - | - |
| Goodwill | 31 899 | 31 899 | - | - | - | - |
| | **36 592** | **35 502** | **1 090** | **4 693** | **3 603** | **1 090** |
| **2015** | | | | | | |
| 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** |

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

| | GROUP | | | |
|---|---|---|---|---|
| **2016** | **Software R'000** | **Intellectual property R'000** | **Goodwill R'000** | **Total R'000** |
| **Opening carrying value** | **65** | **24** | **-** | **89** |
| Additions | 1 259 | - | - | 1 259 |
| Amortisation | (234) | (24) | - | (258) |
| **Closing carrying value** | **1 090** | **-** | **-** | **1 090** |
| **2015** | | | | |
| **Opening carrying value** | **81** | **539** | **-** | **620** |
| Additions | 65 | - | - | 65 |
| Amortisation | (81) | (515) | - | (596) |
| **Closing carrying value** | **65** | **24** | **-** | **89** |

| | COMPANY | | | |
|---|---|---|---|---|
| **2016** | **Software R'000** | **Intellectual property R'000** | **Goodwill R'000** | **Total R'000** |
| **Opening carrying value** | **60** | **24** | **-** | **84** |
| Additions | 1 259 | - | - | 1 259 |
| Amortisation | (229) | (24) | - | (253) |
| **Closing carrying value** | **1 090** | **-** | **-** | **1 090** |
| **2015** | | | | |
| **Opening carrying value** | **72** | **539** | **-** | **611** |
| Additions | 63 | - | - | 63 |
| Amortisation | (75) | (515) | - | (590) |
| **Closing carrying value** | **60** | **24** | **-** | **84** |

No intangible assets are pledged as security for liabilities (2015: Rnil). All intangible assets are non-current assets.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 17. SHARE CAPITAL

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | 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** | | | | |
| 308 300 000 ordinary shares at R1 each | 308 300 | 308 300 | 308 300 | 308 300 |

Share capital is fully paid.

## 18. SHAREHOLDER'S LOANS

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

i. In the prior year a loan amounting to R773 million which was previously repayable on demand, has been rescheduled and formalised with 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 milion to equity during the year ended 31 March 2015. The market related interest rate of 7.2% ( 80% of 9% prime lending rate at date of valuation) was used to discount the loan to fair value.

A deemed interest charge of R29 million (2015: R22 million) has been recognised in profit and loss to realise a portion of the day one gain as required in terms of **sefa**'s accounting policy.

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 in the prior year. The loan is unsecured, interest free and does not attract any fees.

A grant of R406 million (2015: R284 million) 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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 18. SHAREHOLDER'S LOANS (continued)

#### 18.1 Movement on shareholder's loan balances that were de-recognised:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Opening balance** | - | **1 175 521** | - | **1 175 521** |
| Funding received prior to changes in terms | - | 75 650 | - | 75 650 |
| 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** | - | - | - | - |

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

| | | | | |
|---|---|---|---|---|
| Amount de-recognised under previous terms | 399 628 | 773 211 | 399 628 | 773 211 |
| Day one gain recognised in equity | - | (396 038) | - | (396 038) |
| Finance charges | 29 751 | 22 455 | 29 751 | 22 455 |
| **Closing balance** | **429 379** | **399 628** | **429 379** | **399 628** |

#### 18.3 Movement on shareholder's loan classified as equity

| | | | | |
|---|---|---|---|---|
| **Opening balance** | **686 154** | - | **686 154** | - |
| Recognition of loan directly in equity | - | 477 960 | - | 477 960 |
| Funding received | 406 397 | 208 194 | 406 397 | 208 194 |
| **Closing balance** | **1 092 551** | **686 154** | **1 092 551** | **686 154** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 19. TRADE AND OTHER PAYABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Trade payables | 39 006 | 45 737 | 27 061 | 24 873 |
| Deferred grant | 6 357 | 1 945 | 6 357 | 1 945 |
| Accrued bonuses (Refer to 19.1) | 21 025 | 21 217 | 21 025 | 21 217 |
| Accrued leave pay (Refer to 19.2) | 2 060 | 1 724 | 2 060 | 1 724 |
| Managed funds (Refer to 19.3) | 62 726 | 63 138 | 62 726 | 63 142 |
| | **131 174** | **133 761** | **119 229** | **112 901** |

### 19.1 Accrued bonuses

| | | | | |
|---|---|---|---|---|
| **Opening balance** | **21 217** | **16 842** | **21 217** | **16 842** |
| Accruals raised during the year | 21 025 | 12 209 | 21 025 | 12 209 |
| Utilised during the year | (16 222) | (7 834) | (16 222) | (7 834) |
| Untilised portion released during the year | (4 995) | - | (4 995) | - |
| **Closing balance** | **21 025** | **21 217** | **21 025** | **21 217** |

### 19.2 Accrued leave pay

| | | | | |
|---|---|---|---|---|
| **Opening balance** | **1 724** | **3 564** | **1 724** | **3 564** |
| Accruals (reversed)/raised during the year | 2 060 | (138) | 2 060 | (138) |
| Utilised during the year | (1 724) | (1 702) | (1 724) | (1 702) |
| **Closing balance** | **2 060** | **1 724** | **2 060** | **1 724** |

### 19.3 Managed funds

The Group manages funds and holds cash balances on behalf of the following parties:

| | | | | |
|---|---|---|---|---|
| Unops | 42 569 | 44 869 | 42 569 | 44 873 |
| Norad | 7 787 | 7 447 | 7 787 | 7 447 |
| European Union | 11 143 | 10 822 | 11 143 | 10 822 |
| Dr Kenneth Kaunda Municipality | 1 227 | - | 1 227 | - |
| | **62 726** | **63 138** | **62 726** | **63 142** |

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.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 20. 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 | |
|---|---|---|
| | **2016** | **2015** |
| | **R'000** | **R'000** |
| *Unearned risk reserve* | | |
| • **Opening balance** | **5 249** | **4 859** |
| • Movement recorded in profit or loss | (2 384) | 390 |
| **At end of the year** | **2 865** | **5 249** |
| *Outstanding claims reserve* | | |
| • **Opening balance** | **6 881** | **6 282** |
| • Movement recorded in profit or loss | (195) | 599 |
| **Closing balance** | **6 686** | **6 881** |
| *Unearned risk reserve* | | |
| • Unearned Premium Reserve | 191 | 377 |
| • Additional Unexpired Risk Reserve | 2 674 | 4 872 |
| | **2 865** | **5 249** |
| Movement recorded in profit or loss | (2 384) | 390 |
| *Outstanding claims provision* | | |
| • Notified Outstanding Claims Reserve | 2 130 | 2 220 |
| • Incurred But Not Reported Reserve | 4 556 | 4 661 |
| | **6 686** | **6 881** |
| Movement recorded in profit or loss | (195) | 599 |
| **Total exposure** | | |
| Credit indemnities issued to financial institutions | 40 471 | 50 705 |
| Less technical reserves already provided | (9 551) | (12 130) |
| | **30 920** | **38 575** |

The calculation of the reserves was performed by an independent actuarial consulting firm, Matlotlo Group (Pty) Ltd.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 20. UNEARNED RISK PROVISION AND OUTSTANDING CLAIMS PROVISION (continued)

***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 (i.e. assuming KCG does not write new business) and allowance for claim handling expenses has been made.

The principal valuation assumptions are as follows:

| | GROUP | |
|---|---|---|
| | **2016** | **2015** |
| Average ultimate probability of claim | 27% | 26% |
| Claim severity | 81% | 81% |
| Claim expense rate | 5% | 4,55% |
| Recovery rate | 8% | 8,02% |
| Discount rates (per government bond yield curve) | 7.81 - 10.16% | 5.65 - 8.31% |

The sensitivity of the total provisions to the key assumptions is as follows:

| | GROUP | | | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **R'000** | **R'000** | **%** | **%** |
| Probability of claim (+10%) | 322 | 394 | 27% | 26% |
| Claim severity (+10%) | 381 | 1 284 | 81% | 81% |
| Claim expense rate (+1%) | 79 | 101 | 5% | 5% |
| Discount rates (+1%) | (23) | (38) | 8% | 8% |

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 21. POST-RETIREMENT MEDICAL LIABILITY

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Post-retirement medical liability | 415 | 437 | 415 | 437 |

**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 (Pty) Ltd an independent actuarial consulting firm and is dependent on amongst others the demographic profile of employees, mortality, consumer price inflation and bond yields.

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| ***Analysis of the defined post retirement medical liability:*** | | | | |
| Present value of unfunded obligations | 415 | 437 | 415 | 437 |
| Present value of obligations in excess of plan assets | **415** | **437** | **415** | **437** |

Changes in the present value of the defined benefit obligation are as follows:

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| **Opening post-employment medical aid obligation** | **437** | **416** | **437** | **416** |
| Current service cost | 25 | 41 | 25 | 41 |
| Interest cost | 25 | 40 | 25 | 40 |
| Actuarial gain | (72) | (60) | (72) | (60) |
| **Closing defined benefit obligation** | **415** | **437** | **415** | **437** |

The principal actuarial assumptions at the year end (expressed as weighted averages) are as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate at year end | 10.12% naca | 8.51% naca |
| Medical inflation rate per annum | 10.45% naca | 8.68% naca |
| Take-up rate by retired employees | 100% | 100% |
| Retirement age | 60 years | 60 years |
| Pre retirement mortality | SA85-90 Light | SA85-90 Light |
| Post retirement mortality | PA (90) 2 year reduction | PA (90) 3 year reduction |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 21. POST-RETIREMENT MEDICAL LIABILITY (continued)

The table below shows the sensitivity of **sefa**'s obligations, as at 31 March 2016, with respect to post-retirement medical aid benefits to key assumptions:

| Assumption | Variation | % change in provision | Change in value of provision |
|---|---|---|---|
| | | % | R'000 |
| Long-term interest rates | 1% | -14% | (58) |
| | -1% | 17% | 71 |
| Retirement Age | +1 year | -11% | (46) |
| | -1 year | 12% | 51 |
| Withdrawal Rate | 50% | -1% | (5) |
| | -50% | 1% | 5 |
| Post-Retirement mortality | +1 year | -1% | (4) |
| | -1 year | 1% | 3 |

### 22. INTEREST AND DIVIDEND INCOME

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Interest income on cash and cash equivalents | 30 313 | 31 378 | 22 664 | 25 407 |
| Interest income on loans and advances to clients | 106 771 | 68 263 | 92 104 | 53 278 |
| Other interest earned | 639 | 6 662 | 572 | 6 348 |
| Dividends income | (247) | - | 6 024 | 6 057 |
| | **137 476** | **106 303** | **121 364** | **91 090** |

### 23. FEE INCOME FROM LOANS AND INDEMNITIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Fee income | 12 412 | 16 302 | 12 173 | 16 302 |
| Indemnity premiums earned | 515 | 1 137 | - | - |
| | **12 927** | **17 439** | **12 173** | **16 302** |

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 24. OTHER INCOME

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Bad debts recovered | 5 899 | 65 | 5 630 | 39 |
| Management fee - Related parties | 3 821 | 5 264 | 7 828 | 5 264 |
| Other sundry income | 5 726 | 5 157 | 5 686 | 5 139 |
| | **15 446** | **10 486** | **19 144** | **10 442** |

## 25. NET FAIR VALUE GAIN/(LOSS) ON INVESTMENT PROPERTIES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Investment properties | 39 842 | (13 057) | 39 842 | (13 057) |
| | **39 842** | **(13 057)** | **39 842** | **(13 057)** |

## 26. PROFIT FROM EQUITY ACCOUNTED INVESTMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Anglo Khula Mining Fund (Pty) Ltd | 1 998 | (6 156) | - | - |
| Cytobix (Pty) Ltd trading as Godisa Supplier | | | | |
| Development Fund | 449 | (138) | - | - |
| Enablis Khula Loan Fund | (746) | 29 | - | - |
| **sefa** Awethu Youth Fund (Pty) Ltd | (1 405) | (4 025) | - | - |
| **Investment in Joint Ventures** | **296** | **(10 290)** | - | |
| Business Partners Limited | 37 137 | 39 362 | - | - |
| The Utho SME Infrastructure Fund | 1 984 | 2 163 | - | - |
| **Investment in Associates** | **39 121** | **41 525** | - | - |
| | **39 417** | **31 235** | - | - |

## 27. PROFIT ON DISPOSAL OF INVESTMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Investment in Joint Ventures** | **25 453** | **-** | **-** | **-** |
| Enablis Khula Loan Fund | 3 725 | - | - | - |
| Izibulo SME Trust Fund | 21 728 | - | - | - |
| **Investment in Subsidiaries** | **17 427** | **-** | **-** | **-** |
| Khula-Enablis SME Acceleration Fund | 22 585 | - | | |
| New Cape Equity Fund (Pty) Ltd | (5 158) | - | | |
| | **42 880** | **-** | **-** | **-** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 28. OPERATING LOSS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Is arrived at after taking into account the following: | | | | |

### 28.1 Specific items:

| | | | | |
|---|---|---|---|---|
| Contributions to defined contribution plans | 12 003 | 9 479 | 12 003 | 9 479 |
| Depreciation | 4 301 | 4 231 | 3 834 | 3 708 |
| Amortisation | 258 | 596 | 253 | 590 |
| Penalties and interest - South African Revenue Services | 66 | 32 | 6 | 13 |
| Operating lease charges - Equipment | 824 | 805 | 824 | 805 |
| Operating lease charges - Property | 14 803 | 12 081 | 14 803 | 12 081 |
| | **32 255** | **27 224** | **31 723** | **26 676** |

### 28.2 The following increases/(decreases) on impairment provisions were recognised:

| | | | | |
|---|---|---|---|---|
| Impairment of investments in associates | - | - | (2 000) | 531 |
| Impairment of joint ventures | - | - | (27 070) | 10 235 |
| Impairment of Investment in En Commandite partnership | 554 | 2 431 | 554 | 2 431 |
| Impairment of subsidiaries | - | - | (2 739) | 8 684 |
| Increase in bad debt provision - Loans and advances | 234 721 | 160 600 | 251 625 | 151 386 |
| Irrecoverable debt written off - Loans and advances | 144 593 | 57 295 | 120 628 | 52 635 |
| **Total impairments on investments and loans and advances** | **379 868** | **220 326** | **340 998** | **225 902** |
| Increase/(Decrease) in bad debt provision - Rental debtors | 5 511 | (13 945) | 5 511 | (13 945) |
| Irrecoverable debt written off - Rental debtors | 27 | 3 220 | 27 | 3 220 |
| **Total net impairments** | **385 406** | **209 601** | **346 536** | **215 177** |

### 28.3 The following items relating to the credit indemnity product were recognised:

| | | | | |
|---|---|---|---|---|
| Indemnity claims incurred | 1 344 | 3 328 | - | - |
| (Decrease)/Increase in claims provision | (195) | 599 | - | - |
| (Decrease)/Increase in indemnity reserves | (2 384) | 390 | - | - |
| | **(1 235)** | **4 317** | **-** | **-** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 28. OPERATING LOSS (continued)

#### 28.4 Net increase / (decrease) in impairments - Loans and advances:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Agriculture, forestry and fishing | 5 374 | 5 050 | 4 452 | 4 897 |
| Basic chemicals | 1 451 | 1 576 | 1 451 | 1 473 |
| Beverages | 2 273 | 4 029 | 2 273 | 4 061 |
| Building construction | 92 438 | 73 401 | 93 814 | 74 045 |
| Business services | 355 | (4 116) | 355 | (4 723) |
| Catering and accommodation services | 8 445 | 7 145 | 8 445 | 7 145 |
| Electricity, gas and steam | 2 107 | (2 826) | 2 107 | (2 826) |
| Finance and insurance | 2 688 | 3 213 | 2 733 | 3 233 |
| Food | 336 | 10 091 | 4 253 | 9 642 |
| Footwear | 189 | 822 | 189 | 822 |
| Furniture | 36 | - | 36 | - |
| Glass and glass products | (27) | - | - | - |
| Government | 10 091 | - | 10 091 | - |
| Machinery and equipment | - | (135) | - | (135) |
| Medical, dental and other health and veterinary services | 12 304 | 3 173 | 12 806 | 3 196 |
| Metal products excluding machinery | 4 594 | 547 | 4 594 | 547 |
| Motor vehicles, parts and accessories | 5 246 | 2 750 | 3 546 | 2 756 |
| Other community, social and personal services | (6 811) | 1 419 | 6 008 | 2 025 |
| Other chemicals and man-made fibres | (1 813) | 5 155 | (1 813) | 5 155 |
| Other industries | 34 251 | 470 | 34 771 | 481 |
| Other mining | 10 101 | 4 102 | 10 101 | 4 102 |
| Other services | (48 220) | 62 417 | (48 157) | 62 463 |
| Printing, publishing and recorded media | 4 115 | 2 195 | 4 028 | 1 506 |
| Television, radio and communication equipment | (238) | 238 | (238) | 238 |
| Textiles | 623 | (1 203) | 623 | (1 203) |
| Transport and storage | 13 467 | 3 712 | 13 587 | 3 893 |
| Water supply | - | (1 615) | - | (1 615) |
| Wholesale and retail trade | 69 676 | (17 479) | 69 900 | (26 259) |
| Wood and wooden products | 11 670 | (3 531) | 11 670 | (3 533) |
| | **234 721** | **160 600** | **251 625** | **151 386** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 28. OPERATING LOSS (continued)

#### 28.5 Bad debts written off/(recovered) - Loans and advances:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Agriculture, forestry and fishing | 16 | (7) | - | - |
| Basic chemicals | - | 1 999 | - | 1 999 |
| Beverages | - | 4 170 | - | 4 170 |
| Building construction | 22 990 | 14 677 | 22 990 | 14 677 |
| Business services | - | 4 854 | - | 4 854 |
| Electricity, gas and steam | - | 1 130 | - | 1 130 |
| Finance and insurance | 53 952 | 5 077 | 35 243 | 481 |
| Food | 9 192 | 3 967 | 7 645 | 3 969 |
| Government | 470 | - | 470 | - |
| Machinery and equipment | - | 1 303 | - | 1 303 |
| Medical, dental and other health and veterinary services | 1 227 | 754 | 1 227 | 741 |
| Motor vehicles, parts and accessories | 979 | 7 | 979 | 7 |
| Other community, social and personal services | 166 | 322 | 166 | 322 |
| Other chemicals and man-made fibres | 5 973 | - | 5 973 | - |
| Other industries | 8 760 | 3 552 | 6 404 | 3 553 |
| Other services | 14 011 | 4 851 | 13 924 | 4 850 |
| Plastic products | 32 | - | - | - |
| Printing, publishing and recorded media | 1 316 | 2 183 | 366 | 2 167 |
| Television, radio and communication equipment | 2 142 | 110 | 2 142 | 110 |
| Textiles | 551 | 509 | 551 | 509 |
| Transport and storage | 2 292 | 749 | 2 292 | 749 |
| Wholesale and retail trade | 14 625 | 7 023 | 14 625 | 7 004 |
| | **138 694** | **57 230** | **114 997** | **52 595** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 29. INCOME TAX EXPENSE

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Current tax expense** | **196** | **40** | **-** | **-** |
| • Current year | 196 | 40 | - | - |
| **Deferred taxation** | **(7 952)** | **29 622** | **-** | **-** |
| • Current year | (7 952) | 29 622 | - | - |
| **Income tax expense** | **(7 756)** | **29 662** | **-** | **-** |
| | | | | |
| ***Reconciliation of taxation amount*** | | | | |
| Loss before taxation | (386 189) | (321 769) | (425 426) | (346 331) |
| | | | | |
| Taxation at standard rate of 28% (2015: 28%) | (108 133) | (90 095) | (119 119) | (96 973) |
| | | | | |
| Tax effect of permanent differences | (20 836) | 110 471 | (3 678) | 112 065 |
| Tax effect of deferred tax asset not recognised | 122 438 | 23 056 | 122 797 | (15 092) |
| Tax loss recognised | (1 225) | (13 770) | - | - |
| **Income tax expense** | **(7 756)** | **29 662** | **-** | **-** |
| | | | | |
| Effective tax rate - Based on current year taxation expense | **2,01%** | **(9,22%)** | **0,00%** | **0,00%** |

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Prescribed officers as prescribed by the Companies Act of South Africa, 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 of South Africa requirements.

### 30.1 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.

| | | 2016<br>R'000 | 2015<br>R'000 |
|---|---|---|---|
| SM Magwentshu-Rensburg | Retired as Director and Chairperson of the Board effective from 29 February 2016 | 282 | 349 |
| SA Molepo | Appointed as Acting Chairperson of the Board effective from 1 March 2016 | 195 | 216 |
| IAS Tayob | | 301 | 328 |
| M Ferreira | | 271 | 283 |
| VG Mutshekwane | | 295 | 324 |
| BP Calvin | Retired on 25 August 2015 | 90 | 264 |
| HN Lupuwana | | 146 | 143 |
| LB Mavundla | | 219 | 197 |
| LFV Mosupye (2) | | 19 | 6 |
| GS Gouws (1) | | 133 | - |
| O Henwood | Appointed on 8 October 2015 | 39 | - |
| K Schumann (1) | Resigned on 30 April 2016 | 162 | - |
| | | **2 152** | **2 110** |

*(1) Mr Gouws and Ms Schumann are employed by the IDC and the directors fee for the services rendered were paid to the IDC.*
*(2) This director only serves on the Board of Directors the subsidiary company, KCG.*

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 30. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION (continued)

### 30.2 Executive management

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Short term employee benefits [1] | 12 712 | 10 489 | 12 712 | 10 489 |
| Post-employment benefits [1] | 415 | 943 | 415 | 943 |
| | **13 127** | **11 432** | **13 127** | **11 432** |

| 2016 | | | | | |
|---|---|---|---|---|---|
| | | Incentive bonus | | Retirement, medical and other | |
| | Basic salary | Short-term | Long-term | benefits | Total |
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| TR Makhuvha [2] | 1 966 | 283 | 258 | 505 | 3 012 |
| ZR Coetzee [2] | 1 564 | 253 | 248 | 623 | 2 688 |
| RV Ralebepa | 1 451 | 184 | - | 270 | 1 905 |
| N Shwala | 1 345 | 163 | - | 190 | 1 698 |
| GN Nadasan | 1 412 | 185 | - | 321 | 1 918 |
| VV Matsiliza | 1 476 | 184 | - | 246 | 1 906 |
| | **9 214** | **1 252** | **506** | **2 155** | **13 127** |

| 2015 | | | | | |
|---|---|---|---|---|---|
| | | | Acting | Retirement, medical and other | |
| | Basic salary | Incentive bonus | allowance | benefits | Total |
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| TR Makhuvha [2] | 1 612 | 811 | - | 522 | 2 945 |
| RV Ralebepa | 362 | - | - | 56 | 418 |
| N Shwala | 1 026 | 155 | - | 45 | 1 226 |
| LG Mashishi | 1 570 | - | - | 74 | 1 644 |
| ZR Coetzee [2] | 824 | 429 | - | 394 | 1 647 |
| PC Swanepoel | 327 | - | - | 36 | 363 |
| D Hansen | 397 | - | - | - | 397 |
| GN Nadasan | 196 | - | - | 7 | 203 |
| L Van Lelyveld | 428 | - | 87 | 24 | 539 |
| VV Matsiliza | 1 413 | 231 | - | 229 | 1 873 |
| AD Dirks [3] | - | - | 124 | - | 124 |
| L Van Schalkwyk [3] | - | - | 53 | - | 53 |
| | **8 155** | **1 626** | **264** | **1 387** | **11 432** |

*[1] Remuneration includes the portion paid by the IDC.*
*[2] Seconded to **sefa** and paid by IDC.*
*[3] Acted in executive positions during the year.*

No member of executive management earned any income from any other entity within the Group (2015: Rnil).

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 31. OPERATING LEASES

The future minimum lease payments under non-cancellable operating leases are as follows

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| ***Land and buildings*** | **26 381** | **28 786** | **26 381** | **28 786** |
| Within 1 year | 8 725 | 6 777 | 8 725 | 6 777 |
| From 2 to 5 years | 17 656 | 21 684 | 17 656 | 21 684 |
| More than 5 years | - | 325 | - | 325 |

Lease agreements range from 2 to 9 years, the last one ending 31 December 2020. There are lease agreements for each branch of **sefa** as well as for head office.

The annual escalations range between 8% and 15% per annum.

### 32. RECONCILIATION OF LOSS FOR THE YEAR TO CASH UTILISED BY OPERATIONS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| Loss before tax | (386 189) | (321 769) | (425 426) | (346 331) |
| **Adjustments for:** | | | | |
| Depreciation | 4 301 | 4 231 | 3 834 | 3 708 |
| Amortisation | 258 | 596 | 253 | 590 |
| Fair value (gain)/loss on investment properties | (39 842) | 13 057 | (39 842) | 13 057 |
| Impairment provision movement - Investments | 554 | 2 431 | 554 | 2 431 |
| Impairment provision movement - Subsidiaries and joint ventures | - | - | (29 810) | 18 919 |
| Impairment provision movement - Equity accounted investments | - | - | (2 000) | 531 |
| Income from associate | (62 802) | (28 476) | - | - |
| Dividend income from associate | (2 069) | (2 759) | (6 023) | (5 837) |
| Indemnity reserves movement | (2 384) | 390 | - | - |
| Interest charged on shareholder's loans | 29 751 | 22 455 | 29 751 | 22 455 |
| Investment income | (31 729) | (40 337) | (24 602) | (34 274) |
| Profit on disposal of investment properties | - | (127) | - | (128) |
| Loss on disposal of equity investment | 5 158 | - | - | - |
| Loss on disposal of equipment | - | 48 | - | 47 |
| Provision for bad debts movement | 240 367 | 146 602 | 257 271 | 137 388 |
| Bad debts written off | 144 620 | 60 515 | 120 654 | 55 854 |
| Post-retirement liability movement | (23) | 21 | (23) | 21 |
| Provision for claims movement | (195) | 599 | - | - |
| **Operating loss before changes in working capital** | **(100 224)** | **(142 523)** | **(115 409)** | **(131 569)** |
| Changes in working capital | **(16 036)** | **6 357** | **(487)** | **13 261** |
| (Decrease)/Increase in trade and other receivables | (12 363) | 10 796 | (12 017) | 10 030 |
| Loans received from/(made to) related parties | 5 198 | (9 368) | 5 679 | (7 694) |
| (Decrease)/Increase in trade and other payables and provisions | (8 871) | 4 929 | 5 851 | 10 925 |
| **Cash utilised by operations** | **(116 260)** | **(136 166)** | **(115 896)** | **(118 308)** |

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

## 33. TAX (RECEIVED)/PAID

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| **Tax receivable/(payable) opening balance** | **37** | **(163)** | **-** | **-** |
| Current tax for the year | (196) | (40) | - | - |
| Tax (received)/paid | (29) | 240 | - | - |
| **Tax (payable)/receivable closing balance** | **(188)** | **37** | **-** | **-** |

## 34. COMMITMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| ***Off-balance sheet items*** | | | | |
| Undrawn financing facilities approved | 72 353 | 203 365 | 72 353 | 194 757 |
| | **72 353** | **203 365** | **72 353** | **194 757** |

Commitments will be financed by loans and internally generated funds.

# Notes to the financial statements
## for the year ended 31 March 2016 (continued)

### 35. 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 NPC | Wholly owned subsidiary of **sefa** (1) |
| GJE Watson | Previous shareholder of New Business Finance (Pty) Ltd and an employee of **sefa** until 31 March 2015 |
| Thetha Import and Export CC | GJE Watson is a member of Thetha Import and Export CC and signed personal surety for a loan repayable to New Business Finance (Pty) Ltd |
| Gain Props 1017 CC | Business owned by GJE Watson |
| EDD | Shareholder of the IDC |

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.

The following transactions were entered into with related parties:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | R'000 | R'000 | R'000 | R'000 |
| ***Rental income received from related parties*** | | | | |
| EDD | 5 343 | 5 567 | 5 343 | 5 567 |
| ***Investment income received from related parties*** | | | | |
| IDC | 22 664 | 25 904 | 22 664 | 23 825 |
| ***Management fees charged to related parties*** | | | | |
| Khula Land Reform Empowerment Facility NPC (1) | 7 828 | 5 264 | 7 828 | 5 264 |
| ***Related party balances receivable/(payable)*** | | | | |
| Khula Land Reform Empowerment Facility NPC (1) | 5 000 | 10 198 | 5 000 | 10 198 |
| New Business Finance (Pty) Ltd | - | - | (1 977) | (1 496) |
| GJE Watson | 419 | 265 | 419 | - |
| Thetha Import and Export CC | - | 334 | - | - |
| IDC - Cash managed | 402 096 | 402 911 | 310 585 | 304 214 |
| IDC - Shareholder's loan (liability) | 429 379 | 399 628 | 429 379 | 399 628 |
| IDC - Shareholder's loan (equity) | 1 092 551 | 686 154 | 1 092 551 | 686 154 |
| | **1 929 445** | **1 499 490** | **1 835 957** | **1 398 698** |

*(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 during the year 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 30.

# Notes to the financial statements
**for the year ended 31 March 2016 (continued)**

## 36 UNAUTHORISED, FRUITLESS AND WASTEFUL, IRREGULAR EXPENDITURE AND LOSSES THROUGH CRIMINAL CONDUCT

***Unauthorised expenditure***

No expenditure was classified as unauthorised during the year (2015: 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 R1 235 (2015: R14 951).

***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.

| | 2016<br>R'000 | 2015<br>R'000 |
|---|---|---|
| Opening balance | - | - |
| Irregular expenditure for the year | 2 981 | 722 |
| Condoned during the year | (2 981) | (722) |
| **Closing balance** | **-** | **-** |

***Losses through criminal conduct***

No losses through criminal conduct were identified during the year (2015: Rnil).

# Contact Details

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Licensed Credit Provider: NCRCP 160

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| | | |
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# Notes

# Notes

Small Enterprise Finance Agency

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