



Advancing the development of vibrant
small business and co-operatives.

Annual Report
2018



2018

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vibrant small business
and co-operatives.





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Strategic Overview





Foreword by the Honourable Minister of Small Business Development.



Lindiwe Zulu, MP
Honourable Minister
of Small Business Development

sefa's core mandate is focused towards the development and growth of SMMEs and Co-operatives, to ensure a material contribution towards poverty alleviation, eliminating inequalities, fostering job creation and furthering economic growth.

Despite the harsh economic and unfavourable trading conditions that SMME's and Co-operatives face, **sefa** stayed true to its course. This resolve is demonstrated by the remarkable achievements registered during the 2017/18 financial year.



It is worth noting that operating in the SMME and Co-operative segment comes with excessive and prohibitively high cost structures. The result is that small businesses run into problems with servicing their debts, and as a result, invariably fail in their ventures. I firmly believe that this matter has to be attended to and addressed with the utmost urgency.

The second challenge is to secure cession of payments from Government departments where SMMEs and Co-operatives supply goods and services utilising **sefa** loan facilities. To this end, I undertake to initiate discussions with all critical stakeholders, to arrive at workable solutions together, and will schedule this discussion for the near future.

In spite of the aforementioned challenges, **sefa** managed to exceed expectations by availing funds to a significant number of historically disadvantaged South Africans and designated groups that include women, people with disabilities and the youth. Suffice it to say, these achievements continue to go a long way towards satisfying our objective of rapid economic transformation, directly resulting in poverty alleviation and large-scale sustainable job creation.

I am pleased to mention that **sefa** has been performing remarkably well in ensuring that funds directed to the aforementioned groups remain significant, and that all milestones were achieved in these areas over recent years. Additionally, **sefa** has pleasingly exceeded its targets to clients in rural areas. These areas are of specific concern as they are considered 'islands of poverty and deprivation'.

In the face of this success, it is somewhat disconcerting to announce that **sefa** has disbursed just R45 million to various township-based entities spread across the country - in a bid to help government revitalise the township economy. **sefa** has to redouble its efforts to make a meaningful presence in both the townships and in the informal

settlements. These are dire areas of need, and I am reasonably satisfied with **sefa's** commitment to alleviating the challenges that this market faces.

The challenges of sluggish economic recovery remain a reality and they continue to hamper the small business sector. This means that **sefa** - and all related stakeholders - need to continually review and improve strategies in order to support more small businesses.

sefa approved R446 million in loan financing to SMMEs and Co-operatives for the financial year ended March 2018. In terms of providing a cash flow injection into the South African economy, **sefa** has disbursed over R1,3 billion thus far, truly a remarkable achievement, as the total amount disbursed for the past five years that have ended in March 2017, is a staggering R4,3 billion.

During the year under review, loans provided by **sefa** have assisted over 45 000 small businesses and co-operatives, creating over 54 000 jobs in the formal and informal sector.

With high youth unemployment rates, it is pleasing to see **sefa** advocating the advancement of youth entrepreneurship. Disbursements to youth-owned enterprises totalled R204 million. Priority rural provinces, namely, Limpopo, Mpumalanga, North West, Northern Cape, Free State, and Eastern Cape received disbursements of R462 million, in support of government's efforts to stimulate economic growth. These achievements bear testimony to **sefa's** continued commitment in developing and enhancing the small business sector.

A critical focus area, during the 2018/19 financial year, remains the up-scaling of funding levels to help create more small businesses. This is particularly important – so as to reduce unemployment levels in township and rural areas. We need to be aggressive in addressing unemployment - which now sits at a staggering 27.2%, affecting over 6 million South Africans. It is clear that South Africa will not be able to achieve sustainable economic development without a highly-focussed and effective plan addressing the development of these rural areas.

It is encouraging to note that the formal employment sector continues to provide opportunities and a sound platform for **sefa** to operate in. Additionally, a spill-over effect from this sector also benefits the small business 'eco-system', bolstering the creation of sustainable jobs. Therefore, the challenge remains in increasing upscaling efforts to actively develop the informal sector, by having them engage with meaningful players in the formal sector, for mutual benefit. The private sector has a crucial role to play in this regard, and focused efforts are required to facilitate these partnerships, steering them towards sustainable success.

Additionally, **sefa** will be pursuing funding collaborations with other private and public funders within this sector. As outlined in the National Development Plan (NDP), the small business sector must produce 90% of the 11 million jobs that are needed, by 2030, in order to eradicate unemployment, address economic inequality and to alleviate poverty. With only 12 years remaining until the 2030 deadline, the objective becomes glaringly clear: we need to create one million jobs a year – without fail. Towards this end, **sefa** and other development finance institutions are faced with the challenge of ensuring that these jobs are successfully created.

The South African small business sector is diverse, with businesses ranging in size and formality. This diversity requires a more granular and targeted approach to ensure a successful and sustained business sector. The challenge to transform and build inclusive economic growth, remains a strategic imperative. Therefore, the Department of Small Business Development (DSBD) will continue to support **sefa** and other stakeholders to radically increase access to finance for SMMEs and Co-operatives in the coming years.

The DSBD will therefore continue to use policy to create an enabling environment for the small business and Co-operatives sector to prosper, and in so doing, create the critically-needed jobs that South Africa requires to grow the economy. Of significance is the implementation of the 30% procurement spend set aside by government, towards achieving this objective.

In conclusion, I wish to thank the Board of Directors, management and staff of **sefa** for their dedication and continued commitment in building a sustainable organisation, to the benefit of all South Africans.



Lindiwe Zulu, MP

Honourable Minister of Small Business Development

Strategic Overview

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 funding."

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 of 2005;
- The Short Term Insurance Act of 1998;
- The Co-operatives Amendment 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:

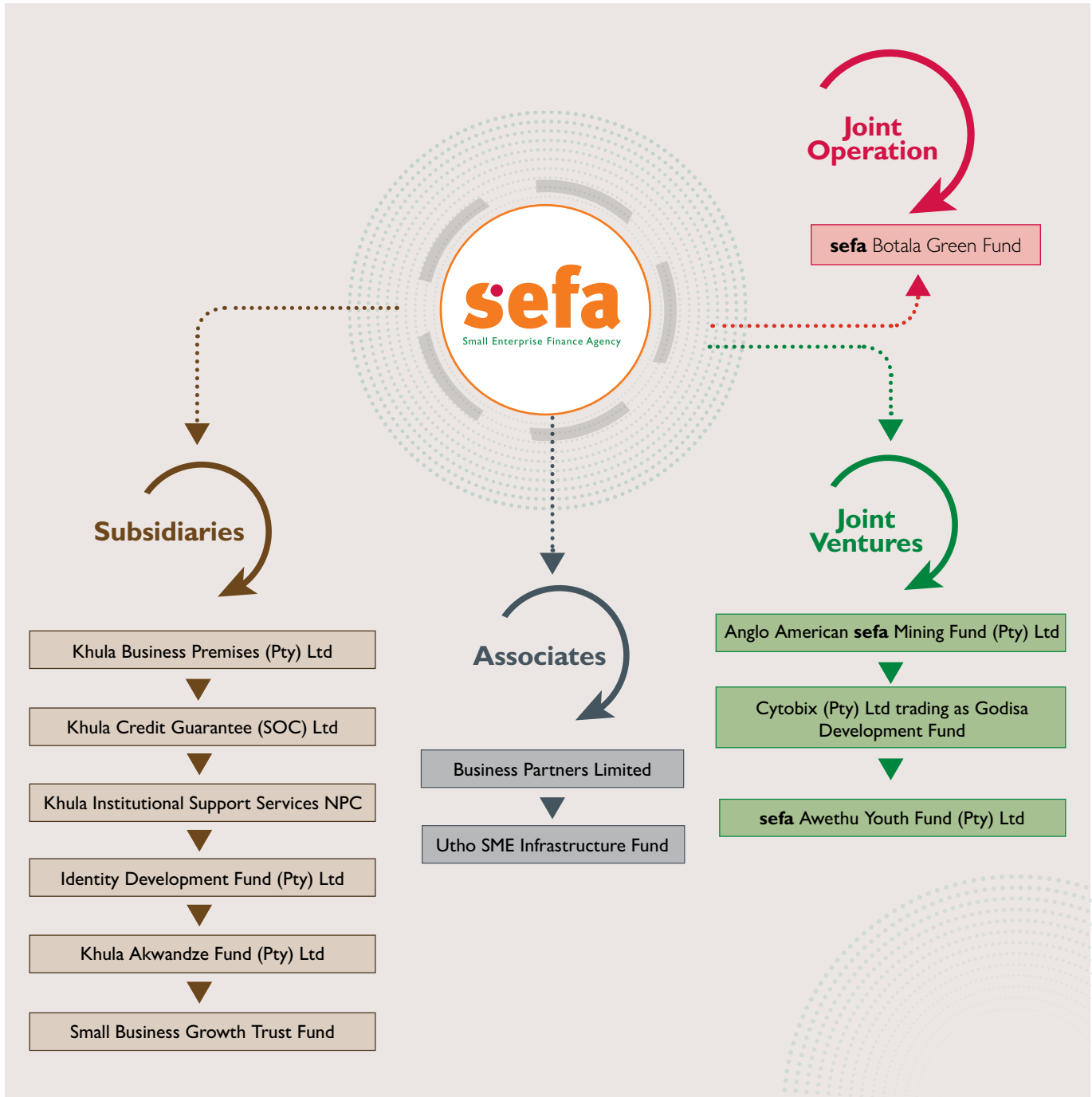
- Providing loan and credit facilities to SMMEs and Co-operative enterprises;
- Providing credit guarantees;
- Supporting the institutional strengthening of financial intermediaries so that they can effectively assist SMMEs and Co-operatives;
- Creating strategic partnerships with a range of institutions 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

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

- **Kuyasheshwa!**: We act with speed and urgency
- **Passion for development**: Solution-driven attitude, commitment to serve
- **Integrity**: Dealing with clients and stakeholders in an honest and ethical manner
- **Transparency**: Ensuring compliance with best practice on the dissemination and sharing of information with all stakeholders, and
- **Innovation**: Continuously looking for new and better ways to serve our clients.





Strategic Overview

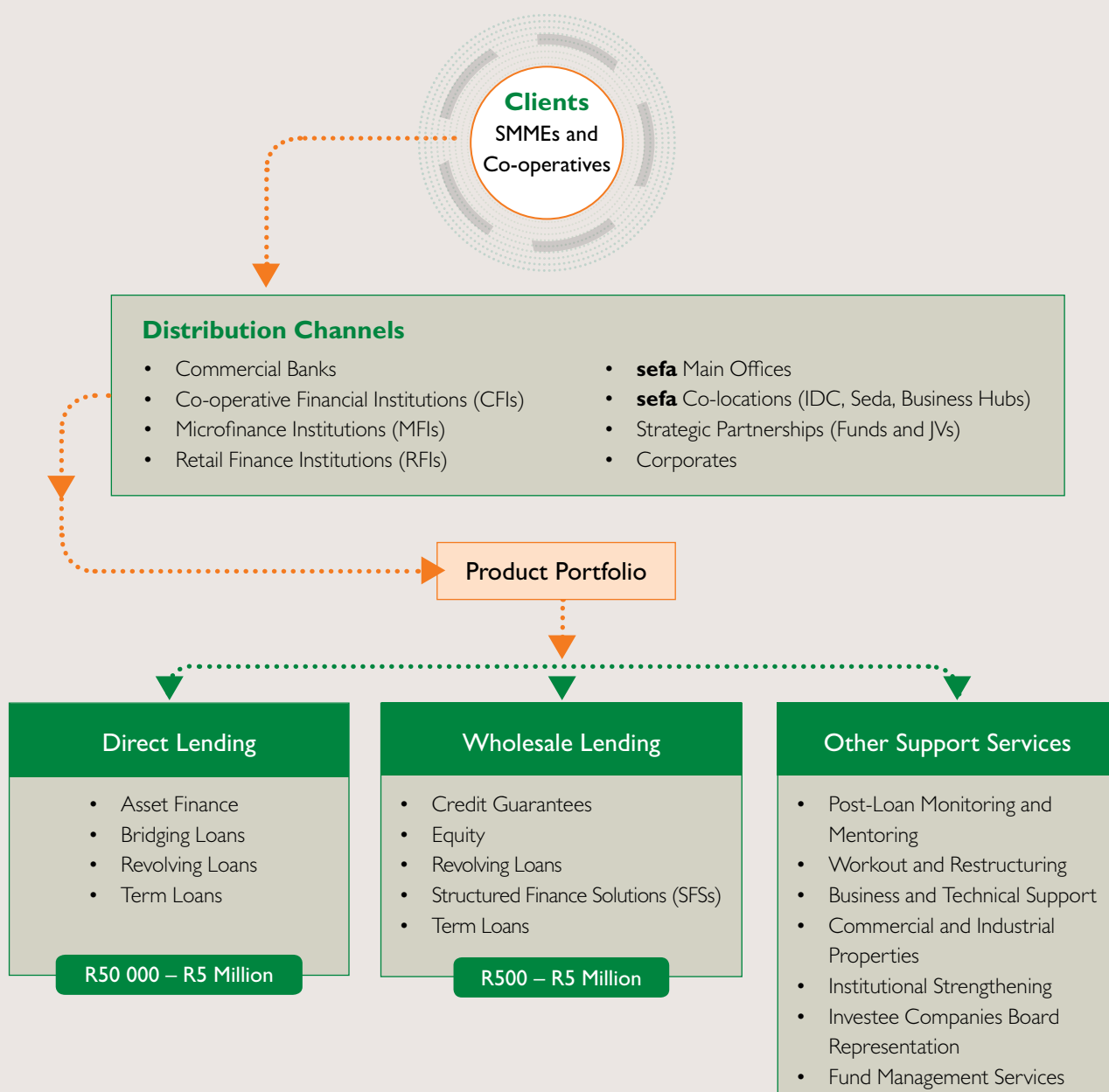
sefa acknowledges the need for economic transformation to address the triple challenges of unemployment, poverty and inequality. It promotes and supports the development of SMMEs and Co-operatives as a vehicle to driving economic growth, employment, innovation and competitiveness.

Operating Model

sefa's operating model, product portfolio and geographic footprint is strategically designed to increase access to finance for its target market.


sefa delivers its products and services through Direct Lending and Wholesale Lending programmes. Additionally, it offers various post investment 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

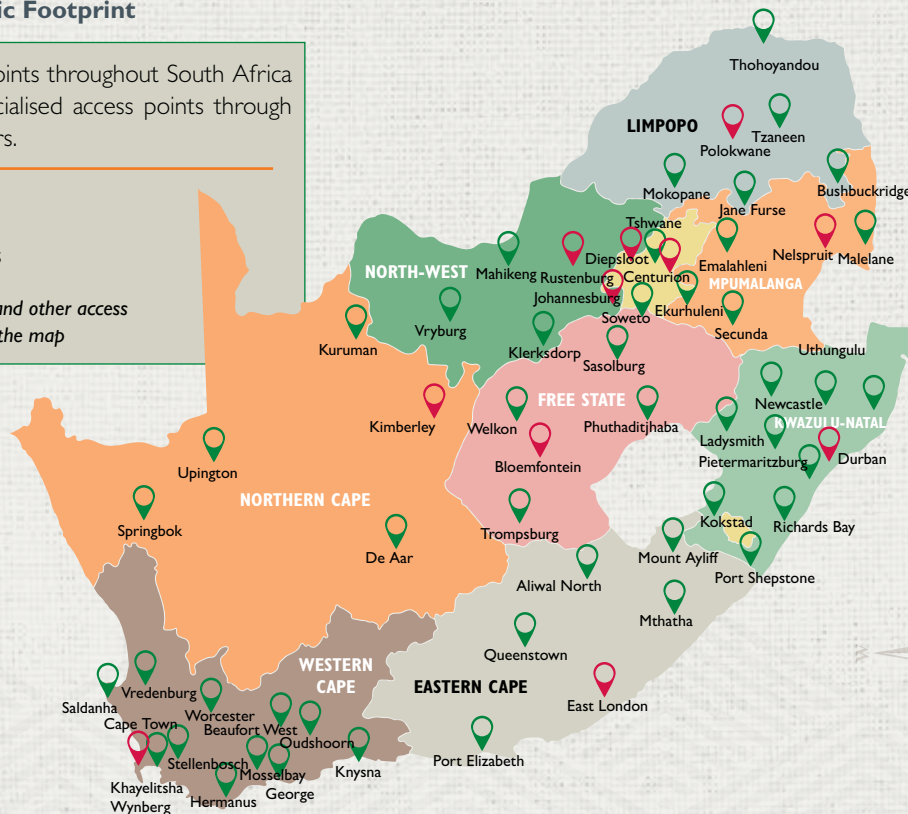


Geographic Footprint

sefa has 82 access points throughout South Africa of which 24 are specialised access points through our wholesale partners.

-  **sefa** offices
-  **sefa** co-locations

Specialised access points, and other access point are not indicated on the map



Loan Criteria & Target Market

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;
- Provide 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 programmes focus on women, black people, the youth, rural communities and people with disabilities. These programmes are aligned with the DSBD's Portfolio Strategy which focuses on the New Growth Path (NGP), Industrial Policy Action Plan (IPAP) and the National Development Plan (NDP).

sefa funds qualifying business ventures primarily in the following sectors:

- Services (including retail & wholesale trade and tourism);
- Manufacturing (including agro-processing);
- Agriculture (specifically land reform beneficiaries and contract-farming activities);
- Construction (small construction contractors);
- Mining (specifically small scale miners); and
- Green industries (renewable energy, waste and recycling management).

Report on Performance Against Predetermined Objectives				
Customer Perspective				
Objective	Measure	Annual Target	Year-end Achievement	Reasons for Variance
Access to finance by SMEs & Co-operatives: development impacts	Total Approvals (R'000)	770 000	446 345	1
	Total sefa Disbursements (R'000)	645 000	1 313 027	2
	Approvals in terms of productive sectors of the economy - (60% of the loan book approvals)	462 000	1 18 919	3
	Number of SMMEs and Co-operatives financed	38 000	45 141	4
	Number of Jobs facilitated	59 000	54 389	5
	Facilities disbursed must be youth-owned - 18-35 years old (R'000)	202 000	204 476	6
	Facilities disbursed to enterprises in priority rural provinces (R'000)	302 000	462 544	6
	Facilities disbursed must be women-owned businesses (R'000)	302 000	416 432	6
	Facilities disbursed must be black-owned businesses (R'000)	471 000	902 687	6
	Disbursements to Township-owned enterprises (R'000)	168 000	45 679	6
	*Number of enterprises financed with facilities less/or equal to R500K	37 000	44 981	6
	Facilities to People with Disabilities (R'000)	17 000	8 801	6
	Level of Customer Satisfaction	75%	66,20%	7
Financial Perspective				
Objective	Measure	Annual Target	Year-end Achievement	Reasons for Variance
Building sefa financially sustainability	Cost to income ratio	100,0%	102,00%	8
	Accumulated Impairments provision as a percentage of total loans and advances.	26,0%	37,00%	9
	**Personnel expenses as a percentage of total loan book (loans and equities)	29,0%	11,00%	8
Business Process Perspective				
Objective	Measure	Annual Target	Year-end Achievement	Reasons for Variance
Improve turn-around times for application approvals	Number of days bridging loans	20	15	10
	Number of days for terms loans	30	24	10
	Number of days for wholesale applications	45	69	11
System Development	Enhancement of the loan management system and key organisational business process automated. (Note: 40% automation of key business process automated (reduction in the business process cost and process times)	7	9	12
People, Learning & Growth Perspective				
Objective	Measure	Annual Target	Year-end Achievement	Reasons for Variance
Alignment, Development and Motivation of Human Capital	Labour Turn Over Rate (LTO) of critical/strategic positions	7,0%	4,84%	13
	Improvement in Employee Satisfaction Index	60,0%	49,50%	14
	Percentage of staff (P band and above) that scored 3.1 or more in the annual performance assessment Calculation: Staff Performance (in P- band and above) = (Total Number of employees ÷ Number of employees with Performance Score of 3.1 or above) x 100	80,0%	79,00%	15
	** New indicator			

Legend: ● Achieved ● Not achieved

Comments on Deviation

1. Total approvals targets were not met due to tough economic environment that negatively impacted SMMEs and Co-operative enterprise growth and business start-up. In addition, **sefa** tightened its credit approval processes to reduce loan impairments and this had a further dampening effect on the level of approvals. In the wholesale loan book, **sefa** could not find viable financial intermediaries that can implement sustainable loan programmes.
2. Over performance in disbursements resulted from the revolving loan facilities extended via the wholesale loan programmes to financial intermediaries. These Financial Intermediaries revolve their loan books / facilities three to four times in the year.
3. Under performance in this measurement resulted from the generally low approval level.
4. The over performance in this area emanated from funding activities in the microfinancing and informal sector loan programme via the Microfinance Institutions and the Fresh Produce Markets.
5. Under performance in this measurement resulted from low level of total approvals.
6. **sefa** remained focused in the implementation of its mandate by providing access to finance to SMMEs and Co-operatives from previously disadvantaged groups, women, youth and enterprise located in priority rural provinces. The table below outlines the support provided to above mentioned target groups.

Disbursements to:	% of target group
Youth-owned businesses	101%
Women-owned businesses	138%
Black-owned businesses	192%
Township businesses	27%
Priority Provinces	153%
People with disabilities	52%

The targets for disbursements to township businesses and people with disabilities were not met due to a lack of viable business proposals.

7. Under performance emanated from the tightening of the credit granting conditions which in turn resulted in delays in approvals.
8. **sefa** managed to keep operating costs steady, with personnel expenses remaining below the targeted amount. However, a decline in revenue during the year resulted in the Cost to Income ratio of 100% not being achieved.
9. The tough economic operating conditions, the type of clients that **sefa** is financing and payment delays from existing clients contributed to impairment target not being met.
10. Strengthening of internal business process led to over achievement of this target indicator.

11. This measurement criteria under-performed largely as a result of delays from intermediaries in the supporting documentation for loan approvals.
12. Over achievement relates to strengthening of business processes and automation of key business processes especially in the customer front-end and human capital business processes.
13. Over achievement in this indicator relates to the stability of the organisation post the merger.
14. An independent Employee Engagement Survey was conducted by an external service provider. The survey received a 70% response rate and a 49% Employee Engagement Score.

The survey included both qualitative and quantitative data providing employees with the opportunity to provide suggestions and solutions to address the cited areas of improvement.

The target was not achieved due to several challenges such as insufficient career development programmes, lack of adequate reward and recognition programmes, inadequate communication and management challenges which remain a key concern for **sefa** employees in spite of the existing interventions.

15. Performance in this measurement criteria relates to the strengthening and the automation of the performance management system.



Enterprise Risk Management and Compliance

sefa has maintained its active approach towards managing both current and emerging risks through the continued operating effectiveness of its Enterprise Risk Management Framework (ERMF). This approach is underpinned by keeping risk management at the centre of the executive agenda, by embedding risk management in the everyday management of the business. The responsibility for risk management resides at all levels within **sefa** from the Board and the Executive Committee through to each business manager.

sefa's risk management philosophy is premised on the Board's acceptance of a higher risk appetite in accordance with the development mandate. This is in contrast to profit seeking entities driven by commercial objectives.

sefa's risk management comprises the following inter-related functions:

- A three lines of defense model, with clear accountability for managing, overseeing and independently assuring risks;
- A robust and aligned governance structure which details the creation of an enabling environment for the structured management, oversight and reporting of risk; and
- A comprehensive risk process which is structured, practical set of three steps, Evaluate, Respond and Monitor risks inherent in **sefa**'s strategy, operations and business activities.

The **sefa** Board is ultimately accountable and responsible for **sefa** business and thereby risk management. The Board approves the ERMF, risk policies and monitors risk exposure. Their decisions are supported by appropriate internal controls, risk management and governance structures, policies and processes. The Board has entrusted the risk monitoring and advisory responsibilities to the Audit and Risk Committee of the Board.

The Enterprise Risk Management Division provides risk policies, strategies and best practice standards in order to mitigate the main risk exposures inherent in **sefa**'s mandate. The Risk Management Division undertakes risk assessment and monitoring, while divisions within **sefa** are responsible for controlling the risks that they face in their operating environment.

Risk Taking and management (1st line of defense)

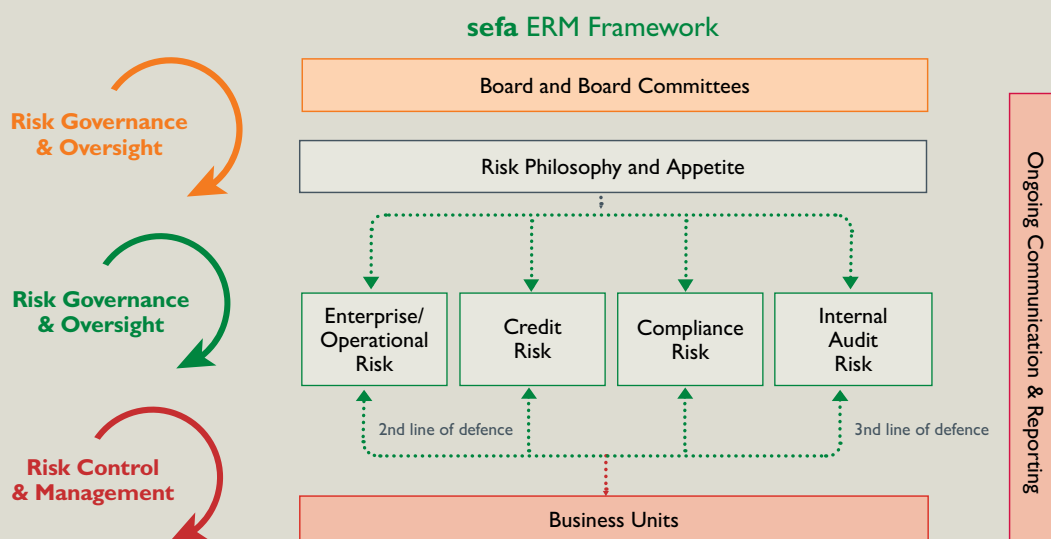
The first line of defense includes Executive management since they are the custodians for implementation and execution of strategy, while ensuring the achievement of strategic objectives. Operational managers own and manage risks and are responsible for risk taking activities, identification, assessment and mitigation of risks.

Risk guidance, monitoring and reporting (2nd line of defense)

This comprises of the Risk Management and Compliance functions. This line is established to ensure that the first line of defense is appropriately designed, in place, and operating as intended.

The risk management function is independent from the first line of defense, but provides guidelines in modifying and developing the internal control and risk systems.

sefa Enterprise wide Risk Management Framework



The risk management function facilitates and monitors the implementation of effective risk management practices by operational management. Furthermore, it assists risk owners in defining the target risk exposure and reporting risk-related information throughout the organisation. The compliance function monitors non-compliance with applicable laws and regulations. This function also enhances **sefa's** ability to adapt to changes in legislation which may impact its operation and empowers the organisation by identifying best practice strategies in ensuring compliance with applicable legislation.

Independent Risk Assurance (3rd line of defense)

Internal Audit role with regards to ERM is to provide independent and objective assurance to the Board on the effectiveness of Risk Management processes throughout **sefa**.

Internal Audit provides value to the organisation by providing objective assurance that the major business risks are being managed appropriately and that the Risk management and Internal Control framework is operating effectively. This is reflected in the audit reports, particularly the Annual Written Assessment, which provides a wholistic opinion on the effectiveness of **sefa's** system of internal controls and risk management. The Annual Written Assessment, together with key audit reports involving High Risk issues, are presented to the Audit & Risk Committee for discussion and appropriate remedial action.

sefa's Risk Universe

As a development finance institution, **sefa's** operations expose it to a number of risks which are considered to be inherent in its business activities, and are articulated as part of its risk universe.

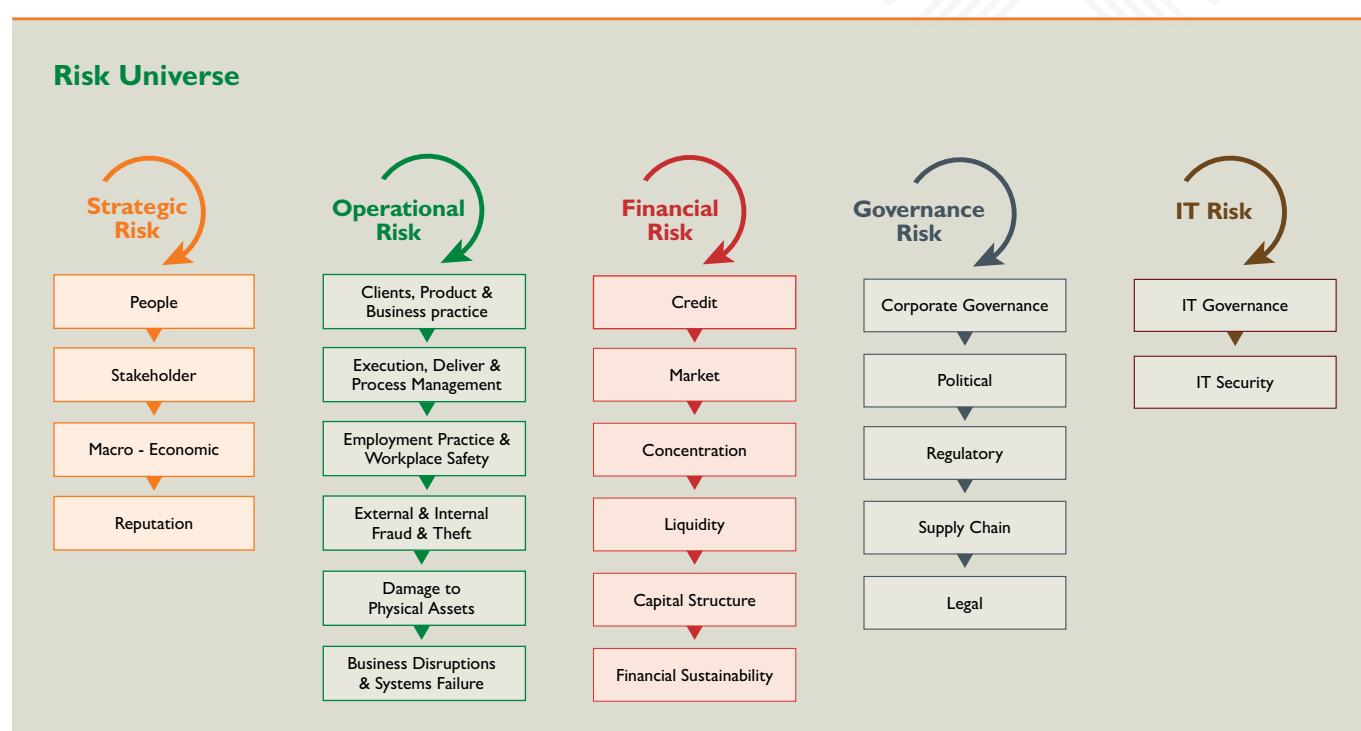
The universe of risks, which have been identified for **sefa** are reflected in figure below:

sefa's Risk Profile

Cognisance must be given to the operating dynamics of **sefa** and developmental imperatives that the organisation is exposed to. **sefa** operates in a high risk environment and this affects its risk profile significantly. Ongoing monitoring of this risk profile is undertaken. Various mitigation strategies are implemented to reduce the risk levels associated with **sefa's** operations.

Compliance

The objective of the Compliance Management Unit is to establish and maintain regulatory compliance processes and embed regulatory compliance culture within **sefa**. The Unit has spearheaded the notion of proactive compliance. This entailed the application of an anticipatory and responsive approach towards regulations and compliance standards. **sefa** has taken steps to implement best practice while ensuring that it addresses any potential regulatory challenges proactively. Part of this proactive compliance involves keeping the organisation engaged in compliance matters through the promotion of a sound compliance culture. To date various compliance training initiatives have taken place in order to promote compliance with regulations. In the year under review, no substantial non-compliance matters were identified, and hence no fines or penalties were issued to the organisation.



Governance





Chairperson's Statement



Ms Hlonela Lupuwana-Pemba
Chairperson: Board of Directors

Through a committed and consistent drive by **sefa** management and its stakeholders, the organisation continues to embark on various programmes geared at responding to the establishment, survival and growth of SMMEs and Co-operatives. This is aimed at advancing the financial inclusion of **sefa**'s target market, thus, responding positively to addressing the triple challenge of unemployment, poverty and inequality.

It is both an honour and privilege to once again deliver this statement and to share **sefa**'s performance for the 2017/18 financial year.

sefa's Operating Environment and Strategy

It is worth acknowledging **sefa** management for steering the organisation amidst a challenging economic environment. Although the South African economy registered a modest recovery in 2017 by growing at 1.3% relative to a mere 0.3% seen in 2016, the delivery of **sefa**'s products and services ensured that a significant amount of funds were injected into the economy, despite these challenges.

Over the past three years, a cumulative R701 million was disbursed to youth-owned businesses, approximately R1,3 billion to women-owned enterprises, close to R1,4 billion was disbursed to entrepreneurs operating in priority rural provinces, and R2,6 billion was allocated and disbursed to businesses owned by black entrepreneurs.

Undoubtedly, the impact of our investment is expected to add to the state's job creation opportunities. An increase in investor confidence which has seen a subsequent boost to the economy over the better part of the 2018 financial year, certainly bodes well for the future of the small business sector.

Strategic Performance

sefa continues to deliver in line with its strategic mandate, despite the tough economic conditions, which adversely affect the SMME sector. For the year under review, **sefa** disbursed:

- R416 million to women-owned businesses;
- R903 million to black-owned businesses;
- R462 million to enterprises in priority rural provinces;
- R204 million to youth-run businesses;

This financial support contributed in facilitating over 54 thousand jobs.

As a strategic role player in the SMME finance sector, **sefa** continues to play a catalytic role in crowding in key financial players that provide financial support to SMMEs and Co-operatives who promote financial inclusivity. To this extent, we have formed strategic relationships with government (national, provincial and local), state-owned enterprises, non-governmental organisations, the private sector and international donor organisations.

Access to finance for SMMEs, in particular, the informal and microenterprise sectors, remains one of the key constraints to building a vibrant and robust SMME sector in South Africa. **sefa**, as

a fairly young organ of state, is mandated to address this financing gap. In the implementation of this mandate, **sefa** is continuously confronted with a set of challenges that impact on its organisational performance.

These relate inter alia, to:

- The underperforming property portfolio which negatively affects the cash flow position;
- Decrease in interest income due to the declining size of the loan book;
- High loan impairments as a result of non-adherence of funded clients to their loan obligations; and
- The economic environment, which adversely impacts on the performance of the SMME sector, and consequently, the quality of **sefa's** loan book.

sefa is committed to turning around the property portfolio into a viable revenue source. To achieve this, management has devised strategies to hive off non-performing properties so as to contain costs while exploring options to improve rental income on properties that are strategically positioned to give the organisation a better yield.

Furthermore, **sefa** has embarked on deliberate strategies to reduce its operational costs and improve collections, thereby improving its financial position and viability. I am pleased to state that these strategies are beginning to yield positive results.

Historically, **sefa** received funds from the fiscus (MTEF and Economic Competitiveness Support Programme (ECSP)) until 2016, when the ECSP was terminated, resulting in the reduction of available grant funding to **sefa**. Consequently, **sefa** had to explore additional sources of funds including drawing down on the IDC shareholder loan from 2018/19 onwards.

The **sefa** Board of Directors (Board) is conscious of the financial sustainability challenges facing the organisation and of the prudential measures required to turn **sefa** around.

Governance

The Board recognises the importance of sound corporate governance and ensures that **sefa** is aligned and delivers according to its mandate. In this regard, governance processes are regularly reviewed in line with legislative and regulatory changes to ensure that best practice governance principles are adhered to at all times.

The Board recognises the need to manage **sefa** with integrity, transparency and effective leadership. The Board activities and

deliverables include, among others, timely and quality reporting to relevant stakeholders, directing the strategy and operations of the organisation towards sustainability, bearing in mind the medium and long-term outcomes that need to be achieved.

The continuous guidance and strategic direction that the Executive Authority, the Department of Small Business Development and the Shareholder, the Industrial Development Corporation continues to provide is extremely valuable.

The four Board Committees, namely, the Audit and Risk, Credit and Investment, Human Capital and Remuneration, and, Social and Ethics, tirelessly direct efforts throughout the year, to ensure that operational plans and strategic milestones are met.

We are satisfied that the Directors in these Committees have the appropriate balance of skills and experience sufficient to offer **sefa** the requisite expertise needed to manage the organisation properly and effectively. The Board meets formally at least once a quarter to evaluate and monitor progress on performance achieved, and to continue discharging its governance roles and responsibilities. The Board is confident that **sefa** has processes and frameworks in place for compliance with the relevant laws, rules, codes and standards.

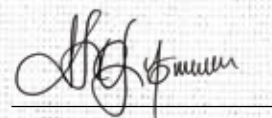
Outlook

The Board is cognisant of the challenges that lie ahead, and recognises the accountability and responsibility entrusted to it to ensure that **sefa** continues to deliver on the needs of its target market.

Appreciation

On behalf of the Board, I am immensely grateful for the continuous support and guidance that the Honourable Minister Lindiwe Zulu always provides to **sefa**. I am also thankful to our shareholder, the Industrial Development Corporation, for its continued support. To my fellow Board members, I am grateful for the support and commitment to sound governance principles and in ensuring that we remain aligned to the mandate.

Furthermore, sincere gratitude goes to the executive team and the entire **sefa** staff for their dedication in delivering services that contribute to the development of small businesses and co-operatives.



Hlonela Lupuwana-Pemba
Board Chairperson

Board of Directors



1. Ms Hlonela Lupuwana-Pemba (49)

Chairperson: Board of Directors

Qualifications

- MBA (UP)
- B Soc Sc (UCT)
- Senior Executives Programme (IMD International-Switzerland)
- Associate in Management (UCT)
- Advanced Sustainability Management Programme (University of Cambridge UK)

2. Mr Thakhani Makhuvha (49)

Chief Executive Officer

Qualifications

- MCom Financial Management (UJ)
- BCompt (Hons) (UNISA)
- BCom Accounting (UNIVEN)
- Leadership Development Programme (GIBS)

CIC

SEC

3. Ms Nomcebo Dlamini (45)

Director

Qualifications

- Bachelor of Law (UNISWA)
- Certificate in Banking (UNISA)
- B-BBEE Management Development Programme (UNISA)

SEC

4. Mr Phakamile Mainganya (45)

Director

Qualifications

- CA (SA)
- Higher Diploma in Tax Law (UJ)
- BCom (Wits)
- BAcc (Wits)
- Advanced Certificate in Banking Law (Wits)
- International Executive Development Programme (London & Wits Business School)
- Global Executive Development Programme (GIBS)

CIC

5. Ms Charmaine Groves (59)

Director

Qualifications

- MBA (GSB-UCT)
- Diploma in SME Management and Development (GIMI)
- Leadership and Mentorship (UCT)

HCRC

CIC

Note: The following Directors also serve on **sefa** Subsidiaries and Associates:

Khula Credit Guarantee: (Mr. Phakamile Mainganya, Mr. Thakhani Makhuvha, Ms. Happy Ralinala)

Business Partners: (Mr. Kholofelo Molewa, Mr. Thakhani Makhuvha)

**6. Mr Kholofelo Molewa (37)****Director***Qualifications*

- MCom (UCT)
- LLB Honours (Wits)

HCRC **ARC**
7. Ms Nonkululeko Dlamini (44)**Director***Qualifications*

- CA (SA)
- Post Graduate Diploma in Accounting (UKZN)
- BCom (Wits)

HCRC **ARC**
8. Ms Kate Moloto (55)**Director***Qualifications*

- BCom Accounting (UKZN)
- Certified Internal Auditor (SAIIA)
- Higher Diploma in Accountancy (Wits)
- B-BBEE Management Development Programme (UNISA)
- Certificate in Investment Analysis and Portfolio Management (UNISA)
- Regulatory Certificate (FSB)

HCRC **ARC**
9. Ms Happy Ralinala (47)**Director***Qualifications*

- MBA (Bond University)
- Certificate in Financial Management
- Regulatory Certificate (FSB)
- Diploma in Nursing (Baragwanath Nursing College)

ARC
10. Mr Nazir Osman (61)**Director***Qualifications*

- National Certificate

SEC **CIC**
CIC Credit & Investment Committee

SEC Social & Ethics Committee

ARC Audit & Risk Committee

HCRC Human & Capital Remuneration Committee

Corporate Governance Report

Governance

The Board assumes the leadership role including overseeing management and governance of the company. It monitors senior management performance. **sefa**, under the guidance of the Board, continues to improve and strengthen application of the best governance practices as recommended by King IV.

Composition of the Board

The Board comprises ten directors, of whom seven are independent non-executive directors, two non-executive and one executive director, who is also the CEO. Majority of the directors were appointed by the Minister of Small Business Development. The Board was appointed on a three year term ending 30 September 2019.

The role of the Board

The Chairperson of the Board is an independent non-executive director. The Chairperson provides leadership to the Board and ensures the effective discharge of its responsibilities. No individual director has unfettered powers in relation to decision making. The Chairperson presides over Board meetings and facilitates sound decision making. She ensures that discussions are focused and encourages members to air their views on matters brought before the Board.

The Board provides strategic leadership and guidance to the Company with the ultimate responsibility of the governance and effective control of the organisation. It is responsible for providing sound judgement in directing **sefa** to achieve its mandate and growth in the best interests of all its stakeholders. The Board functions in accordance with governance principles and

ensures compliance with the PFMA, and the Companies Act 71 of 2008 (the Companies Act) and all applicable laws and regulations.

The Board fulfils inter alia, the following roles and functions:

- Reports to the Executive Authority and the Shareholder on the direction, governance and performance of the company, including any matter that needs reporting or disclosure in the terms of legal requirements;
- Represented by the Chairperson of Board or her delegate, reports to the Parliamentary Portfolio Committee on Small Business Development;
- Reviews and approves strategic plans, budgets and annual performance plans as proposed by management;
- Reviews and approves policies;
- Reviews processes for the identification and management of business risk and processes for compliance with key regulatory and legal requirements;
- Provides oversight on performance against targets and objectives.

Board Committees

The Board has delegated certain of its functions to the committees set out below, without abdicating any of its responsibility in relation to the fulfilment of those tasks. Committee members are nominated by the Board from amongst directors based on experience and expertise.

Key activities performed by the Board committees during the year under review.

Committee	Members	The committees considered and reviewed the following:
Audit and Risk Committee	<ul style="list-style-type: none"> • K Moloto (Chairperson) • NS Dlamini • K Molewa • H Ralinala 	<ul style="list-style-type: none"> • Committee Charter • Group Annual Financial Statements • Annual financial budgets • Quarterly Management Accounts • Internal Audit reports • Strategic Risk reports and registers • Policies • Legal reports • Annual workplan • External Audit appointment, audit plans and reports
Credit and Investment Committee	<ul style="list-style-type: none"> • P Mainganya (Chairperson) • C Groves • T Makhuvha • N Osman 	<ul style="list-style-type: none"> • Credit proposals and credit guarantee and Wholesale Lending transactions within its mandate and recommended those above its approval limit to Board • Quarterly post investment monitoring reports • Direct Lending quarterly reports

Committee	Members	The committees considered and reviewed the following:
Human Capital and Remuneration Committee	C Groves (Chairperson) NS Dlamini K Molewa K Moloto	<ul style="list-style-type: none"> Annual workplan Annual salary adjustments Annual performance bonus incentives in line with approved Performance Management Policy CEO's performance agreement Quarterly Human Capital reports Results of employee engagement surveys Leadership assessment reports and talent management framework Human Capital Policies
Social and Ethics Committee	NA Dlamini (Chairperson) T Makhuvha N Osman	<ul style="list-style-type: none"> Committee Charter Fraud and Corruption Policies and Plans Consumer Protection and customer satisfaction surveys Customer Relationship Management policy Compliance reports Employment Equity reports Customer Escalations reports BBBEE status reviews

Meeting attendance

	Board	Audit and Risk Committee	Human Capital & Remuneration Committee	Credit and Investment Committee	Social and Ethics Committee
Number of meetings	13	11	4	2	2
HM Lupuwana-Pemba (Chairperson)	12				
TR Makhuvha	13	11	4	2	1
NA Dlamini	13	1			2
NS Dlamini	9	10	3		
C Groves	12	1	4	2	
PM Mainganya	10			2	
LB Mavundla*	-			-	-
K Molewa	11	10	4		
KK Moloto	11	11	2		
NA Osman	9	1		2	2
H Ralinala	11	11			

*Director's term was terminated.

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

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

Performance Appraisal

The Board views the assessment of its performance as a vital tool to enhance its effectiveness. For that reason and to derive an independent view, and allow for meaningful appraisal from directors and executives, **sefa** employed the services of the Institute of Directors in Southern Africa to conduct the Board performance appraisal. The outcome of the appraisal process and recommended remedial action will be considered by the Board in the 2018/19 financial year.

Corporate Governance Report

Executive Authority and Shareholder Engagements

In order to facilitate effective performance monitoring by the Executive Authority and in line with Treasury Regulation 29.3.1, the Board meets with the Minister on a quarterly basis. **sefa** has concluded a shareholder's compact with the Executive Authority and the Shareholder. Additionally, **sefa** has concluded a formal Governance Framework with its Shareholder.

Conflicts Of Interest

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

Board Remuneration

sefa non-executive directors are remunerated for the meetings attended, and other ad hoc non-meeting duties performed on behalf of the Company and approved by the Chairperson, at the rate which has been approved by the shareholder. No performance-based remuneration or retainer fees are paid to directors. Directors' remuneration is stated under Note 10 to the Annual Financial Statements.

Delegation of Authority

The Board has delegated certain of its authority to management while remaining responsible for the execution of the delegated authority. In line with section 56 of the PFMA, the Board has reduced to writing all powers that have been delegated to management.

Company Secretary

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

Internal Audit

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

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

Enterprise Risk Management

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

Internal Control

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

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

This system includes a documented organisational structure and division of responsibility, established policies, and procedures, including a Code of Ethics to foster a strong ethical climate, which are communicated throughout the Company. All **sefa** information systems are protected by a reputable security software, which is regularly updated with the latest security releases.



Report of the Audit and Risk Committee

The Audit and Risk Committee (the Committee) has pleasure in submitting this report to the shareholder as required by the Companies Act, 71 of 2008 (the Companies Act), and as recommended by King Report on Corporate Governance for South Africa (King IV).

Composition

The Audit and Risk Committee comprises the following members: Ms K Moloto (Chairperson), Ms NS Dlamini, Mr K Molewa and Ms H Ralinala.

The roles and responsibilities of the Audit and Risk Committee

The Audit and Risk Committee reports that it has complied with section 77 of the PFMA, and its responsibilities as contained in Treasury Regulation 3.1, the Companies Act, and the Short Term Insurance Act 53 of 1998 (STIA).

The Committee is satisfied that, during the year under review, it performed the functions required by law including, those requirements as set out in section 94 (7) of the Companies Act, Treasury Regulations 27.1.8 – 13, the PFMA, and the Short Term Insurance Act 53 of 1998.

In the discharge of its duties, the Committee identified certain internal control weaknesses in the operational environment. The ARC continues to closely monitor the implementation of corrective action by management to address these issues. The Committee adopted a formal Charter which regulates its affairs, roles and responsibilities. The Audit and Risk Committee reports that it has discharged all its responsibilities as contained in the Charter.

These include inter alia:

- Ensuring 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;
- Reviewing the effectiveness of the **sefa** Group systems of internal controls, policies, financial control and risk management systems, processes and procedures for detecting and preventing fraud;
- Reviewing and monitoring 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;
- Ensuring that the scope of the internal audit function had no limitations imposed by management and that there was no impairment on its independence;

- Evaluating 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;
- Reviewing and approving the audit fee and fees in respect of any non-audit services, including the external audit plan;
- Reviewing the external auditors' findings and reports submitted to management and the independence and objectivity of the external auditors;
- Reviewing the effectiveness of the finance function;
- Reviewing the annual report, as well as annual financial statements to ensure that they present a balanced, and true position and performance of the Group;
- Assisting the Board in its evaluation of the adequacy and efficiency of the internal systems, accounting practices, information systems and auditing processes applied by the subsidiary short term insurer (Khula Credit Guarantee (SOC) Limited) in the day-to day management of its business;
- Assisting the Board in discharging its duties; and responsibilities in respect of risk management; and
- Reviewing and advising on matters referred to the Committee by the Board.

Auditor Independence

The Audit and Risk Committee recognises the importance of maintaining the independence of both external and internal auditors and is satisfied that SNG GT and the internal auditors are independent of management.

Financial Management

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

Approval

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

On behalf of the Audit and Risk Committee:



Ms K Moloto
Chairperson of the Audit and Risk Committee



Executive Management



10. Mr Thakhani Makhuvha (49)

Chief Executive Officer

Qualifications

- MCom Financial Management (UJ)
- BCompt (Hons) (UNISA)
- BCom (Accounting) (UNIVEN)
- Leadership Development Programme (GIBS)

11. Ms Nokonwaba Shwala (50)

Executive Manager: Human Capital Management

Qualifications

- Management Advancement Programme (WITS)
- BA (Economics) (UKZN)
- Executive Leadership Programme (Thunderbird School of Global Management, Geneva, Switzerland)

12. Ms Vuyelwa Matsiliza (51)

Executive Manager: Wholesale Lending

Qualifications

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



13. Ms Boitumelo Sefolo (42)

Executive Manager: Direct Lending

Qualifications

- Master of Business Administration (GIBS)
- BCom in Management (UNISA)

14. Ms Reshoketswe Ralebepa (42)

Chief Financial Officer

Qualifications

- CA (SA)
- BCom (Tax and Business Administration) (UKZN)
- BCompt (Hons) (UNISA)
- Advanced Certificate in Accountancy (UKZN)
- Executive Development Programme in Inclusive Finance (GIBS)

15. Mr Nathan Nadasan (59)

Executive Manager: Post Investment Monitoring and Workout

Qualifications

- BPaed (Commerce) (UKZN)
- BCom (Hons) (UNISA)
- Executive Leadership Programme



Performance Review



Chief Executive Officer's Statement



Mr Thakhani Makhuvha
Chief Executive Officer

sefa remains committed to effective and continuous response to the needs of the communities we serve. We aspire to remain the leader in developing economic sectors in which we operate in, and to add value to our clients.

Highlights for 2018 financial year

- R1.313 billion disbursed into the South African economy to benefit SMMEs & Co-operatives
- R446 million funding approvals
- 45 141 small businesses financed
- 54 389 jobs facilitated
- R463 million disbursed to priority rural provinces
- R416 million disbursed to women-owned enterprises
- R204 million disbursed to youth-owned businesses
- 44 981 businesses received loans less than R500k

Each year **sefa** sets targets aimed at responding to the national imperatives of poverty alleviation, employment generation and the eradication of income inequalities. To this end, there are specific targets to disburse funds to businesses owned by black entrepreneurs, women and youth, including rural priority provinces, township-based enterprises, disbursements to entrepreneurs with disabilities and the issuance of small loans (less than R500 000) that most financiers shy away from, given the administrative burden that these small loans bring.

Economic activity remained subdued over the past few years resulting in both the business and consumer confidence levels remaining low. However, **sefa** continued to play a counter-cyclical role by responding to the financial needs of small businesses and co-operatives.

Furthermore, **sefa's** developmental impact did not go unnoticed by institutions such as the Association of Black Securities and Investment Professionals (ABSIP), which awarded **sefa** as the winner for 'Development Finance Institution of the year in 2017', given the financial and non-financial support provided to the small business sector. This first-place award was **sefa's** second commendation in a row from this institution.

Our collections strategy has begun to pay off. During the year under review, we had anticipated to collect R340 million, however, we outperformed that target and instead collected R400 million in total loans and advances.

HR and other support functions

At **sefa**, we strongly believe in empowering our employees given the value we derive from their performance. Their skills, which are continuously being developed and enhanced, assist us in delivering on our mandate and strategy. As a result, our drive to attract, grow and keep engaged employees just so we could maintain conducive stakeholder relationships is critical. Maintaining happy clients is paramount to our organisation.

Risks and compliance

As a development finance institution, particularly servicing the inherently high-risk segment, we remain cognisant of the risks associated with our business operations and we continuously strive to place appropriate mitigation measures in place to lessen the impact of these risks, as and when they happen.

Challenges

As a development finance institution, **sefa** targets high-risk market segment of our communities, who would not ordinarily obtain funding from the commercial banking sector largely due to the perceived high risk that is underpinned by their high failure rate.

sefa's operating model has been designed to address this market failure by providing finance to this un-served or under-served market through its regional branch network and indirectly through the partnerships established via the Wholesale Lending division.

Impairments on loans and advances on the direct lending portfolio remain high and are a serious threat that management is addressing through various interventions. These attempts have ensured an improvement from 70% during the previous year to 69% in the current year.

On the other hand, the Wholesale Lending channel's impairments that are relatively lower, realised an increase from 26% the previous year to 35% in the current year. This increase was largely driven by impairments on Micro loans and Co-operative lending within the Wholesale Lending portfolio.

With respect of support to co-operatives, the technical partners entrusted to implement the agreed loan programme activities experienced capacity challenges and this resulted in some cooperative activities being put on hold. The Super Grand project being the case in point. Lending to social enterprises also posed some challenges, which relate to social mobilisation, group dynamics and management capacity of co-operative members.

In addition, **sefa** has enhanced its approach to defaulting clients by restructuring their loans, thus easing the burden on the clients' repayment commitments. **sefa** support to entrepreneurs with disability remains minimal, however, strategic relationships with the relevant associations are being done to enhance the financial support to this target group.

Furthermore, the over-gearing of the enterprises where **sefa** provides 100% plus more of funding needed was also challenging.

In terms of the KCG business, we continue to face sluggish participation by the banking sector in the credit guarantee scheme, and the regulatory compliance burden emanating from the standards set out by the financial sector authority do not bode well for the credit guarantee take-up.

Outlook

In developing its roadmap for the 2018/19 financial year, **sefa** is acutely aware of the material constraints that it is facing, namely, the unfunded mandate that talks to the mismatch between the funding needed by SMMEs and Co-operatives (10% of GDP) and the capitalisation level of **sefa**. To address these challenges, **sefa** will for the first time raise debt to capitalise its business in order to sustain its lending activities. To this end, the following changes will be effected in the 2019 financial year:

- Direct Lending model will be recalibrated to a more balanced portfolio comprising of start-up finance, contract-based financing (namely, the Public-Private Sector procurement) and more franchise-based system of financing;
- Dispose of non-strategic and loss making property portfolio;
- Introduce low risk, high volume products such as the Invoice Discounting and Township Financing Solution;
- Accelerate the automation of key business processes;
- Complement state funding with the International Donor support; and
- Contain costs by optimising the national distribution access points, implement back office initiatives and reduce other operational costs.

Acknowledgements

My heartfelt gratitude goes to the Honourable Minister Lindiwe Zulu and the Department of Small Business Development for the guidance and support-especially given the challenges confronting our economy. I further extend my appreciation to the Chair of the Board, Ms Hlonela Lupuwana-Pemba and the Directors for their support and positive engagement throughout the year. Our shareholder, IDC has been unwavering in its support to **sefa**. To **sefa** management and the entire staff, I thank you for your continued commitment.



Mr Thakhani Makhuvha
Chief Executive Officer

Chief Financial Officer's Statement



Ms Reshoketswe Ralebepa
Chief Financial Officer

The Finance Division's main objective is to ensure financial sustainability of the organisation.

Since its inception in 2012, **sefa** began venturing into a new terrain of lending directly to SMMEs and not through intermediaries, and thus seeking to increase SMMEs and Co-operatives' access to funding particularly those who would not easily obtain assistance from the conventional lenders. This initiative led to the rapid growth of **sefa**'s loan portfolio for financial years ending between 2013 and 2016 with the direct lending portfolio being the main driver of this growth. The rapid growth began to attract high levels of impairments

in **sefa**'s loan portfolio as off 2014, with the impairment figures reaching a peak of R380 million in 2015. A strategic decision was taken to enhance the credit quality of loans issued and redirecting focus on post investment monitoring in order to address and arrest the high impairments being experienced. This shift in focus was intended to ensure the sustainability of the entity while continuing to make funds accessible to SMMEs and Co-operatives in the market.

During the year under review **sefa** experienced negative growth on the net value of the Group's overall loan portfolio, due mainly to lower than anticipated loan approvals, at 58% of target, and lower disbursements from balance sheet of **sefa**. Whilst making progress in the strategy above, **sefa** has enhanced its credit community to ensure that higher quality transactions are approved and collections are improved. With this in place **sefa** is ready to drive higher disbursements and to grow the loan portfolio which will generate additional revenue on its path to financial sustainability.

Financial Performance

The Group reported a total comprehensive loss of R268 million (2017: R209 million). Drivers for the increase in the reported loss are discussed below.

A. Revenue

Revenue reported for the Group was R14 million lower than the preceding year. Income derived from interest and fees on loans (63% of revenue from operating activities) declined with R6.8 million year on year due to the negative growth in the Group's loan portfolio, as a result of past impairments, and lower balance sheet disbursements.

The lower interest bearing cash balances contributed a R4,2 million decrease in the interest revenue generated from investing activities.

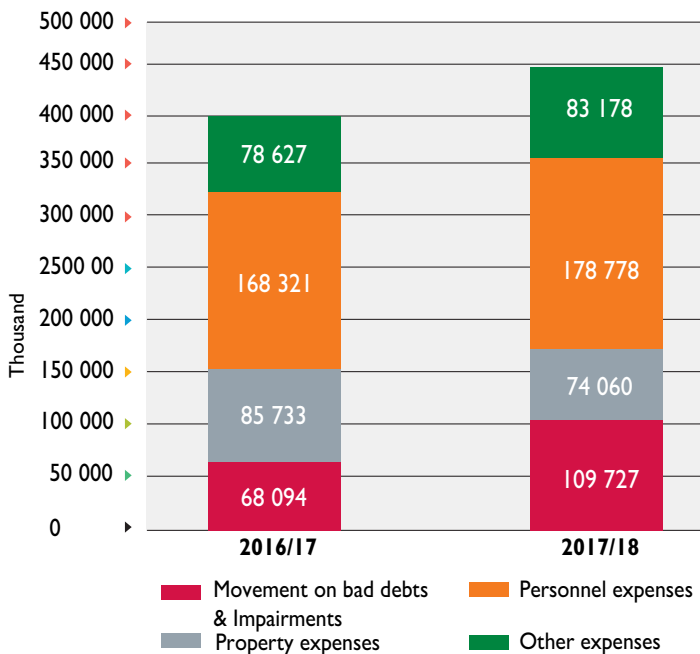
B. Investment property portfolio

All activities relating to the investment property portfolio were transferred from **sefa** to Khula Business Premises (Pty) Ltd (a wholly owned subsidiary) with effect from 1 April 2017.

Rental Income of R27.2 million was reported in the current year compared to R29.3 million recorded in the previous year.

Property expenses declined by 14% (R85.7 million in the prior year to R74 million in the current year). A strategy has been developed to turn the investment property portfolio into a feasible portfolio which includes the disposal of specific loss-making properties identified and to implement additional cost savings and collections measures.

C. Operating Expenditure Analysis



Operating expenditure increased with R45 million (11%) year on year which is attributable to impairments (R41,6 million), investment property expenses (R11,7 million) and inflationary increases on both personnel costs (R10,4 million) and other operating expenses (R4,5 million).

D. Loans and Impairments

The direct lending portfolio makes up 57% of the **sefa** company's total loans and advances at cost. Total impairments on loans and advances relating to the direct lending portfolio decreased from 70% last year to 69% in the current year. **sefa** has been making efforts to try and arrest and marginally decrease the overall provision for impairments on the portfolio owing to the additional emphasis placed on the credit quality of loans issued and Post Investments Monitoring over the past two financial years. A small percentage of the overall provision relates to loans issued in the past two financial years.

Impairments on Wholesale Lending (which makes up the remaining 43% of the **sefa** company's total loans and advances at cost) increased from 26% to 35%. The surge was largely due to higher impairments on loans issued in prior years under the Micro loans and Co-operative lending portfolios.

Loans issued under these portfolios are of higher value and the impact of a single client defaulting has a significant impact on the overall portfolio.

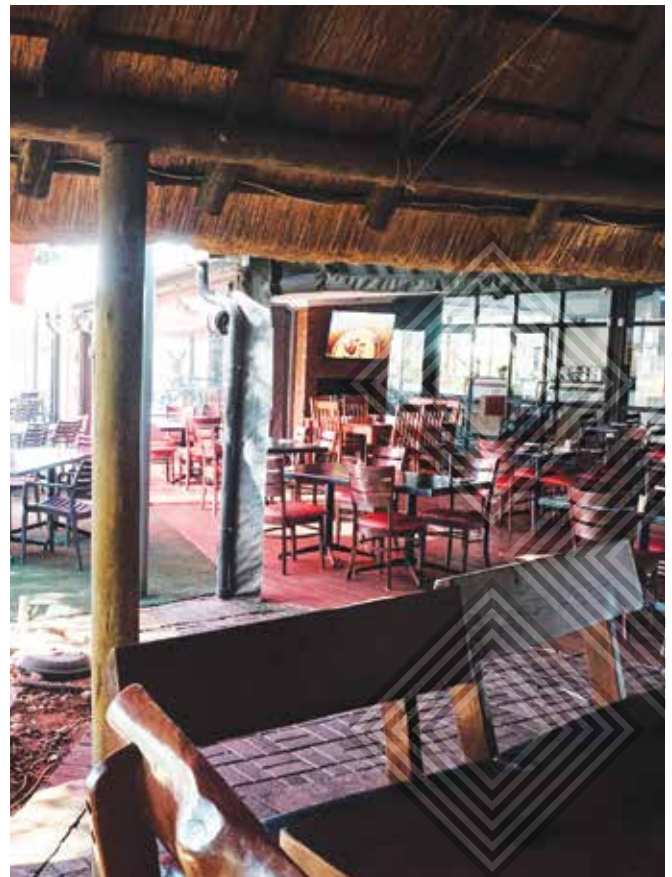
Financial Sustainability

For **sefa** financial sustainability is defined as the entity's ability to continue to fulfil its mandate to develop sustainable SMMEs and Co-operatives through the provision of funding. **sefa** as an organisation acknowledges the importance of sustainability for both **sefa** and its clients.

It remains essential for **sefa** to find and keep the balance between financial sustainability and developmental impact. The focus remains on scaling the loan portfolio to a size where it generates adequate revenue to subsidise operating expenses and generate adequate cash inflows to sustain such growth and to repay the additional funding borrowed from the IDC.

The vision is to accomplish this sustainability through a partnership with all departments within **sefa**, our clients and all other stakeholders.

The vision is to accomplish this sustainability through a partnership with all departments within **sefa**, our clients and all other stakeholders.



Wholesale Lending



Ms Vuyelwa Matsiliza
Executive Manager: Wholesale Lending

The Wholesale Lending financial support contributes to the financial inclusion of the country's vulnerable communities, particularly those residing in the country's remote areas.

The goal of Wholesale Lending is to increase access to finance by SMMEs and Co-operatives through leveraging private and public sector finance and skill. Wholesale Lending plays a crucial role of enhancing the establishment and growth of small businesses which in turn contribute to economic growth, job creation and economic transformation. The WL division focuses on specific products that complement direct lending offerings, extend the reach of **sefa** and deliver support to SMMEs and co-operatives in a cost effective manner. Its products and services include business loans, equity, credit guarantees, fund management services and structured finance solutions. Structured finance solutions crowd in public and private sector resources. The WL distribution channels are diverse and serve the needs of end users at different localities. They are as follows:

- Co-operatives Financial Institutions (2 CFIs);
- Enterprising Co-operatives (6);
- Microfinance Institutions (12 MFIs);
- Retail Finance Institutions (12 RFIs); and
- Strategic Partnerships (10 Specialised Funds and Joint Ventures, 6 LREF partners and 9 KCG partners).

Highlights

- Over 45 thousand small businesses benefitted from WL loans;
- R233 million was disbursed as loans that were less than R500 000;
- R795 million was disbursed to black owned businesses;
- R384 million was disbursed to women owned businesses; and
- R168 million was disbursed to youth owned businesses.

The division delivers its products through the following functional units/ programmes; that is, a) Informal sector and Micro-enterprise Finance; b) SME Wholesale & Co-operatives; and c) Credit Indemnity Scheme. The Credit Indemnity Scheme is administered by the Khula Credit Guarantee SOC Limited, a wholly owned subsidiary of **sefa**.

In addition, these units assume responsibility of managing Funds under **sefa** management. The Land Reform Empowerment Facility (LREF), a Non-profit Company, is fully funded by the Department of Rural Development and Land Reform. In January 2018, the fund management responsibility for the Godisa Supplier Development Fund was transferred from Anglo American Zimele (Pty) Ltd to **sefa**. **sefa** is also tasked to manage the €30 million wholesale facility of the EU Employment Promotion through SMME Support Programme.

sefa has strategic partnerships with the microfinance institutions (MFIs) in particular, mainly to serve the informal and microenterprises that are in need of small loans and reside in remote areas of the country. Small Enterprise Foundation (SEF) and Phakamani Foundation (PF) are two of the key partners of **sefa** serving this market segment.

a) SME Wholesale Lending

Through SME Wholesale Lending, **sefa** provides funding to intermediaries and specialised funds that share **sefa**'s objective of increasing access to finance to SMEs. **sefa** also enters into joint ventures and other strategic partnerships in order to crowd-in financial and business support as well as technical resources of the public and private sector strategic partners. The SME Wholesale Lending channel complements Direct Lending and focuses on



intermediaries with a niche offering, typically with expertise to provide non-financial support to SMEs. Through these partnerships, **sefa** is able to extend its reach to underserved SMEs. The Division disbursed a total of R783 million to 600 SMEs through financial and non-financial support, where conventional finance institutions have no intention of being a financial services provider.

Structured Finance Solutions (SFS)

Structured Finance Solutions in **sefa**'s context refers to an investment strategy wherein **sefa** structures deals in such a manner that it leverages on its strategic partners funds and skills to enhance the financial support to the small business sector. The SFS partners do not intend to create in-house lending operations. **sefa** then lends directly to the supported end-users.

sefa is positioned to expand the SFS product and Fund Management services to: enhance sustainability of SMMEs; crowd in public and private sectors' financial, technical and other resources; optimize use of existing **sefa** infrastructure; and scale up development impact. This enables access to finance which would otherwise be unavailable to very high risk small businesses. However, the uptake of SFSs has been slower than expected owing to corporate actions, sluggish economic growth and limited capacity of Wholesale Lending to assess individual transactions. For example, the rollout of the R60 million facility approved to fund Local Distribution Partners (LDPs) with distribution contracts from Coca Cola Bottling South Africa (CCBSA) was affected by the corporate restructuring of CCBSA (previously known as Amalgamated Beverage Industries or ABI).

Going forward, partnerships with corporates will be strengthened and accelerated by the expected award of the B-BBEE Facilitator status to **sefa**. Expansion of the SFS product offering will be effected in partnership with Direct Lending during the 2018/19 financial year.

Fund Management Services

The management of third-party funds is intended to leverage existing financial and non-financial resources in order to improve access to funding for SMEs.

- In the 2018 financial year, **sefa** successfully on-boarded the fund management services of- and resuscitated the Godisa Supplier Development Fund, which makes funding available to suppliers of Transnet. **sefa**, together with Transnet, aim to expand the reach of this fund to support the ESD initiatives of other State Owned Entities (SOEs).

The EU Commission, has allocated budget support of €30 million of the "Employment Promotion through SMME support Programme" to **sefa**. During the current financial year, the conditions for the disbursement of the first tranche were met and consequently

the first tranche of €14 million (€10m for **sefa**) was disbursed to National Treasury by the EU Commission. This funding provides an opportunity for **sefa** to increase access to finance, crowd-in private sector investment and scale up support to SMMEs.

New partnerships formed in the 2017/18 financial year, include the following:

Bridge Taxi Finance

sefa approved a R30 million business loan to Bridge Taxi Finance (Bridge) in order to expand its taxi financing business. Bridge specialises in providing finance to taxi operators who wish to purchase Chinese minibuses imports. The major brands which are funded are JinBei and Golden Dragon. Finance is only granted for minibus taxis that have been homologated through the Department of Transport. Regular visits to China are undertaken by Bridge executives in order to secure relations directly with the Chinese manufacturers, as well as to ensure continuing quality of vehicles being manufactured, and subsequently imported into South Africa. The funding will benefit approximately 90 SMEs, with at least 95% of them being Black-owned. The R30 million investment will facilitate 164 jobs.

MTO Forestry

sefa established a strategic relationship with MTO Forestry (Pty) Ltd (MTO) through a R30 million facility aimed at providing asset-based finance to SMEs that are contractors to MTO. Loans to the contractors will be provided on the back of a cession of payments from MTO. The applicants are individual SMEs contracted to MTO Forestry for providing a variety of services in the form of harvesting, roads and construction, conservation and fire protection. As part of its ESD strategy, MTO has appointed a third party service provider that will drive the implementation of its Enterprise and Supplier Development (ESD) strategy, which includes the provision of non-financial support to ensure the long-term sustainability of the SMEs. The R30 million end-user funding from **sefa** is expected to finance at least 25 SMME contractors and facilitate 300 jobs.

Developmental impact

The SME Wholesale Lending overall disbursement of R783 million to 600 SMEs through intermediaries and strategic partner was largely enabled by the intermediaries to provide ongoing financial support to SMEs.

Highlights

- Total disbursed to SMEs: R738 million (against the target of R366 million);
- Number of SMEs funded: 600 (vs 196 targeted);
- Jobs facilitated: 4784 (vs 980 targeted).

Wholesale Lending

The developmental impact of the beneficiaries is summarised in the table below.

	No. of SMEs	Amount disbursed in 2017/18 (Rands)
Total	600	737 872 888
Black	500	380 956 125
Female	159	128 795 493
Youth	154	101 964 953
Priority provinces	207	151 903 118

The locality of intermediaries (being mainly in Johannesburg and Cape Town), combined with limited interventions on specific developmental impact targets has led to underperformance with regards to support provided to SMEs in townships and priority provinces. **sefa** will seek strategic interventions in partnership with provincial DFLs and other strategic partners to encourage support to SMEs in priority provinces. In addition, **sefa** will consider concessionary lending products to encourage participation by township based SMEs and those owned by people with disabilities.

Key challenges and strategic outlook

The SME Wholesale Lending & Co-operatives channels have faced numerous challenges with the provision of finance through the intermediaries and have embarked on several initiatives to overcome these.

Challenges	Measure to address the challenges
<ul style="list-style-type: none"> Over-gearing of intermediaries affects sustainability 	<ul style="list-style-type: none"> Developed a financial instrument policy to improve the sustainability of intermediaries through the use of equity/quasi equity instruments to improve the capital structures of intermediaries; Capacity building grants to intermediaries; Own contribution of at least 10% as an equity buffer.
<ul style="list-style-type: none"> Inability of intermediaries to access additional funding, leading to dependence on sefa as funder 	<ul style="list-style-type: none"> Build in targets for intermediaries to incrementally crowd in additional funding; Equity/Quasi equity investments will enable intermediaries to access additional third party funding.
<ul style="list-style-type: none"> Concentration of intermediaries in Gauteng and Western Cape – Limited capacity to have national footprint and reach priority provinces 	<ul style="list-style-type: none"> Expanding Structured Finance Solutions (in partnership with direct lending) in order to expand provincial reach (with technical partner support); Build value-adding partnerships to expand reach to under-served provinces (e.g. with provincial DFLs).
<ul style="list-style-type: none"> High cost structure in reaching individual SMEs. Cost of non-financial support/business development support to SMEs is not subsidised. 	<ul style="list-style-type: none"> Focus on intermediaries that have found innovative ways to crowd in private sector support/funding to reduce the overall cost of funding and that offer business development support to SMEs; Targeted interventions to support SMEs directly through structured finance solutions through partnership with the technical partners and corporates.

Key strategic initiatives for 2018/19 financial year:

- Improve the sustainability of end users through the use of equity/quasi equity to fund niche intermediaries with mandates closely aligned to **sefa** and donor funding partners;
- Expand the Structured Finance Solution (SFS) offering, in partnership with Direct Lending;
- Build value-adding partnerships to expand outreach to underserved Provinces;
- Increase revenues through leveraging government, DFI, Donor, and ESD Resources;
- Managing costs by maintaining a lean Wholesale Lending structure;
- Preserve capital in Wholesale Lending business.



b) Co-operatives programme

The Co-operatives programme facilitates growth of the social economy, collective ownership and economic participation through the funding of Co-operative enterprises. **sefa** supports both Co-operative Financial Institutions (CFIs) as well as Enterprising Co-operatives. **sefa** pursuit of a strategy to significantly increase financial support to Co-operatives led to an increase in approval levels in the 2015/16 and 2016/17 financial years. **sefa** partnered with several stakeholders in the private sector involved in such economic sectors to provide technical support to the co-operatives. As a result, there was substantial growth in the Co-operatives' portfolio over a period of three (3) years from R1 million at the end of the 2014/15 financial year to R66.7 million at the end of the current financial year. Unfortunately, this bold move has not yielded the anticipated results.

The current portfolio comprises a total of 6 active Enterprising Co-operatives and 2 Co-operative Financial Institutions. Enterprising Co-operatives are involved in a wide range of sectors including Poultry farming, tunnel vegetable farming and waste recycling. A total of R4.3 million was disbursed to Co-operatives during the current year.

The majority of the Co-operatives' ventures faced significant challenges in the current year, with most of them falling into arrears. The difficulties experienced vary and include non-performance by technical partners, the limited capacity of the Co-operatives members to manage the enterprises, manifestation of risks such as avian flu, challenges with project implementation and limited project finance capacity at **sefa**. Projects were also halted or delayed due to in-fighting and antagonistic group dynamics among Co-operatives members, particularly the Waste recycling project in partnership with Dr Kenneth Kaunda District Municipality.

The current year's focus with regards to the Co-operatives portfolio has been on the management of the existing portfolio with significant hand-holding and project management interventions coupled with social mobilization and mediation.

Developmental impact

sefa disbursed a total of R3.9 million in the current year to benefit 13 primary Co-operatives which all operate in productive sectors. Funding of R320 000 was disbursed to 8 enterprising members of Ditsobotla Primary Savings and Credit Co-operative. A total of 99 jobs were facilitated. 100% of the funding was provided to Black-owned Co-operatives. However, a more concerted effort is required to increase support to township based Co-operatives and small businesses with disabled members.



Wholesale Lending

Key challenges and strategic outlook

- | | |
|--|---|
| <ul style="list-style-type: none"> • The capacity of technical partners to implement agreed loan programme activities; • Challenges of lending to social enterprises which relate to social mobilisation, group dynamics, management capacity of co-operative members (particularly in the normative years); | <ul style="list-style-type: none"> • sefa will review the use of technical partners in providing funding to Co-operatives, with a view to reduce the reliance placed on technical partners to ensure successful implementation of projects; • sefa will support Co-operatives that are already part of an ongoing incubation programme; • Due to the limited capacity of sefa to provide ongoing non-financial support to Co-operatives, sefa will rely on Seda and other players for deal origination and will focus on Co-operatives that have a track record of at least 2 years trading history; • Multi-disciplinary Co-operatives stakeholder forums for the development and support of Enterprising Co-operatives has been established; • sefa will explore risk sharing mechanisms in the funding of Co-operatives. |
| <ul style="list-style-type: none"> • Over-gearing of the enterprise where sefa provides 100% plus more of funding needed. | |

Given the challenges prevailing in the Co-operatives portfolio, **sefa** will review its funding model to Co-operatives in the new financial year. As part of this review, **sefa** will undertake the following strategic initiatives.

- Leveraging financial and non-financial resources of other role-players into a holistic framework;
- Development of a Co-operative growth ecosystem plan;
- **sefa** will continue to provide business loans to CFIs to on-lend to their enterprising members.

c) Land Reform Empowerment Facility (LREF).

In 2000, the Department of Rural Development and Land Reform (DRDLR) appointed **sefa** (then Khula) to manage a R63 million Land Reform Empowerment Facility (LREF). The LREF was established as an intervention aimed at facilitating finance for farm worker communities as well as emerging black farmers to enable them to acquire farm land, agricultural machinery, equipment and seasonal production inputs. The original modus operandi of the LREF was to advance wholesale loans to reputable agricultural lenders for on-lending to BEE commercial farming ventures on a project by project basis.

In 2013, **sefa** and DRDLR entered into a new agency agreement, because the LREF funding instruments which came with the original agreement were outdated. Following the signing and implementation of the new agreement, the LREF experienced an increase in demand for its product offerings. The increase in demand can be attributed to the expansion of the LREF funding offerings and the concessionary interest rate (prime lending rate minus 4% or 5% per annum) to participating intermediaries.

From financial year 1999/2000 to March 2018, **sefa** (through LREF) has approved facilities to the value of R657 million to financial intermediaries and disbursed R457 million to 434 previously disadvantaged farming enterprises. The intermediaries participating in the LREF are required to conduct their own project screening, due diligence as well as economic and financial evaluations. Credit risk of the funded projects is entirely borne by the intermediaries. The LREF's interventions supported projects in all nine provinces and ventures in the following sectors were funded: sugarcane, dairy farms, poultry, green house vegetable crops, deciduous and subtropical fruit as well as piggery.

The LREF made noticeable progress by achieving a portfolio growth from R63 million in 2000 to R429 million by 2018; financed 434 Agriculture and Land Reform projects which altogether created at least 7000 jobs, 40% of which were women-owned businesses.

With regard to 2017/2018 developmental impact indicators, the Fund facilitated the following:

- R91.5 million was disbursed to 142 emerging farmer projects;
- R71.9 million was disbursed to majority black-owned businesses;
- R17.9 million was disbursed to majority women owned businesses;
- 2 255 jobs were facilitated (created and sustained); and
- R40.9 million was disbursed to businesses in priority provinces.

Financial Performance

Profitability Ratios	30 March 2018 (R'000)	31 March 2017 (R'000)	Increase / (decrease) %
Interest income – Loans	15 933	13 777	15.6%
Interest income – cash	12 007	13 835	(13.2%)
Operating expenses	9 154	7 563	20.9%
Return on assets	4.2%	4.7%	(0.5%)
Return on equity	4.3%	4.8%	(0.5%)

Profitability analysis

LREF Interest Income on loans grew by 15.6% to R15 million from R13 million (2017) whereas the interest income generated from cash and cash equivalents fell by (13.2%) to R12 million from R13 million (2017). This resulted in overall growth in revenue generated from interest income on interest bearing assets of 1.18%. This was largely due to 4.5% growth in loans and advances to customers to R272 million from R260 million (2017) which were also largely compensated by positive endowment effect from higher interest rates. Operating expenses grew by 20.9% in 2018 being

R9 million from R7 million (2017). This was largely **sefa's** management fees charged to LREF.

Due to a slight increase in revenue growth in 2018 which has been largely offset by an increase in operating expenditure, the return on assets has consequentially dropped to 4.2% from 4.7% (2017). The overall drop on operating profit R18 million from R20 million (2017) has also resulted in a decrease in return of owners equity 4.3% from 4.8 % (2017).

Financial Position

Liquidity & Gearing	31 March 2018 (R'000)	31 March 2017 (R'000)	Increase / (decrease) %
Loans and Advances	272 319	260 558	4.5%
NPLs (% of advances)	Nil	Nil	
Cash and cash equivalents	172 049	163 483	5.2%
Debt equity ratio	0.02	0.02	

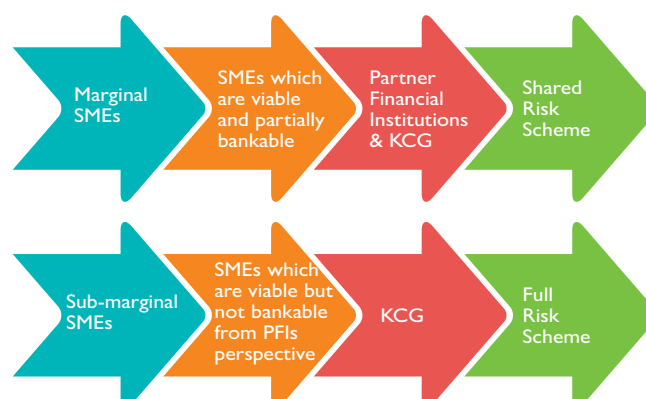
Liquidity and Gearing Analysis

The loans and advances grew by 4.5% to R272 million from R260 million (2017) mostly due to LREF funded loans. There are no non-performing loans due to the fact that lending is done via intermediaries mainly commercial banks with strict lending criteria. Cash and cash equivalents grew by 5.2% to R172 million from R163 million (2017) largely due to interest earned on money markets accounts as well as capital and interest repayments. The undrawn commitment are available for further lending on new projects. The IDC provides treasury management services to **sefa** and LREF.

KCG

Khula Credit Guarantee (SOC) Limited is a wholly owned subsidiary of Small Enterprise Finance Agency (SOC) Limited. It is registered as a short term insurer with the Financial Services Board, now Prudential Authority (PA) under South African Reserve Bank (SARB). It was created to house a Fund established to operate an indemnity scheme aimed at assisting SMEs to obtain financing from

financial institutions to enable them to establish, expand or acquire new or existing businesses in circumstances where they, would not – without the support of an indemnity cover, qualify for such financing in terms of the participating financial institution's SME lending criteria. Under the scheme the targeted clients are the marginal and sub-marginal SMEs.



Wholesale Lending

Rationale for the guarantee programme

The objective of the Khula Credit Guarantee scheme, is to issue partial credit guarantees to lenders for SME borrowers, whose access to finance is impeded by the lack of collateral required. The Guarantee scheme was set up as a Risk Sharing Facility with Partner Financial Institutions (PFIs) for the purpose of facilitating access to finance by SMEs for lack of, insufficient or unacceptable collateral for the acquisition, establishment or expansion of a business.

The South African financial system contains a highly developed and well-capitalized banking sector, which, however, caters mainly to the advanced segments of the South African economy. The financial sector is highly concentrated, dominated by four large banks, which have catered to the higher end segments of the economy, leaving the middle segment (SMEs) underserved. While consumer indebtedness has increased over the last decade, access to credit for SMEs remains limited. High administrative costs of small-scale lending, the perception that risk is high in lending to SMEs, and their lack of collateral and financial records are some of the main reasons for lenders not tapping this market.

In some of the studies conducted it has been established that over half of SMEs indicated that they would like to borrow from a bank, but anticipate difficulties obtaining a loan. SMEs list complex application procedures, high interest rates, and unattainable collateral requirements among the reasons why they are not applying for loans.

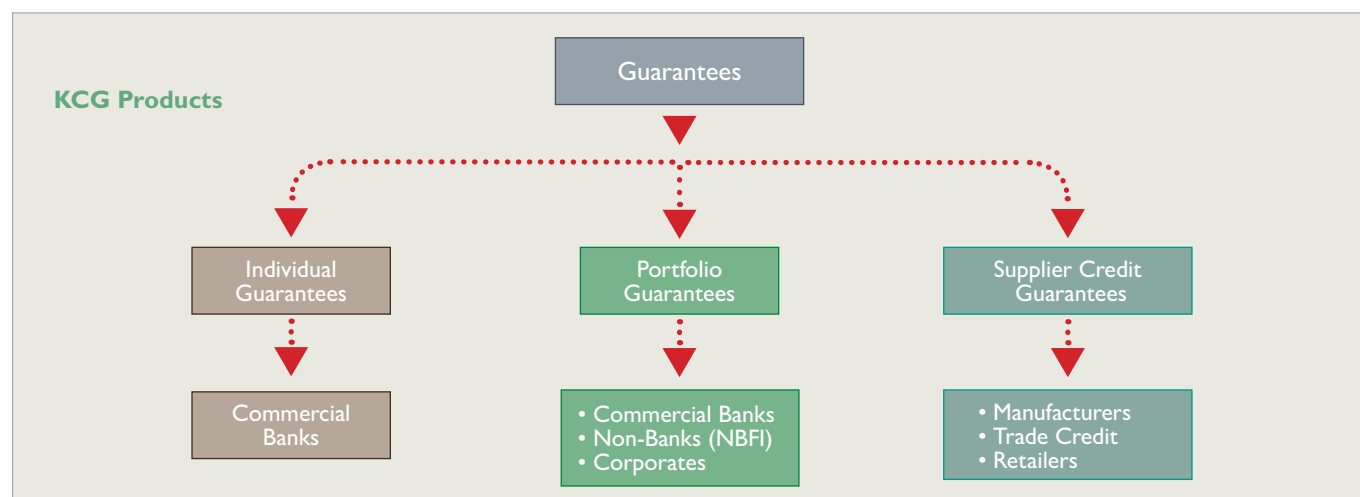
In order to address the financing gap for SMEs, the South African Government undertook several reforms, one of which included determining the role and impact of a well- designed Partial Credit Guarantee (PCG) scheme that would reduce risks for lenders to serve the SME segment.

Why does Khula Credit Guarantee partner with commercial banks and other supplier credit institutions?

- Supplier Credit Institutions usually operate in sectors where they have a niche market with merchants who are unable to grow without extended credit facilities;
- Small business usually require partnerships or programmes established by corporates, especially Enterprise and Supplier Development Programmes;
- Addressing the SMME Financing Gap requires a partnership between public/ private and non-governmental sector;
- Intermediaries have in some cases a better footprint to reach a particular segment of the SMME market and can reach SMMEs more effectively and efficiently;
- Commercial banks have a large footprint and are normally the traditional lending platform for SMEs. Leveraging the financial sector reserves for lending is a better partnership for a guarantee scheme.

Profile of the participatory guarantee institutions in relation to their expertise, loan book, performance, beneficiaries and geographic spread, any other unique organisational characteristics

KCG offers the following products to Partner Financial Institutions (PFIs) - supplier credit guarantees, individual credit guarantees and portfolio guarantees.



The types of credit guarantees offered by KCG, range from individual to portfolio guarantees. The former refers to guarantees where each loan application is reviewed by the bank and also by KCG. Portfolio guarantees typically cover the entire portfolio of a lending institution for a designated client segment (SMEs), whereas supplier credit guarantees enable trade credit by corporates to SMEs. KCG started with issuing individual guarantees to commercial banks and based on experience with the partner financial institutions, slowly graduated to portfolio guarantees with commercial banks, non-bank financial institutions and corporates.

Individual and portfolio guarantee schemes are both commonly used, in addition to a combination of the two, namely a hybrid. The important distinction between the different types is the way in which the credit guarantees are delivered.

In the individual guarantee scheme each and every client of the guarantee fund is screened by the guarantor (KCG) after it has being taken through the credit vetting process of the commercial bank. While this could be seen as a duplication of work and being labour intensive, establishing clearly-defined criteria usually facilitates the process of review and approval. Typically, for institutions delving into the SME market for the first time, KCG will start with individual guarantee approvals until the institution has developed a track record in the sector.

In the portfolio guarantee scheme, the (KCG) gives financial institutions permission to attach a credit guarantee to any client that fulfils certain eligibility criteria. The financial institutions simply inform the guarantee fund - KCG, usually on a monthly basis, of the new loans approved. Portfolio guarantee schemes are obviously less labour-intensive for the guarantee scheme than individual guarantees, since screening of clients is done by the financial institutions only. The potential disadvantage is that KCG has less control over the quality of its guaranteed portfolio.

A portfolio guarantee scheme can only work if KCG trusts the capacity of the partner financial institutions to evaluate the entrepreneurs who apply for a loan. This is effected by stringent due diligence which KCG conducts on all its preferred partner financial institutions. KCG also needs to review the most important financial indicators of the partner financial institutions such as the Non-Performing Loans (NPL) rate, the repayment rate, the loan loss rate and the amount of loans written-off. In a portfolio guarantee scheme, KCG does not issue individual guarantee certificates. Instead, the rights and duties of the partner financial institutions and of KCG are laid out in a contract between the parties.

Actual performance achieved KCG in relation to target

The portfolio guarantee facilities approved in 2018 amounted to R60 million against a target of R100 million. These facilities were granted to Sasol Siyakha Enterprise and Supplier Development and MR Price Group.

Sasol Siyakha Enterprise and Supplier Development (R30m)

KCG provides guarantees to SMEs who apply for financial assistance from Sasol Siyakha Enterprise and Supplier Development (Sasol Siyakha) programme to establish, expand or acquire new or existing businesses but lack sufficient collateral. Sasol's approach to enterprise and supplier development is to nurture, grow and sustain SMEs by providing technical and business development support, through mentoring and coaching and loan funding to qualifying SME suppliers.

The scheme applies primarily to communities in which Sasol operates. Sasol Siyakha has taken up facilities close to 95% of their total facility creating 624 new jobs with 7 SMEs for the period under review.

MR Price Group (MRPG) (R30m)

This facility assisted the group of co-operatives in the Nkomazi Cotton Project to get funding of R16.6 million as an interest free loan from MRPG. MRPG made funds available to the 752 small scale farmers who participated in the Nkomazi Cotton project. The fund was an interest-free loan to the farmers who bought inputs for the 2017/18 planting season. The produce would be bought for value chain conversion into garments and home textiles for MRPG. The purpose of the KCG facility was also to enhance delivery of agricultural based financial solutions towards acquisition, expansion and joint venture initiatives for the already committed farmers with strong business case but lacked sufficient collateral. The small scale farmers at Nkomazi had 1 920ha made available for planting. The targeted yield for 2017/18 season is 900kg per hectare which had a total output of 1 700 tons of seed cotton. MRPG facility was able to have taken-ups from 22 co-operatives and it created and maintained 752 new jobs.

Included in the taken-ups facilities are Transaction Capital Business Solutions with 8 SMEs financed. These SMEs created and maintained 152 jobs. The other was FNB Business Agriculture with taken up by 1 SME that created and maintained 15 new jobs.

Wholesale Lending

In the past three years, KCG introduced new products, namely portfolio and supplier credit guarantees. These include transactions such as Mr Price Group, Sasol Siyakha and Transaction Capital Business Solutions. The taken up indemnity facilities comprised of approved transactions in the previous year, and renewals of existing individual guarantees from commercial banks. The current year results are summarised in the below table:

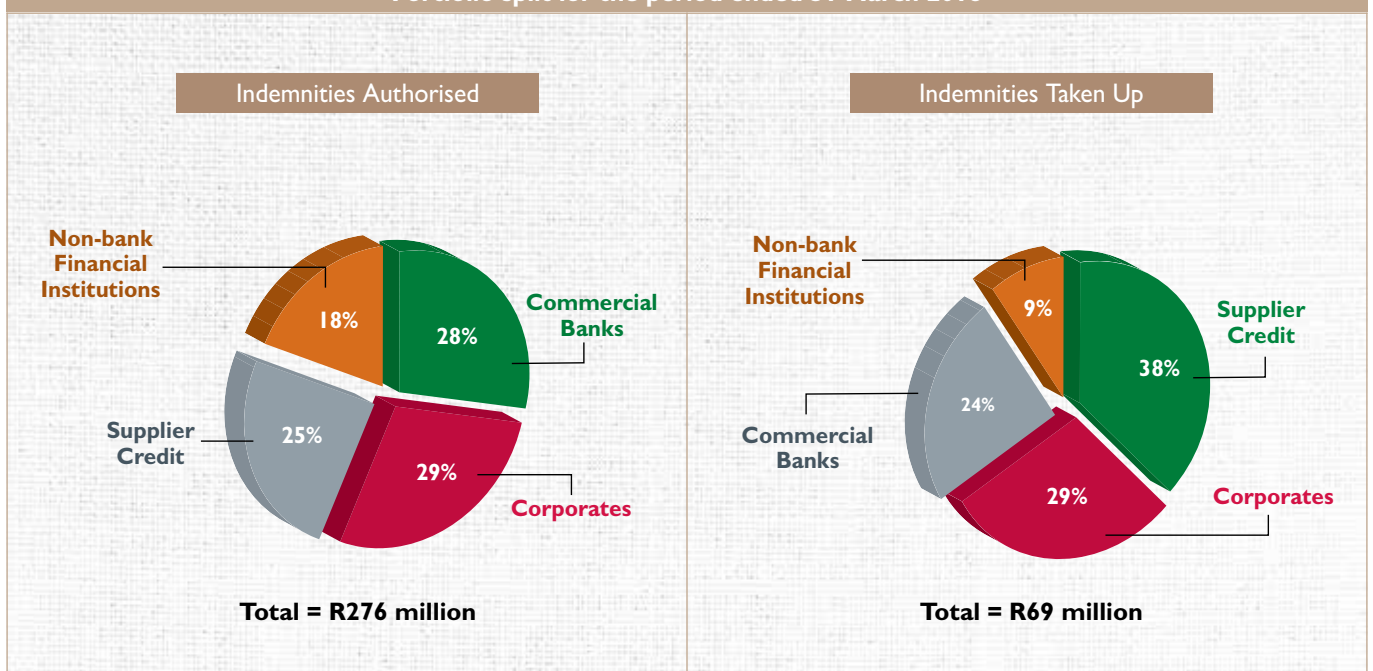
Portfolio Performance for the period ended 31 March 2018

Institution	Guarantees Type	Location	No. SMMEs	Jobs	Status	Indemnity Value
Nedbank SBU	Individual	National	11	88	Active	3 792 413
First National Bank	Individual	National	20	392	Active	5 814 783
Standard Bank	Individual	National	8	193	Active	3 075 808
ABSA	Individual	National	8	144	Active	3 686 916
Total active guarantees from commercial banks			47	817		16 369 920

Sasol Siyakha ESD	Portfolio	National	7	627	Active	18 884 583
Transaction Capital Business Solutions	Portfolio	National	8	169	Active	6 520 000
Mr Price Group	Portfolio	Mpumalanga	22	752	Active	1 347 913
FNB Agriculture	Portfolio	National	1	15	Active	1 360 000
Total active portfolio guarantees			38	1 563		28 112 496

Macsteel	Supplier Credit	Gauteng	103	56	Active	52 604 838
Barnes Reinforcing Industries	Supplier Credit	Gauteng	8	144	Active	64 173 985
Total active supplier credit guarantees			111	200		116 778 823
Total			196	2 575		161 261 239

Portfolio split for the period ended 31 March 2018



Partner Financial Institutions (PSIs)



Mr Price Group
Facility approved R30m



Sasol Siyakha
Facility Approved R50m



Transaction Capital
Business Solutions
Facility Approved R50m



Macsteel
Facility Approved R30m



Barnes Reinforcing Industries
Facility Approved R30m



Commercial Banks
Facility Approved R76m

Key challenges

- Low level of banking participation in the guarantee;
- Low visibility of KCG;
- Regulatory compliance complexity in relation to the standards set-out by the financial sector authority;
- System challenges in relation to MIS.

In order for KCG to succeed in addressing these challenges, the current form under which KCG operates should be changed. This involves re-engineering KCG to a more efficient operation in line with best international practices so that the revamped institution could manage to shed its legacy problems and reputation.

A new risk-based fee structure has been put in place. Higher-risk clients are offered higher cover at a higher fee so as to encourage partner financial institutions to utilise the guarantee to much riskier SMEs.

Claim pay-out process has been refined and it is now predictable and timely. This process is captured well in all new Portfolio Guarantees offered to PFIs. Follow-up on problem loans is clearly defined, including the collection process, legal action, etc. This is enhanced regularly by continuous clients visits where training is offered. Claims are paid out no later than 180 days from the date of default and without having to wait for resolution in court.

The documentation and approval process has been minimized and simplified. All correspondence between KCG and partner financial institutions is mostly done via e-mail.

A new Portfolio Guarantee system will be developed to enable an automated MIS and a comprehensive loan tracking system.

A range of financial products that meet the needs of SMEs will be developed in the forthcoming years. KCG is planning to develop several products such as, guarantees on working capital loans, trade finance, start-up loans that target professional and vocational graduates.

The guarantee is kept invisible to the end beneficiary in order to reduce moral hazard. This has been widely accepted by the PFIs.



Wholesale Lending

Strategic Outlook for the next financial year

Summary of strategic initiatives as contained in the 2018/19 Corporate Plan

Strategic Objective:

To expand the utilisation of the Credit Indemnity Scheme by increasing the number of participating institutions, introduction of new products and the streamlining of business processes and systems by targeting the following areas:

- **Market Growth:** To grow using KCG portfolio guarantee and marketing it aggressively so as to increase the utilisation of guarantee indemnity scheme by registered financial institutions;
- **Market Development and Product Development:**
 - To better serve the needs of SMMEs across industries and increase attractiveness of the scheme subject to acceptable risk exposures to other markets such as offering agricultural guarantees and guarantees to entities offering incidental credit to micro-enterprise lenders;
- **Diversification:** KCG intends to spread its footprint across different markets and products; and Strategic Partnerships: Through strategic partnerships with financial institutions, other registered lenders, non-bank financial institutions and corporates with ESD programmes, KCG will ensure that the utilisation of scheme never reaches the low levels of the previous years.

The new product initiatives for the 2018/19 are:

- Hybrid guarantees (combination of portfolio and individual guarantees);
- Performance guarantees (performance bonds and advanced payment guarantees);
- Wholesale guarantees (this is to guarantee an already existing loan book for a PFI for capital relief).

e) Wholesale Micro Lending

The overall objective of the Microfinance Division is to increase and innovatively expand access and reduce the cost of end-user financing to informal and micro enterprises particularly those in rural and peri-urban areas. The strategic objective of the programme is to increase the level of economic activity of survivalist, informal and micro enterprises, particularly those operating in rural and peri-urban areas, through provision of access to credit, finance and business support.

Specifically, **sefa** seeks to:

- Provide affordable loans to microenterprises;
- Significantly extend **sefa**'s microenterprise distribution channels to localities of end users;
- Increase the number of microenterprises supported directly and indirectly by **sefa**; and
- Leverage existing private and public sector resources for development and financing of sustainable enterprises.

sefa works predominantly through intermediaries to provide credit to informal and microenterprises. Intermediaries are formally registered entities which provide financial services to the low end market, such as the Microfinance Institutions (MFIs). **sefa** acts as a wholesaler to these intermediaries, and lends them "wholesale" funds, which the Intermediaries on-lend (on a retail basis) to their clients, defined from a **sefa** perspective as "end users". In this regard, the MFIs act as mediators between **sefa** and the end users. It is expedient for **sefa** to utilize the services of Intermediaries to reach informal and micro enterprises because they have the appropriate infrastructure to reach large numbers of end users, especially in the deep rural areas.

From a **sefa** standpoint, the Intermediaries that retail **sefa** funds to informal and microenterprises are not beneficiaries of **sefa** funds. They are conduits of the **sefa** funds to the true beneficiaries which are referred to as end users. The end users (beneficiaries) are the informal and micro enterprises. Generally, **sefa** defines these as "survivalist enterprises", informal businesses owned by people who are unable to find a job, and microenterprises. Income generated from survivalist enterprises falls short of minimum income standards expected for families living above the poverty line, and these hardly invest meaningful capital in their businesses. Because of the severely limited capital available to them, these enterprises stand very little chance, if at all, to advance into viable and profitable businesses.

The larger informal businesses, popularly referred to as microenterprises, may have broken the poverty barrier line, but are still precariously close to it. They need support to grow their enterprises to small and medium sized businesses in order to fully escape poverty and provide job opportunities to their disadvantaged communities.

The **sefa** MFI partners provide credit to end users generally because they are driven by one or a combination of three different ideologies. These are the poverty alleviation; micro-enterprise development; and microfinance focuses. The smaller loans of R500 to R10 000 are mainly targeted at overcoming poverty especially in the rural communities.

In addition, **sefa** has, of late, established direct links with the informal businesses and provide loans directly without the use of an intermediary. The microenterprise loans offered directly to end users by **sefa** can extend up to R250 000. These bigger loans are really about “financial inclusion”, or the extension of financial services to deserving microenterprises who are not currently serviced.

Some Key Achievements in the informal and microenterprise sector are as follows

- Expanded its outreach to informal and microenterprises in three previously unserved Provinces of the Eastern Cape, Northwest and the Northern Cape. This, it has done through facility approvals to partner MFI intermediaries (The Small Enterprise Foundation and Phakamani Foundation). The approval of a combined R80 million benefited informal and microenterprises in these Provinces, over 90% of whom are women and youth;
- Entered into a partnership with Coca Cola Beverages South Africa to support Youth entrepreneurs in the Eastern Cape, Free State and Northwest Provinces. This is a broad partnership that involves DESTEA in the Free State; the Royal Bafokeng in the Northwest; and the Nelson Mandela Bay Municipality in the Eastern Cape. The programme has already benefited a number of youth who set up containerised spazas in their localities;
- Established a ground-breaking technology based credit vetting platform to assist informal buyers at the Fresh Produce Markets. This platform is in operation at the Durban and Mangaung Fresh Produce Markets. By the close of the 2017/18 year, the system had processed over 1 327 loans, directly disbursing R5 083 900 to informal sector buyers at the two Markets;
- Approved a funding facility of R25 500 000 for 1 000 informal sector operators trained under the “Informal and Microenterprise Development Programme” (IMEDP) in the Eastern Cape. Informal businesses in East London, Port Elizabeth, Mthatha and Mt. Frere and their surrounding areas will benefit directly from this facility;
- Approved a facility of R30 000 000 to benefit approximately 409 People with Disabilities that have a contractual relationship with the Department of Public Works construction programme. This facility should be fully utilised in the 2018/19 financial year.

Forged a potentially impactful strategic partnership with Nestle' and the DSBD to support youth entrepreneurs that distribute Nestle' products to Spazas and small shops in the Townships and rural areas. Under this partnership, a facility of R10 million was approved to initially support 50 “micro-distributors” in Gauteng and the North West Provinces.

Performance Highlights in 2017/18

Despite the economic challenges that South Africa has been facing in the last two years, **sefa** has made decent strides in discharging its mandate. It is pleasing to note that in the period under review, the Microfinance Department supported 44 294 informal and microenterprises, and facilitated and sustained 45 274 jobs.

Highlights

- Total disbursed to informal and Microenterprises: **R212 363 938**
- Number of informal and microenterprises funded: **44 294**
- Jobs created and sustained: **45 274**

	Number	Disbursements
Total	44 294	R212 363 938
Black	44 190	R211 586 978
Women	43 897	R205 053 371
Priority provinces	44 071	R202 257 410



Wholesale Lending

Challenges	Measure to address the challenges
Delays in setting up operational infra-structures for the approved informal and microenterprise projects that must be implemented directly.	sefa is investing significant resources to create its own direct lending infra-structure for informal sector borrowers. In order to speed up the development of this much needed infra-structure, sefa has improved its communication and collaboration with all its strategic partners involved in the initiatives. The resultant concerted effort from all stakeholders is proving to be beneficial to the targeted borrowers as efficiencies are harnessed.
sefa has always served informal and microenterprises through intermediaries. This has led to low capacity within sefa to implement projects directly.	sefa has accelerated its plans and activities to acquire the requisite skills, and/or develop in-house capacity to effectively and efficiently implement all approved projects. Financial resources are also being sought from international sources to augment available funds to build stronger and more appropriate infrastructure.
Heavy dependence on intermediaries has led, at times, to skewed services in favour of only informal and microenterprises in those Provinces where the MFIs exist	sefa has started building its own infrastructure to lend directly to the end users. As a beginning point, it has established a ground-breaking technology based credit vetting platform to assist informal buyers at the Fresh Produce Markets. This system will be enhanced for utilization by all sefa directly implemented projects.
Collections from the sefa direct microenterprise channel continue to plague the organisation's limited capacity to manage multiple small loan transactions.	sefa is strengthening its collections function through system enhancements, better client relationship engagement, and generally increasing the human resources to carry out this responsibility.

Strategic Outlook in the next financial year

sefa's Microfinance Department has positioned itself to build on its 2017/18 achievements through four strategic focusses in 2018/19. These are:

Strategic Initiative 1: Building and strengthening partnerships.

Strategic Initiative 2: Dedicated focus on unserved and underserved priority provinces.

Strategic Initiative 3: Support MFI growth and development, new product development and new partnerships.

Strategic Initiative 4: Develop direct credit channels to informal and microenterprises.





Direct Lending



Ms Boitumelo Sefolo
Executive Manager: Direct Lending

The Direct Lending product offering was introduced to address market failure in the SME funding market and to facilitate closer, direct relationship between sefa and its target market.

The direct lending funding stream has a decentralized footprint that provides accessibility to those previously marginalized SMEs and Co-operatives.

Direct Lending loan facilities are marketed to Small and Medium enterprises as well as Co-operatives that require loans ranging from R50 000 to R5 million.

The majority of **sefa**'s funds are channelled to the informal sector. Over a third of the Direct Lending funding approvals are in the start-up phase with limited or no track record or business experience. No security or very limited security or contribution available from the borrowers or entrepreneurs. The businesses are not adequately capitalized (low levels of equity), which make them vulnerable to any negative deviation from the base case. Many business-owners are driven by survivalist motives instead of entrepreneurial/growth motives. The industries for new entrepreneurs are often procyclical with low barriers to entry-high risk.

The Direct Lending division offers the following:

a. Working Capital Facilities

This loan facilitates the financing of an enterprise's day-to-day running costs. Uses of working capital include buying products/goods and services to deliver on client contracts and or orders. It also includes financing of operating overheads when there is a lag between the cash receipts and the time when the payment of certain operating expenses become due. The working capital facility assists to put the client back in control of their cash flow as **sefa** provides a solution to late payments.

The bulk of the SMEs that were funded during the year under review required working capital facilities, which were mainly structured by either providing a term loan or bridging loan.

b. Asset Finance

The Asset Finance is a product that is tailored for the business needs of an enterprise. It finances a wide range of new and/or used moveable assets.

The proceeds of asset finance are used to acquire business moveable assets (machinery and equipment). Assets purchased through this funding method must be identifiable by a means of serial numbers.

During the year under review Direct Lending approved 40 Instalment Sale facilities to the value of R35, 9 million, and 975 jobs would be created once these facilities are fully disbursed. Furthermore, R6,6 million of this facility were to productive sectors.

c. Term Loans

Term-loans offer small businesses the cash they need to purchase other forms of moveable assets. Unlike asset financing, term loans are used to acquire moveable assets that cannot be identified by means of serial numbers (e.g. office furniture, fixtures and fittings, etc). Often a small business will use the cash from a term loan to purchase fixed assets such as equipment used in its production process. Term loans allows you to acquire assets without impacting their bank balances. Assets acquired through Term Loan finance can be used by **sefa** as security for the loan.

During the year under review Direct Lending approved 49 term loan facilities to the value of R79 million. This facility will see a creation of 1,514 jobs once all they are fully disbursed. Included in this were 2 Amavulandela clients with a total amount R8,7 million and R51 million were to productive sector.

d. Revolving Loan

This is a line of credit whereby the person lending the money pays a commitment fee and is then allowed to use the funds when they are needed. It is usually used for clients who have contracts with a predetermined lifespan and monetary value. Revolving credit facilities are mainly used for operating purposes and the loan amount varies from month to month depending on the customer's current cash flow needs. This advance is primarily available to established businesses who are mainly existing **sefa** clients with satisfactory credit records. Repayments are structured in relation to the business' cash flow projections.

During the year under review Direct Lending approved revolving loan facilities to the value of R250,000. 2 jobs would be facilitated once the facility is fully disbursed.

e. Bridging Loan

This is a short term loan that is provided to an enterprise to finance its working capital such as stock and or operating overheads. This credit facility is designed for business to business transactions and is usually suitable for businesses that have secured firm contracts (purchase orders) with other businesses; that is, businesses that offer services and or products to other businesses. A bridging loan allows a business to meet emergency financial obligations by providing immediate cash flow.

In 2018, Direct Lending approved 112 Bridging Loan facilities, valued at R53,9 million. This facility will see a creation of 714 jobs once it is fully disbursed. R15 million of this was channeled into youth owned businesses and R20 million to female owned businesses.

f. Non - Financial Support Services in DL

Pre-loan assistance involves programmes that prepare entrepreneurs to be ready to approach lenders and access funding (financial readiness). **sefa** does not provide any pre-loan assistance directly to entrepreneurs but uses a variety of strategic partnerships to deliver pre-loan support (e.g. seda or SAICA's Entreprisation programme). In addition, a number of incubators and hybrid partnerships are used by **sefa** to deliver pre-loan support.

Developmental Impact

- R197 million value of funding approvals;
- 45% of funding approvals were to productive sectors of the economy;
- 91% of funded businesses were owned by black owners
- 1 776 jobs facilitated;
- 15% of funded businesses were below R500,000
- 28% of funded businesses were owned by female owners;
- 7% of funded businesses were owned by persons with disability;
- 42% of funded businesses were from priority provinces.

The Year Under Review

In view of the deterioration of the portfolio, and the inherent sustainability of the organisation, two years ago Direct Lending embarked on a journey of consolidating its business activities and moving towards quality in terms of deal origination, evaluation and implementation. As a result, certain changes were made to the value chain of Direct Lending business.

The regional performance for 2018 saw North West and Limpopo achieving performances above their stated targets whilst Gauteng, Western Cape, KwaZulu-Natal and Mpumalanga achieved above 50% of their stated targets. The latter regional offices had a sluggish start, which was a function of the financial year performance. The key challenges faced by most regions were lack of a strong pipeline, which is convertible to approvals. This made it vital for the regional offices to adopt a strategic, focussed and more pro-active approach towards transaction pipeline development. Free State, Eastern Cape, and Northern Cape lacked strong pipeline. These regional offices had not fully adapted to the new pro-active approach of business development.

Furthermore, the poor economic conditions, combined with lower investment levels continued to negatively affect them. Another major challenge was the resignation of key staff members, who were subsequently replaced. However, this in turn had a profound effect in bringing about material changes to the final results. Gauteng offices in Braamfontein were burnt down during the year and the disruptions with respect to this is quite evident in their results for the whole year. The search for new offices is underway and this will bring about stability to the team.

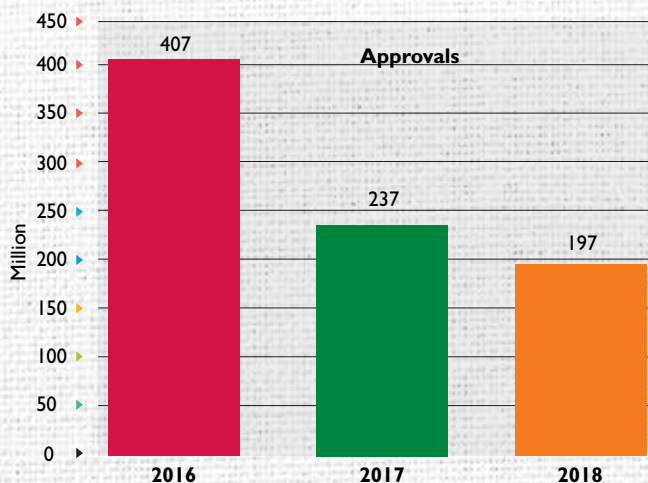
The pro-active support of government policy initiatives was in line with funding for entrepreneurs involved in contracts with the government in the 30% set aside and private sector enterprise.

Direct Lending

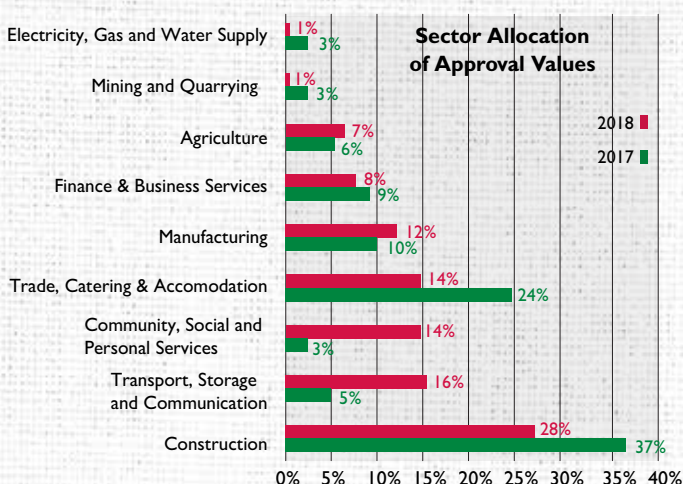
Consequently, Direct Lending approved R62, 6 million of facilities to SMEs who had obtained contracts from Government and this financial support represented 32% of the Division's annual approvals.

Approvals

Direct Lending approved loan facilities amounting to R197 million to 175 SMEs.



Approximately 45% of these approvals were to priority productive sectors. These approvals would see Direct Lending facilitating 3,476 jobs once the facilities are fully disbursed. Construction sector continued to dominate with 28% of approvals from this sector, 971 jobs will be created once the facilities are fully disbursed. In addition, 16% of the approvals came from Transport, Storage and Communication sector, and this will see 299 jobs created once the facilities are fully disbursed. About 14% came from Community, Social and Personal Services sector. This will see 726 jobs facilitated once the facilities are fully disbursed. Trade, Catering & Accommodation had a 14% contribution. 415 jobs will be facilitated once these facilities are fully disbursed. Manufacturing had a 12% contribution and this would see 323 jobs facilitated once the facilities are fully disbursed.



The Direct Lending division will continue to diversify these allocations to other priority productive sectors identified by government in its National Development Plan, Industrial Policy Action Plan and New Growth Path.

The Division's strategic focus on supporting government procurement to small businesses has been evident in the growth of Contract Based Finance approvals to R146 million (2017: R117 million). These approvals would see 1,614 jobs facilitated once the facilities are fully disbursed. R26 million (2017: R22 million) were to businesses that have contracts with State Owned Enterprises. At least 561 jobs would be facilitated once these facilities are fully disbursed.

Support was provided to SME & Co-operatives involved in the value chain of private sector companies of the following: DSV Distributors, Anglo American, Pick n Pay, Vodacom, Silverton Timber Merchant; Kone Cranes, South African Forestry Companies Limited, Tronox Mineral Sands, Pioneer Foods, Mitchel's Brewing (Pty) Ltd, OBC Group. The approvals would see 705 jobs created once the facilities are fully disbursed.

Disbursements

The Direct Lending Division disbursed R119 million (or 53%) for the 2017/18 FY of its annual target. The relatively low levels of disbursements can be attributed to delays experienced in clearing conditions that preceded the approved transactions, with a substantial amount of facilities not being taken up by clients post-approval.

sefa recognises its development impact based on disbursed funds to a SME or co-operative. The Division achieved and exceeded its targets relating to jobs facilitated with 1 775 jobs facilitated, and 106 loans below R500k was disbursed.

Amavulandlela Funding Scheme:

At inception, the fund was capitalised with R30 million for persons with disabilities. This scheme provides loans at concessionary rates including pre- and post-investment support. R22 million has been disbursed since the inception of the scheme with R8.5 million disbursed to persons with disabilities in the year under review. In 2018, the scheme facilitated 248 jobs through the funding of persons with disability.

Purchase Order Product (POP):

This product was launched in the last quarter of the previous financial year. This is scorecard based financing methodology aimed at improving turnaround time and approvals through this product. There were 109 jobs facilitated as a result of this facility. The off-takers were mainly King Sabata Dalinyebo Municipality, Ixuba Yethemba, Ethekwini Municipality, Department of Defence, Umhlathuze Municipality, Eastern Cape Roads & Public Works,

Rustenburg Local Municipality, Department of Higher Education, David Kruiper Local Municipality, and Department of Health.

The division successfully supported the KZN Department of Transport on its pothole patching management programme, which saw 12 SMEs and Co-operatives being developed. Each SME/Co-operatives were awarded 4 projects over a 24-month period. The objective of the project was to upgrade CIDB Grade 1 contractors to Grade 3. The target demographic are youth, Women and people with disabilities.

Way Forward

The key strategic Initiatives of the Direct Lending Programme for 2018/19 are as follows:

Strategic Initiative 1: Increased Development Impact

Pro-active leveraging partnerships within the SMME and Co-operative eco-system. The Programme intends to leverage partnerships with players in the SME & Co-operative eco-system to assist in fast-tracking the bankability of SMEs and Co-operatives and to reduce their risk profile, especially through non-financial support as well as financial syndication. In addition, the Programme will focus specifically on Government Procurement Initiatives, Enterprise Development Initiatives, the National Gazelle Initiative and others.

Currently, the Direct Lending Programme's impact is predominantly felt in construction, business services, and franchise sectors of the economy. To diversify its impact and to align the Programme's portfolio with national priority sectors, **sefa** will engage with Industry Associations and also leverage IDC's value chain expertise to develop initiatives or products that are more aligned to the needs of those specific sectors.

A focused "go-to-market" strategy with an emphasis on contract-based finance. The Direct Lending Programme will have a focused approach towards portfolio construction. This is required due to: (a) the need for such funding from entrepreneurs; (b) the relative limited amount of funding available for investment; (c) the skills constraints within **sefa** and (d) the relative high levels of impairments. The focus has been determined on the back of relative good performance of contract-based finance investments.

It is envisaged that over half of the portfolio will be allocated to contract-based finance to respond to the quantum of loan requests by clients participating in the 30% government set aside programme. Note that **sefa** has defined contract-based finance broadly and it does not only include the funding of contracts, but also businesses that have secured off-take arrangements and have reduced market access risk.

Direct Lending is also mandated to provide financial support to start-up businesses (without off-take contracts) and franchise businesses

(where some of the risks are mitigated by the franchisor). The risks within these investments will be mitigated through relationships with industry associations as well as the IDC.

Strategic Initiative 2: Improved Financial Sustainability

Optimise revenues through the introduction of new products. Increased revenues streams will mainly be obtained through the introduction of an invoice-discounting product. The product will address a market failure, which is currently prevalent in the funding of government sector invoices. New SMEs and Co-operatives often encounter severe cash flow constraints whilst waiting for payment by public entities. The commercial invoice discounting sector mainly excludes government contracts. The product has been designed to be a high volume, high revenue and low-cost offering.

Improved revenues will also be obtained through a reconsideration of the lending rates of the Programme.

Manage costs and efficiencies through the adjustment of the Regional Delivery Model. The Programme will reduce costs and improve efficiencies by reconfiguring the Regional Delivery Model over the MTEF period.

Reduce impairments through a shift to lower risk investments and portfolio construction. Reduced impairments in the Direct Lending portfolio will be based on:

Risk-based portfolio construction.

- (a) Improved utilisation of risk scoring for credit decision making (and the development of back test scoring models);
- (b) Frequent adjustment of credit criteria based on portfolio/data analysis, lessons learnt, industry analysis and sub-segment profiles; and
- (c) Establish concentration risk limits.

Lower the risk profile of the portfolio.

- (a) The focus areas of relative historic portfolio strength (contract-based finance);
- (b) The insistence on cession of payments;
- (c) Risk mitigated structuring through third-party syndication and mitigation (such as franchisors, cessions by off-takers and other forms of business support). The new integrated service delivery model will also mitigate portfolio risk; and
- (d) Second round funding to existing portfolio clients.

Portfolio diversification.

- (a) Limited portfolio exposures to start-up finance;
- (b) The introduction of lower risk products with high impact such as invoice discounting;
- (c) The sectoral diversification of the portfolio away from the construction and the road logistics sectors.

Direct Lending

Strategic Initiative 3: Client-Centricity Towards Client-Sustainability

Integrated service delivery model through integration of sefa and Seda/IDC activities - **sefa** will focus on the alignment and co-operation with Seda and the IDC as key players in the eco-system. The model is aimed to provide seamless support to its client base with an objective to provide development support (financial and non-financial) and to contribute to the long-term sustainability of SMMEs and Co-operatives. It will mainly be based on improved integration of Seda/IDC and **sefa** activities such as:

- (a) Seda and IDC to refer funding applications to **sefa**;
- (b) Un-bankable applications will be referred to Seda for further support;
- (c) Seda support to SMMEs and Co-operatives with certain aspects such as the provision of information, the clearance of conditions precedent and/or confirmation of contracts;
- (d) Coordinated and synchronized mentorship support;
- (e) The development of market access opportunities through IDC projects;
- (f) Seda assistance with restructuring of business plans, when the business strategy requires adjustments;
- (g) At loan repayment **sefa** and Seda to determine further assistance for growth.

Improved Client Experience - A Client Development Support Unit within the Programme has been established to:

- (a) Manage and co-ordinate responses to client escalations;
- (b) Pro-actively create a client-orientated culture;
- (c) Oversee turnaround times;
- (d) Make improvements in terms of the Direct Lending client experience; and
- (e) Provide value added services to our client base through partnerships.

During the planning period the online client portal will be fully implemented. A new system will also be developed to track outstanding information required from clients. This system will manage communication between **sefa** and its clients, information flow as well as status updates.

Strategic Initiative 4: Enhancing Operational Efficiencies and Effectiveness

Automation of front-end processes - The automation of processes is a critical component to improve efficiencies. This will be mainly facilitated through a USAID-funded partnership with FIN Find and is key in the effective functioning of:

- (a) the Integrated Service Delivery Model; and
- (b) the new Regional Delivery Model.

An IT system will be developed to include the following:

- (a) Receiving funding applications;
- (b) Application screening and basic assessment tests (such as entrepreneurial testing);
- (c) Document depository;
- (d) Referrals between **sefa** and Seda as well as other institutions.

The focus will also be on data analytics that will focus on customer analytics and risk analytics in order to have a better understanding of clients' needs, more efficient allocation of front office resources, deepening of the relationship with high potential customers, increased profitability, better risk assessment and higher recovery rates.

Full integration of Wholesale Lending disbursement activities into Direct Lending disbursement process. Previously, Direct Lending and Wholesale Lending disbursement processes were different. The Direct Lending Programme implemented an Operations Hub that independently facilitates the disbursement process to ensure full compliance with all conditions contained in **sefa** loan agreements. It was decided to utilise the same methodology and infrastructure for Wholesale Lending disbursements. This consolidation will be implemented during the 2018/19 financial year.



Case Studies

Lowe and KK Trading CC

Key information

Business Name:	Mozamane Transport I (Pty) Ltd
Location:	Mahikeng, North West
Jobs facilitated:	5
Funding amount:	R1 591 336.26
sefa client since:	2017
Sector:	Transport

Mozamane Transport (Pty) Ltd is owned by Mr Mozamane Mosenogi.

The company has been awarded a 10 year contract by SAB (South African Breweries) which commenced 01/11/2016 to deliver beverages within Ngaka Modiri Molema, and Dr Ruth Segomotsi Mompati District Municipalities within the North West Province.

The client had a contract with SAB before, which was a phase 1 contract from 2013 to until March 2018. The client approached **sefa** to execute phase 2 of the contract. The entrepreneur has more than 20 years' experience as a Driver. South African Breweries (SAB) appointed Mr Mosenogi (Owner Driver) to carry out the services which include the conveyance of the Products between the Breweries, Depots and the Customers.

Mozamane Transport is appointed under the owner-driver programme, which assists former employees of SAB to form their own companies distributing their product brands across the country.

This programme was launched in the 1980s. The owner driver programme is started at Phase 1 where the SMME is assisted with a truck and trailer at a rental cost. Phase 2 requires SMME's to have acquired a truck of their own in order to service SAB contract.

Mozamane Transport requested R1 591 336.26 to procure a one-horse truck to be able to meet the requirements of the Phase 2 contract already signed with SAB. This Phase 2 contract assisted in improving the company's profit margins as the pricing of Phase 2 contract is quite different to Phase 1.

The funding assisted Mozamane Transport in securing a truck which enabled the SME to meet phase 2 contractual requirements and sustain the jobs created.



Case Studies

Ramokae Investments Pty Ltd

Key information

Business Name:	Ramokae Investments (Pty) Ltd
Location:	Rustenburg, North West
Jobs facilitated:	27
Funding amount:	R2 241 476
sefa client since:	2017
Sector:	Food Franchise

Ramokae Investments is owned by Mr Victor Sako who is a skilled entrepreneur, has vast experience in marketing. He registered the company solely for the purpose of acquiring Mike's Kitchen Rustenburg based at Shop 1, Cnr Boekenhout and Nyl River Street, Cashan, Rustenburg. Mike's Kitchen Rustenburg is an existing store within the Mike's Kitchen Franchise network.

Mr Sako has over 20 years' experience in the industry. Mike's Kitchen Rustenburg has been existing since 2007 and to date has been under ownership of 2 franchisees and **sefa**'s applicant will be the 3rd franchisee. The current (Seller) franchisee (a sole proprietor) was selling because she wanted to relocate to Portugal, and has since relocated late in 2016. The franchise has been able to sustain itself over the years.

Ramokae Investments (Pty) Ltd requested loan funding for R2 241 476 from **sefa** to revamp the existing store, buy assets and pay franchise fees. A term loan of R2 241 476 was approved by **sefa** and this will help the client to open up a modernised restaurant. **sefa** support also helped the client to create 27 jobs.





Post Investment Monitoring and **Workout**



Mr Nathan Nadasan
Executive Manager:
Post Investment Monitoring and Workout

sefa operates in a highly-risky environment in funding small businesses.

During the year, the key objectives of the Post Investment Monitoring and Workout Division were to:

- Stabilise the portfolio;
- Provide a dedicated focus with regards to loan collections by centralising collection initiatives with **sefa** Head Office playing a coordinating and supporting role;
- Create a better support system for **sefa** funded clients; and
- Investing in client relationship management with the intermediaries by proactively assessing the underlying quality of their loan books.

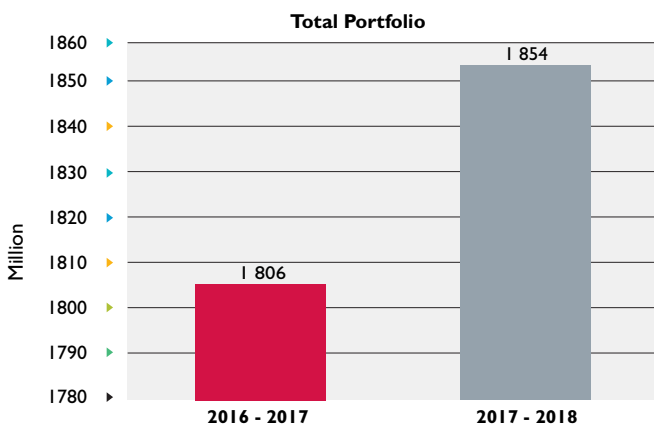


The PIM and Workout Division continues to proactively monitor **sefa's** investments in loans and advances. This entails the management of collections, mentorship and business support interventions as well as the performance of accounts that have been restructured.

The primary focus of the division continues to be the containment of impairments and increasing collections. This is important for the sustainability of the organisation. For this reason, the activities of the division have been sustained to ensure positive outcomes in these deliverables. **sefa's** sustainability and the businesses that are funded are paramount to job creation and job maintenance in a subdued economic environment.

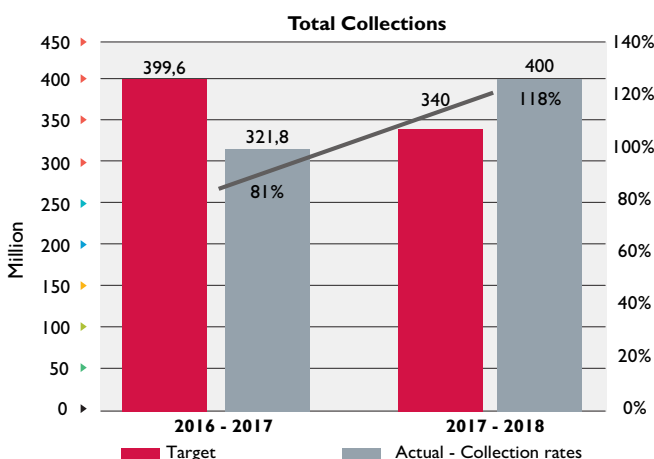
The Portfolio

sefa has a total amortised balance of R1 854 million as at 31 March 2018. This consists of R1 031 million in Wholesale Lending and R823 million in Direct Lending. The book has increased by 2.7% year on year from R1 806 million of which increase emanates from on-lending activities.



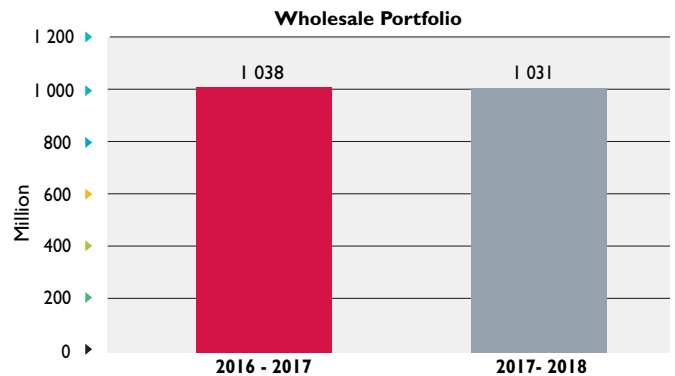
Total Collections

sefa collected R400 million from loans and advances. This represents 118% of the expected collection of R340 million. This was 24% higher than the previous year due to an increase in the intensity of the collection activities.



The Portfolio – PIM Wholesale Lending

The portfolio exposure has infinitesimally reduced by 0.6% year on year from R1.038 billion to R1.031 billion.



The portfolio is spread across 5 segmented product portfolios outlined as follows:

- Retail Financial Intermediaries (RFIs) & Structured Finance Solutions;
- Equity Investments and Joint Ventures (JVs);
- Microfinance Institutions (MFIs);
- Co-operatives;
- Land Reform Empowerment Facility (LREF).

Product Portfolio - Wholesale Lending

Retail Financial Intermediaries (RFIs)

This portfolio has an exposure of R368.5 million as at 31 March 2018. This is a 1% increase year on year from R364.9 million. The portfolio is diversified into different sectors such as transport, tourism, agriculture (sugarcane growers), invoice discounting and general services. For the year under review R76.5 million was disbursed and R89.8 million was received in repayments.

Equity Investments/Joint Ventures

This portfolio has an amortised balance of R365 million. This is an 11% growth year on year from R328 million. The growth was largely due to a disbursement of R30 million to Absa Bank Limited (Absa). **sefa** has a joint venture with Absa called Uhambo which is equally owned by the two parties. The objective is to fund Small Medium Enterprises (SMEs) using Absa's Enterprise Supplier Development (ESD). The exposure is diversified to different sectors such as mining, agriculture, green economy, construction, supply chain and general services.

Micro Finance Intermediaries (MFIs)

The MFI portfolio decreased by 46.8% from R116.3 million in March 2017 to R61.9 million on 31 March 2018. The decrease is attributable to early repayments and write-offs. The objective is to fund micro enterprises across all sectors including those specialising in Fresh Produce Markets.

Post Investment Monitoring and **Workout**

Co-operatives

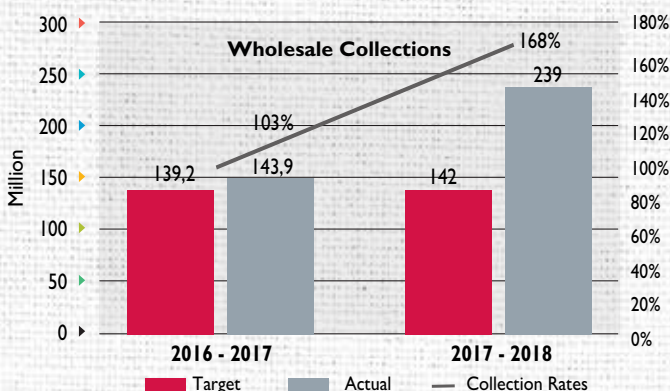
The Co-operatives portfolio has 2 products consisting of Co-operative Financial Institutions (CFIs) and Enterprising Co-operatives. The portfolio increased by 14.6% from R58.1 million in March 2017 to R66.6 million as at 31 March 2018. The exposure is spread across 2 CFIs and 6 Enterprising Co-operatives. The Enterprising Co-operatives are in poultry farming, tunnel farming, waste recycling and feeding schemes.

Land Reform Empowerment Facility

The LREF loan book portfolio has grown by 4.5% from R260.5 million in March 2017 to R272.3 million in March 2018 due to disbursements made to First Rand Bank Ltd and Akwanzde Agricultural Finance. Other intermediaries for this facility are ABSA Bank Ltd, Ithala Development Finance Corporation, Capital Harvest Emerging Farmers and Lona Group (Pty) Ltd. It has to be noted that this facility is managed by **sefa** on behalf of the Department of Rural Development and Land Reform.

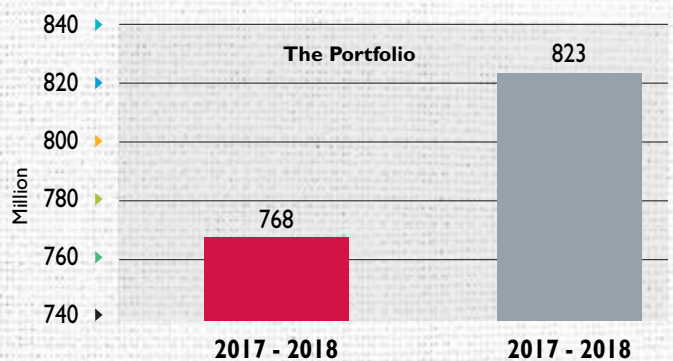
Collections

Wholesale Lending collected R239 million against an expected collection of R142 million. This represents 168%. This was higher than the collection rate for the previous year of which collection was 103%. The higher collection rate in this regard was due to early repayments and redemption of some of the loans in the portfolio.



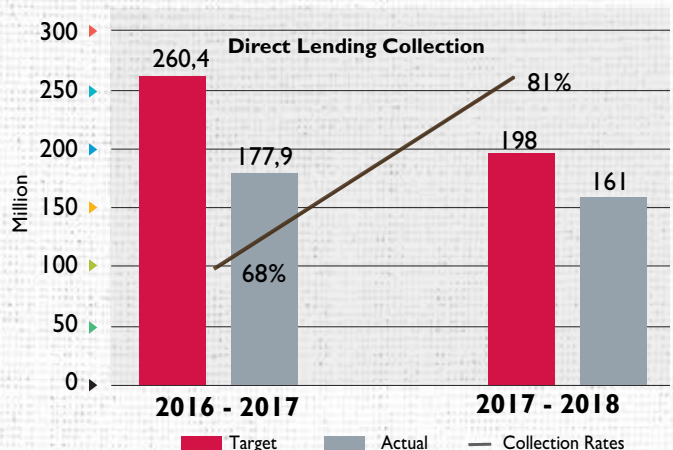
The Portfolio - Direct Lending

The Direct Lending loan book has 406 clients accounting for a total amortised balance of R823 million as at 31st March 2018 (2017: R768.4 million). The book grew by 7% year on year. This is lower than the growth in the previous year when the growth was 8%. It has to be noted that a strategic choice was made to consolidate the Direct Lending book due to run-away impairments that needed to be contained. The objective to manage impairment was to be achieved through a selective approach in funding viable small businesses and projects. The loan portfolio consists of Term Loans (R418 million), Revolving Credit Facilities (R104 million), Instalment Sale Agreements (ISA) (R175 million) and Bridging loans (R126 million). The largest growth was in ISA at 14% followed by Bridging Loan Facilities at 9.6% year on year.



Collection

The Direct Lending collections have improved year on year from 68% in 2016/17 to 81% in 2017/18. This is largely due to the special attention that has been given to the management of the non-performing loans by the allocation of more resources and the change in the tactical approach to the management of this book. It has to be noted that collections were lower in value than the previous year due to relatively lower disbursements.



Impairments

The management of impairments remain a challenge. This is due to the inherently high risk nature of the businesses being funded. The contributing factors to the overall Direct and Wholesale portfolio impairments include the funding of first time entrepreneurs who do not have sufficient experience in the functional areas of business management, the cash flow based lending where the financial management in the underlying funded businesses is weak, the absence of owners' contribution and the clients' perception on **sefa** as a government agency and the reluctance to repay **sefa**'s loans.

The generic challenges in the RFLs and JVs are amongst others the following:

- Minimal financial commitment of fund managers in partnership;
- Over exposure to individually owned companies without succession plan.

In terms of the MFIs, the challenges are:

- High operational costs;
- Weak governance practices in MFIs - **sefa** to appoint representatives to sit in MFI boards to advise and develop board capacity;
- Inadequacy of donor capacity building funds; and
- Inability to raise external funding due to their high risk profile.

Co-operatives are regarded as social institutions in their formation and nature. It is therefore challenging to change the mind-set of a social organisation into an enterprising organisation and this has resulted in the following main challenges amongst others:

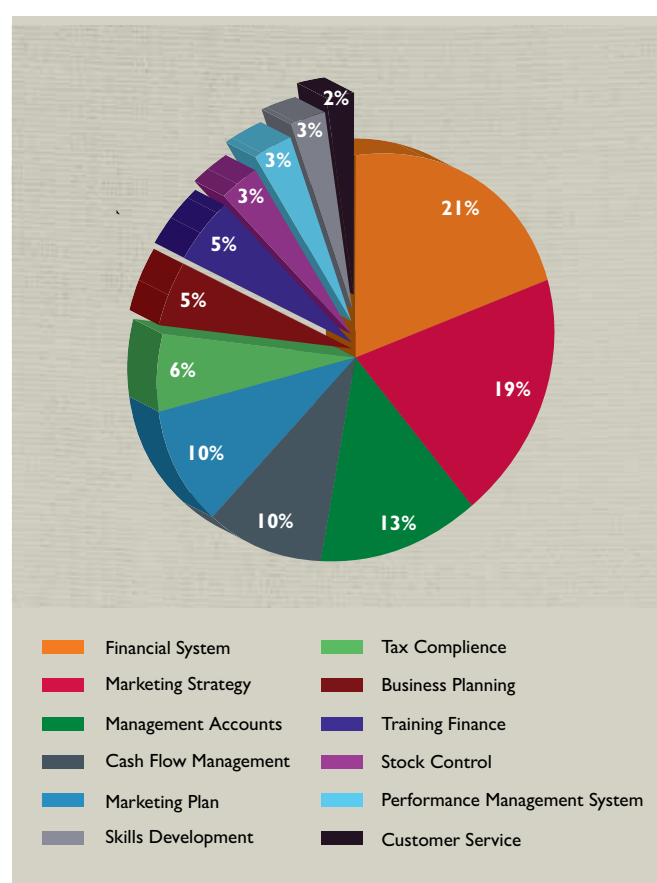
- Lack of adherence to the co-operatives principles which leads to poor governance;
- Skills shortage especially financial and business management Inadequacy of the Technical Partner's skills and capacity to implement funded projects; and
- Lack of cooperation amongst members.

These factors are being addressed by the use of mentorship and business support which has been improved and enhanced. The monitoring of the loans in the portfolio is being extended to addressing the specific and causal challenges in the funded businesses, to improve financial performance and the need to reposition **sefa** in the client's eye to develop the willingness to repay the borrowed funds.

In fact the division adopted a three phase approach to the management of impairments viz a viz stabilising phase; Recovery phase (collections) and Step change phase (policy perspective). For the year under review, the stabilising of the portfolio has resulted in containing the impairments in Direct Lending. This approach is being pursued more aggressively in the Wholesale Lending so as to ensure impairments remain manageable in view of the unique challenges experienced by the various segments of the portfolio.

Portfolio Mentorship and Business Support Panel

sefa has 128 Mentors and Consulting companies on its panel who are assisting with monitoring and management of the portfolio. These are assisting **sefa** in the monitoring and management of the portfolio. In 2017/18, 114 clients were assisted in various functional areas of small business management. There were 161 interventions that were carried out and completed by experts with experience in various functional areas of business management and sectors of the economy such as: Engineering and Construction; Marketing; HR services; Food and Franchising; Quantity surveying and Project Management; Agricultural Development; Freight and Logistics; Manufacturing; Financial Management and Bookkeeping; Textile; Tourism and Leisure; Mining; ICT; Regulatory Compliance etc. These interventions are as outlined in the chart below.



Workout and Restructuring

There were 18 accounts totalling R42 million that were restructured during the year. These are the accounts where the underlying businesses were found to be viable based on a strict criteria of assessment. These demonstrated the ability to repay the loans despite some noticeable cash flow challenges. The number and value of the restructured accounts was lower than the previous year when 40 accounts were restructured totalling R98 million. The financial restructuring of distressed accounts will continue as these accounts have a good contributory effect to the collection rate with a simultaneous positive cash flow effect on the business in question.

Human Capital Management





Human Capital Management



Ms Nokonwaba Shwala
Executive Manager: Human Capital Management

The Human Capital Management (HCM) Division continues to play the role of a strategic business partner that ensures the progressive transformation of people related services.

Human Capital Management

sefa plays a pivotal role in the development of vibrant small businesses. The HCM strategic work plan execution for fiscal year 2017/18, was centred on interventions geared towards **sefa**'s transition through the Growth phase of the High Performance Organisation (HPO) journey. The Growth phase of the HPO journey is aimed at enhancing talent management and strengthening of a high performance culture through integrated and aligned systems.

During the reporting period HCM focused on ensuring that **sefa** has an adequate and productive workforce by providing capacity and skills, geared to execute **sefa** strategy and mandate.

Performance Achievements at a Glance

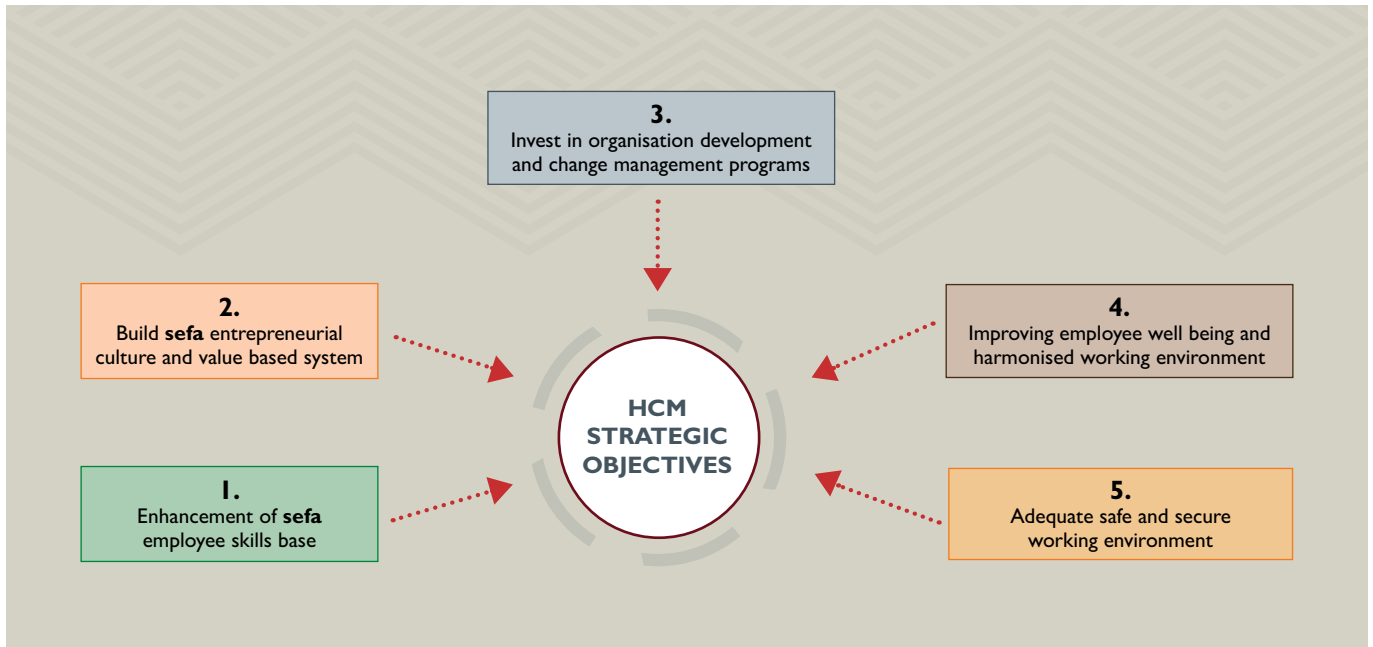
As **sefa** transitioned into the growth phase of the HPO journey, the following were the performance highlights during the reporting period:

- Continuous implementation of skills enhancement programs geared at driving a high performance culture
- Continuous improvement of Leadership and Management Capability
- Implementation of Organisational Development and Change Management interventions aimed at enhancing business effectiveness
- Timeous provision of a safe, adequate and secure working environment
- Implementation of interventions targeted at enhancing employee wellness, engagement and harnessing a safe working environment.

HCM's Strategic Work Plan

The HCM Strategic Work Plan execution for 2017 was centred on the enhancing process and system synergies towards the achievement of **sefa**'s strategic objectives. The following strategic objectives underpinned the HCM's Work Plan for the period in review;





The key focus areas included the following;

- Implementation of a comprehensive skills enhancement approach to improve the **sefa** competency base aligned to the 3E Development Framework (Educate, Experience and Exposure);
- Implementation of culture change and organisational effectiveness interventions focused towards a high performance culture;
- Optimise a harmonised working environment through delivery of wellness, remuneration and employee relations programmes;
- Provision of an adequate, safe and secure employee working environment.

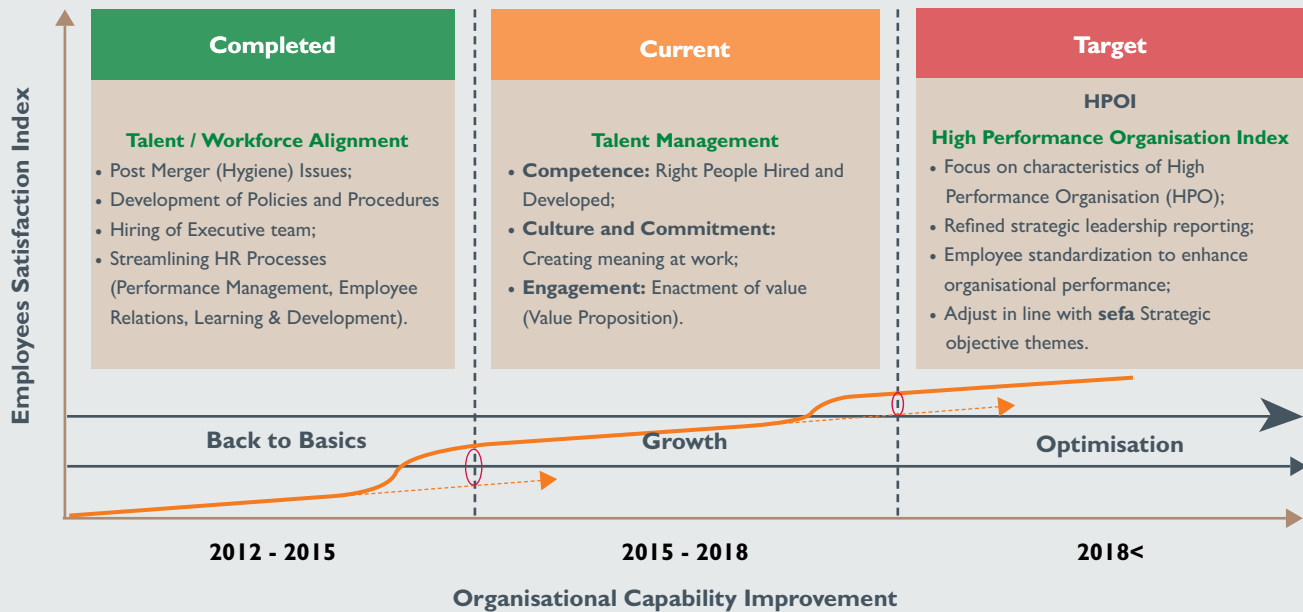
sefa's HPO Journey

HPO is a concerted effort towards the continuous improvement of organisational performance. **sefa's** journey towards the achievement of an HPO status started in 2014 and the goal is projected to be achieved in 2020. The organisation is currently in the Growth phase of the HPO journey. The 2017/18 Human Capital strategic work plan execution is centred on improving synergies, alignment, simplification of systems and efficiencies within **sefa**. The initiatives are aimed at channelling the organisation through the growth phase of the HPO journey where the focus is to enhance talent contribution and commitment to organisational performance.



Human Capital Management

Working towards a High Performance Organisation



Our People

sefa's talent acquisition processes are aimed at ensuring that organisation is equipped with the right talent, in the right positions at the right time. The critical and core skills set of the organisation is aimed at ensuring that the organisation is making correct investment decisions when it invests in small business.

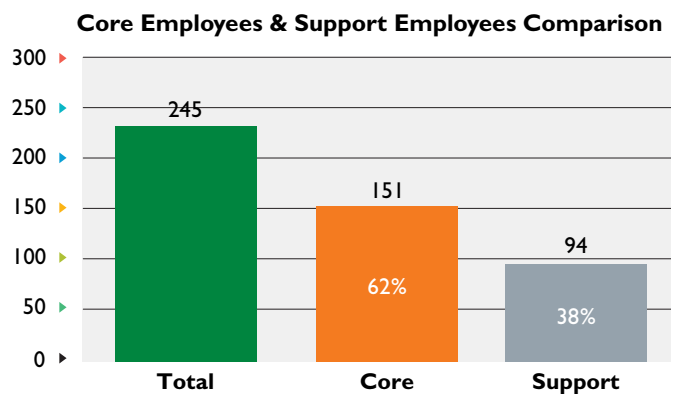
Talent Acquisition and Retention

HCM continues to ensure that its talent acquisition processes are aligned to the business strategy and the achievement of business results. The talent acquisition processes are geared at ensuring that the right people, with the right skills are placed in the right jobs at the right time. Staff turnover on critical roles was at 5% against a target of 7% and the industry average recorded at 10%.

Headcount

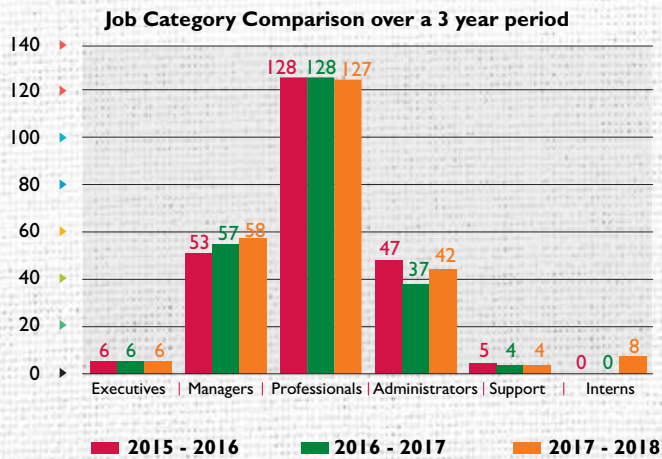
The organisation continues to keep a flexible component of its workforce at minimal, in alignment with cost containment measures that support the long-term financial sustainability of the agency. During the period under review, **sefa's** headcount stood at 245 employees, inclusive of Fixed Term Contractors and Interns.

The following graph depicts the **sefa** headcount for the period under review



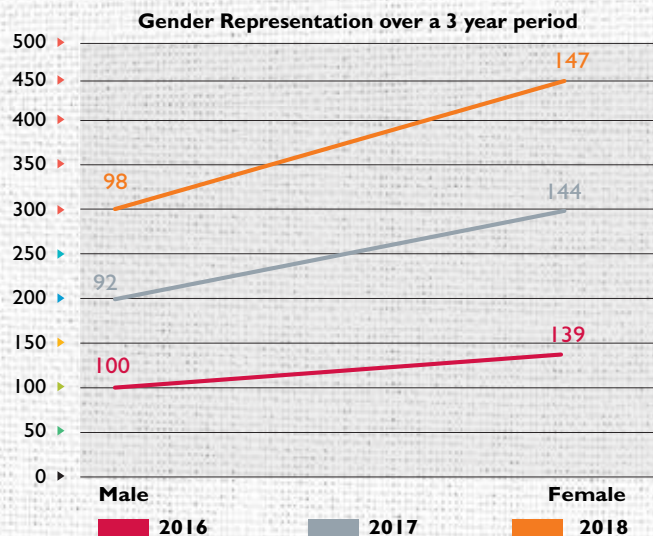
An analysis of the staff profile reflects that **62%** of the employees are in core functions and **38%** are in support functions. **Core** business functions include Direct Lending, Wholesale, Credit, Post Investment and Workout. **Support** business functions include; HC & Facilities, Finance & Procurement, Strategy, Legal Services , Enterprise Risk, Compliance, IT, Company Secretary, Marketing & Communications, Internal Audit.

The job category comparison over the past 3 years reflects that **sefa** has maintained a steady profile in the Executive, Management, Professional, Administrators and Support Employees. In the period under review, the organisation introduced an internship program and 8 interns were employed on a 12 month contract.

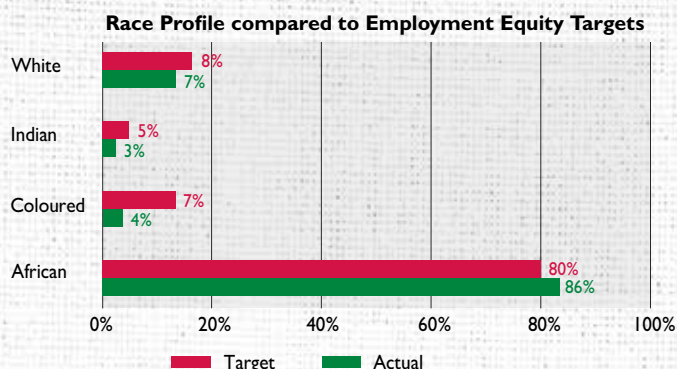


Equity Representation

The graph reflecting the gender profile shows a steady increase in the overall female representation across the organisation.

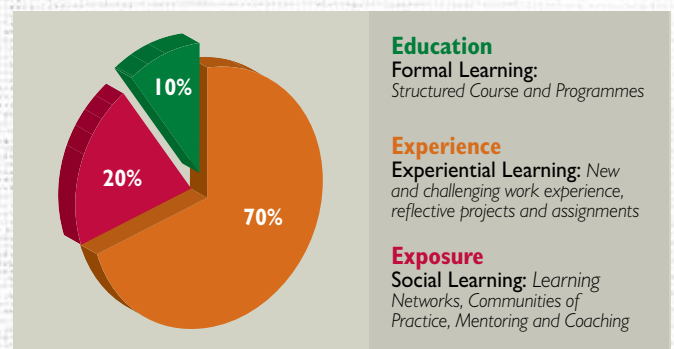


The **sefa** employment equity metrics reflects that the organisation exceeded its target for African representation by 6%. There is a slight variance of 3% in the representation of Coloured, 2% Indian and 1% White employees.



Implementation of a Comprehensive Skills Enhancement Approach

The strategic focus for the growth phase of the HPO journey includes enhancement of skills and competencies. The people development interventions implemented during the period under review were based on **sefa**'s 3E Learning and Development Framework to ensure the organisational performance is improved through (Education, Experience and Exposure)



sefa's skills legacy issues in some certain core functions continue to ensure an emphasis on the Formal Learning of the 3 E Learning and Development Framework. This resulted in the Learning and Development budget utilization being focused primarily on strengthening the core skills. Twenty Six (26) employees who constitute 9.4% of the overall **sefa** staff compliment, were funded through the graduate tertiary programme at various institutions to enhance their skills and competencies in various core areas.

HCM increased its focus on Experiential Learning through the implementation of the following programs:

- **Initiation of the Team Effectiveness Intervention.** This intervention is based on a team coaching approach. The focus for the year under review is the Direct Lending Division;
- **On the Job Coaching Intervention.** This intervention continued within the Post Investment and Monitoring Division and was aimed at enhancing the skills of existing Post Investment Officers.

The focus on the Exposure element of the 3 E Learning and Development Framework included the implementation of the following programs:

- **Leadership and Coaching Program.** Twenty nine (29) Managers were exposed to the Leadership Coaching Program;
- **Talent Acquisition Program (TAP).** The Talent Acquisition Program is a youth empowerment of initiative that **sefa** introduced during the period under review. Eight (8) Interns were appointed on a one (1) year employment contract and they are placed in various departments across the organisation.

Human Capital Management

sefa interns for 2017



Comprehensive Learning Interventions

The delivery of learning solutions continued to deepen during the period under review, as the HCM division continued to leverage its partnerships with other DFIs such as IDC Academy, Business Partners and other Institutions of higher learning.

Learning interventions implemented for the year under review, enhanced targeted core skills.

The following core skills areas were strengthened;

- Leadership Coaching;
- Financial analysis/modelling;
- Due diligence;
- Credit management;
- Post Investment monitoring.

Driving Culture Change towards High Performance

A key component of the Growth Phase of the HPO journey includes the culture and values integration. The following interventions were implemented:

- The one-sefa-one culture drive was continued and the values and culture change reorientation was incorporated into the Customer Relationship Management (CRM) training;
- Automation of the performance management system aimed at increasing process efficiencies and governance.

Integration of Organisational Development and Change Management into a High-Performance Culture

The HCM division continued the implementation of organisational development and change management programs in support of the strategic objective to build a **sefa** entrepreneurial culture and value-based system. Change Management interventions were implemented to ensure the smooth transition of people focused elements of strategic projects within the business.

Improved Employee Relations and Discipline

As the organisation transitioned into the Growth phase of the HPO journey, the focus has been on strengthening constructive workplace relations through the implementation of the following initiatives:

- Increased awareness of human capital policies, processes and changes to relevant legislation;
- Improved consequence management processes to ensure discipline in the workplace. There was a decline in the number of disciplinary cases and disputes handled. The few disputes and disciplinary cases were handled efficiently within reasonable time to avoid disruption of productivity;
- Consultative forums and bi-laterals with stakeholders, this helped in improving the relationships between stakeholders;
- Salary negotiations were completed on time without any hindrances.

Provision of an adequate, safe and secure employee working environment

The HCM division is a custodian of the Occupational Health and Safety function and as such, has delivered the following interventions:

- Timeous provision of adequate work space for employees at all **sefa** locations and co-locations;
- Reported zero incidents as a result of non-compliance with the Occupational Health and Safety Act and the Policy reported for the period under review;
- Establishment of relevant structures, systems and processes to ensure a safe and secure working environment at the Head Office and the Regional Offices in order to maintain compliance with the standards of the Occupational Health and Safety Act No. 85 of 1993;
- Security enhancement interventions were implemented at Head Office and in some Regional Offices.

Employee Wellness

The **sefa** Employee Wellness Programme offers sponsored psychological counselling sessions specifically aligned to employee's needs. This programme continues to offer employees and their families access to professional confidential support services for difficult personal and work related issues, 24 hours a day, 7 days a week for free. Services offered include;

- **Face-to-face and telephone counselling** – for personal difficulties, relationship concerns, drug or gambling abuse, violence and trauma, grief, chronic ailment and work related matters;
- **Financial assistance** – debt counselling, budgeting, black listing, retirement, and loans;
- **Health Information** – general health tips, including dietary information;
- **Legal assistance** – professional legal support, such as last will and testament, power of attorney and residential leases.

This targeted wellness programme may therefore help to improve not only the organisation's financial performance, but also the health sustainability of employees in the long term which will invariably impact positively on productivity levels.

Strategic Outlook in the year ahead

HCM aims to intensify the delivery of its services within the Growth phase of the HPO Journey. The year ahead will be centred on interventions geared towards creating impact, enabling sustainability, enhancing productivity and workforce efficiency, through the integration and alignment of programs, systems, policies and processes aimed at achieving culture of high performance.



Stakeholder Management and Communication





Stakeholder Management and Communication

The Marketing and Communication Unit continues to assist in creating brand visibility throughout SA. The Unit's role is to position **sefa** in the development finance sector using various avenues.

As guided by the corporate plan and strategic needs of operations, throughout the year, the Unit consistently reached out to diverse audiences and further deepened market penetration through roadshows and various informational platforms.

Customer Engagement

Customer engagements were conducted in multiple ways, working closely with operations, the CEO's Office and in some instances with the Department of Small Business Development. The organisation also participated in key national events such as the Tourism Indaba and the Rand Show to increase penetration and, ensuring that relevant stakeholders are timely and adequately informed of **sefa**'s activities and success stories achieved in the past few years.

During the year, the Unit organised and participated in a number of outreach platforms nationally, thereby reaching out to more than 4 000 entrepreneurs across the country. A total of 25 **sefa** initiated roadshows were carried out countrywide focusing mainly on small towns and rural areas.

sefa regional offices also continued to play an active role in customer engagement at a provincial level and, presented **sefa** credentials to approximately 150 events organised by **sefa** partners. To establish how effective we have responded to clients' needs, an annual customer satisfaction survey is carried out, the outcome thereof stood at 66% in 2018 compared to 77% realised the previous year. Nonetheless, plans are underway to address the concerns raised by our business partners so that appropriate remedies can be applied in order for **sefa** to remain a funder of choice for the small businesses and co-operatives sector.

Communication Channels

Media is engaged on a regular basis with, a view to publicise the agency's offerings and to articulate **sefa** success stories over the past six years. The media theme for 2017/18 FY was focusing on rural and township businesses through community media, thereby making **sefa** accessible to diverse communities.

sefa has been covered solidly by commercial and community media, with adverts placed in numerous media across South Africa. Community media and SABC has largely been used to reach out to small enterprises and cooperatives in rural and smaller towns. Almost all of the coverage of **sefa** by media has been constructive and positive given the difficult period most of government owned entities are going through.

Marketing and Branding

The Unit focused on improving **sefa**'s visibility across different communities through events and publicity. In line with this, marketing collaterals were vastly improved, brochures in different languages were developed, and application forms simplified in order to ease the application process.

The CEO's office has also been active in reaching out to a variety of stakeholders including national and community media. Over and above this, through sponsorship and partnerships, **sefa** was able to maximise the number of informational platforms in which it engaged SMMEs and Co-operatives.

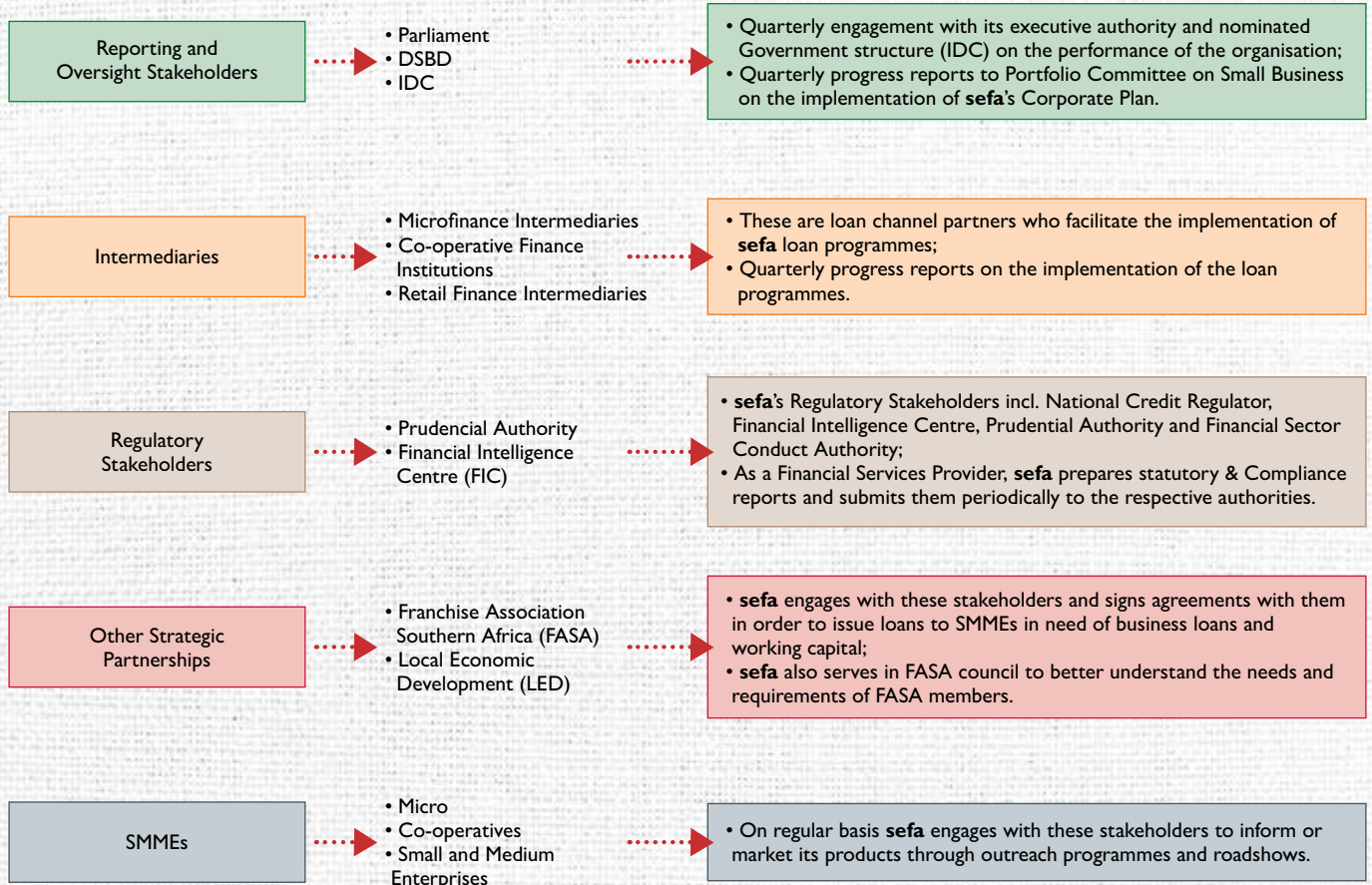
Client Liaison Centre

At **sefa**, the customer and their business are key, hence a dedicated unit has been established to ensure that service levels are improved. This is a priority for the marketing unit as it consolidates and spotlights the organisation's efforts.

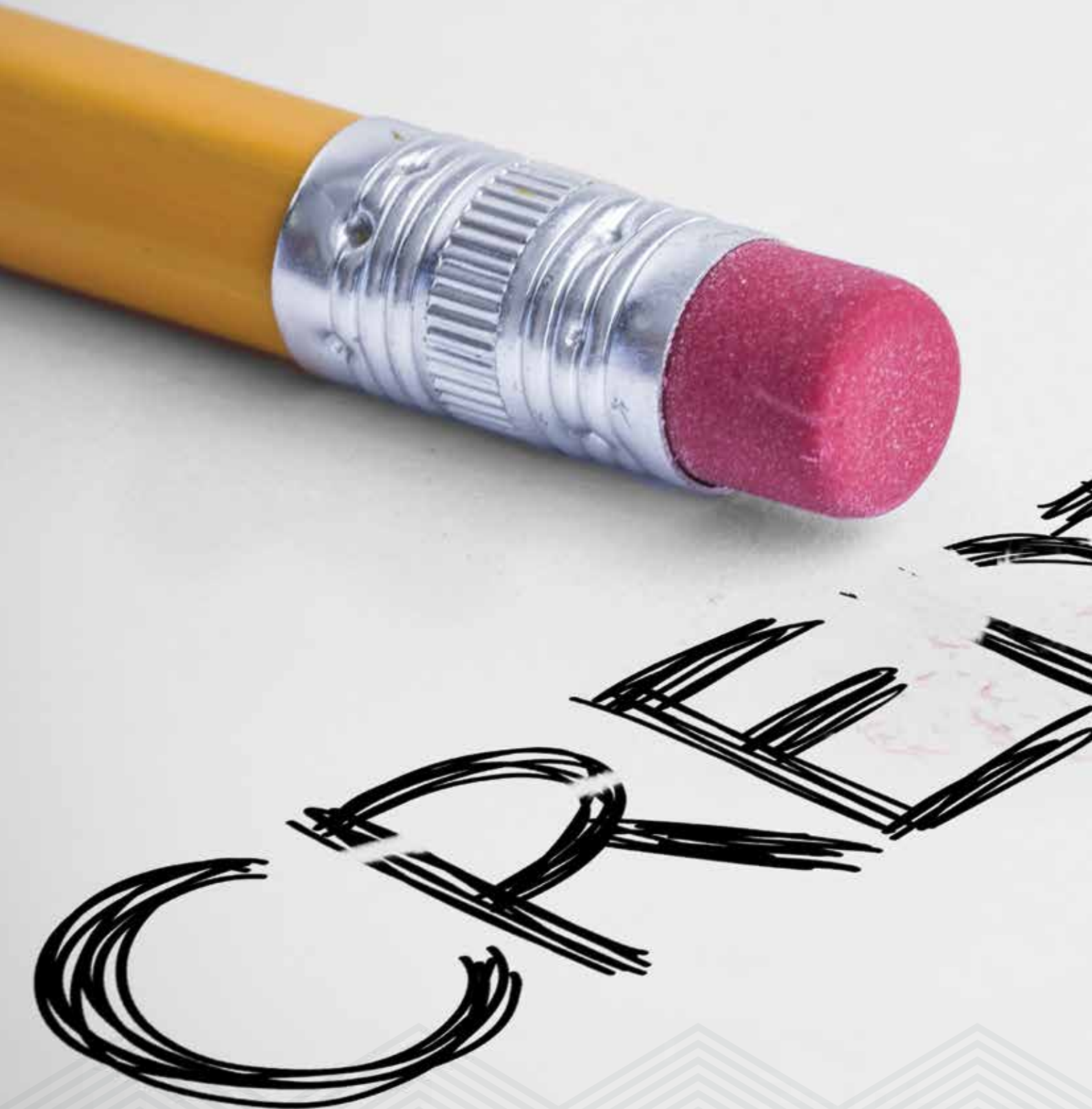
The unit receives a vast majority of enquiries and routes these calls accordingly. In the last financial year, 7711 calls were received. The number of email enquiries was 130 000, whilst the number of requests made stood at 164 000.



sefa's Stakeholder Matrix



Credit Risk





Credit Risk

Credit Risk

Credit risk is defined as the risk of loss arising from the failure of a counter parties to fulfill their financial or contractual obligations to **sefa** when due.

The credit risk that **sefa** faces arises mainly from providing finance to survivalist, micro, small and medium businesses and financial intermediaries throughout South Africa. 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.

sefa's credit-granting activities is informed by the strategic acceptance by the Board, that a higher risk appetite than entities driven by a purely commercial objective is essential to fulfil the mandate given by government in relation to small business development and job creation objectives.

Approach to Credit Risk Management

The granting of credit is **sefa's** major source of income and its most significant risk and arises from both Direct and Wholesale loans as well as Khula Guarantee commitments. The management of credit risk is therefore fundamental to **sefa's** core business activities, its planning and decision making processes. **sefa** therefore dedicates considerable resources to its control and management. Credit risk management encompasses the process of identification, measuring, monitoring and controlling of all credit decisions and exposures within **sefa**.

The management of credit risk is aligned to **sefa's** three lines of defense framework. The business functions owns the credit risk assumed by **sefa** and as the first line of defense, is primarily responsible for its management, control and optimization in the course of business generation.

The Credit function acts as the second line of defense and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while ensuring risk is undertaken with integrity.

The Board holds the ultimate approval and oversight responsibility for ensuring that strategies are set in which the underlying risk 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.

The Board of Directors has delegated the operational responsibility for managing credit to its Investment Committee, Executive Credit Committee and the Management Credit Committee for Wholesale and Direct Lending transactions. The primary objective of **sefa's** credit risk management is to ensure that **sefa's** risk is in line with the institution's risk appetite and threshold, and that all risk issues inherent in **sefa's** lending decisions are mitigated and managed.

The CEO has functional responsibility for managing credit risk across the institution, through structures such as the Management Credit Committee (MANCOM), the Small Medium Enterprise Credit Committee (SME) and the Post Investment Monitoring Committee (IMC). The CEO chairs the Executive Credit Committee. These structures provide both management and the Board with the appropriate forums to evaluate credit risk and also evaluate how effectively it is being managed.

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

Structure of Credit Risk Management

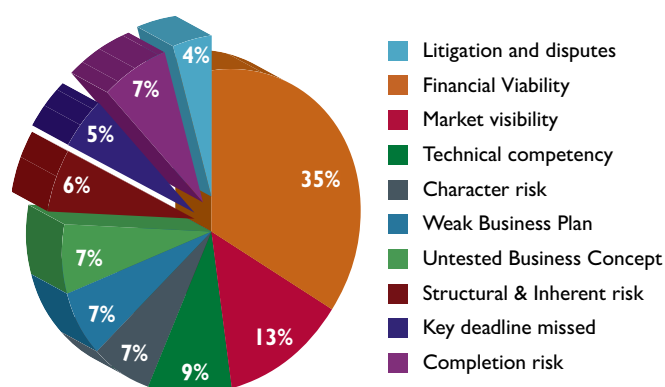
The Credit Risk Management Unit is a dedicated resource within the Risk Division. Its role is to assist the CEO in setting and maintaining best credit risk management practices, by providing analytical and advisory services in respect of risk taking, control, measuring and reporting on credit risk exposures,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

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 indicate support or no support and the basis thereof. The risk assessment critically identifies and assesses the risks and proposes appropriate additional mitigations by analyzing the entrepreneur's commitment, skills, knowledge and experience, project and market risk. In view of the fact that most of **sefa's** loan transactions are of limited to non-recourse bases the main focus is to determine if projected cash flows, using realistic assumptions, are sufficient to meet the client's operational needs and also repay all liabilities in a timely manner. Assumptions made in arriving at the projected cash flows are scrutinized for and stress tested against key performance drivers.

Below are the key reasons for declining transactions

Reasons for Decline



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 that are reviewed regularly. Responsibilities include:

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

Credit Risk Mitigation

Since most of **sefa's** transactions are funded on a non-recourse or limited recourse basis, backed by the fact that **sefa's** clients do not have collaterals, **sefa** relies on the generation of cash flows for repayments. **sefa**, therefore has limited recourse due to the non-existence of security. However in circumstances where business assets are financed under Instalment Sale Agreement (ISA), such assets are deemed as collaterals to the transaction until the loan is fully amortised.

Credit risk management enhancements during financial year under review

During the year under review, the Board approved the revised Credit and Investment Risk policy. In view of the consistent changes to the environment, in which **sefa** operates, it is critical that the Credit and Investment policy is regularly updated to reflect the realities within **sefa's** operating environment, as well as strengthen the governance of **sefa's** credit granting and investment operations within Direct and Wholesale lending divisions.

The reviewed policy therefore, provides guidance for the informed and knowledgeable acceptance of tolerable risk, and ensuring that the credit and investment risk culture is strong and robust.

The Unit completed the alignment of all its clients to Industry Standard Industrial Classification (SIC) code Version 5.1. All **sefa** clients since inceptions were reclassified to Industry SIC Codes version 5.1.

The Unit also completed the identification, verification and valuation of all **sefa** financed assets. This project was undertaken by Spectrum Valuation and Assets Solutions (Spectrum). Spectrum identified, verified and valued all assets that **sefa** has either purchased or bonded to its clients. **sefa's** financed assets register consist of Installment Sales Agreement (ISA) Equipment, Notarial Bonds, Installment Sale Agreement Vehicles, and 1st Covering Bonds (Land and Buildings).

During the year under review, the credit risk unit also reviewed and enhanced the internally developed rating models. These models quantifies and ranks the credit profile of **sefa's** clients. They assist in front-line credit decisions on new transactions, the management of the existing portfolios and ensuring that **sefa** has a credit risk rating for each client.

Credit Risk

Approach to Credit Modelling

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

As part of the credit process, **sefa** has undertaken extensive research on second generation credit risk models and has developed these models for both Wholesale and Direct Lending. These models have been improved in terms of predictability, accuracy and reliability. The main objectives of the rule sets are to rank **sefa**'s client base according to risk and to estimate the probability of default for each client and to price transactions accordingly.

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

sefa uses an internal credit rating scale that makes use of 17 performing rating grades and an additional default grade. The picture below provides an indicative mapping of the internal grades to external agency ratings.

sefa's Internal risk grading and PD mapping scale:

Lower Score	Upper Score	PD	sefa Grade	S&P	Moody's	Fitch	Rating Description
95.00	100.00	0%	DG 1	AAA	AAA	AAA	Very Low Risk
90.00	94.99	0%	DG 2	AA+	Aa1	AA+	Very Low Risk
85.00	89.99	0.68%	DG 3	AA	Aa2	AA	Very Low Risk
80.00	84.99	1.13%	DG 4	AA-	Aa3	AA-	Very Low Risk
77.00	79.99	2.00%	DG 5	A+	A1	A+	Low Risk
75.00	76.99	3.00%	DG 6	A	A2	A	Low Risk
73.00	74.99	3.50%	DG 7	A-	A3	A-	Low Risk
70.00	72.99	4.00%	DG 8	BBB+	Baa1	BBB+	Medium Risk
65.00	69.99	4.50%	DG 9	BBB	Baa2	BBB	Medium Risk
60.00	64.99	5.00%	DG 10	BBB-	Baa3	BBB-	Medium Risk
55.00	59.99	5.50%	DG 11	BB+	Aaa	AAA	High Risk
50.00	54.99	6.00%	DG 12	BB	Aa1	AA+	High Risk
45.00	49.99	6.50%	DG 13	BB-	Aa2	AA	High Risk
40.00	44.99	7.00%	DG 14	B+	Aa3	AA-	Very High Risk
35.00	39.99	7.50%	DG 15	B	A1	A+	Very High Risk
25.00	34.99	8.00%	DG 16	B-	A2	A	Very High Risk
15.00	24.99	8.00%	DG 17	CCC	A3	A-	Very High Risk
0.00	14.99	100.00%	Default	Default	Baa1	BBB+	Default

Direct Lending Approvals by default grading during year under review

The table below indicates the risk ratings of Direct Lending client approvals by exposure and number during the year under review.

Default Grade	Number of Clients	Approved Amounts (R)
DG7	2	7 695 897.81
DG8	5	6 243 751.99
DG9	32	21 684 489.62
DG10	97	112 005 958.51
DG11	24	27 734 361.85
DG12	10	15 272 489.25
DG13	1	4 970 772.00
DG14	2	575 680.99
Default	2	918 405.34
Total	175	197 101 807.36

The table below indicates the risk category of Direct Lending client approvals by exposure and number during the year under review

Direct Lending Approvals by Risk category during the year under review

Risk Category	Number of Clients	Approved Amounts (R)
Low Risk	2	7 695 897.81
Medium Risk	134	139 934 200.12
High Risk	35	47 977 623.10
Very High Risk	2	575 680.99
Default	2	918 405.34
Total	175	197 101 807.36

The table below indicates the asset classifications of Direct Lending total loan book.

Asset Classification of Direct Lending Loan Book

Asset Classification	Balance (R)	Arrears (R)	Number of Clients
Standard	128 614 346.52	0.00	140
Bridging Loan	8 539 607.40	0.00	18
Instalment Sale	43 467 742.39	0.00	50
Revolving Credit	3 978 341.94	0.00	4
Term Loan	72 628 654.79	0.00	68
Special Mention	40 465 306.00	8 029 321.59	52
Bridging Loan	2 536 398.16	2 536 398.16	6
Instalment Sale	11 564 307.43	1 572 991.32	18
Term Loan	26 364 600.41	3 919 932.11	28
Sub-standard	22 701 405.03	13 840 206.33	10
Instalment Sale	1 478 909.56	225 508.28	2
Revolving Credit	6 080 452.75	6 080 452.75	1
Term Loan	15 142 042.72	7 534 245.29	7
Doubtful	11 980 123.45	2 726 229.68	18
Instalment Sale	6 744 463.26	1 893 539.31	10
Term Loan	5 235 660.19	832 690.37	8
Loss	619 308 030.42	530 872 833.10	339
Bridging Loan	114 563 658.00	114 556 182.13	89
Instalment Sale	111 375 304.77	75 674 913.80	69
Revolving Credit	93 346 561.33	93 346 561.33	29
Term Loan	299 022 506.32	246 295 175.85	152
Total	823 069 211.42	555 468 590.70	559

- **Standard:** Clients with no missed payment and are considered good and low risk clients.
- **Special Mention:** Clients with one missed payment and are considered average risk clients.
- **Sub-standard:** Clients with two missed payments and showing well defined weakness.
- **Doubtful:** Clients with three missed payments but not yet considered final losses.
- **Loss:** Clients with four or more missed payments that are considered to be un-collectable in whole or in part.

Credit Risk

Reporting

IFRS 9 became effective from the 1st January 2018. The new standard will certainly have an impact, particularly regarding the calculation of credit loss impairments. Management is therefore reviewing systems, processes, methodologies and controls to ensure that **sefa** is ready to implement IFRS9 during the current financial year.

In order to test **sefa**'s readiness, **sefa** aims to apply significant audit efforts through a Gap analysis to be conducted by an independent expert during the 2nd quarter of the current financial year. This will enable management to understand, the systems, processes, methodologies, controls and models that management have to put in place in order to comply with IFRS9.





A man in a light blue dress shirt and a brown tie is seated at a desk. He is holding a silver and black pen in his right hand, poised to write on a document. His left hand rests on the desk near a laptop. The background is softly blurred, showing a bright, indoor setting. The text 'Financial Report' is overlaid on the left side of the image, with 'Financial' in green and 'Report' in orange.

Financial Report



Group and Company Annual Financial Statements for the year ended 31 March 2018

Registration number: 1995/011258/06

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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 2018

The directors of **sefa** are responsible for the maintenance of adequate accounting records and preparation of the Group annual financial statements, together with related information. These Group annual financial statements are prepared in accordance with International Financial Reporting Standards, and applicable accounting policies.

In preparing the Group annual financial statements, the directors should ensure that these fairly represent the state of affairs of the Company, its financial results, its performance against predetermined objectives and its financial position at the end of any given financial year.

The directors acknowledge that they are ultimately responsible for the process of risk management and the systems of internal controls. Management assists the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the Group's annual financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for assets. Accounting policies supported by judgements, estimates and assumptions which comply with IFRS are applied on a consistent and going concern basis. Systems of internal controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management, internal auditors and discussions held with external auditors on the results of their audits, the directors are of the opinion that the internal financial controls are adequate and can be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

Nothing has come to the attention of the directors indicating any breakdown in the functioning of these internal controls, which could result in material loss to the Company during the year under review, up to and including the date at which this report is released. The directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern approach in preparation of the financial statements.

The Group annual financial statements have been audited by the Company's independent External Auditors, SizweNtsalubaGobodo Grant Thornton Inc., who have been given unrestricted access to all financial records and related information, including minutes of shareholder, Board and Board Committee meetings. The independent auditor's report is contained in this Annual Report on pages 88-91.

The directors are of the opinion that the Group annual financial statements fairly present the financial position of **sefa** and the results of its operations and cash flow information as at 31 March 2018.

Against this background, the directors of the Company accept responsibility for the Group annual financial statements which were approved by the Board of Directors on 20 June 2018 and are signed on its behalf by:



Ms Hlonela Lupuwana-Pemba
Chairperson of the Board of directors



Mr Thakhani Makhuvha
Chief Executive Officer



Director's Report

for the year ended 31 March 2018

Introduction

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

Nature of business

sefa is a DFI, which provides finance to SMMEs and 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 (refer to note 8.2).

An allocation of R224 million (2017: R213 million) was received from government to support **sefa**'s activities. The allocation was paid to IDC, which is conducting the required oversight over **sefa**'s operations, and was made available to **sefa** through a shareholder's loan.

The IDC committed to additional funding in the amount of R921million (2017: R921million). Both the Shareholder and the **sefa** Board of Directors have approved for the first drawdown to be processed.

Public Finance Management Act

sefa's Board of Directors 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 and the recommendations of King IV. 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 is registered as a short-term insurer and is regulated by the short-term insurance act.

Significant matters

All activities, assets and liabilities relating to the Investment Property Portfolio was transferred from **sefa** to Khula Business Premises (Pty) Ltd (a wholly-owned subsidiary) through a related party loan with effect from 1 April 2017.

Subsidiaries, joint ventures and associates

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

Dividends

No dividends have been declared during the year and none is recommended (2017: Rnil).

Share capital

The authorised and issued share capital remained unchanged during the year (2017: unchanged).

Directors

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

Non-Executive Directors	
Director	Appointment date
HN Lupuwana-Pemba (Chairperson)	1 April 2012
NA Dlamini	1 October 2016
NS Dlamini	25 October 2016
C Groves	25 October 2016
PM Mainganya	25 October 2016
K Molewa	25 October 2016
KK Moloto	25 October 2016
NA Osman	25 October 2016
HR Ralinala	25 October 2016
Director	Termination date
LB Mavundla	28 March 2018
Executive director	
Director	Appointment date
TR Makhuvha (CEO)	1 November 2012

Director's Report (continued)

for the year ended 31 March 2018

Materiality and significance

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

Section 55(2)(b)(i) of the PFMA states that the annual report and financial statements should include particulars of any material losses through criminal conduct and irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. The term material has not been defined in the Act. Significance levels detailed below were used for 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 R46 million has been adopted. Materiality has been set at R230,100 on a transactional level.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2017: 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.

Refer to note 11.1 for detailed information on fruitless and wasteful expenditure.

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.

Refer to note 11.1 for detailed information on irregular expenditure.

Post reporting date events

The Directors are not aware of any other matter or circumstance arising since the end of the financial year and 20 June 2018, not otherwise dealt with in the report that would affect the operations of the company or the Group significantly.

The Chief Executive Officer of the **sefa** Group resigned with effect from 1 August 2018 which is after the date that the Annual Financial Statements were approved.



Declaration by the Group Company Secretary

for the year ended 31 March 2018

In terms of section 88(2)(e) of the Companies Act No.71 of 2008, I, Nthabiseng Mongali, in my capacity as Group company secretary confirm that, to the best of my knowledge and belief, the Company has filed all required returns and notices with the Companies and Intellectual Property Commission, and that such returns appear to be true, correct and up to date.

Ms Nthabiseng Mongali
Group Company Secretary
20 June 2018

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency (SOC) Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of the Small Enterprise Finance Agency (SOC) Limited and its subsidiaries (the Group) set out on pages 92 to 156, which comprise the consolidated and separate statements of financial position as at 31 March 2018, the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa (PFMA) and the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct for registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IESBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (parts A and B).

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

Other matter

We draw attention to the matter below. Our opinions are not modified in respect of this matter:

Previous year audited by a predecessor auditor

The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 22 June 2017.

Responsibilities of the board of directors for the financial statements

The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

A further description of our responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Independent Auditor's Report (continued)

to Parliament and the Shareholder on the Small Enterprise Finance Agency (SOC) Limited

Report on Performance Against Predetermined Objectives

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the Group. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual report of the Group for the year ended 31 March 2018:

Objectives	Pages in the annual report
Objective: Customer Perspective	12
Objective: Objective Financial Perspective	12

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Customer Perspective
- Financial Perspective

Achievement of planned targets

Refer to the Report on Performance Against Predetermined Objectives on page 12 for information on the achievement of planned targets and explanations provided for the under/overachievement of a number of targets. This information should be considered in the context of the conclusions expressed on the usefulness and reliability of the reported performance information in the preceding paragraph of this report.

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the Group with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the director's report, the report of the audit and risk committee and the Group secretary's certificate as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual report that have been specifically reported on in this auditor's report.

Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. No material inconsistencies were identified.

Independent Auditor's Report (continued)

to Parliament and the Shareholder on the Small Enterprise Finance Agency (SOC) Limited

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however our objective was not to express any form of assurance on it. We did not identify any significant deficiencies in internal control.

Other reports

We draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the Group's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

We were engaged to perform the following audit-related services: An agreed upon procedures engagement on the reported performance information relating to the Internal Business Processes and People learning and Growth objectives. The procedures performed were for the purposes of internal performance management. The report was issued to the Company on 11 July 2018.

An agreed upon procedures engagement was performed on Investment Properties. The procedures were performed solely to assist in the transfer of various investment properties. The report covered the period ended 31 March 2018, and will be issued to Khula Business Premises Proprietary Limited on a date to be determined.

We are engaged to provide a limited assurance report to the National Credit Regulator in Compliance with Regulation 68 of the Regulations to the National Credit Act, 2006. The report will be finalised after the date of this audit report.

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of the Small Enterprise Finance Agency for 1 year.



Kelello Hlajoane

Director

SizweNtsalubaGobodo Grant Thornton Inc.

Registered Auditor

31 July 2018

20 Morris Street East

Woodmead

2191



Annexure – Auditor's responsibility for the audit

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the Group's compliance with respect to the selected subject matters.

Financial statements

In addition to our responsibility for the audit of consolidated and separate financial statements as described in the auditor's report, we also:

- identify and assess the risks of material misstatement of consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error; as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority;
- conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Small

Enterprise Finance Agency and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

Statements of Financial Position

as at 31 March 2018

	Note	Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Assets					
Cash and cash equivalents	4.1	492 398	456 559	358 872	316 905
Trade and other receivables	4.2	29 046	34 555	272 448	29 366
Current tax asset	3.1	35	–	–	–
Loans and advances	7.2	567 765	689 293	523 488	614 350
Investment properties held-for-sale	5.4	13 718	12 031	–	190 444
Equipment, furniture and other tangible assets	5.1	6 504	7 249	6 504	7 223
Intangible assets	5.2	960	1 097	960	1 097
Deferred tax asset	3.3	1 438	2 746	–	–
Investment properties	5.3	169 697	178 413	–	–
Investments	7.3	66 722	26 562	59 019	26 562
Investments in subsidiaries	9.2	–	–	97 635	108 424
Investments in joint operations	9.3	–	–	–	28 946
Investments in associates	9.4	810 604	768 873	123 427	121 189
Investments in joint ventures	9.5	182 535	168 644	152 597	135 010
Total Assets		2 341 422	2 346 022	1 594 950	1 579 516
Equity and Liabilities					
Share capital	8.1	308 300	308 300	308 300	308 300
Shareholder reserves	8.2	1 529 455	1 305 675	1 529 455	1 305 675
Other reserves		14 318	13 890	–	–
Retained earnings		(183 156)	85 337	(864 513)	(638 875)
Equity attributable to owners of the parent		1 668 917	1 713 202	973 242	975 100
Non-controlling interest		14	11	–	–
Total equity		1 668 931	1 713 213	973 242	975 100
Liabilities					
Trade and other payables	4.3	165 810	162 688	125 424	142 592
Tax payable		–	9	–	–
Outstanding claims reserve	6.2	3 690	3 862	–	–
Unearned risk reserve	6.2	6 707	4 426	–	–
Deferred tax liability		–	–	–	–
Post-retirement medical liability	6.3	624	489	624	489
Shareholder loan	6.1	495 660	461 335	495 660	461 335
Total liabilities		672 491	632 809	621 708	604 416
Total Equity and Liabilities		2 341 422	2 346 022	1 594 950	1 579 516



Statements of Profit or Loss and other Comprehensive Income

for the year ended 31 March 2018

	Note	Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Revenue	2.1	157 371	170 931	142 302	157 217
Finance costs	6.1	(34 325)	(31 956)	(34 325)	(31 956)
Gross profit after finance costs		123 046	138 975	107 977	125 261
Other income	2.2	16 647	17 043	24 415	21 365
Net fair value (loss)/gain on investment properties	5.5	(7 029)	(17 362)	–	(17 362)
Movement on impairments on investments	2.3.2	5 637	(1 569)	(24 691)	(19 596)
Movement on bad debt provisions on loans	2.3.3	(115 364)	(66 525)	(94 207)	(61 674)
Investment property expenses		(74 060)	(85 733)	–	(85 733)
Personnel expenses		(178 778)	(168 321)	(178 778)	(168 321)
Other operating expenses		(83 178)	(78 627)	(60 354)	(64 810)
Operating loss	2.3	(313 079)	(262 119)	(225 638)	(270 870)
Profit from equity accounted investments, net of tax	9.6	45 853	15 411	–	–
Loss before tax		(267 226)	(246 708)	(225 638)	(270 870)
Income tax (charge)/credit	3.2	(1 264)	23 932	–	–
Net loss for the year		(268 490)	(222 776)	(225 638)	(270 870)
Other comprehensive income after tax:					
Other comprehensive income from equity accounted investments		428	13 890	–	–
Total comprehensive loss for the year		(268 062)	(208 886)	(225 638)	(270 870)
Loss and total comprehensive loss attributable to:					
Owners of the parent – loss for the year		(268 493)	(222 787)		
Owners of the parent – other comprehensive income		428	13 890		
Non-controlling interest – loss for the year		3	11		
Total comprehensive loss and loss for the year		(268 062)	(208 886)		

Statements of Changes in Equity

for the year ended 31 March 2018

Group (R'000)	Notes	Share Capital	Retained earnings	Shareholder reserves	Other reserves ⁽¹⁾	Non-controlling interest	Total
Balance at 31 March 2016		308 300	308 124	1 092 551	–	–	1 708 975
Advances received on shareholder loan	8.2	–	–	213 124	–	–	213 124
Other comprehensive income from equity accounted investments		–	–	–	13 890	–	13 890
Total comprehensive loss for the year		–	(222 787)	–	–	11	(222 776)
Balance at 31 March 2017		308 300	85 337	1 305 675	13 890	11	1 713 213
Advances received on shareholder loan	8.2	–	–	223 780	–	–	223 780
Other comprehensive income from equity accounted investments		–	–	–	428	–	428
Total comprehensive loss for the year		–	(268 493)	–	–	3	(268 490)
Balance at 31 March 2018		308 300	(183 156)	1 529 455	14 318	14	1 668 931

Company (R'000)	Notes	Share Capital	Retained earnings	Shareholder reserves	Other reserves ⁽¹⁾	Non-controlling interest	Total
Balance at 31 March 2016		308 300	(368 005)	1 092 551	–	–	1 032 846
Advances received on shareholder loan	8.2	–	–	213 124	–	–	213 124
Total comprehensive loss for the year		–	(270 870)	–	–	–	(270 870)
Balance at 31 March 2017		308 300	(638 875)	1 305 675	–	–	975 100
Advances received on shareholder loan	8.2	–	–	223 780	–	–	223 780
Total comprehensive loss for the year		–	(225 638)	–	–	–	(225 638)
Balance at 31 March 2018		308 300	(864 513)	1 529 455	–	–	973 242

(1) Fair value and other reserves recognised by Business Partners Limited



Statements of Cash Flows

for the year ended 31 March 2018

	Note	Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash flows from operating activities					
Cash utilised by operations	2.4	(186 107)	(142 341)	(165 804)	(143 457)
Loans and advances awarded to customers		6 423	(192 266)	(3 078)	(190 016)
Tax paid	3.1	—	(421)	—	—
Net cash utilised by operating activities		(179 684)	(335 028)	(168 882)	(333 473)
Cash flows from investing activities					
Purchase of equipment, furniture and other tangible assets	5.1	(2 891)	(2 526)	(2 894)	(2 526)
Purchase of intangible assets	5.2	(955)	(427)	(955)	(427)
Acquisition of investments		(34 523)	(21 006)	(31 096)	(21 006)
Interest and dividends received		45 648	40 630	28 134	33 514
Acquisition of equity accounted investments		(15 604)	9 981	(6 143)	7 502
Proceeds from sale of equipment, furniture and other tangible assets		68	144	23	149
Net cash generated by investing activities		(8 257)	26 796	(12 931)	17 206
Cash flows from financing activities					
Capital funding received from shareholder	8.2	223 780	213 124	223 780	213 124
Net cash from financing activities		223 780	213 124	223 780	213 124
Net increase/(decrease) in cash and cash equivalents		35 839	(95 108)	41 967	(103 143)
Cash and cash equivalents at beginning of year		456 559	551 667	316 905	420 048
Cash and cash equivalents at end of year		492 398	456 559	358 872	316 905

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Notes to the Group and Company financial statements

for the year ended 31 March 2018

I. Accounting framework and critical judgements

I.1 Basis of preparation

The Group financial statements of **sefa** (the Company) comprise the Company and its subsidiaries and the Group's interest in associates, joint ventures and joint operations,

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC) and comply with the South African Companies Act, No 71 of 2008 as well as the requirements of the PFMA. The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- investment properties are measured at fair value
- investment properties held-for-sale are measured at fair value

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

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 1.5.

I.2 Going concern

The Group and the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and the Company should be able to operate within their current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The financial statements therefore have been prepared on a going concern basis.

I.3 Principle accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out in this section as well as in the related notes to the Group and Company financial statements. The principal accounting policies applied are consistent with those adopted in the prior year, unless otherwise stated.

The principal accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements where applicable.

I.3.1 Consolidation

I.3.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is obtained by the Group. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return directly to investors or other owners, members or participants.

Recognition and measurement

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. 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. Where applicable the Group measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequently, the carrying amount of non-controlling interest is the amount of the interest at initial recognition plus the non-controlling interests' share of the subsequent change in equity. Total comprehensive income is attributed to non-controlling interest. Accumulated losses attributed to non-controlling interest may not result 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 and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

I. Accounting framework and critical judgements (continued)

In the event of this being less than the fair value of the net assets of the acquiree in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Derecognition

When a parent 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 amount of the NCI in the former subsidiary.
The carrying amount of the former subsidiary's net assets.

I.3.1.2 Consolidation of subsidiaries

Subsidiaries are entities controlled by the Company. 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 fully consolidated in the Group financial statements from the date that control commences (acquisition date) and are deconsolidated from the date that control ceases (disposal date).

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to align any difference in accounting policies with those of the Group.

The Company accounts for investments in subsidiaries at cost, less accumulated impairment losses.

I.3.1.3 Non-controlling interests

On an acquisition-by-acquisition basis, non-controlling interests in the acquiree may initially be measured either at fair value, or at the non-controlling shareholders' proportion of the net identifiable assets acquired and liabilities and contingent liabilities assumed.

Non-controlling shareholders are treated as equity participants; therefore, all acquisitions of non-controlling interests or disposals by the Group of its interests in subsidiaries, where control is maintained subsequent to the disposal, are accounted for as equity transactions. Consequently, the difference between the fair value of the consideration transferred and the carrying amount of a non-controlling interest purchased, is recorded in equity. All profits or losses arising as a result of the disposal of interests in subsidiaries to non-controlling shareholders (where control is subsequently maintained) are also recorded in equity.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

I.3.1.4 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.



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

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 amount of the investment. Distributions received from associates reduce the carrying amount of the investment. When the Group's share of losses in an equity-accounted investee equals or exceeds its interest in the equity-accounted investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investee.

The equity interest in an equity accounted investee includes, for this purpose, the carrying amount 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.

1.3.2 Provisions

A Provision is a liability of uncertain timing or amount.

Provisions are recognised when the Group or Company has a present obligation as a result of a past event and the amount can be reliably measured.

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.

1.3.3 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 when significant.

1.3.4 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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

I. Accounting framework and critical judgements (continued)

I.3.5 Measurement principles

Key assets and liabilities shown in the statement of financial position are subsequently measured as follows:

Items included in the statement of financial position	Measurement principle
Assets	
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Loans and advances	Amortised cost
Investment properties held-for-sale	Fair value at the date of being classified as held-for-sale less subsequent impairments.
Equipment, furniture and other tangible assets	Historical cost, less accumulated depreciation and impairment losses.
Intangible assets	Historical cost, less accumulated depreciation and impairment losses.
Deferred tax assets	Undiscounted amount measured at the tax rates that have been enacted and are expected to apply to the period when the asset is realised.
Investment properties	Fair value
Investments	Fair value/ Cost less impairment where fair value cannot be determined reliably.
Investments in associates and joint ventures	Cost adjusted for share of movements in net assets, less impairment losses.

Items included in the statement of financial position	Measurement principle
Liabilities	
Trade and other payables	Amortised cost
Tax payable	Amount expected to be paid to the tax authorities, using tax rates that have been enacted at the reporting date.
Outstanding claims reserve	Present value of the best estimate of settlement amount.
Unearned risk reserve	Present value of the best estimate of settlement amount.
Deferred tax liabilities	Undiscounted amount measured at the tax rates that have been enacted and are expected to apply to the period when the liability is settled.
Post-retirement medical liability	Present value of the best estimate of settlement amount.
Shareholder's loans	Amortised cost



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

1.3.6 Determination of fair values

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

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

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

Refer to note 5.5 for additional information on determining the fair value of investment properties and note 7.3 for investments carried at fair value.

1.4 New accounting pronouncements

The pronouncements listed below will be effective in future reporting periods and are considered relevant to the Group. The Group has elected not to early adopt the new pronouncements. It is expected that the Group will adopt the new pronouncements on their effective dates in accordance with the requirements of the pronouncements.

Topic	Key requirements	Effective date
IFRS 15 Revenue from Contracts with Customers	<p>The standard prescribes a single comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.</p> <p>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'.</p> <p>This new standard will not have a significant impact on the Group and Company.</p>	Financial years commencing on or after 1 January 2018

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

I. Accounting framework and critical judgements (continued)

Topic	Key requirements	Effective date
IFRS 9 Financial Instruments	<p>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'. 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.</p> <p>Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. This will not have a significant impact on the Group and Company.</p> <p>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 and Company. The Company is in the process of developing a model to measure the impact of the changes in the standard.</p>	Financial years commencing on or after 1 January 2018
IFRS 16 Leases	<p>IFRS 16 requires lessees to recognise assets and liabilities arising from leases on the balance sheet.</p> <p>Lessor accounting has not substantially changed in the new standard.</p> <p>The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. A lessee measures lease liabilities at the present value of the future lease payments. The relating lease asset is initially measured at the same amount as lease liabilities and includes costs directly related to entering into the lease. Lease assets are amortised over the lease period. This approach will result in a more transparent representation of lessee's assets and liabilities.</p> <p>The IASB has exempted short-term leases (less than 12 months) or leases relating to low value assets (such as laptops and office furniture) from the new recognition model.</p> <p>IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an arrangement contains a Lease', SIC 15, 'Operating leases – Incentives' and SIC 27, 'Evaluating the substance of transactions involving the legal form of a lease'.</p> <p>Based on the current lease contracts in the Company, the impact is not anticipated to be significant. The Group does not have any additional lease to the Company's.</p>	Financial years commencing on or after 1 January 2019

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

1.5 Critical accounting judgements, estimates and assumptions

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

1.5.1 Income taxes

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

1.5.2 Deferred Tax Assets

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.

1.5.3 Impairment of financial assets

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

- Loans and advances – Direct Lending: The repayment history and ageing of the receivable is used to determine the impairment in accordance with an impairment matrix;

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

1.5.4 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.

1.5.5 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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

2. Results of operations

2.1 Revenue

Interest income

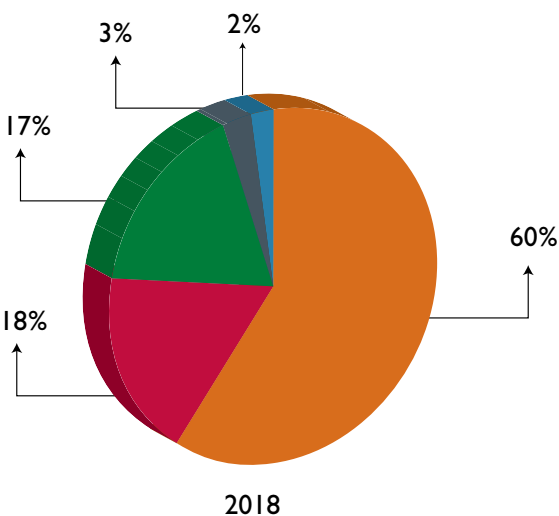
Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying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

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.

Fee income

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

Revenue (Group)



Dividend income

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

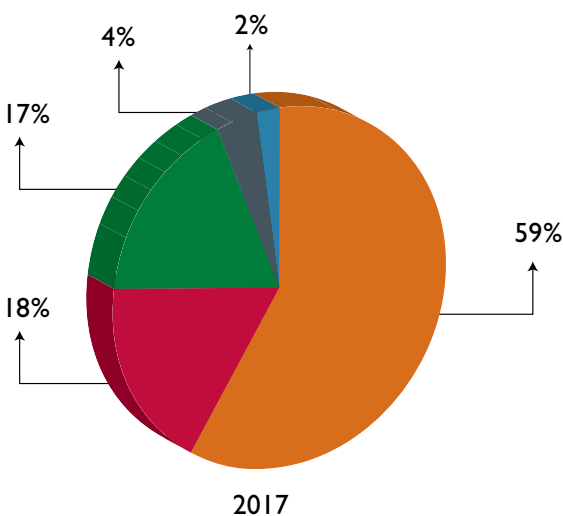
Indemnity premiums earned

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.

Rental income

Rental income is generated from investment properties that are subject to operating leases. An operating lease is a lease where a significant portion of the rewards and risks incidental to ownership of the leased asset remains with the lessor.

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





Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Revenue from operating activities				
Interest received on loans and advances to clients	94 521	100 038	89 767	88 330
Fee income	4 958	6 198	4 744	5 984
Indemnity premiums earned	1 128	1 014	–	–
Interest on overdue rental debtors	539	1 535	–	1 535
Investment property rental income	27 210	29 391	–	29 389
	128 356	138 176	94 511	125 238
Revenue from investing activities				
Interest received on cash and cash equivalents	27 351	31 504	20 204	24 388
Interest received on related party loan	–	–	19 657	–
Dividends and interest received on equity investments	1 664	1 251	7 930	7 591
	29 015	32 755	47 791	31 979
Total revenue	157 371	170 931	142 302	157 217

2.2 Other income

Other income is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Bad debts recovered	1 682	4 539	1 665	4 523
Management fee – Related parties	7 677	6 626	15 462	10 965
Other sundry income	7 288	5 878	7 288	5 877
	16 647	17 043	24 415	21 365

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

2. Results of operations (continued)

2.3 Operating loss

The operating loss includes the following items:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
2.3.1 Specific items:				
Contributions to defined contribution plans	13 025	13 868	13 893	13 025
Depreciation	3 625	4 157	3 601	3 971
Amortisation	1 092	420	1 092	420
Penalties and interest – South African Revenue Services	(228)	273	(228)	273
Operating lease charges – Equipment	310	154	310	154
Operating lease charges – Property	19 382	18 478	19 382	18 478
	37 206	37 350	38 050	36 321

2.3.2 Increase/(decrease) on impairments on investments:

Impairment of Investments in Associates	–	–	(2 238)	6 687
Impairment of Joint Ventures	–	17 953	(1 981)	17 953
Impairment of Other Investments	(5 637)	(39 392)	(1 361)	(39 393)
Impairment of Joint Operation	–	–	28 946	54
Impairment of Subsidiaries	–	(17 953)	1 325	(76 139)
Loss on disposal of Equity Investment	–	40 961	–	110 434
	(5 637)	1 569	24 691	19 596

2.3.3 Increase on bad debt provisions on Loans and Advances:

Increase in bad debt provision – Loans and advances	60 826	35 010	41 149	39 857
Irrecoverable debt written off – Loans and advances	54 538	31 515	53 058	21 817
	115 364	66 525	94 207	61 674

2.3.4 Increases in bad debt provisions on rental debtors:

(Decrease)/increase in bad debt provision – Rental debtors	(18 788)	10 814	(36 973)	10 814
Irrecoverable debt written off – Rental debtors	–	1 231	–	1 231
Loss on disposal of rental debtors	108 923	–	108 923	–
	90 135	12 045	71 950	12 045

2.3.5 Increase/(decrease) in provisions and reserves relating to the credit indemnity product:

Indemnity claims incurred	597	978	–	–
Decrease in claims provision	(171)	(2 824)	–	–
Decrease in indemnity reserves	2 281	1 561	–	–
	2 707	(285)	–	–



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

2.3.6 Loans and advances: Impairment movement per sector

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Net increase/(decrease) in impairments – loans and advances				
Agriculture, forestry and fishing	29 799	6 150	29 998	5 012
Basic chemicals	370	(3 688)	154	(3 688)
Beverages	5 036	(6 677)	5 036	(6 677)
Building construction	(19 799)	(9 380)	(19 800)	(9 312)
Business services	(16 205)	42 276	(15 484)	42 066
Catering and accommodation services	5 662	(16 346)	3 966	(16 346)
Communication	6 801	–	–	–
Electricity, gas and steam	(490)	(2 107)	813	(2 107)
Finance and insurance	39 710	75 308	39 710	75 396
Food	23 835	(19 571)	19 253	(19 571)
Footwear	–	(1 011)	–	(1 011)
Furniture	162	(36)	162	(36)
Government	6 154	(10 091)	6 154	(10 091)
Machinery and equipment	603	–	–	–
Medical, dental and other health and veterinary services	12 739	(17 221)	12 510	(17 221)
Metal products excluding machinery	758	(5 141)	758	(5 141)
Motor vehicles, parts and accessories	615	(7 110)	615	(7 110)
Non-metallic minerals	(30 076)	4 267	(30 076)	4 267
Other community, social and personal services	(29)	(7 439)	556	(4 404)
Other chemicals and man-made fibres	3 613	(3 342)	3 313	(3 342)
Other industries	1 604	50 040	1 604	50 137
Other mining	(6 557)	6 675	(6 557)	6 675
Other services	(14 352)	(12 010)	(15 221)	(12 046)
Paper and paper products	308	–	–	–
Plastic products	271	–	70	–
Printing, publishing and recorded media	2 209	(5 712)	1 404	(5 712)
Television, radio and communication equipment	38	–	47	–
Textiles	5 485	(1 114)	5 485	(1 114)
Transport and storage	1 654	12 193	455	13 464
Water supply	28	–	28	–
Wearing apparel	3 515	–	–	–
Wholesale and retail trade	(8 508)	(20 146)	(8 592)	(18 477)
Wood and wooden products	5 873	(13 757)	4 788	(13 754)
	60 826	35 010	41 149	39 857

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

2. Results of operations (continued)

2.3 Operating loss (continued)

2.3.7 Bad debts written off and recovered per sector

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Bad debts written off/(recovered) --Loans and advances				
Bad debts written off	54 538	31 515	53 057	21 816
Bad debts recovered	(1 682)	(4 539)	(1 665)	(4 523)
	52 856	26 976	51 392	17 293
Per sector:				
Beverages	(25)	–	(25)	–
Building construction	12 017	3 945	12 017	4 014
Business services	1 132	7 340	–	7 340
Catering and accommodation services	(233)	230	(233)	230
Electrical machinery	(228)	–	(228)	–
Finance and insurance	28 883	15 302	28 883	–
Food	(4)	(603)	–	(603)
Furniture	–	2	–	2
Medical, dental and other health and veterinary services	(127)	643	(127)	643
Motor vehicles, parts and accessories	(4)	(43)	(4)	(43)
Other community, social and personal services	325	(4 264)	(10)	(271)
Other chemicals and man-made fibres	–	4 513	–	4 513
Other industries	5 663	1 370	5 663	1 370
Textiles	(103)	(2)	(103)	(2)
Transport and storage	5 570	(27)	5 570	(3)
Wholesale and retail trade	(10)	(1 430)	(11)	103
	52 856	26 976	51 392	17 293



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

2.4 Cash utilised by Operations

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Loss before tax	(267 226)	(246 708)	(225 638)	(270 870)
Adjustments for:				
Depreciation	3 625	4 157	3 601	3 971
Amortisation	1 092	420	1 092	420
Fair value adjustment	7 029	17 362	–	17 362
Impairments – Investments	(5 637)	(39 392)	(1 361)	(39 392)
Impairments – Subsidiaries and equity accounted investees	–	–	26 052	(51 446)
Income from associate	(45 853)	(15 411)	–	–
Dividends received from associate	–	–	(6 265)	(6 340)
Decrease in indemnity reserves	2 281	1 561	–	–
Interest charged on shareholder's loan	34 325	31 956	34 325	31 956
Interest on related party loans	–	–	(19 657)	–
Investment income	(39 383)	(34 290)	(21 868)	(27 174)
Loss on disposal of equity investment	–	40 961	–	110 434
(Profit)/loss on sale of equipment	–	(59)	42	(59)
Provision for bad debts	42 038	45 824	4 176	50 671
Bad debts written off	54 538	32 746	53 056	23 048
Realisation of day-one-loss	(312)	(364)	(312)	(364)
Post-retirement liability	135	74	135	74
Provision for indemnity claims	(171)	(2 824)	–	–
Operating loss before changes in working capital	(213 519)	(163 987)	(152 622)	(157 709)
Changes in working capital	27 412	21 646	(13 182)	14 252
Decrease/(increase) in trade and other receivables	60 519	(3 238)	57 822	(2 402)
Loans advanced to related parties	(1 591)	(2 553)	(45 364)	(4 530)
Decrease/(increase) in trade and other payables	(31 516)	27 437	(25 640)	21 184
Cash utilised by operations	(186 107)	(142 341)	(165 804)	(143 457)

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

3. Taxation

3.1 Tax payable

Current tax is the expected tax payable or receivable on the taxable income or loss for the year. Refer to note 3.2 for additional information.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Tax payable at the beginning of the year	(9)	(188)	—	—
Tax as per statement of comprehensive income (net of deferred tax)	44	(242)	—	—
Tax paid	—	421	—	—
Tax receivable/(payable) at the end of the year	35	(9)	—	—

3.2 Income tax expense

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.

Current tax

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

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

The Group offsets current assets and current tax liabilities only when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities.
- The Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

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. Refer to note 3.3 for additional information on Deferred tax.



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Current tax expense – current year	(44)	242	–	–
Deferred taxation – current year	1 308	(24 174)	–	–
	1 264	(23 932)	–	–
Reconciliation of taxation amount:				
Loss before taxation	(267 226)	(246 708)	(225 638)	(270 870)
Taxation at standard rate of 28% (2017:28%)	(74 823)	(69 078)	(63 179)	(75 844)
Tax effect of permanent differences	6 612	(1 233)	8 125	(1 025)
Tax effect of deferred tax asset not recognised	70 004	47 974	55 054	76 869
Tax loss recognised	(529)	(1 595)	–	–
Taxation charged to statement of comprehensive income	1 264	(23 932)	–	–
Effective tax rate – Based on current year taxation expense	(0.47%)	9.70%	0.00%	0.00%

3.3 Deferred tax assets and liabilities

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

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

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

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

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

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

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

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

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

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

3. Taxation (continued)

3.3 Deferred tax assets and liabilities (continued)

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Deferred taxation assets	60 022	187 750	56 357	185 004
Deferred taxation liabilities	(58 583)	(185 004)	(56 357)	(185 004)
Net deferred taxation asset	1 439	2 746	–	–

3.3.1 Deferred taxation assets

Movement on the deferred taxation asset is as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
At beginning of the year	187 750	160 696	185 004	181 340
Temporary differences recognised in profit and loss	(127 728)	27 054	(128 647)	3 664
At end of the year	60 022	187 750	56 357	185 004

Notes to the Group and Company financial statements (continued)

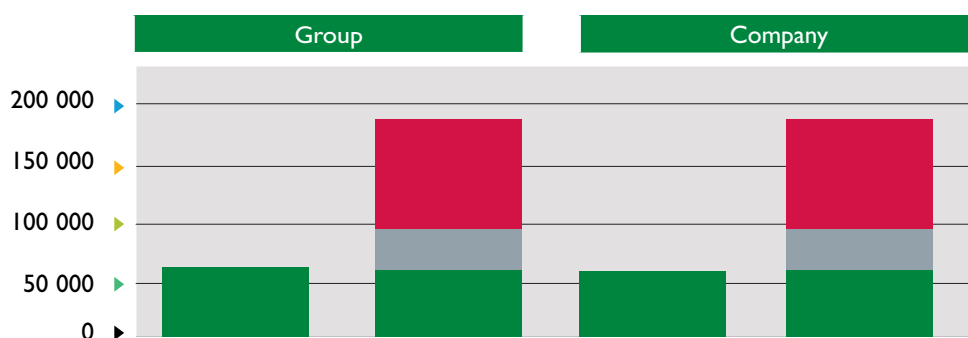
for the year ended 31 March 2018

3.3.2 Deferred taxation liabilities

Movement on the deferred taxation asset is as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
At beginning of the year	(185 004)	(182 123)	(185 004)	(181 340)
Temporary differences recognised in profit and loss	126 421	(2 881)	128 647	(3 664)
At end of the year	(58 583)	(185 004)	(56 357)	(185 004)

Composition of Deferred Tax Liability R'000



	2018	2017	2018	2017
Day 1 gain on shareholder loan	-	87 325	-	87 325
Fair value adjustments on investment property	-	40 555	-	40 555
Debtor allowances	58 348	56 562	56 122	56 562
Prepaid expenses	192	512	192	513
Equipment, furniture and other tangible assets	43	50	43	49

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

4. Working capital

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with financial institutions, 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.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash in bank and in hand	174 069	187 633	131 969	139 214
Cash managed by shareholder	318 329	268 926	226 903	177 691
	492 398	456 559	358 872	316 905

Funds held on behalf of Managed Funds are included in cash and cash equivalents. Refer to note 4.4 for additional information.

4.2 Trade and other receivables

Trade and other receivables are initially recognised at fair value and is subsequently measured at amortised cost less impairment losses.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Trade receivables	20 446	10 881	6 691	6 010
Pre-payments	2 487	4 771	2 174	4 453
Rental debtors	14 589	47 677	—	47 677
Related party loans (refer to note 10.1)	9 144	7 553	263 018	7 553
Study loans	565	646	565	646
Trade and other receivables before bad debt provision	47 231	71 528	272 448	66 339
Bad debt provision on rental debtors	(7 677)	(36 973)	—	(36 973)
Bad debt provision on other trade and receivables	(10 508)	—	—	—
Closing carrying value	29 046	34 555	272 448	29 366

4.3 Trade and other payables

All trade and other payables are current liabilities.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Trade payables	67 987	68 295	27 601	48 199
Deferred grant (Refer to 4.3.1)	1 607	6 041	1 607	6 041
Accrued bonus (Refer to 4.3.2)	21 451	19 453	21 451	19 453
Accrued leave pay (Refer to 4.3.3)	4 299	3 066	4 299	3 066
Managed funds (Refer to 4.3.4)	70 466	65 833	70 466	65 833
	165 810	162 688	125 424	142 592

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

4.3.1 Deferred grant

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.

4.3.2 Accrued Bonuses

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	19 453	21 025	19 453	21 025
Utilised during the year	(14 161)	(13 896)	(14 161)	(13 896)
Unutilised portion released during the year	(5 292)	(7 129)	(5 292)	(7 130)
Accruals raised during the year	21 451	19 453	21 451	19 454
Closing balance	21 451	19 453	21 451	19 453

4.3.3 Accrued Leave Pay

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	3 066	2 060	3 066	2 060
Utilised during the year	(2 894)	(3 090)	(2 894)	(3 090)
Prior year (under provision) / over provision	(172)	1 030	(172)	1 030
Accruals raised during the year	4 299	3 066	4 299	3 066
Closing balance	4 299	3 066	4 299	3 066

4.3.4 Managed Funds

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

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Unops	49 403	45 859	49 403	45 859
Norad	8 648	8 214	8 648	8 214
European Union	12 415	11 765	12 415	11 765
Dr Kenneth Kaunda Municipality	—	(5)	—	(5)
	70 466	65 833	70 466	65 833

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

5. Fixed assets

5.1 Equipment, Furniture and Other Tangible Assets

Measurement

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

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

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

Subsequent costs

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

Impairment

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

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

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

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



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

Depreciation

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

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

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

De-recognition

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

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

	Group			Company		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
2018						
Motor vehicle	655	(540)	115	656	(540)	116
Computer equipment	12 907	(9 963)	2 944	12 511	(9 568)	2 943
Office equipment	4 563	(4 070)	493	4 297	(3 804)	493
Furniture and fittings	8 942	(8 623)	319	5 917	(5 598)	319
Lease improvements	10 178	(7 545)	2 633	10 178	(7 545)	2 633
	37 245	(30 741)	6 504	33 559	(27 055)	6 504

	Group			Company		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
2017						
Motor vehicle	656	(459)	197	657	(459)	198
Computer equipment	10 268	(9 123)	1 145	9 872	(8 728)	1 144
Office equipment	4 559	(3 615)	944	4 293	(3 351)	942
Furniture and fittings	8 761	(7 965)	796	5 736	(4 964)	772
Lease improvements	10 135	(5 968)	4 167	10 135	(5 968)	4 167
	34 379	(27 130)	7 249	30 693	(23 470)	7 223

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

5. Fixed assets (continued)

5.1 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
2018						
Opening carrying value	197	1 145	944	796	4 167	7 249
Additions	–	2 666	–	181	44	2 891
Disposals	–	(11)	–	–	–	(11)
Depreciation charges	(82)	(856)	(451)	(658)	(1 578)	(3 625)
Closing carrying value	115	2 944	493	319	2 633	6 504

2017						
Opening carrying value	277	1 386	1 088	1 773	4 488	9 012
Additions	30	583	405	77	1 431	2 526
Disposals	(18)	(32)	–	(10)	(72)	(132)
Depreciation charges	(92)	(792)	(549)	(1 044)	(1 680)	(4 157)
Closing carrying value	197	1 145	944	796	4 167	7 249

	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
2018						
Opening carrying value	198	1 144	942	772	4 167	7 223
Additions	–	2 666	4	181	43	2 894
Disposals	–	(9)	–	–	(3)	(12)
Depreciation charges	(82)	(858)	(453)	(634)	(1 574)	(3 601)
Closing carrying value	116	2 943	493	319	2 633	6 504

2017						
Opening carrying value	260	1 371	1 070	1 568	4 488	8 757
Additions	30	580	407	78	1 431	2 526
Disposals	–	(17)	–	–	(72)	(89)
Depreciation charges	(92)	(790)	(535)	(874)	(1 680)	(3 971)
Closing carrying value	198	1 144	942	772	4 167	7 223



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

5.2 Intangible Assets

Measurement

All intangible assets in the Group and Company have finite useful lives. Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses.

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

Impairment

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of intangible 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 of assets carried at cost less any accumulated amortisation is recognised immediately in profit or loss.

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

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

Amortisation

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

Computer software	3 - 4 years
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The residual values, useful lives and amortisation methods are re-assessed at each financial year-end and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

De-recognition

The carrying amount of intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

Gains or losses arising from de-recognition are determined as the difference between the net disposal proceeds and the carrying amount of the item of intangible assets and included in profit or loss when the items are derecognised.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

5. Fixed assets (continued)

5.2 Intangible Assets (continued)

	Group			Company		
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
2018						
Software	6 053	(5 093)	960	6 027	(5 067)	960
2017						
Software	5 145	(4 048)	1 097	5 120	(4 023)	1 097

The movement in the carrying value of computer software is as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening carrying value	1 097	1 090	1 097	1 090
Additions	955	427	955	427
Amortisation	(1 092)	(420)	(1 092)	(420)
Closing carrying value	960	1 097	960	1 097

Funds held on behalf of Managed Funds are included in cash and cash equivalents. Refer to note 4.4 for additional information.

5.3 Investment properties

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

Measurement

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

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

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

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

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

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

Refer to note 5.5 for additional information on determination of fair values.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening carrying amount	178 413	194 186	—	—
Reclassification to Investment Properties held-for-sale	(1 687)	(15 773)	—	—
Fair Value Adjustments	(7 029)	—	—	—
Closing carrying amount	169 697	178 413	—	—

5.4 Investment properties held-for-sale

Investment properties 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 value of the investment property is adjusted to its fair value through profit or loss under the accounting policy relevant to investment properties. Once classified as held-for-sale, the investment properties are tested for impairment which is recognised in profit or loss. Any subsequent reversals of impairments may not be more than accumulative impairments recognised since the asset has been classified as held-for-sale.

Reclassification

The investment property will be reclassified immediately when there is a change in intention to sell.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening carrying amount	12 031	13 621	190 444	207 806
Reclassification from Investment Properties	1 687	—	—	—
Disposals at fair value	—	—	(190 444)	—
Fair value adjustment	(0)	(1 590)	—	(17 362)
Closing carrying value	13 718	12 031	—	190 444

The Board of Directors of **sefa** resolved on 25 May 2015 that all investment properties must be transferred to Khula Business Premises (Pty) Ltd. This resulted in all investment properties being classified as held-for-sale in the previous financial year in the company. The resolution has no impact at a Group level due to Khula Business Premises (Pty) Ltd being a wholly-owned subsidiary.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

5. Fixed assets (continued)

5.5 Net fair value gain or loss on investment properties

Refer to 1.3.6 for the fair value hierarchy and accounting policy on determination of fair values.

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

- Capitalisation method

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

- Comparative method

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

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

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Fair value gain or loss	(7 029)	(17 362)	–	(17 362)

Investment properties are valued externally by independent valuers every three years. All investment properties were valued on 31 March 2016, by Spectrum Valuers (Pty) Ltd. Investment properties are non-current assets.

Internal valuations were performed in the current year and there were no differences in significant unobservable inputs. An impairment loss was recognised due to the rental income for selected properties being lower than in the previous year.

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 financial year.

Significant unobservable inputs include:

	Highest	Lowest	Average
Budgeted capital expenditure growth rate	33%	2%	11%
Capitalisation percentage	16%	10%	13%

The estimated fair value would increase in the event of a lower budgeted capital expenditure growth rate and a higher capitalisation percentage.



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6. Finance structure and commitments

6.1 Shareholder loan

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	461 335	429 379	461 335	429 379
Finance charges	34 325	31 956	34 325	31 956
Closing balance	495 660	461 335	495 660	461 335

This subordinated loan is repayable after 10 years commencing 11 June 2024 and bears no interest. The finance charges reflected above is the result of the amortisation of a fair value gain that was initially recognised.

6.2 Unearned Risk Reserve and Outstanding Claims Provision

Indemnity contract 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 affects 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 reserve consists of:

- Provision for unearned premiums

Unearned fees, which represents the proportion of fees written in the current year which relate to risks that have not expired by the end of the financial year; are calculated on the 365th basis.

- Provision for unexpired risk

Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to class of business that are managed together, after taking into account the relevant investment returns.

Outstanding claims provision

Provision is made for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid based on calculations performed by independent actuaries. Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to indemnity holders. The group's own assessors individually assess claims. The claims reserve includes an estimated portion of the direct expenses of processing the claims. Provision is also made for claims arising from indemnified events that occurred before the close of the accounting period, but which had not been reported to the Group by that date, also referred to as incurred but not reported (IBNR) provisions. Whilst the directors consider that the gross reserve is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. The methods used to calculate the reserve, and the estimates made, are reviewed regularly.

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

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6. Finance structure and commitments (continued)

6.2 Unearned Risk Reserve and Outstanding Claims Provision (continued)

Receivables and payables related to indemnity contracts

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

Salvage reimbursement

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

Liability adequacy test

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

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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6.2.1 Unearned Risk Reserve

	Group		
	Unearned Premium Reserve R'000	Additional Unexpired Risk Reserve R'000	Total Unearned Risk Reserve R'000
As at 31 March 2016	191	2 674	2 865
Movement recorded in profit or loss	5	1 556	1 561
As at 31 March 2017	196	4 230	4 426
Movement recorded in profit or loss	67	2 214	2 281
As at 31 March 2018	263	6 444	6 707

6.2.2 Outstanding Claims Reserve

	Group		
	Notified Outstanding Claims Reserve R'000	Incurred But Not Reported Reserve R'000	Total Outstanding Claims Reserve R'000
As at 31 March 2016	2 128	4 556	6 684
Movement recorded in profit or loss	(1 024)	(1 798)	(2 822)
As at 31 March 2017	1 104	2 758	3 862
Movement recorded in profit or loss	410	(582)	(172)
As at 31 March 2018	1 514	2 176	3 690

6.2.3 Total Exposure

	Group	
	2018 R'000	2017 R'000
Credit indemnities issued to financial institutions	64 230	45 352
Less technical reserves already provided	(10 397)	(8 288)
Exposure after technical reserves	53 833	37 064

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6. Finance structure and commitments (continued)

6.2.3 Total Exposure (continued)

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

The summary of the valuation method is as follows:

The Unearned Premium Reserve is calculated on a straight line basis, assuming indemnity premiums received are earned uniformly over the 12 months for which they have been paid for. The Additional Unexpired Risk Reserve ("AURR") is the additional reserve required should the net discounted value of the expected claims from active policies not be covered by the Unearned Premium Reserve and the net present value of expected future indemnity fees. The AURR is held at a 75% sufficiency level as a result of simulating claims severity and frequency.

The Outstanding Claims Reserve ("OCR") is in respect of those policies of KCG that may result in claims due to a claim event that has happened prior to the financial year end. For each policy, the OCR is determined as (probability of claiming) x (current indemnity) x (claim severity). The total OCR is raised at a 75% sufficiency level by simulating the claim severity.

All reserves have been calculated on a run-off basis (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:

	2018	2017
Average ultimate probability of claim	16%	19%
Claim severity	81%	81%
Claim expense rate	5%	5%
Recovery rate	8%	8%
Discount rates (per government bond yield curve)	6.30 – 9.12%	7.08 – 10.02%

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

	2018 R'000	2017 R'000	2018 %	2017 %
Probability of claim (+10%)	590	209	5.7%	2.52%
Claim severity (+10%)	1 200	601	11.5%	7.25%
Claim expense rate (+1%)	82	47	0.8%	0.57%
Discount rates (-1%)	53	(31)	0.5%	-0.38%

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6.3 Post-retirement medical liability

sefa provides a subsidy towards medical aid contributions payable to selected employees who retire in the employment of **sefa**. Approximately 20 in-service employees are eligible for the benefit. This subsidy is unfunded and is provided for based on actuarial valuations performed annually. The value of this liability was determined by Matlotlo Group Proprietary Limited, an independent actuarial consulting firm and is dependent on amongst others the demographic profile of employees, mortality, consumer price inflation and bond yields.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening post-employment medical aid obligation	489	415	489	415
Current service cost	24	21	24	21
Interest cost	48	41	48	41
Actuarial gain	63	12	63	12
Closing defined benefit obligation	624	489	624	489

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2018	2017
Discount rate at 31 March	9.93% naca	9.93% naca
Medical inflation rate per annum	9.44% naca	10.39% naca
Take-up rate by retired employees	100%	100%
Retirement age	60 years	60 years
Pre-retirement mortality	SA85-90 Light	SA85-90 Light
	PA (90)	PA (90)
Post retirement mortality	2 year reduction	2 year reduction

The table below shows the sensitivity of **sefa's** obligations, as at 31 March 2018, with respect to post-retirement medical aid benefits to key assumptions:

	Variation	Change in Provision %	Change in Provision R'000
Long-term interest rates	1%	-13%	(83)
	-1%	16%	102
Retirement age	+1 year	-12%	(78)
	-1 year	14%	88
Withdrawal rate	50%	-1%	(4)
	-50%	1%	4
Post-retirement mortality	+1 year	-1%	(6)
	-1 year	1%	6

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

6. Finance structure and commitments (continued)

6.4 Commitments

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

6.4.1 Lease Commitments

An operating lease is a lease where the risks and rewards incidental to ownership of the leased asset are not transferred from the lessor to the lessee by the agreement.

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

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

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Equipment	532	999	532	999
Within 1 year	206	212	206	212
From 2 to 5 years	326	742	326	742
More than 5 years	—	45	—	45
Land and buildings	15 036	21 346	15 036	21 346
Within 1 year	9 624	9 472	9 624	9 472
From 2 to 5 years	5 412	11 874	5 412	11 874
Total lease commitments	15 568	22 345	15 568	22 345

Lease agreements range from 2 to 9 years, the last one ending 31 December 2020. There are lease agreements for each branch as well as for head office. The annual escalations range between 8% and 15% per annum.

6.4.2 Loan and Indemnity Commitments

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Undrawn financing facilities approved	175 087	70 835	175 087	70 835
Undrawn credit guarantee facilities approved	212 378	144 738	—	—
	387 465	215 573	175 087	70 835

Commitments will be financed by loans and internally generated funds.



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk

7.1 Financial risk management and financial instruments

Accounting for financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

All financial assets and liabilities are initially measured at fair value, including transaction costs, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Financial assets are recognised/(derecognised) on the date the Group commits to purchase/(sell) the instruments.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

Financial instrument classification

The Group classifies its financial instruments into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial instruments were acquired.

Management determines the classification of financial instruments at initial recognition. Financial instruments comprise investments in equity and debt, loans receivable, trade and other receivables, cash and cash equivalents, other non-current liabilities and trade and other payables.

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss are subsequently measured at fair value and changes therein are recognised in profit or loss. Any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is subsequently measured at its cost less impairment.

Loans and receivables

The Group's loans and receivables comprise loans and other receivables, trade and other receivables, cash and cash equivalents.

Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

Financial liabilities

Financial liabilities comprise trade and other payables and borrowings.

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. A financial asset or group of financial assets is impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment losses are recognised in profit or loss and reflected in an allowance account against the trade receivable or loan.

Trade receivables

An impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and its recoverable amount, being the present value of the estimated future cash flows discounted at the original effective interest rate.

Loans and advances

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

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



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

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

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

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

Financial Risk Management

The Group and Company have exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (interest rate 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 and Company's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Group and Company's risk management policies. The committee reports regularly to the Board of Directors on their activities.

The Group and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, 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 and Company's activities. The Group and Company, 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 Audit and Risk Committee oversees how management monitors compliance with the Group and Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit and 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 and Risk Committee.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments

Group – 2018	Assets		Liabilities	
	Loans and receivables R'000	Cost less impairment ⁽¹⁾ R'000	Amortised cost R'000	Total R'000
Loans and advances	567 765	–	–	567 765
Investments	–	66 722	–	66 722
Trade receivables	26 559	–	–	26 559
Cash and cash equivalents	492 398	–	–	492 398
	1 086 722	66 722	–	1 153 444
Shareholder loan	–	–	(495 660)	(495 660)
Trade and other payables	–	–	(140 060)	(140 060)
	–	–	(635 720)	(635 720)
Total financial assets and liabilities	1 086 722	66 722	(635 720)	517 724

Group – 2017	Assets		Liabilities	
	Loans and receivables R'000	Cost less impairment ⁽¹⁾ R'000	Amortised cost R'000	Total R'000
Loans and advances	689 293	–	–	689 293
Investments	–	26 562	–	26 562
Trade receivables	29 784	–	–	29 784
Cash and cash equivalents	456 559	–	–	456 559
	1 175 636	26 562	–	1 202 198
Shareholder loans	–	–	(461 335)	(461 335)
Trade and other payables	–	–	(134 128)	(134 128)
	–	–	(595 463)	(595 463)
Total financial assets and liabilities	1 175 636	26 562	(595 463)	606 735



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

Company – 2018	Assets		Liabilities	
	Loans and receivables R'000	Cost less impairment ⁽¹⁾ R'000	Amortised cost R'000	Total R'000
Loans and advances	523 488	–	–	523 488
Investments	–	59 019	–	59 019
Trade receivables	270 274	–	–	270 274
Cash and cash equivalents	358 872	–	–	358 872
	1 152 634	59 019	–	1 211 653
Shareholder loans	–	–	(495 660)	(495 660)
Trade and other payables	–	–	(98 067)	(98 067)
	–	–	(593 727)	(593 727)
Total financial assets and liabilities	1 152 634	59 019	(593 727)	617 926

Company – 2017	Assets		Liabilities	
	Loans and receivables R'000	Cost less impairment ⁽¹⁾ R'000	Amortised cost R'000	Total R'000
Loans and advances	614 350	–	–	614 350
Investments	–	26 562	–	26 562
Trade receivables	24 913	–	–	24 913
Cash and cash equivalents	316 905	–	–	316 905
	956 168	26 562	–	982 730
Shareholder loans	–	–	(461 335)	(461 335)
Trade and other payables	–	–	(114 032)	(114 032)
	–	–	(575 367)	(575 367)
Total financial assets and liabilities	956 168	26 562	(575 367)	407 363

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

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.2 Credit risk

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

The Group or Company's maximum exposure to credit risk is represented by the carrying amount of the financial assets that are exposed to credit risk.

The Group and Company considers its maximum exposure per class, without taking into account any collateral and financial guarantee to be as follows:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cash and cash equivalents	492 398	456 559	358 872	316 905
Trade receivables	29 081	34 555	272 448	29 366
Loans and advances	567 765	689 293	523 488	614 350
Investments	66 722	26 562	59 019	26 562
Total exposure at carrying amount	1 155 966	1 206 969	1 213 827	987 183

Cash and cash equivalents

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

Receivables, loans and advances and investments

The Group and Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group and Company's customer base, including the default risk of the industry, in which customers operate, is also taken into account. No significant percentage of the Group and Company'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 or Company will transact with the customer. The Group and Company's review include 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 and Company in the event of non-payment. All credit risk arises from normal operations of the Group and Company, with the major credit risk arising from the Group and Company's receivables and loans and advances. The Credit and Investment Committee established by the Board of Directors review the Group and Company'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 and Company establish 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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

Credit risk analysis: Loans and advances

Group 2018 (R'000)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total
Low risk client	22 705	27 531	330 347	380 583
Medium risk client	49 702	–	128 373	178 075
High risk client	660 920	1 156	10 937	673 013
Gross amount	733 327	28 687	469 657	1 231 671
Specific impairment	(619 689)	–	–	(619 689)
Portfolio impairment	–	–	(44 217)	(44 217)
Carrying amount	113 638	28 687	425 440	567 765

Group 2017 (R'000)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total
Low risk client	127 138	32 579	501 194	660 911
Medium risk client	98 136	7 265	8 476	113 877
High risk client	516 816	109	660	517 585
Gross amount	742 090	39 953	510 330	1 292 373
Specific impairment	(577 121)	–	–	(577 121)
Portfolio impairment	–	–	(25 959)	(25 959)
Carrying amount	164 969	39 953	484 371	689 293

Company 2018 (R'000)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total
Low risk client	15 481	20 642	306 785	342 908
Medium risk client	49 087	–	127 687	176 774
High risk client	620 138	–	8 838	628 976
Gross amount	684 706	20 642	443 310	1 148 658
Specific impairment	(580 953)	–	–	(580 953)
Portfolio impairment	–	–	(44 217)	(44 217)
Carrying amount	103 753	20 642	399 093	523 488

Company 2017 (R'000)	Individually impaired	Past due but not impaired	Neither past due nor impaired	Total
Low risk client	125 400	19 266	462 259	606 925
Medium risk client	73 761	3 155	6 066	82 982
High risk client	508 288	22	154	508 464
Gross amount	707 449	22 443	468 479	1 198 371
Specific impairment	(558 062)	–	–	(558 062)
Portfolio impairment	–	–	(25 959)	(25 959)
Carrying amount	149 387	22 443	442 520	614 350

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.2 Credit risk (continued)

Past due but not impaired comprises:

	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<i>Past due but not impaired</i>				
0 – 30 days	24 227	27 946	19 011	21 717
31 – 60 days	191	610	9	208
61 – 90 days	195	309	9	63
91 – 120 days	192	429	9	121
120 days +	3 882	10 659	1 604	334
Carrying amount	28 687	39 953	20 642	22 443

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

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 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.

Sectoral analysis: Loans and advances at carrying value:



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

Sectoral analysis: Loans and advances at carrying value:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Agriculture, forestry and fishing	51 834	60 618	33 409	33 409
Basic chemicals	507	171	507	—
Beverages	1 114	—	1 114	—
Building construction	45 025	42 344	44 942	42 261
Business services	8 249	19 631	8 033	20 156
Catering and accommodation services	1 718	1 356	1 718	—
Communication	—	1 917	—	—
Electrical machinery	12 290	12 290	—	—
Electricity, gas and steam	2 348	3 689	1 601	495
Finance and insurance ⁽¹⁾	145 470	335 294	145 470	335 294
Food	21 519	1 347	21 519	—
Furniture	1 134	—	1 134	—
Government	905	—	905	—
Machinery and equipment	52	—	—	—
Medical, dental and other health and veterinary services	13 782	—	11 311	—
Metal products excluding machinery	2 945	—	2 945	—
Motor vehicles, parts and accessories	135 960	5 573	135 960	5 573
Non-metallic minerals	2 756	10 965	2 755	7 714
Other community, social and personal services	1 201	1 595	1 104	153
Other chemicals and man-made fibres	1 953	1 792	446	—
Other industries	14 773	28 761	13 900	28 761
Other mining	4 315	6 137	4 315	6 137
Other services	3 385	41 505	3 340	37 971
Paper and paper products	—	240	—	—
Plastic products	689	492	397	—
Printing, publishing and recorded media	419	621	427	—
Television, radio and communication equipment	161	—	153	—
Textiles	1 463	—	1 463	—
Transport and storage	39 810	34 351	38 696	30 457
Water supply	93	—	93	—
Wearing apparel	—	3 044	—	—
Wholesale and retail trade	48 976	74 614	42 904	65 969
Wood and wooden products	2 919	946	2 927	—
	567 765	689 293	523 488	614 350

(1) Loans made to intermediaries are allocated to the finance and insurance sector.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.2 Credit risk (continued)

Credit risk analysis: Investments

All investments are individually impaired:

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Low risk client	—	—	—	—
Medium risk client	—	—	—	—
High risk client	65 285	33 968	65 064	33 968
Gross amount	65 285	33 968	65 064	33 968
Specific impairment	(6 045)	(7 406)	(6 045)	(7 406)
Carrying amount	59 240	26 562	59 019	26 562

Sectoral analysis: Investments

All investments remain classified under the finance and insurance sector.

7.1.3 Liquidity risk

Liquidity risk is the risk that the Group or Company will not be able to meet its financial obligations as they fall due. The Group and Company'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 or Company's reputation.

Due to the nature of the business, the Group and Company'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 and Company ensure 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 Group and Company financial statements (continued)

for the year ended 31 March 2018

Liquidity risk exposure

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

Group – 2018	Carrying value R'000	Total payable R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	67 987	67 987	67 987	–	–
Credit guarantees/indemnities issued to financial institutions ⁽¹⁾	10 397	10 397	10 397	–	–
Shareholder's loan	495 660	495 660	–	–	495 660
Total recognised financial liabilities	574 044	574 044	78 384	–	495 660
Undrawn financing facilities approved	–	175 087	175 087	–	–
Operating lease commitments	–	15 568	9 830	5 738	–
Undrawn guarantees/indemnities approved ⁽²⁾	–	23 430	23 430	–	–
Total Off-balance sheet items	–	214 085	208 347	5 738	–
	574 044	788 129	286 731	5 738	495 660

(1) Total credit guarantees/indemnities issued to financial institutions amount to R64.2m. The full balance will however not result in future outflows of cash. The reserve calculations by external actuaries amounting to R10.4m was used for liquidity risks exposure.

(2) Undrawn guarantees/indemnities approved at year end amounts to R144.7m. It is estimated that R23.4m of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

Group – 2017	Carrying value R'000	Total payable R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	68 295	68 295	68 295	–	–
Credit guarantees/indemnities issued to financial institutions ⁽¹⁾	8 288	8 288	8 288	–	–
Shareholder's loan	461 335	461 335	–	–	461 335
Total recognised financial liabilities	537 918	537 918	76 583	–	461 335
Undrawn financing facilities approved	–	70 835	70 835	–	–
Operating lease commitments	–	22 345	9 684	12 616	45
Undrawn guarantees/indemnities approved ⁽²⁾	–	26 451	26 451	–	–
Total Off-balance sheet items	–	119 631	106 970	12 616	45
	537 918	657 549	183 553	12 616	461 380

(1) Total credit guarantees/indemnities issued to financial institutions amount to R45.4 million. The full balance will however not result in future outflows of cash. The reserve calculations by external actuaries amounting to R8.3 million was used for liquidity risks exposure.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.3 Liquidity risk (continued)

Company – 2018	Carrying value R'000	Total payable R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	27 601	27 601	27 601	–	–
Shareholder's loan	495 660	495 660	–	–	495 660
Total recognised financial liabilities	523 261	523 261	27 601	–	495 660
Operating lease commitments	–	15 568	9 830	5 738	–
Undrawn financing facilities approved	–	175 087	175 087	–	–
Total Off-balance sheet items	–	190 655	184 917	5 738	–
	523 261	713 916	212 518	5 738	495 660

Company – 2017	Carrying value R'000	Total payable R'000	Within 1 year R'000	2 – 5 years R'000	More than 5 years R'000
Trade payables	48 199	48 199	48 199	–	–
Shareholder's loan	461 335	461 335	–	–	461 335
Total recognised financial liabilities	509 534	509 534	48 199	–	461 335
Operating lease commitments	–	22 345	9 684	12 616	45
Undrawn financing facilities approved	–	70 835	70 835	–	–
Total Off-balance sheet items	–	93 180	80 519	12 616	45
	509 534	602 714	128 718	12 616	461 380

7.1.4 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 and Company'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 and Company do not deal in derivatives.

Interest rate risk

Interest rate risk is the risk that arises on an interest-bearing asset or liability, due to variability of interest rates.

The Group and Company's income and operating cash flows are substantially dependent on changes in market interest rates and the Group and Company has significant interest-bearing assets. The Group and Company's policy is to maintain most of its investments in the form of money market instruments. Interest rate risk is limited to the Group and Company'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 Group and Company financial statements (continued)

for the year ended 31 March 2018

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

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Variable rate instruments:				
Financial assets	1 653 637	1 802 726	1 437 063	1 569 071
Financial liabilities	—	(9)	—	—
	1 653 637	1 802 717	1 437 063	1 569 071

Cash flow sensitivity analysis for variable rate instruments:

A change in 100 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
100 basis points increase	16 536	18 027	14 371	15 691
100 basis points decrease	(16 536)	(18 027)	(14 371)	(15 691)

7.1.5 Capital management

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

The Board seeks to maintain a balance between sustainable returns and its developmental mandate. There were no changes in the Group or Company'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.

- The Group and Company'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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Indemnity risk

Indemnity risk arises from normal operations of the Group, through credit indemnities provided by Khula Credit Guarantee through the following two products:

- indemnifying financiers for defaults on outstanding loans to SMME's;
- indemnifying suppliers for defaults on trade credit facilities.

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

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

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

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

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

Limiting exposure to indemnity risk

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

- **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.

- **Risk assessment:**

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

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



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

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.

7.2 Loans and advances

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

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Loans and advances to clients	1 231 671	1 292 373	1 148 658	1 198 371
Impairments of loans and advances	(663 906)	(603 080)	(625 170)	(584 021)
	567 765	689 293	523 488	614 350

Reconciliation of impairment of loans and advances

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	603 080	568 070	584 021	544 164
Impairment loss for the year	115 364	65 686	94 207	61 673
Write offs	(54 538)	(30 676)	(53 058)	(21 816)
Closing balance	663 906	603 080	625 170	584 021

Maturity analysis of loans and advances

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Due within one year	747 884	651 932	677 890	595 577
Due after one year but within two years	224 083	251 957	216 845	232 257
Due after two years but within three years	150 616	223 690	147 626	213 283
Due after three years but within four years	53 955	109 672	53 279	104 626
Due after four years but within five years	55 133	55 122	53 018	52 628
Due after five years	—	—	—	—
Impairment of loans and advances	(663 906)	(603 080)	(625 170)	(584 021)
	567 765	689 293	523 488	614 350

Loans and advances consists of current and non-current assets, balances recoverable within 12 months are considered current.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

7. Financial risk (continued)

7.3 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.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Investments at cost	65 285	33 968	65 064	33 968
Fair value adjustments on investments	7 482	–	–	–
Impairment of investments	(6 045)	(7 406)	(6 045)	(7 406)
	66 722	26 562	59 019	26 562

Reconciliation of impairment of investments

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	7 406	46 244	7 406	46 244
Movement for the year	(1 361)	(38 838)	(1 361)	(38 838)
Closing balance	6 045	7 406	6 045	7 406

Investments with a cost value of R65.1m (2017: R34m) are carried at cost less impairment due to the fact that the fair value cannot be estimated reliably. These investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. All the impairments relates to these investments.

Investments with a cost value of R221,000 was valued by Linkpro, a professional consulting firm on the basis of the International Private Equity and Venture Capital Guidelines (IPEV) 2015 Edition. Discounted cash flow and earning valuation methods were used to calculate fair values by applying conservative Weighted Average Cost of Capital rates.

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

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

8. Equity Structure

8.1 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.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Authorised				
500 000 000 ordinary shares at R1 each	500 000	500 000	500 000	500 000
Issued and paid				
308 300 000 ordinary shares at R1 each	308 300	308 300	308 300	308 300

Share capital is fully paid.

8.2 Shareholder's reserve

Shareholder's reserve consists of a subordinated loan to **sefa** from IDC that is interest-free and not repayable.

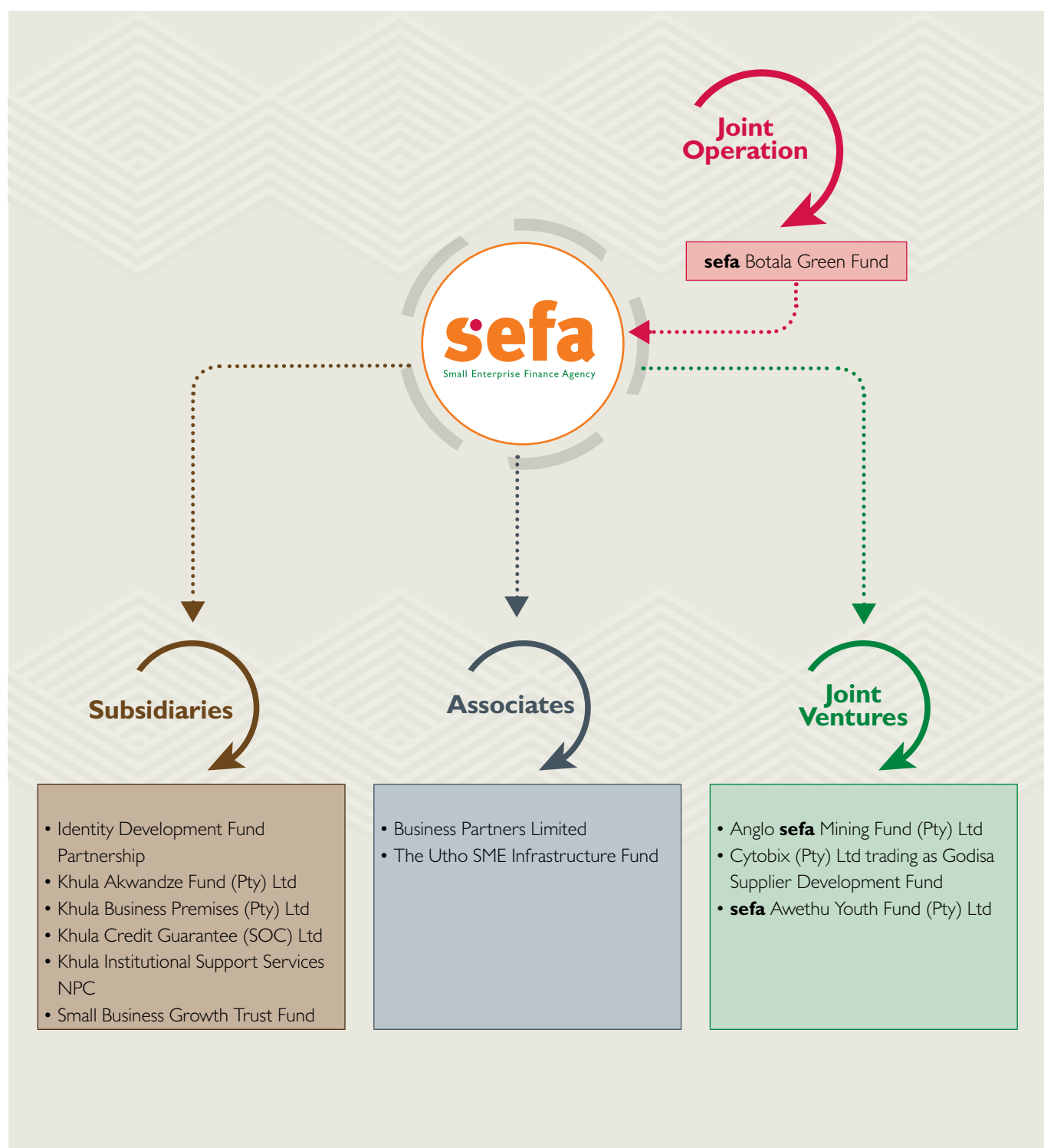
	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance	1 305 675	1 092 551	1 305 675	1 092 551
Government allocations advanced by the Shareholder	223 780	213 124	223 780	213 124
Closing balance	1 529 455	1 305 675	1 529 455	1 305 675

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

9. Group composition

9.1 Interest in other entities and operations





Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

9.2 Investments in subsidiaries

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. Refer to 1.3.1 for information regarding the Group and Company's accounting policies.

	Company	
	2018 R'000	2017 R'000
Unlisted shares in subsidiaries	55 000	55 000
Loans receivable	80 523	89 987
Total company exposure before impairments	135 523	144 987
Impairment of loans	(37 888)	(36 563)
Closing carrying value	97 635	108 424

Investee	Nature of activities	Company			
		% interest		Exposure before impairment	
		2018 %	2017 %	2018 R'000	2017 R'000
Identity Development Fund Partnership	SME Financing	100%	100%	33 000	36 500
Khula Akwandze Fund (Pty) Ltd	SME Financing	75%	75%	13 907	25 467
Khula Business Premises (Pty) Ltd	Property rental	100%	100%	–	–
Khula Credit Guarantee (SOC) Ltd	Credit indemnities	100%	100%	61 003	59 947
Khula Institutional Support Services NPC	Capacity building	100%	100%	–	87
Small Business Growth Trust Fund	SME Financing	81%	81%	27 613	22 986
				135 523	144 987

All subsidiaries are incorporated in the Republic of South Africa and have the same reporting date as the holding company. 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	
	2018 R'000	2017 R'000
Profits	3 312	63 698
Losses	(101 293)	(9 324)
	(97 981)	54 374

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

9. Group composition (continued)

9.3 Investments in joint operations

The entities classified as joint operations 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. Refer to 1.3.1 for information regarding the Group and Company's accounting policies.

	Company	
	2018 R'000	2017 R'000
Loans receivable	29 000	29 000
Impairment of loans	(29 000)	(54)
Closing carrying value	–	28 946

Investee	Nature of activities	Company			
		% interest		Exposure before impairment	
		2018 %	2017 %	2018 R'000	2017 R'000
sefa Botata Green Fund	SME Financing	50%	50%	29 000	29 000

All joint operations are incorporated in the Republic of South Africa and have the same reporting date as the holding company. The investments in joint operations are all non-current assets.

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

	Group	
	2018 R'000	2017 R'000
Losses	(10 508)	(61)

9.4 Investments in associates

Refer to 1.3.1 for information regarding the Group and Company's accounting policies.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Unlisted shares in associates	98 622	98 622	98 622	98 622
Accumulated equity-accounted income, losses and impairments	681 982	640 251	–	–
Loans receivable	30 000	30 000	30 000	30 000
Impairment of loans	–	–	(5 195)	(7 433)
Closing carrying value	810 604	768 873	123 427	121 189



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

Investee	Nature of activities	Company			
		% interest		Exposure before impairment	
		2018 %	2017 %	2018 R'000	2017 R'000
		%	%	R'000	R'000
Business Partners Limited	SME Financing	22%	22%	98 622	98 622
The Utho SME Infrastructure Fund (I)	SME Financing	49%	49%	30 000	30 000
				128 622	128 622

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

	Group	
	2018 R'000	2017 R'000
Statement of financial position		
Non-current assets	4 486 263	4 180 514
Current assets	678 924	624 886
Non-current liabilities	(1 527 603)	(1 419 126)
Current liabilities	(287 551)	(224 035)
Net assets at 100%	3 350 033	3 162 239
Group's share of net assets	719 276	677 545
Loan to associate	30 000	30 000
Costs capitalised on shares acquired	61 328	61 328
	810 604	768 873
Statement of comprehensive income		
Revenue	731 490	623 579
Expenses	(571 688)	(429 645)
Other comprehensive income	20 375	(7 457)
Profit and total other comprehensive income at 100%	180 177	186 477
Group's share of profit and total comprehensive income	47 996	52 653

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

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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

9. Group composition (continued)

9.5 Investments in Joint Ventures

Refer to 1.3.1 for information regarding the Group and Company's accounting policies.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Loans receivable	170 929	155 323	170 929	155 323
Accumulated equity-accounted income, losses and impairments	11 606	13 321	—	—
Impairment of loans	—	—	(18 332)	(20 313)
Closing carrying value	182 535	168 644	152 597	135 010

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.

Investee	Nature of activities	Company			
		% interest		Exposure before impairment	
		2018 %	2017 %	2018 R'000	2017 R'000
Anglo sefa Mining Fund (Pty) Ltd	Financing mining activities	50%	50%	84 582	76 287
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	SME Financing	50%	50%	26 347	20 524
sefa Awethu Youth Fund (Pty) Ltd	SME Financing	50%	50%	60 000	58 512
				170 929	155 323



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

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

	Group	
	2018 R'000	2017 R'000
Statement of financial position		
Non-current assets	108 225	216 245
Current assets	227 611	118 596
Non-current liabilities	(215 244)	(176 816)
Current liabilities	(97 379)	(131 382)
Net assets at 100%	23 213	26 643
Group's share of net assets	11 606	13 321
Loans to joint ventures	170 929	155 323
	182 535	168 644
Statement of comprehensive income		
Revenue	29 959	19 085
Expenses	(33 387)	(65 786)
	(3 428)	(46 701)
Group's share of loss and total comprehensive loss	(1 715)	(23 352)

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.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

9. Group composition (continued)

9.6 Profit from equity accounted investees

	Group	
	2018 R'000	2017 R'000
Joint Ventures		
Anglo sefa Mining Fund (Pty) Ltd	(3 696)	(8 158)
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	1 386	(9 799)
sefa Awethu Youth Fund (Pty) Ltd	595	(5 395)
Income from Joint Ventures	(1 715)	(23 352)
Associates		
Business Partners Limited	45 332	45 435
The Utho SME Infrastructure Fund	2 236	(6 672)
Income from Associates	47 568	38 763
Profit from equity accounted investees	45 853	15 411

10. Related parties and directors emoluments

10.1 Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group, regardless of whether a price is charged. For the purposes of defining related party transactions with key management, key management has been defined as directors and the Group's executive committee and includes close members of their families and entities controlled or jointly controlled by these individuals.

Related party	Relationship
Industrial Development Corporation	Parent and ultimate controlling party of sefa
Khula Land Reform Empowerment Facility	Wholly owned entity of sefa ⁽¹⁾
EDD	Shareholder of the IDC
HN Lupuwana-Pemba (– Director)	Chairperson of the Board of Directors
Amava Chrome (Pty) Ltd	A debtor of sefa where the husband of the non-executive director, HN Lupuwana-Pemba, is a shareholder. The loan was approved prior to the union taking place.

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:



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Rental income received from related parties				
EDD	6 029	5 847	6 029	5 847
Investment income received from related parties				
IDC	14 071	22 929	14 071	22 929
Management fees charged to related parties				
Khula Land Reform Empowerment Facility ⁽¹⁾	7 677	6 626	10 480	6 626
Khula Credit Guarantee (SOC) Ltd	—	—	4 982	4 339
	7 677	6 626	15 462	10 965
Related party balances receivable/(payable)				
Amava Chrome (Pty) Ltd ⁽²⁾	713	2 334	713	2 334
Khula Land Reform Empowerment Facility ⁽¹⁾	9 144	7 553	9 144	7 553
Khula Institutional Support Services NPC ⁽³⁾	—	—	2 872	—
Khula Business Premises (Pty) Ltd ⁽³⁾	—	—	251 002	—
IDC – Cash managed ⁽³⁾	318 329	268 926	226 903	177 691
IDC – Shareholder's loan (liability) ⁽⁴⁾	(495 660)	(461 335)	(495 660)	(461 335)
IDC – Shareholder's loan (equity) ⁽⁴⁾	(1 529 455)	(1 305 675)	(1 529 455)	(1 305 675)
	(1 696 929)	(1 488 197)	(1 534 481)	(1 579 432)

(1) Registered as a Non-profit Company. This company has been exempted from consolidation as the IFRS definition of control has not been met. **sefa** is acting as an agent.

(2) This loan was issued prior to the matrimonial union between the shareholder of the debtor and the Director.

The loan bears interest at 13.5% and is repayable over 60 months ending August 2018 and is secured through a cession of lease agreement, cession of director's loan account, cession of supplier agreement, personal suretyship and a special notarial bond over moveable assets. There are no overdue amounts on the facility.

(3) Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received. The loan issued to Khula Business Premises (Pty) Ltd is subordinated and bears interest at prime rate.

(4) Refer to note 6.1 for specific terms

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 10.2.

10.2 Directors and prescribed officers' remuneration

Prescribed officers as prescribed by the Companies Act, are individuals who, despite not being a director of the Company:

- exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the Company; or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Company.

The Company considers all individuals at the level of executive management as the prescribed officers.

Key management, as defined in IAS 24 Related Party Disclosure, are individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of executive management up to the Board of Directors are regarded as key management. The remuneration of the directors and prescribed officers is disclosed below as per the Companies Act requirements.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

10. Related parties and directors emoluments (continued)

10.2 Directors and prescribed officers' remuneration (continued)

10.2.1 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.

		Group		Company	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Current Board members	Appointment date				
HN Lupuwana-Pemba	2012/09/01	226	129	226	129
NA Dlamini	2016/10/01	216	53	197	53
NS Dlamini ⁽¹⁾	2016/10/01	201	46	201	46
C Groves	2016/10/01	212	72	212	72
PM Mainganya ⁽¹⁾	2016/10/01	167	53	148	53
K Molewa ⁽⁴⁾	2016/10/01	290	45	290	45
KK Moloto	2016/10/01	238	46	238	46
LFV Mosupye ⁽²⁾	2014/12/04	26	16	—	—
NA Osman	2016/10/01	153	51	153	51
HR Ralinala	2016/10/01	233	38	214	38
Retired board members	Retirement date				
SM Magwentshu-Rensburg ⁽³⁾	2016/02/29	—	6	—	6
M Ferreira	2016/08/31	—	70	—	70
GS Gouws ⁽¹⁾	2016/10/31	—	98	—	98
O Henwood	2016/10/31	—	78	—	78
SA Molepo	2016/09/30	—	81	—	81
LB Mavundla	2018/03/28	—	64	—	64
VG Mutshekwane	2016/10/31	—	123	—	123
K Schumann ⁽¹⁾	2016/04/30	—	6	—	6
IAS Tayob	2016/10/31	—	166	—	166
		1 962	1 241	1 879	1 225

(1) Directors fees for the services rendered were paid to the IDC.

(2) This director only serves on the Board of the subsidiary company, KCG.

(3) Although this director retired from the **sefa** Board of Directors on 29 February 2016, she continued to serve on the Khula Credit Guarantee Board until 12 September 2016.

(4) This director has been nominated by **sefa** to serve on the Board of Directors of Business Partners (Pty) Ltd. Remuneration disclosed includes fees paid for the attendance of meeting of the Associate.



Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

10.2.2 Executive management

	Group & Company	
	2018	2017
	R'000	R'000
Employment benefits	11 808	11 564
Post-employment benefits	2 191	2 448
	13 999	14 012

	Group & Company (R'000)				
	2018				
	Basic salary	Incentive bonus (Short-term)	Incentive bonus (Long-term)	Retirement, medical and other benefits	Total
Executive					
TR Makhuvha ⁽¹⁾	2 150	237	266	448	3 101
ZR Coetzee ^{(1) (2)}	922	212	255	520	1 909
VV Matsiliza	1 717	239	—	296	2 252
GN Nadasan	1 640	234	—	350	2 224
RV Ralebepa	1 676	271	—	325	2 272
B Sefolo ⁽³⁾	210	—	—	22	232
N Shwala	1 556	225	—	228	2 009
	9 871	1 418	521	2 189	13 999
	2017				
TR Makhuvha ⁽¹⁾	1 973	228	258	504	2 963
ZR Coetzee ⁽¹⁾	1 524	203	248	821	2 796
VV Matsiliza	1 602	298	—	276	2 176
RV Ralebepa	1 582	224	—	305	2 111
GN Nadasan	1 559	189	—	326	2 074
N Shwala	1 460	216	—	216	1 892
	9 700	1 358	506	2 448	14 012

(1) Seconded to the company by IDC.

(2) Term of secondment ended 31 October 2017

(3) Appointed 19 February 2018

No member of executive management earned any income from any other company within the Group.

Notes to the Group and Company financial statements (continued)

for the year ended 31 March 2018

11. PFMA Disclosure

11.1 Unauthorised, Fruitless and Wasteful and Irregular expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2017: 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.

	2018 R'000	2017 R'000
Opening balance	–	–
Relating to the current year	320	–
Relating to the prior year	88	–
Amounts recovered	(341)	–
Written off by Accounting Authority	(67)	–
Closing balance	–	–

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.

	2018 R'000	2017 R'000
Opening balance	–	–
Relating to the prior years	207	–
Relating to the current year	140	161
Condoned by Accounting Authority	(347)	(161)
Closing balance	–	–

All items reported as irregular and wasteful were below the transactional significance level of R230,110.



List of Acronyms

ARC	Audit & Risk Committee	IDC	The Industrial Development Corporation of South Africa
AURR	Additional Unexpired Risk Reserve	IFRS	International Financial Reporting Standards
B-BBEE	Broad-Based Black Empowerment Equity	IMC	Investment Monitoring Committee
BER	Bureau for Economic Research	IPAP	Industrial Policy Action Plan
CA(SA)	Chartered Accountant South Africa	IRBA	Independent Regulatory Board of Auditors
CBDA	Co-operative Banks Development Agency	ISA	Instalment Sale Agreement
CBSA	Co-operative Bank of South Africa	KCG	Khula Credit Guarantee (SOC) Ltd
CCBSA	Coca-Cola Beverages South Africa	LREF	Land Reform Empowerment Fund
CIC	Credit & Investment Committee	MANCOM	Management Committee
CIDB	Construction Industry Development Board	MBA	Master of Business Administration
CFIs	Co-operative Financial Institutions	MFIs	Microfinance Institutions
CIPE	Center for International Private Enterprise	MOU	Memorandum of Understanding
CHCDC	Chris Hani Co-operative Development Centre	NCI	Non-controlling interest
CoGHSTA	Co-operative Governance, Human Settlements and Traditional Affairs	NDP	National Development Plan
COSO	Committee of Sponsoring Organisations	NGP	New Growth Path
DBSA	Development Bank of Southern Africa	NHBRC	National Home Builders Registration Council
DFI	Development Financial Institution	OCR	Outstanding Claims Reserve
Dr KKDM	Dr Kenneth Kaunda District Municipality	PFMA	Public Finance Management Act
DSBD	Department of Small Business Development	PIM	Post Investment Monitoring
ECSP	Economic Competitiveness Support Programme	PPPs	Public Private Partnerships
EDD	Economic Development Department	RFIs	Retail Finance Intermediaries
ERM	Enterprise Risk Management	SAB	South African Breweries
ESD	Enterprise Supplier Development	SAIIA	South African Institute of International Affairs
FMS	Fund Management Services	SEC	Social & Ethical Committee
FPMs	Fresh Produce Markets	Seda	Small Enterprise Development Agency
FSB	Financial Services Board	sefa	Small Enterprise Finance Agency (SOC) Ltd
GAPIPA	Gauteng Province Industrial Parks Association	SFSs	Structured Finance Solutions
GCF	The Green Climate Fund	SMEs	Small Medium Enterprises
GDED	Gauteng Department of Economic Development	SMMEs	Small Medium and Micro Enterprises
GDP	Gross Domestic Product	SMEC	Small & Medium Enterprise Committee
GGDA	Gauteng Growth and Development Agency	SOEs	State Owned Enterprises
GIMI	Galilee International Management Institute	STIA	Short Term Insurance Act 53 of 1998
GIBS	Gordon Institute of Business Science	TAP	Talent & Acquisition Programme
GSB	Graduate School of Business	UJ	University of Johannesburg
HCM	Human Capital Management	UKZN	University of KwaZulu-Natal
HCRC	Human Capital & Remuneration Committee	UNISA	University of South Africa
HDIs	Historically Disadvantaged Individuals	UNIVEN	University of Venda
HPO	High-Performance Organisation	UNISWA	University of Swaziland
HPOI	High-Performance Organisation Index	UP	University of Pretoria
IASB	International Accounting Standards Board	Wits	University of the Witwatersrand

sefa Offices

For more information regarding the **sefa** products or other non-financial assistance, call our Client Liaison Centre on 012 748 9600 or write to us at helpline@sefa.org.za. Alternatively, you can visit any of our Regional Offices near you, or log onto www.sefa.org.za

Regional Office	Office Type	Address	Telephone Number	Office Hours
Free State	sefa Regional Office	Bloemfontein Office 4&5, Preller, Square, Graaf Reinet Street, Dan Pienaar, Bloemfontein, 9301	051 436 0150 sefafs@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Welkom One Reinet Building, Reinet Street, Welkom, 9460	051 436 0150 sefafs@sefa.org.za	09h30 - 15h00
		Trompsburg 53 Voortrekker Street, Khoisan Building, Trompsburg, 9913	051 436 0150 sefafs@sefa.org.za	10h00 - 14h00
		Qwaqwa Mampoi Road, Phuthaditjhaba, 9866	051 436 0150 sefafs@sefa.org.za	09h30 - 15h00
		Sasolburg Eric Louw Street, Boiketlong, Zamdela, Sasolburg, 1939	051 436 0150 sefafs@sefa.org.za	09h30 - 13h00
KwaZulu-Natal	sefa Regional Office	Durban 21 st Floor, Office 2102, Durban Embassy Building, Anton Lembede Street, Durban, 4001	031 368 3485 sefakzn@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Port Shepstone 46 Bisset Street, Lot No 456, Port Shepstone, 4240	031 368 3485 sefakzn@sefa.org.za	08h30 - 17h00
		Ladysmith 93/94 Murchison Street, Ladysmith, 3370	031 368 3485 sefakzn@sefa.org.za	08h30 - 17h00
		Richards Bay Lot 611237 via Verban, Veldenvlei, Richards Bay, 3900	031 368 3485 sefakzn@sefa.org.za	08h30 - 17h00
		Newcastle 28 Scott Street, Newcastle, 2940	031 368 3485 sefakzn@sefa.org.za	08h30 - 17h00
	IDC	Pietermaritzburg 1 st Floor ABSA Building, 15 Chatterton Rd, PMB, 3201	031 368 3485 sefakzn@sefa.org.za	08h30 - 17h00
Gauteng	sefa Regional Office	Centurion (Head Office) Eco Fusion 5, Block D, 1004 Teak Close, Witch-Hazel Avenue, Eco Park, Centurion, 0157	012 748 9600 helpline@sefa.org.za talktous@sefa.org.za	08h30 - 17h00
		Johannesburg Umnotho House, Ground Floor, 56 Eloff Street, Marshalltown, Johannesburg, 2001	087 288 6000 sefagpnorth@sefa.org.za	08h30 - 17h00 Monday - Friday
	Co-locations	Riversands (Diepsloot) Riversands Incubation Hub, 8 Incubation Drive, Riverside View, Ext. 15, Midrand, 2191	012 441 0480 sefagpnorth@sefa.org.za	08h30 - 16h30
		Tshwane Block C, 4 th Floor, Old Mutual Building, 536 Frances Baard & Steve Biko Streets, Pretoria	012 748 9600 helpline@sefa.org.za	08h30 - 17h00
		Emfuleni 5 Moshoeshoe Street, VUT Science & Technology Park, Sebokeng, 1983	011 269 3000 helpline@sefa.org.za	08h30 - 17h00
		Sandton 19 Fredman Drive, Sandown, Sandton, 2146	011 938 4257 sefagpeast@sefa.org.za	08h30 - 17h00
		Soweto Shop 368 Maponya Mall, Thusong Centre, Chris Hani Road (Old Potchefstroom Road), 1809	010 492 3655 sefagpeast@sefa.org.za	08h30 - 16h30 Monday - Friday
Western Cape	sefa Regional Office	Cape Town 9 th Floor, 2 Long Street, Cape Town, 8001	021 418 0126 sefawc@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Bellville 2 nd Floor, Louwville Place, Vrede Street, Bellville, 7535	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Khayelitsha Khayelitsha Training Centre Cnr Lwandile & Spine Road, Khayelitsha, 7784	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Mosselbay KKT Sentrum Nr. 7, Gericke Street, Voorbaai, Mossel Bay, 6506	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Knysna Thesen House, 6 Long Street, Knysna, 6571	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		George Entrance A, 1 st Floor Beacon Place, 125 Meade Street, George, 6530	044 803 4900 sefawc@sefa.org.za	08h30 - 16h30
		Oudtshoorn 70 Voortrekker Street, Oudtshoorn, 6625	044 803 4900 sefawc@sefa.org.za	08h30 - 17h00
		Beaufort West Thusong Service Centre, 3 De Vries Street, Beaufort West, 6970	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Hermanus Shop No 44, Gateway Centre, Hermanus, 7200	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00



Regional Office	Office Type	Address	Telephone Number	Office Hours
	Co-locations	Stellenbosch 1 st Floor, Eikestad Mall, Andriga Street, Stellenbosch, 7599	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Worcester 62, Cnr High & Stockenström Street, Worcester, 6850	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Vredenburg 19 West Coast Centre, 11 Long Street, Vredenburg, 7380	021 418 0126 sefawc@sefa.org.za	08h30 - 17h00
		Saldanha Tonym Street, Saldanha, 7395	022 714 1731 sefawc@sefa.org.za	08h30 - 16h30
Eastern Cape (Western Districts)	sefa Regional Office	East London Chesswood Office Park, 8-10 Winkely Street, 2 nd Floor, Berea, 5241	043 721 1510 sefael@sefa.org.za	08h30-16h30 Monday - Friday
	Co-locations	Port Elizabeth No 68 Cape Road, Mill Park, Port Elizabeth, 6000	041 373 4153 sefape@sefa.org.za	08h30-16h30 Monday - Friday
		Queenstown Sasol Complex, Cathcart Road, Queenstown, 5319	043 721 1510 sefael@sefa.org.za	10h00 - 15h00
		Mount Alyff Disaster Management Centre, 188 Nolangeni Street, Mount Alyff, 4735	043 721 1510 sefael@sefa.org.za	10h00 - 15h00
		Mthatha 7 Sissons Street, ECDC House, Fort Gale, Mthatha, 5100	047 504 2200 sefael@sefa.org.za	08h00 - 16h30
Northern Cape	sefa Regional Office	Kimberley 72 Long Street, Business Partners Building, Kimberley, 8301	053 832 2275 sefanc@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Kuruman Cnr Roos & Church Street, Kuruman, 8460	053 832 2275 sefanc@sefa.org.za	09h30 - 15h00
		Upington Cnr Scott & Upington 26 Street, Old Sanlam Building, 3 rd Floor, Upington, 8800	053 832 2275 sefanc@sefa.org.za	09h30 - 15h00
		De Aar Cnr Main & Station Street, De Aar, 7000	053 832 2275 sefanc@sefa.org.za	09h30 - 15h00
		Springbok 3 Rivier Street, Springbok, 8240	053 832 2275 sefanc@sefa.org.za	09h30 - 15h00
		Upington De Drift Plaza, Block 6, Olyvenhoutsdrift Settlement, Louisvale Avenue, 8801	053 832 2275 sefanc@sefa.org.za	09h30 - 15h00
Mpumalanga	sefa Regional Office	Nelspruit Corner Ferreira and Streak Street, 3 rd Floor, Suite 301, MAXSA Building, Nelspruit, 1200	013 755 3923 sefamp@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Witbank Cnr OR Tambo & Mandela Street, Shop L2-1A, Saveways, Crescent Shopping Centre, Witbank, 1035	013 755 3923 sefamp@sefa.org.za	08h00 - 17h00
		Secunda South Wing, Govan Mbeki Building, Lurgi Square, Secunda, 2302	013 755 3923 sefamp@sefa.org.za	08h00 - 17h00
		Malelane Lorenco Street, Rotunda Circle, Malelane, 1020	013 755 3923 sefamp@sefa.org.za	08h00 - 17h00
		Bushbuckridge Shop 31, Twin City Shopping Centre, Bushbuckridge, 1280	013 755 3923 sefamp@sefa.org.za	08h00 - 17h00
Limpopo	sefa Regional Office	Polokwane Suite 4, Biccard Park, No. 43 Biccard Street, Polokwane, 0699	015 294 0900 sefalp@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Thohoyandou Old Mutual Building, Old Group Scheme Offices, Mphephu Road, Thohoyandou, 7950	015 294 0900 sefalp@sefa.org.za	08h30 - 17h00
		Mopani 27 Peace Street, 1 st Floor Prosperitas Building, Tzaneen, 0850	015 294 0900 sefalp@sefa.org.za	08h30 - 17h00
		Mokopane 40 Retief Street, Mokopane, 0600	015 294 0900 sefalp@sefa.org.za	08h30 - 17h00
		Sekhukhune 189 Vergelegen Street, Tlatlolang Centre, Jane Furse, 1085	015 294 0900 sefalp@sefa.org.za	08h30 - 17h00
North West	sefa Regional Office	Rustenburg 32B Heystek Street, Sunetco Building, Rustenburg, 0299	014 592 6391 sefanw@sefa.org.za	08h30 - 16h30 Monday - Friday
	Co-locations	Klerksdorp West End, 2 nd Floor, 51 Leask Street, Klerksdorp, 2570	014 592 6391 sefanw@sefa.org.za	08h00 - 17h00
		Vryburg 8 Moffat Street, Vryburg, 8600	014 592 6391 sefanw@sefa.org.za	08h00 - 17h00
		Mahikeng 1B Mikro Plaza, Cnr First & Bessemmer Streets, Industrial Sites, Mahikeng, 2745	018 397 9942 sefanw@sefa.org.za	08h00 - 17h00

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Small Enterprise Finance Agency (SOC) Limited
Company Registration Number: 1995/011258/06
Licensed Credit Provider: NCRCP 160

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www.sefa.org.za

Fraud Hotline Number: 0800 000 663
(Tip-offs Anonymous)