# Integrated Annual Report 2024

ithala
SOC LIMITED

PROTECT. REBUILD. GROW.

# Contents

# CONTENTS



## Navigating this report

### STAKEHOLDERS

- National and Provincial Government
- Shareholders
- The environment
- Customers
- Regulatory bodies
- Employees
- Communities
- Suppliers
- Media

### MATERIAL MATTERS

1. Banking licence
2. Sponsorship into National Payment System
3. Access to capital
4. Business growth and profitability
5. Regulatory and compliance requirements
6. Technology
7. Our people

### OUR CAPITALS

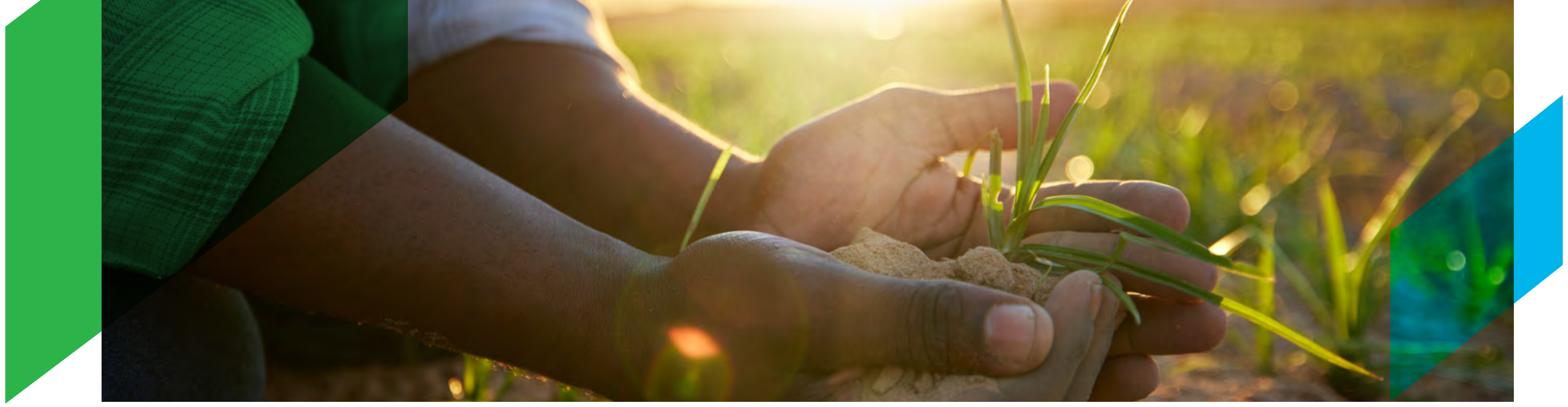
- FC Financial capital
- HC Human capital
- IC Intellectual and regulatory capital
- MC Manufactured capital
- SC Social and relationship capital
- NC Natural capital

# ACRONYMS

| | |
|---|---|
| **ACC** | Audit and Compliance Committee |
| **AFS** | Annual Financial Statements |
| **AGSA** | Auditor-General of South Africa |
| **ALCO** | Asset and Liability Committee |
| **AML** | Anti Money Laundering |
| **APP** | Annual Performance Plan |
| **APR** | Annual Performance Report |
| **ATM** | Automated Teller Machine |
| **BASA** | Banking Association on South Africa |
| **B-BBEE** | Broad-Based Black Economic Empowerment |
| **BCBS** | Basel Committee on Banking Supervision |
| **BLIC** | Banking Licence and Investment Committee |
| **CA** | Coordinated Assurance |
| **CAE** | Chief Audit Executive |
| **CAPS** | Curriculum and Assessment Policy Statement |
| **CAR** | Capital Adequacy Ratio |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **COO** | Chief Operating Officer |
| **CRO** | Chief Risk Officer |
| **CSI** | Corporate Social Investment |
| **CTIR** | Cost to Income Ratio |
| **DCSP** | Designated Clearing System Participant |
| **DFI** | Development Finance Institution |
| **ECL** | Expected Credit Loss |
| **EDTEA** | Economic Development, Tourism and Environmental Affairs |
| **ERM** | Enterprise Risk Management |
| **EXCO** | Executive Committee |
| **FIC** | Financial Intelligence Centre |
| **FICA** | Financial Intelligence Centre Act |
| **FSCA** | Financial Sector Conduct Authority |
| **FSP** | Financial Services Provider |
| **GDP** | Gross Domestic Product |
| **HR** | Human Resource |
| **HRCC** | Human Resources and Remuneration Committee |
| **IAC** | Insurance Advisory Committee |
| **ICT** | Information and Communications Technology |
| **IDFC** | Ithala Development Finance Corporation |
| **IEP** | Ithala Education Platform |
| **IFRS** | International Financial Reporting Standards |
| **IoDSA** | Institute of Directors Southern Africa |
| **IoT** | Internet of Things |
| **IT** | Information Technology |
| **ITGC** | Information Technology Governance Committee |
| **JAWS** | A percentage measure used to demonstrate the extent to which an entity's income growth rate exceeds its expense growth rate. |
| **King IV™** | King Code of Governance for South Africa (2016) |
| **KPIs** | Key Performance Indicators |
| **KYC** | Know Your Client |
| **KZN** | KwaZulu-Natal |
| **LAN** | Local Area Network |
| **LCR** | Liquidity Coverage Ratio |
| **LDR** | Loan Deposit Ratio |
| **LSM** | Living Standards Measure |
| **MEC** | Member of Executive Council |
| **MFA** | Multi-Factor Authentication |
| **NCR** | National Credit Regulator |
| **NED** | Non-Executive Director |
| **NIR** | Non-Interest Revenue |
| **NPC** | New Product Committee |
| **NPL** | Non-Performing Loans |
| **NPS** | National Payment System |
| **NPSc** | Net Promoter Score |
| **NSFR** | Net Stable Funding Ratio |
| **OMART** | Old Mutual Alternative Risk Transfer |
| **OTR** | On-Time Remediation |
| **PA** | Prudential Authority |
| **PASA** | Payment Association of South Africa |
| **PFMA** | Public Finance Management Act |
| **PMO** | Project Management Office |
| **POS** | Point of Sale |
| **PRB** | Principles for Responsible Banking |
| **RA** | Repayment Administrator |
| **RCMC** | Risk and Capital Management Committee |
| **RDARR** | Risk Data Aggregation and Risk Reporting |
| **ROA** | Return on Assets |
| **ROE** | Return on Equity |
| **RRR** | Rebuild, Remodel, Reimagine |
| **SARB** | South African Reserve Bank |
| **SASSA** | South African Social Security Agency |
| **SCM** | Supply Chain Management |
| **SD-WAN** | Software-Defined Wide Area Network |
| **SESC** | Social, Ethics and Sustainability Committee |
| **SLA** | Service Level Agreement |
| **SMME** | Small, Medium and Micro Enterprises |
| **SOC** | State Owned Company |
| **SSD** | Self Service Device |
| **VAF** | Vehicle and Asset Finance |
| **VPN** | Virtual Private Network |

# 1

# Introducing our Integrated Annual Report



## About our integrated report

This report details Ithala SOC Limited's (Ithala or the Company) operational and financial performance for the fiscal year from April 1, 2023 to March 31, 2024. It aims to provide our stakeholders with insights into how Ithala creates, protects, or erodes value over the short-, medium- and long-term. The report covers our key issues, governance principles, and structures, including remuneration and overall performance. It considers both internal and external factors and their impact on Ithala's ability to create sustainable value. Significant events occurring after this period and up to the Board's approval date are also included.

The report is intended for our key stakeholders, including our shareholder, Ithala Development Finance Corporation (IDFC); our ultimate shareholder, Economic Development, Tourism and Environmental Affairs (EDTEA); the KwaZulu-Natal Provincial Government; National Treasury; the South African Reserve Bank (SARB); the Financial Sector Conduct Authority (FSCA); other regulators; and our customers.

## Reporting frameworks

The report was prepared in accordance with:

- International <IR> Framework (2021)
- South African Companies Act No. 71 of 2008 (Companies Act)
- International Financial Reporting Standards (IFRS)
- King IV Report on Corporate Governance for South Africa 2016 (King IV™)
- Public Finance Management Act (PFMA)
- Banks Act No. 94 of 1990 (Banks Act)

## Assurance

Ithala implemented the coordinated assurance model following its adoption in June 2023. The business leverages the expertise of our risk management, compliance, and internal audit units, along with external assurance providers. The Auditor-General of South Africa (AGSA) offers external assurance on the fair presentation of the Annual Financial Statements (AFS), as mandated by the Public Audit Act applicable to Ithala as a State-Owned Company (SOC). Besides the AFS and the accompanying opinion, the external auditors also provided assurance on selected information within the Annual Performance Report (APR).

## Materiality

This report focuses on matters that are material or potentially material in Ithala's value-creation or preservation process. Ithala defines a material matter as one that affects its ability to deliver on strategy and remain commercially viable and socially relevant to the communities in which it operates. This includes qualitative and quantitative matters that affect our various stakeholders in their assessment of the value added by the business. Material matters and the process followed to determine these matters are outlined on pages 54 to 57 of this report.

## Forward-looking statements

This report contains certain forward-looking statements concerning Ithala's plans and expectations relating to its future financial condition, performance, operations, and results. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. Various factors could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include but are not limited to, regulatory delays or changes, conditions in the operating environment, pandemics, civil unrest, and natural disasters. Ithala does not undertake to update or revise any of these forward-looking statements publicly, whether reflecting on new information or future events. The forward-looking statements have not been reviewed or reported on by our external auditors. Ithala, therefore, advises readers to exercise caution and their judgment when interpreting this report.

## Approval

The Board takes ultimate responsibility for the integrity and completeness of the Integrated Annual Report. The Board and the Audit and Compliance Committee (ACC), in their advisory capacity to the Board, have applied their collective minds and reviewed the report's content. The Board is satisfied that this report was prepared following the appropriate frameworks and standards listed on page 6, address all material issues, and present a fair and balanced account of the performance of Ithala.

The Board of Directors approved the 2023/24 Integrated Annual Report on 26 September 2024.

**MM Pupuma**
Chairman of the Board

**Dr T Vilakazi**
Chief Executive Officer

# 2

# About Ithala

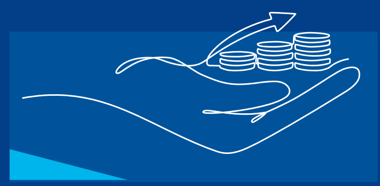
# ITHALA AT A GLANCE

Ithala, a licensed financial services and registered credit provider, is a hundred-per cent-owned subsidiary of IDFC and is listed as a public entity in terms of Schedule 3 of the PFMA. Ithala was formally established in 2001 to enhance the IDFC's financial services portfolio by providing deposit-taking capabilities. Since then, the company has grown to provide savings, lending products, transactional banking, and insurance services to the people of KwaZulu-Natal (KZN), especially those residing in rural and peri-urban areas where such services were lacking in the past. We ensure seamless access to financial services, thereby financially impacting the lives of the communities where we operate. Below we illustrate how we deliver on our mandate to our customers.

## THE PROBLEM

A person residing in a rural area receives a government grant, pension, salary, remittance, or any other type of credit in their account. Due to their living situation and circumstances, they are generally considered high risk by most financial institutions, and consequently have no access to affordable credit.

This person travels to the town every month to withdraw money due to the lack of access to financial services in their area.



In addition to the time required to travel to access financial services, the person incurs transport costs, lacks access to affordable credit, and has no access to financial information in a language they understand.

## HOW WE RESPONDED

**We work with our customers to help them create wealth,** and we provide support through a wide network of branches and self-service devices (SSDs), digital channels, financial advisors, and partnerships. Our SSDs are located in rural spaza shops to make it easy for customers to access their cash when needed. In some rural areas, Ithala is the only financial institution with a physical presence. We offer financial advice in languages our customers understand and help them with transactions on our channels. Additionally, we provide access to affordable credit.

**We offer unique financial products that are not widely available in the market.** For instance, our pension-backed loan and taxi-group-finance are tailored to provide innovative financial solutions. We are the only financial services provider that offers a book-based savings product, which is popular among our senior citizen customers. Additionally, we have a comprehensive 'bancassurance' portfolio, covering short- to long-term insurance, credit life, and wills-trusts services. Our full banking product portfolio includes offerings in all four banking quadrants: transactional, savings, lending, and insurance. Ithala provides a transactional debit card product that serves the daily needs of low-income customers, with an embedded funeral cover. The Ithala Debit Card product allows for deposits (such as salary/grants), point-of-sale purchases at retail stores, cash withdrawals, paying beneficiaries, and purchasing value-added services (such as airtime, electricity, and data) via mobile banking.

**We cater to low-income individuals,** with around 75 percent of our clients within the Living Standards Measure (LSM) 2–6 and about 25 percent from LSM 7–10. Among these clients, roughly 85 percent earn a monthly income of approximately ±R5,000. Additionally, we provide services to stokvels, cooperatives, and taxi associations, thereby promoting a culture of saving and leveraging group savings to access affordable credit.



# OUR FOOTPRINT, PRODUCTS AND SERVICES

Ithala aims to provide accessible and affordable financial services to its clients, with a focus on promoting financial inclusion. Our value proposition remains unique and compelling as we continue to deliver financial services and products to previously disadvantaged and unbanked individuals in rural and remote communities in KZN.

| Metric | 2024 | 2023 |
|---|---|---|
| New loans and advances to customers (R'000) | R260 220 | R479 800 |
| Customer deposit balance (Rbn) | R2.47 | R2.49 |
| Total number of branches | 38 | 38 |
| Total number of active insurance policies | 23 141 | 24 017 |
| Total number of ATMs | 78 | 78 |
| Total number of SSDs | 48 | 59 |
| Total number of employees | 387 | 376 |
| Customer satisfaction | 86% | 87% |
| Net promoter score | 54% | 55% |
| Net Loans and advances (Rbn) | R2.13 | R2.21 |

## Presence

Our branches are predominantly located in areas that serve historically disadvantaged people, including KZN's small towns, townships, and rural areas. As our customer needs have evolved, we have opened branches in urban areas, including Durban.

## Areas of competitive advantage

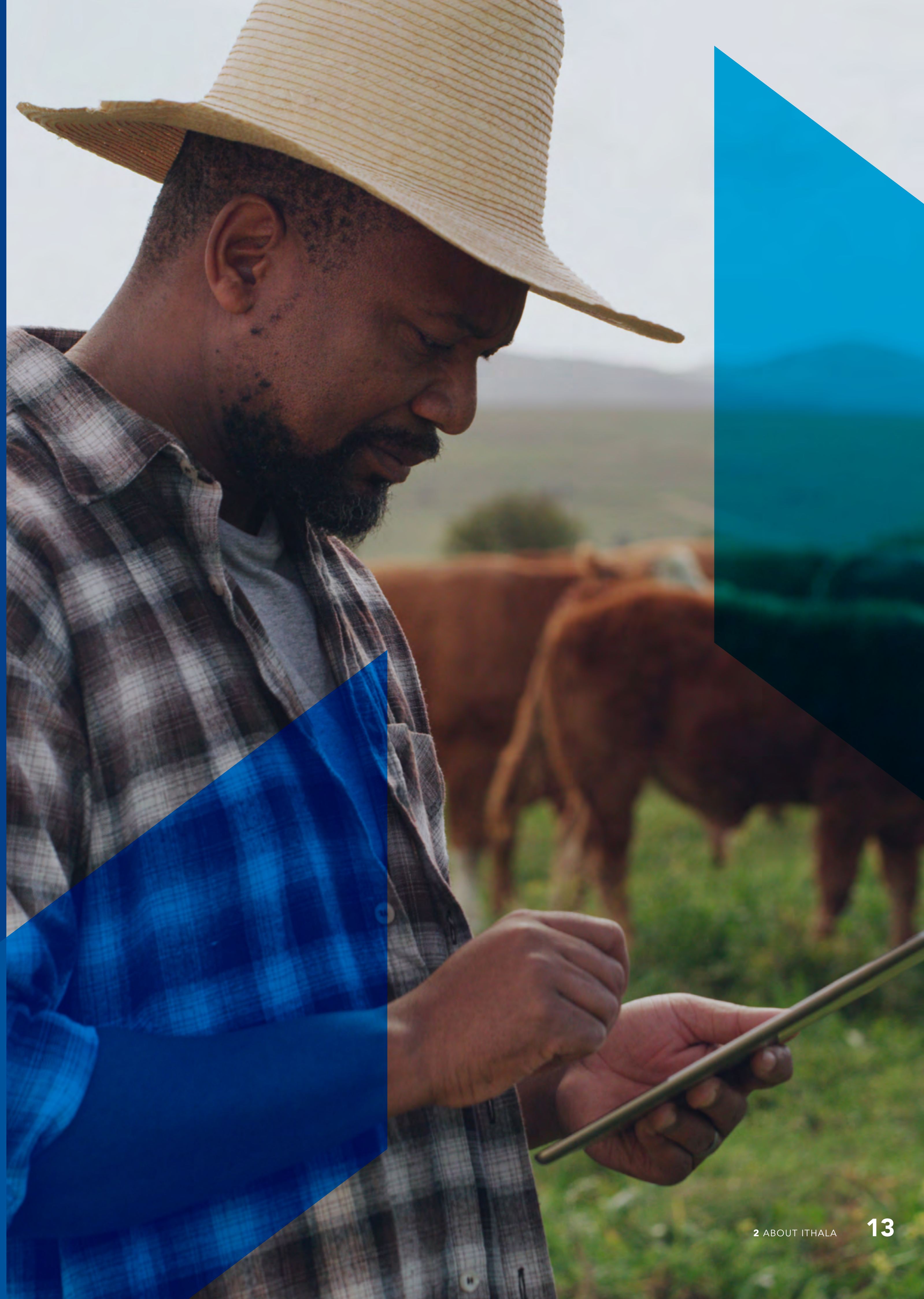
- The only provider of housing loans to rural communities on land under tribal tenure
- Physical representation across KZN with a specific focus on rural and peri-urban areas and, in some places, Ithala is the only financial institution with a physical presence
- Promotes a savings culture through products aimed at members of stokvels and other affinity clubs
- The only institution (other than Postbank) that provides a book-based savings account, which remains in high demand in niche markets
- Provides both short- and long-term insurance products, each in partnership with reputable insurance companies
- Contributes to local communities through bespoke corporate social investment (CSI) programmes that address core issues affecting communities, including the youth, through the Ithala Edu Platform
- An engaged and energised workforce
- Strong stakeholder relationships

## Branches

Ithala's branch network and geographic footprint remain the same as in the last reporting period. The branches burnt down during the 2021 civil unrest have been rebuilt, except for Umgeni and KwaMashu branches. These currently operate within other branches, allowing our customers to continue accessing services.

## Map


*ATMs ARE PROVIDED AT EACH BRANCH



# 3

# Leadership messages

# Message from the **Chairman**

*Our journey may be fraught with challenges, but it is through our resilience and unwavering commitment that we continue to make significant progress.*

## Overcoming challenges and driving innovation: Ithala's journey in the 2023/24 financial year

The 2023/24 financial year presented a significant challenge for Ithala. The dual setbacks of the Prudential Authority (PA) not granting an Exemption Notice nor a Banking Licence have created substantial obstacles. This issue was exacerbated by South Africa's fragile economy and recent natural disasters, placing undue stress on Ithala's Board and staff members.

Despite these difficulties, the Board remained committed to upholding the highest standards of corporate governance, ensuring the integrity and reputation of the organisation. After consultations with experts, Ithala developed a new organogram aligned with the banking sector, which received approval from both the Board and the PA.

## Strategic engagement and innovation

We continue to engage our stakeholders, particularly those in the regulatory environment, to pursue the goal of securing either an exemption notice or a banking licence. Our actions are guided by our strategic goals, with the Rebuild, Remodel, Reimagine (RRR) strategy remaining at the core of our operations. Our vision is to position Ithala as a world-class company, leveraging the latest technology.

The people of KZN recognise the Ithala brand as synonymous with poverty alleviation and wealth creation. We take pride in delivering innovative products to our customers and engaging them, especially the youth, through various outreach initiatives. These efforts enable Ithala to generate sufficient revenue streams to continue operating sustainably.

## Governance and Board matters

The expiry of the exemption notice in December 2023 and the PA's refusal to grant a Banking Licence have placed the organisation under significant pressure. Unfortunately, some staff members, in collusion with external parties, attempted to exploit Ithala's challenges for personal gain, engaging in unethical behaviour to discredit the brand. These individuals have been subjected to disciplinary measures, and some have already been dismissed. Investigations by law enforcement agencies are underway.

Our governance structure remains robust, with a majority of the Board members being independent non-executive directors, in line with PA requirements and industry best practices. The Board now benefits from a balance of newer directors and those with deep institutional knowledge, enhancing our decision-making processes and overall performance.

Our commitment to good governance and compliance is not only a reflection of our core values and ethos but also serve to enhance our decision-making processes and overall performance. By adhering to the highest standards of governance and compliance, we ensure that our operations are transparent, accountable, and aligned with our mission to foster sustainable development. This commitment is integral to building trust with our stakeholders and achieving our long-term objectives.

## Acknowledgements

I extend my sincere gratitude to the entire Board for their dedication and commitment to Ithala's success. Our journey may be fraught with challenges, but it is through our resilience and unwavering commitment that we continue to make significant progress. I look forward to another productive year, where we will build on our achievements, navigate challenges with agility, and uphold our commitment to delivering value to our stakeholders.

We are deeply grateful for the steadfast support of our shareholders, the IDFC, and the MEC for the KZN Department of EDTEA, Honorable Siboniso Duma. Additionally, I extend my thanks to our management, staff, and associated entities for their dedication and hard work. I anticipate our continued successful partnership.

**MM Pupuma**
Chairman of the Board

# Message from the CEO

*We are building strategic partnerships to enhance business development, with a critical focus on retention.*

## Ithala's Resilience and Commitment in Challenging Times

Despite a challenging trading environment marked by a harsh economic climate, rising inflation, high food prices and natural disasters, Ithala has demonstrated remarkable resilience. The past financial year posed significant challenges due to regulatory and compliance issues. Our shareholders are actively engaging with the relevant stakeholders to address these challenges, including the regularisation of our activities through a banking licence.

Having operated as a deposit-taking entity for over 20 years, Ithala has consistently met its depositors' demands, maintaining strong liquidity and financial soundness.

## Financial Performance

Despite higher-than-expected losses, Ithala continues to safeguard depositors' interests, with losses covered by shareholder funding. The tough economic conditions, rising fuel prices and sharp interest rate increases have impacted many of our clients in the financial year 2023/24. Shrinking disposable incomes have made it difficult for clients to meet their monthly loan instalments, leading to an increase in loan defaults and higher non-performing loans (NPL) and expected credit loss (ECL).

Nevertheless, Ithala continues to excel, winning the National Customer Award from Mutual & Federal (OMART) for the second consecutive year. This accolade underscores our competitive edge. We are building strategic partnerships to enhance business development, with a critical focus on retention.

## Serving Our Communities

We value our customers and share a vision of creating sustainable wealth. We remain focused on unlocking potential in each relationship, leveraging stakeholder insights to drive innovation as Ithala evolves. The Know Your Client (KYC) initiative has significantly enhanced our brand reputation by providing extensive reach and contact with our clients.

With the support of a reputable service provider, we digitised client records, capturing approximately 22 million digital client images. This ensures the safety of these records and frees up space previously occupied by paper-based records.

To serve our clients optimally, we revised our operating model and identified ten key processes, from onboarding to fulfilment. In tandem, we developed a product development business unit and bolstered our Information Technology (IT) security to minimise the risk of cyber-attacks and upgraded our IT systems. We created our storage area network and a telecoms upgrade to mitigate this risk.

We will continue to embark on modernising our branch network, building on the five state-of-the-art branches already launched, aptly named "Branch of the Future". These branches feature a digital queuing system, dedicated service agents, and comfortable seating, paving the way for significant advancements in mobile banking and self-service banking.

## Empowering the Youth

The youth, our future generation, are critical to our mission. The Ithala Edu Platform, launched in 2019, continues to grow significantly. We engage learners on digital platforms and interact with them face-to-face. During the year, we visited 32 schools in KZN, engaging with 2 000 learners and providing educational and promotional material. Two of our tutors won provincial awards at the KZN Department of Education Teachers Awards Ceremony, contributing to a learner achieving first place in the KZN Top Achievers Awards and third place nationally.

## Commitment to Good Governance, Integrity and Ethics

Ithala prides itself on good governance and ethics, and we are unwavering in our commitment to upholding these principles and ensuring the security and trust of our stakeholders. Our enterprise risk management framework remains robust, effectively detecting and minimising risk throughout our organisation.

## Strategic Outlook

We devised a three-pillar strategy to advance the Ithala brand. From 2024 to 2025, we aim to protect and stabilise the business. The second pillar, from 2025 to 2026, will focus on rebuilding and investing. Finally, from 2026 to 2027, we aim to grow and optimise our business, expanding our client base from under 400 000 to about one million while enhancing our digital capabilities to offer excellent digital card services.

## Acknowledgements

I sincerely thank the Board for their unique insights and conscientious guidance in 2023/24. To the executive team and staff at Ithala, thank you for another year of commitment to our customers and communities and all your hard work during the year. I sincerely thank our customers for choosing Ithala and trusting us with their financial well-being. I look forward to your continued partnership and support in 2024 and beyond.

**Dr T Vilakazi**
CEO

# 4

# Governance

# APPROACH TO GOVERNANCE

Ithala is dedicated to maintaining the highest standards of governance to create and preserve value while protecting the interests of all stakeholders. Our governance framework is built on principles of ethics, integrity, transparency, and accountability. It is informed by the King Report on Corporate Governance (King IV) and guided by the Companies Act, No. 71 of 2008.

Operating in a dynamic, evolving, and regulated environment, Ithala prioritises good banking practices. Regulatory compliance is a key priority, and we strive not only to meet but to exceed regulatory requirements to safeguard our stakeholders' interests. We continuously review our processes and frameworks to align with the changing environment.

The Board of Ithala is the custodian of corporate governance. The Chairman and the Board set the tone and ensure that the conduct of the Board and the executive management team aligns with the company's values and ethical standards. Day-to-day management is entrusted to the executive management team, within the delegated powers approved by the Board. This team leads the implementation of Ithala's strategy, policies, and operations, allowing the Board to focus on strategic oversight and decision-making. Board committees facilitate the discharge of Board responsibilities, providing in-depth focus on specific areas. Each committee has a clear mandate and terms of reference, reviewed annually by the Board.

Our governance approach rests on the following commitments:

**1** Promoting transparency, accountability and ethical practice in managing our stakeholder relationships

**2** Instilling a culture that recognises ethical practice and prudent risk management are the foundation of our legitimacy and the basis on which we are able to compete, collaborate and sustain long-term value creation

**3** Adhering to applicable regulatory and governance standards

**4** Ensuring our clients are treated fairly and that our offering contributes to the dignity and welfare of the people of KZN

**5** Delivering a positive impact on society, the economy and the environment through our core business activities and targeted social investments

The Board is satisfied that it has fulfilled its responsibilities under its Charter for the 2023/24 financial year.

## Ethics

Our ability to achieve our purpose hinges on our legitimacy and reputation as a trusted partner to our clients. This is underpinned by the ethics and values that shape our organisational culture and the conduct of our people. The Board has adopted a Code of Ethics to assist members in fulfilling their duties to the business. The Code requires Board members to act in good faith and exercise their powers honestly to fulfill their duties. Each Director must act in what they believe to be the best interests of the business, ensuring all actions serve a proper corporate purpose. The Board ensures this approach permeates throughout the business and holds management accountable for upholding this commitment.

Ithala has been on a journey to sensitise all staff to the ethical, moral, and legal obligations underpinned by the Code of Ethics. We are committed to being an organisation free of corruption and focused on accelerated service delivery. To achieve this, we are guided by our core values as highlighed on page 50.

## Whistle-blowing hotline

To achieve our goal of an ethically compliant business environment, Ithala utilises the private and confidential services of an accredited external service provider. Hotline information is available in employee email signatures and on the company website. The hotline is continuously monitored by the Internal Audit Division, with necessary investigations conducted by a special forensic investigation team. The Social, Ethics and Sustainability Committee provides oversight of the process. During the period under review, Ithala received three (3) valid fraud tip-offs, which were investigated by the forensic investigation team. Whilst one case is still under investigation, disciplinary action has been taken for the other two cases.

## Governance

The Board has adopted a charter aligned with the provisions of the Companies Act, PFMA requirements, King IV™, and the Banks Act, which defines its mandate and responsibilities. The Board Charter outlines the Board's role in setting standards for organisational ethics through policies and practices to establish ethical business practices concerning corporate governance. It also addresses the powers delegated to various Board committees.

# GOVERNANCE STRUCTURE

**BOARD OF DIRECTORS**

- Risk and Capital Management Committee
- Audit and Compliance Committee
- Directors Affairs Committee
- Human Resources and Remuneration Committee
- Social, Ethics and Sustainability Committee
- Insurance Advisory Committee
- IT Governance Committee
- Banking Licence and Investment Committee

Chief Risk Officer

Chief Audit Executive

Chief Compliance Officer

**CHIEF EXECUTIVE OFFICER**

Company Secretary

Chief Financial Officer

Chief Operating Officer

Chief People Officer

Head: Insurance

Project management office

Head: Credit and Collections

Head: Banking Sales and Services

Chief Information Officer

Chief Marketing Officer

Head: Operations

- Direct reports to committees
- Direct reports to CEO
- Direct reports to COO
- Direct reports to CRO

# BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

**MM Pupuma (70)**
**Chairman**
*Appointed August 2020*

- Master of Business Leadership
- Bachelor of Accounting Sciences

**INkosi SN Mkhize (46)**
**Deputy Chairman**
*Appointed March 2018*

- Bcom in Economics
- Certificate in Public Policy

**YM Mjiako (52)**
**Lead Independent**
*Appointed September 2022*

- Master of Business Administration
- Certified Internal Auditor
- Certification in Control Self-Assessment
- International Executive Leadership Development

**NS Simelane (55)**
*Appointed January 2021*

- Master of Business Administration
- Postgraduate Certificate in Business Administration

NON-EXECUTIVE DIRECTORS

**Dr SB Mnguni (47)**
*Appointed October 2019*

- PhD
- CA(SA)
- Master of Business Administration
- Honours in Cost Management Accounting

**GR Sibiya (56)**
*Appointed August 2017*

- CA(SA)
- Postgraduate Diploma in Accountancy
- BAcc
- BCom

EXECUTIVE DIRECTORS

**Dr T Vilakazi (58)**
*Appointed September 2020*

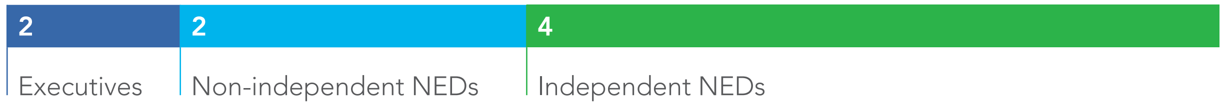
- Doctor of Business Leadership (DBL) – Banking
- Postgraduate Diploma in Company Direction
- Master of Business Administration

**M Gafoor (45)**
*Appointed July 2023*

- CA (SA)
- Honours (Accounting)
- Bcom (Accounting)

## Board Demographics

### Board composition



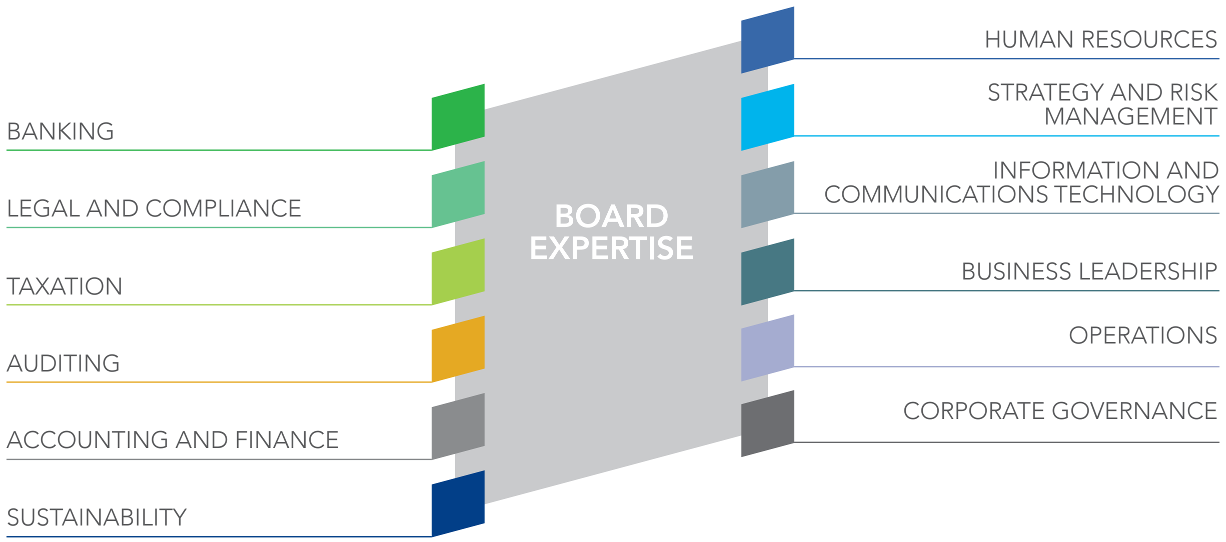

### Gender


### Age


### Race


### Board expertise

NEDs: 55 years combined banking experience



# EXECUTIVE COMMITTEE

Ithala's Executive Committee (EXCO) is a seasoned management team tasked with overseeing the company's daily operations, as delegated by the Board. The Exco's performance is measured against Key Performance Indicators (KPIs) specified in the company's APP. Details of their performance against these KPIs can be found on pages 84 to 90.

In August 2023, Brenda van der Lingen, the Chief Risk Officer, resigned and was succeeded by Neo Motlagomang. In March 2024, Shane Moodley, the Head: Banking Sales & Services, left Ithala. Mandla Ndlovu was appointed as the Acting Head: Banking Sales & Services.

**Dr Thulani Vilakazi (58)**
Chief Executive Officer
*Appointed August 2020*

Qualifications
- Doctor of Business Leadership (DBL) - Banking
- Postgraduate Diploma in Company Direction
- Master of Business Administration

Banking Related Experience
- 29 yrs

**Mohamed Gafoor (45)**
Chief Financial Officer
*Appointed July 2023*

Qualifications
- CA (SA)
- Honours (Accounting)
- BCom (Accounting)

Banking Related Experience
- 9 yrs

**Neo Motlagomang (43)**
Chief Risk Officer
*Appointed May 2024*

Qualifications
- MBA
- Post Grad Diploma Credit Management
- B Tech Credit Management
- National Diploma Credit Management

Banking Related Experience
- 21 yrs

**Sethu Nsele (51)**
Chief Audit Executive
*Appointed September 2020*

Qualifications
- Masters of Business Leadership
- Certified Internal Auditor
- Certified Financial Services Auditor

Banking Related Experience
- 15 yrs

**Adv Kabelo Nkambule (44)**
Chief Compliance Officer
*Appointed August 2020*

Qualifications
- LLB Degree
- Certificate in Marketing
- Certificate in Cooperative Governance

Banking Related Experience
- 14 yrs

**Nomusa Mzimela (47)**
Company Secretary
*Appointed November 2021*

Qualifications
- LLB (Admitted Attorney)
- Bachelor of Human Resources Management & Public Administration
- Post Graduate Compliance & Management Certificate

Banking Related Experience
- 9 yrs

**Theo Nell (54)**
Chief People Officer
*Appointed November 2022*

Qualifications
- DPhil (Leadership, Performance and Change)
- MA Industrial Psychology (Cum Laude)

Banking Related Experience
- 21 yrs

**Aaron Pather (54)**
Head: Insurance
*Appointed July 2019*

Qualifications
- MBA
- Executive Leadership Development Programme
- National Certificate of Wealth Management
- RE - Key Individual

Banking Related Experience
- 36 yrs



**Sibongiseni Phakathi (45)**
Chief Information Officer
*Appointed January 2022*

Qualifications
- MSc Eng. (computer Engineering)
- BSc Hons (Applied Physics)
- BSc Computer Science & Physics

Banking Related Experience
- 12 yrs

**Sandile Xolo (46)**
Chief Marketing Officer
*Appointed August 2016*

Qualifications
- BBA (Marketing)
- Graduate Diploma (Marketing)
- PASA Certificate (Payments)

Banking Related Experience
- 13 yrs

**Nozipho Ngobese (51)**
Head: Business Operations
*Appointed October 2023*

Qualifications
- Masters in Business Leadership
- Post Graduate Diploma Finance, Banking & Investment Management
- BBA
- Advanced Project Management Diploma

Banking Related Experience
- 31 yrs

**Rikshana Jugoo (42)**
Head: Credit and Collections
*Appointed August 2023*

Qualifications
- CA (SA)
- Honours (Accounting)
- BCom (Accounting)

Banking Related Experience
- 16 yrs

## Executive Committee Demographics

### Banking related experience (226 years combined banking experience)

| 2 | 3 | 5 | 2 |
|---|---|---|---|
| 31+ years | 21+ years | 11+ years | 0-10 years |

### Gender diversity

| 9 | 3 |
|---|---|
| Male | Female |

### Age

| 5 | 7 |
|---|---|
| 50+ | 40+ |

### Race

| 11 | 1 |
|---|---|
| Black | White |

### Key skills and competences

- Banking and financial services
- Risk management
- Taxation
- Accounting, auditing & finance
- Corporate governance
- Marketing & communication
- Sustainability
- Human resources
- Strategy
- Business leadership
- Legal & compliance
- Information & Communications Technology (ICT)

## Board effectiveness

The Board and its committees undergo effectiveness evaluations every two years on an alternating schedule. The performance of the Board and its committee are assessed through the following:

**MANDATE REVIEWS**

A detailed assessment of the compliance of the Board and each subcommittee within the provisions of their respective mandates is done annually. The company's external auditors conduct a limited assurance assessment on the review.

**EFFECTIVENESS EVALUATION**

The Board alternates every other year between an externally facilitated independent evaluation and an internal evaluation facilitated by the Chairman, supported by the Company Secretary.

Directors also participate in peer reviews, which are conducted every three years.

**ONE-ON-ONE DISCUSSIONS**

Evaluation of individual Director performance is carried out by the Chairman in one-on-one discussions with individual Directors.

An independent Board evaluation was conducted in 2022 by the Institute of Directors Southern Africa (IoDSA). The evaluation found the Board to be well-functioning and cohesive, with the necessary structures and processes in place to ensure adequate oversight and effective governance. The following focus areas, incorporated into the Board's annual workplan, were identified:

- Recruiting additional Board members
- Strengthening Board and executive succession planning
- Ensuring alignment between the Board and executive management team

## Declaration of interest

The Board has implemented a structured approach for handling conflicts of interest, with a standing agenda item dedicated to the declaration of interests at all Board meetings. Directors are obligated to declare any actual or perceived conflicts of interest, which are then assessed by the appropriate committee. If a conflict is identified, the Director is requested to recuse themselves from discussions and voting on matters where they have conflict. A yearly declaration process is in place for both employees and Directors, overseen by the company secretary. No conflicts of interest were reported during the reporting period.

## Company Secretary

Nomusa Mzimela serves as the Company Secretary, overseeing the overall functioning of the Board in accordance with the Companies Act. As the custodian of good governance and statutory compliance, the Company Secretary plays a central role in providing advice and guidance on ethics and statutory compliance. Additionally, the Company Secretary maintains and regularly updates a corporate governance manual and conducts an induction programme to familiarise new Directors with Ithala's operations, their fiduciary duties, and responsibilities. The Company Secretary attends all Board and Board Committee meetings and has unrestricted access to the Chairman. All Directors have access to the guidance and services of the Company Secretary.

## Board report

The Board led and provided oversight to management as Ithala assisted its customers, employees, and communities in navigating the challenging operating environment. Ithala faced a demanding regulatory landscape, testing the resilience and robustness of our governance framework, structures, and processes. Throughout these challenges, the Board upheld the highest corporate governance standards in all its deliberations. This was achieved through a considered and integrated approach, taking into account the impact of Ithala's operations on the communities we serve and broader South African society.

The Board delegates specific responsibilities to the Chief Executive Officer (CEO) as outlined in the terms of reference. The Board Charter clearly defines the roles and responsibilities of the Chairperson, CEO, and Company Secretary, ensuring a separation of duties and preventing any individual or group from having unlimited powers. This separation fosters an appropriate balance of power and authority on the Board.

Ithala's Board of Directors has established eight committees to assist in fulfilling its responsibilities. Each committee has clear terms of reference that are reviewed annually. The Board receives reports from each committee and periodically reviews their activities in accordance with annual work plans. The Board is satisfied with the performance of its committees during the reporting period.

## Meeting attendance

### Board of Directors

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| Mr M Pupuma (Chairman) | 4/4 | 41/41 |
| INkosi SN Mkhize | 4/4 | 34/41 |
| Ms. GR Sibiya | 4/4 | 39/41 |
| Mr. NS Simelane | 4/4 | 40/41 |
| Dr. SB Mnguni | 4/4 | 38/41 |
| Ms. YM Mjiako | 4/4 | 41/41 |

### Directors Affairs Committee

| Board members | Biannual meetings attended | Special meetings attended |
|---|---|---|
| Mr M Pupuma (Chairman) | 2/2 | 7/7 |
| INkosi SN Mkhize | 2/2 | 7/7 |
| Ms. GR Sibiya | 2/2 | 5/7 |
| Mr. NS Simelane | 2/2 | 7/7 |
| Dr. SB Mnguni | 2/2 | 6/7 |
| Ms. YM Mjiako | 2/2 | 7/7 |

# BOARD COMMITTEES

Ithala has well-defined governance structures embedded across the organisation, supporting our ability to create and preserve value, while guarding against value erosion. This includes the establishment of appropriate Board committees.

The eight committees of the Board assist the Board in discharging its duties and responsibilities. Each committee's mandate is formalised through Board-approved committee charters, which are reviewed annually to ensure effective coverage of the group's operations. All committees are free to take independent professional advice as and when necessary. They have unrestricted access to all company information and access to EXCO members and the Company Secretary.

The Board committees are:




## AUDIT AND COMPLIANCE COMMITTEE

### Role

The Audit and Compliance Committee (ACC) functions as a subsidiary body of the Board. Beyond its mandated duties outlined in the Companies Act, the ACC supports the Board by offering guidance and presenting recommendations on financial reporting. It also oversees various aspects including the risk management procedures, internal financial controls, external and internal audit operations, and statutory and regulatory adherence of the company. This committee operates primarily in an advisory capacity rather than an executive one. Therefore, it abstains from engaging in managerial operations or undertaking managerial obligations. Instead, it upholds an impartial and autonomous role, serving as an objective entity.

### Composition, skills and experience

The ACC consists of three members, all of whom are independent Non-Executive Directors and one Non-Executive Director is a permanent invitee. Collectively, the committee members have the relevant skills and experience in corporate governance, strategy and risk management, auditing, taxation, accounting, ICT, the regulatory environment and financial services. The committee meets at least four times each year. The CEO, Chief Financial Officer (CFO), senior executives of the company and representatives from the external and internal auditors attend committee meetings by invitation only. Internal and external auditors have unrestricted access to the ACC.

### Meeting attendance

| Board Members | Quarterly Meetings Attended | Special Meetings Attended |
|---|---|---|
| Ms. GR Sibiya (Chairman) | 2/2 | 12/12 |
| Mr. NS Simelane | 2/2 | 12/12 |
| Ms. YM Mjiako | 2/2 | 12/12 |
| Dr. SB Mnguni * | 1/2 | 8/12 |

* Permanent invitee

### Key activities

The ACC is satisfied that it has fulfilled its obligations in terms of its mandate for the year under review. The ACC convened fourteen meetings during the period under review.

The ACC also executed the following:

- Reviewed and approved the fees to be paid to the AGSA as disclosed in Note 22 of the AFS
- Supported the Board in its evaluation of the integrity of the AFS
- Received assurance that the processes and procedures followed by the Risk and Capital Management Committee are adequate to ensure financial risks are identified and monitored
- Reviewed the effectiveness of the company's internal financial controls, including receiving assurance from management, and the internal and external audits
- Reviewed the committee's terms of reference and recommended for Board approval
- Assessed its own performance

# RISK AND CAPITAL MANAGEMENT COMMITTEE

## Role

The Risk and Capital Management Committee (RCMC) aids the Board in fulfilling its responsibilities concerning risk and capital management. It offers an impartial and unbiased assessment of the data presented by the management regarding capital and risk management. This committee closely monitors external developments in risk management, encompassing emerging risks and their potential implications.

The committee's primary duty is to establish necessary measures to improve the sufficiency and effectiveness of risk management policies, procedures, practices, and controls implemented within Ithala. It also assumes the task of overseeing the governance surrounding risk and capital management by guiding the approach and resolution of these matters. In addition, the committee ensures that the standards and policies for risk and capital management align with the company's strategy and are thoroughly documented.

## Composition, skills and experience

The committee is chaired by an independent Non-Executive Director and comprises three independent Non-Executive Directors and one Non-Executive Director. The CEO, CFO and executive management are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, risk management, the regulatory environment, financial services and business leadership.

## Meeting attendance

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| Ms. YM Mjiako (Chairman) | 3/3 | 2/2 |
| Mr. NS Simelane | 3/3 | 2/2 |
| Ms. GR Sibiya | 3/3 | 2/2 |
| INkosi SN Mkhize | 3/3 | 2/2 |
| Dr SB Mnguni | 1/3 | 0/2 |

### Key activities

The RCMC is satisfied that it has fulfilled its obligations under its mandate for the year under review. The RCMC convened five meetings during the period under review.
The RCMC also executed the following:

- Reviewing the Enterprise Risk Management (ERM) Framework and recommending it for Board approval
- Reviewing the risk appetite framework including tolerance levels and recommending to the Board for approval
- Submitting a report to the Board on the effectiveness of the system and process of risk management
- Monitoring exposures against limits; following up on remedial actions in case of breaches
- Reviewing risk, compliance and audit reports and following up on management actions
- Analysing divisional and risk reports and comparing actual exposures against limits
- Monitoring management of key risk and performance against action plans by reviewing divisional, risk and compliance reports
- Monitoring implementation of mitigating controls to ensure management of concentration risk and escalating matters requiring Board attention

# INFORMATION TECHNOLOGY GOVERNANCE COMMITTEE

## Role

The Information Technology Governance Committee (ITGC) assists the Board in discharging its responsibilities related to ensuring adequate IT governance—as part of enterprise governance. The committee advises the Board on IT strategic direction, reviews major IT investments, and exercises oversight over project implementation. It identifies and monitors associated risks associated with IT outsourcing, ensuring Service Level Agreements (SLAs) are appropriately managed.

## Composition, skills and experience

At year-end, the committee was chaired by an independent Non-executive Director and comprises one other independent non-executive and two non-executive Directors. The CEO, CFO and Chief Information Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, ICT, regulatory universe, financial services and business leadership.

The ITGC is satisfied that it has fulfilled its obligations under its mandate for the year under review. The ITGC convened four meetings during the period under review.

## Meeting attendance

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| Mr. NS Simelane (Chairman) | 3/3 | 1/1 |
| Mr MM Pupuma | 3/3 | 1/1 |
| INkosi S MKhize | 3/3 | 1/1 |

### Key activities

The ITGC also executed the following:

- Providing oversight on implementation of a new enterprise-wide digital core banking platform
- Reviewing and monitoring of IT performance against budgets
- Considering key interactions with the Prudential Authority pertaining to IT and the responses to matters raised as part of the regulator's supervisory programme
- Ensuring alignment and implementation of a coordinated, efficient and effective and properly resourced IT strategy, which will enhance the organisation's competitiveness and sustainability

# HUMAN RESOURCES AND REMUNERATION COMMITTEE

## Role

The Human Resources and Remuneration Committee (HRRC) functions as a representative of the Board with regard to human resources and remuneration affairs. The Board has bestowed upon the HRRC the responsibility of guaranteeing that Ithala possesses appropriate remuneration policies and methodologies, which serve to entice, inspire, and retain top-tier talent. Additionally, the committee is entrusted with the task of assuring that these policies and practices are rooted in principles of sound governance, responsibility, and equity.

## Composition, skills and experience

The HRRC is chaired by an independent Non-Executive Director and comprises two other independent Non-Executive and one Non-Executive Directors. The CEO, CFO and Chief People Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, regulatory universe, financial services, human resources and business leadership.

## Meetings attendance

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| Ms. YM Mjiako (Chairman) | 2/2 | 1/1 |
| INkosi SN Mkhize | 2/2 | 1/1 |
| Ms. GR Sibiya | 2/2 | 1/1 |
| Mr M Pupuma | 2/2 | 1/1 |

## Key activities

The HRRC is satisfied it has fulfilled its obligations in terms of its mandate for the year under review. The HRRC convened three meetings in the period under review.

The HRRC also executed the following:

- Approved remuneration disclosures for the Integrated Annual Report
- Standardisation of remuneration practices across the organisation
- Reviewed and approved the executive succession plan



# SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

## Role

The Social, Ethics and Sustainability Committee (SESC) holds the responsibility of presenting reports and making recommendations to the Board concerning sustainability, ethics, social and economic advancement, ethical corporate conduct, environmental considerations, health and public welfare, consumer interactions encompassing Ithala's marketing activities, public image, and adherence to consumer protection regulations, as well as labour and employment matters.

## Composition, skills and experience

The SESC is chaired by an independent Non-Executive Director and comprises one independent Non-Executive Director and two Non-Executive Directors. The CEO, CFO, CRO, Chief Compliance Officer, Chief Audit Executive, Chief People Officer and Chief Marketing Officer are standing invitees. Collectively, the committee members have the relevant skills and experience in corporate governance, human resources, the regulatory environment, financial services, transformation, organisational development and ethical leadership.

## Meetings attendance

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| Ms. GR Sibiya (Chairman) | 3/3 | 0 |
| INkosi SN Mkhize | 3/3 | 0 |
| Dr. SB Mnguni | 1/3 | 0 |
| Ms. YM Mjiako | 3/3 | 0 |

## Key activities

The SESC is satisfied that it has fulfilled its obligations in terms of its mandate for the year under review. The SESC convened three meetings in the period under review.

The SESC also executed the following:

- Monitoring Ithala's standing in terms of the goals and purposes of:
  - The ten principles set out in the United Nations Global Compact Principles
  - Employment Equity Act
  - Broad-Based Black Economic Empowerment (B-BBEE) Act
- Monitoring Ithala's activities regarding good corporate citizenship:
  - Promotion of equality, prevention of unfair discrimination, and reduction of corruption
  - Contribution to the development of the communities in which our activities are predominantly conducted or within which our products or services are predominantly marketed
  - Keeping record of sponsorship, donations and gifts and to report progress to the Board
  - Monitoring the activities of Ithala in respect of the environment, health and public safety, including the impact of Ithala's activities and of its products or services
- Monitoring consumer relationships, including Ithala's marketing activities, public relations and compliance with consumer protection laws
- Monitoring labour and employment activities in respect of the following:
  - Ithala's standing in terms of the International Labour Organisation Protocol on decent work and working conditions
  - Employment relationships
  - Contribution towards the educational development of its employees

# INSURANCE ADVISORY COMMITTEE

## Role

The purpose of the Insurance Advisory Committee (IAC) is to play an oversight role over the Insurance Division.

## Composition, skills and experience

The committee is chaired by a Non-Executive Director and comprises two independent Non-Executive and one Non-Executive Directors. The CEO, CFO, Chief Information Officer and Head: Insurance are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, human resources, the regulatory environment, financial services, transformation, organisational development and ethical leadership.

## Meetings attendance

| Board members | Quarterly meetings attended | Special meetings attended |
|---|---|---|
| INkosi SN Mkhize (Chairman) | 2/2 | 0 |
| Mr. NS Simelane | 2/2 | 0 |
| Dr.SB Mnguni | 2/2 | 0 |

### Key activities

The IAC is satisfied that it has fulfilled its obligations in terms of its mandate for the year under review. The IAC convened two meetings in the period under review.

The IAC also executed the following:

- Reviewing quarterly reports on the performance of the business
- Reviewing quarterly reports from internal audit, compliance and risk
- Reviewing the short- and long-term cell captive capital adequacy

# BANKING LICENCE AND INVESTMENT COMMITTEE

## Role

The Banking Licence and Investment Committee (BLIC) is a committee of the Board in August 2023. Its role is to assist the Board to permanently regularise the deposit taking and related activities of Ithala. The committee facilitates and promotes communication in respect of investment risk related matters between the Board and management. The Committee is independent, plays an oversight role and makes recommendations to the Board for its consideration and final approval.

## Composition, skills and experience

The BLIC consists of four members, all of whom are independent Non-Executive Directors. Collectively, the committee members have the relevant skills and experience in corporate governance, strategy and risk management, auditing, taxation, accounting, ICT, the regulatory environment, financial services and business leadership. The CEO, CFO and executive management are standing invitees.

## Meetings attendance

| Members | Bimonthly meetings attended | Special meetings attended |
|---|---|---|
| Mr M Pupuma (Chairman) | 2/2 | 0 |
| Ms. GR Sibiya | 2/2 | 0 |
| Mr. NS Simelane | 2/2 | 0 |
| Ms. YM Mjiako | 2/2 | 0 |

### Key activities

The BLIC has had two meetings for financial year 2023/2024, over this past two meetings the committee has conducted the following activities:

- Made recommendation to the Board for management to initiate the process of applying for extension for the Exemption Notice.
- Deliberated on Ithala's Future Positioning Scenarios, Implications, and actions.
- Deliberated on the issue of funding and proposed ways in which funding can be obtained.
- Initiated engagement with other banks for possible alliance partnership.
- Facilitated submissions to the Standing Committee of Finance (ScoF).

# KING IV DISCLOSURES

The Board governs the ethics of the business in a way that supports the establishment of an ethical culture. It is committed to the Constitution of the Republic of South Africa (including the Bill of Rights) and advances the principles of fairness, accountability and integrity in creating an ethical business culture. The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation is delegated to the HRRC and SESC.

KIV 01

## The accounting authority should lead ethically and effectively.

### Application

The Board is responsible for ensuring that its and management's conduct is consistent with Ithala's principles and code of ethics and conduct, and that these guide all business decisions. Board members are open and honest in carrying out their responsibilities. Accountability is built into decision-making processes at both the individual and communal levels. Board members are required by law to prevent conflicts of interest and to disclose possible conflicts in a timely and thorough manner.

KIV 02

## The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

### Application

The Board oversees corporate ethics in a way that promotes the development of an ethical culture. It commits to the Republic of South Africa's Constitution (this includes the Bill of Rights). It promotes justice, accountability, and integrity in developing an ethical corporate culture. The HRRC and the SESC are responsible for evaluating the organisation's overall responsible corporate citizenship performance.

Ithala enforces a zero tolerance approach to fraud, financial crime, corruption, bribery and non-compliance with laws or internal policies. Misconduct, including violence, threats, discrimination, confidentiality breaches and dishonesty, is strictly prohibited.

KIV 03

## The accounting authority should ensure the organisation is and is seen to be a responsible corporate citizen.

### Application

The Board retains overall responsibility for ensuring that Ithala is, and is seen to be, a responsible corporate citizen. Ithala recognises that the sustainability of the business depends on the well being of the communities in which we operate in. To this end, we develop mutually beneficial relationships with our stakeholders. The Ithala Edu Platform has been one of the key initiatives driven by the company. The SESC is responsible for driving such initiatives as well an ensuring that policies and regulations relating to consumer protection and treating the customer fairly are adhered to. A strategy session is held annually by the Board and management to review and approve the short-, medium- and long-term strategy and purpose of Ithala, to ensure that the company remains aligned with its mandate and responsibilities as a State-owned development finance institution.

KIV 04

## The accounting authority should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

### Application

The strategy and key initiatives are approved by the Board on an annual basis. The Board oversees that the company's strategy is aligned to its vision and mission as well as the company's mandate to serve the underbanked. KPIs are set and agreed upon to monitor the progress against the company's strategic objectives. On a quarterly basis, through the various Board subcommittees, management reports on the progress on the KPI's. To ensure accountability, the KPI's are included on the management's scorecard.

The RCMC assists the Board with the governance of risk and continuously monitors risks, ensuring that identified risks are sufficiently mitigated. The Board, through SESC, oversees the company's conduct as a good corporate citizen. Ithala developed a stakeholder engagement plan that identifies the company's stakeholders and the impact they have on the company. Through this plan, Ithala is committed to understanding and being responsive to the interests and expectations of stakeholders.

KIV 05

## The accounting authority should ensure reports issued by the organisation enable stakeholders to make an informed assessment of the organisation's performance, and its short-, medium- and long-term prospects.

### Application

The Annual Financial Statements and integrated report are reviewed by the ACC and recommended to Board for approval annually. The integrated report is distributed to relevant stakeholders and published on Ithala's website for access by stakeholders.

## 06 The governing body should serve as the focal point and custodian of corporate governance in the organisation.

### Application

The Board serves as the focal point and custodian of corporate governance in Ithala and is ultimately accountable and responsible for the performance and affairs of the business. The Board exercises its leadership role by steering the business and setting its strategic direction, approving policy and planning that give effect to the direction provided, overseeing and monitoring of implementation and execution by management, and ensuring accountability for organisational performance by means of, among other things, reporting and disclosure.

The Board's role, responsibilities, membership requirements and procedural conduct are documented in a Board Charter, which it regularly reviews to guide its effective functioning. The Board is satisfied that it has fulfilled its responsibilities in accordance with the Board Charter for the period under review. Board members are entitled to and have access to all relevant business information and management to assist them in discharging their duties and responsibilities, in order for them to make informed decisions.

The Board exercises its oversight responsibilities through the various subcommittees which report at least quarterly to the main Board.

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

### Application

Ithala has a unitary Board structure that, during the year under review, consisted of six Non-Executive directors and two Executive Directors. The Executive Director (CEO) is responsible for the day-to-day management of the company. Non-Executive Directors are chosen for their knowledge, skills and experience and they bring an independent view to bear on key issues.

The process for the nomination, election and appointment of Board members is formal and transparent. The majority of the Board members are independent Non-Executive Directors.

The Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance.

## 08 The governing body should ensure its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

### Application

The Board delegates certain responsibilities to well- structured Board and Statutory Committees each with formal Terms of Reference without abdicating the Board's own responsibilities.

## 09 The governing body should ensure the evaluation of its own performance and that of its committees, its Chairperson and its members, support continued improvement in its performance and effectiveness.

### Application

A self-assessment as well as an independent Board evaluation was conducted by the IoDSA with the aim of ensuring continued improvement in its performance and effectiveness.

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

### Application

The Board delegates certain powers to the CEO, which the CEO can further delegate to Executive Officers as governed by the Delegated Powers of Authority. The CEO's performance, along with the performance of Board committees, are reviewed on a regular basis. During 2023/24, the Board received a report detailing the results of these evaluations and implemented necessary actions to address any identified areas for improvement.

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

### Application

The RCMC has delegated the responsibility of identifying, assessing, mitigating and managing risks within Ithala's operating environment to management. This delegation is made with consideration to the continuously evolving risk profile of the organisation. To manage these risks, appropriate mitigating controls have been developed. The Board is regularly informed of progress on the risk management plan.

**KIV 12**

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

**Application**

The ITGC supports the Board in the governance of information technology. Recognising the close link between technology, information, and the strategy, performance and sustainability of Ithala, the Board acknowledges the importance of this committee's work. In this regard, IT policies have been thoroughly reviewed and subsequently approved by the Board.

**KIV 13**

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

**Application**

The ACC aids the Board in assessing the efficiency of the system for monitoring compliance with all applicable laws and regulations. Additionally, the committee reviews the outcomes of management's investigation and follow-up procedures concerning any identified cases of non-compliance.

**KIV 14**

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

**Application**

The HRRC assists the Board with the approval of and monitoring the execution of the remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.

**KIV 15**

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

**Application**

The ACC ensures a coordinated assurance model is implemented, which enables a coordinated approach to all assurance activities.

**KIV 16**

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

**Application**

Ithala has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations.

**KIV 17**

### The governing body of an institutional investor organisation should ensure responsible investment is practised by the organisation to promote the good governance and creation of values by the companies in which it invests.

**Application**

Ithala has a BLIC whose mandate is to ensure that the company invests responsibly and effective in terms of the relevant regulations.

# 5

# Strategy

## OUR VISION

To be an innovative and responsive banking and insurance institution owned by and serving the State and people of South Africa.

## OUR MISSION

To provide banking and insurance products and services focusing on corporate and retail customers.

## OUR VALUES

| | |
|---|---|
| **Respect** | We treat each and every person in the same way we expect to be treated. |
| **Innovation** | We become part of the solution by coming up with ways to make things happen. |
| **Integrity** | We aim to always do what is right, no matter what. |
| **Customer satisfaction** | We always put ourselves in the customer's shoes and deliver exceptional service, all the time. |
| **Empowerment** | We go the extra mile to ensure everybody has an opportunity to influence or make decisions that will improve our business engagement with our stakeholders. |
| **Fair and equitable employment practices** | We take care to provide an environment that is fair and non-biased, no matter the gender or creed of a person, in accordance with best practices. |



# REBUILD, REMODEL, REIMAGINE (RRR) STRATEGY

Ithala's vision is to be an innovative and responsive banking and insurance institution owned by and serving the state and the people of South Africa. The company continues to provide banking and insurance products and services, focusing on retail customers and small and medium businesses. Ithala's strategy focuses on expanding and deepening its role in financial inclusion and developing the communities it serves.

In September 2020, the Repair, Rebuild and Remodel plan was formulated, which, later in 2021, evolved to become the Rebuild, Remodel and Reimagine (RRR) plan. The RRR plan addresses issues facing Ithala and aims to turn-around the business into a financial and operational sustainable entity. The RRR plan addresses identified challenges, including factors that led to Ithala's 2016 unsuccessful application for authorisation to establish a bank under Section 12 of the Banks Act. These matters, as highlighted on pages 54 to 57, are material in the business' ability to create and preserve value. The RRR plan encompasses the strategic implementation of the new operating model to:

- Improve efficiencies and the customer service experience
- Strengthen governance;
- Ensure the successful application for a banking licence;
- Engage in direct participation as a clearing participant in the National Payment System (NPS);
- Improve revenue growth and cost containment;
- Improve operational resilience through liquidity and capital management;
- Reduce risk, compliance and audit issues;
- Remodel Information Technology (IT) capabilities; and
- Invest in staff for innovation and growth.

The RRR strategy is anchored by three phases of growth during the 2023/24–2025/26 planning cycle and into our 2026 aspirations:

## REBUILD



We will invest to rebuild a foundation for the future growth of our franchise.

Laying the ground and fixing Ithala's foundation is the focus of the rebuild phase. This stage focuses on capital outlay by investing in people, processes and systems. The drive is to enhance Ithala's IT infrastructure, investing in people and securing the correct skills to build the bank. Ithala plans to migrate onto a single Core Banking Platform for all products and channels in order to unlock efficiencies and increase the client experience at distribution points. Further, the establishment of an enterprise data warehouse within which all data will be managed and the establishment of a business intelligence competency to support the business has been given emphasis. This will address some of the challenges related to reporting.

By laying a strong foundation through IT advances, people and processes, Ithala is improving its ability to serve the best interest of clients, whilst also creating an improved enabling environment for the financial inclusion of those historically under-served and delivering banking and insurance services to the unbanked and uninsured.

## REMODEL



We will remodel our capabilities for operational resilience and innovation.

Through the new operating model, Ithala will be better structured to serve its customers. The focus of the Remodel Phase is on efficiencies and putting the needs of the customer first. The investments laid out in systems and processes will allow Ithala to enhance its product offering. Further innovative products will be developed to attract more customers and grow revenue. Efficiencies realised through remodeling Ithala will result in reduced costs of serving the customer thus allowing Ithala to be operationally sustainable.

## REIMAGINE



We will reimagine our business with a new delivery model and emerge stronger.

The conclusion of fixing the foundation (Rebuild Phase) and remodeling of the business (Remodel Phase) will allow Ithala to exponentially grow and emerge stronger. The focus of the Reimagine Phase will be on increasing the distribution channels of Ithala whilst also penetrating new markets.



Ithala's strategy tilt is underpinned by the following seven selected strategic objectives, which anchor the RRR plan. Progress made in implementing our strategy is shown on pages 84 to 90.

| STRATEGIC OBJECTIVE | KEY INITIATIVE |
|---|---|
| SO 1 **Secure banking licence and designation as a clearing participant in the NPS.** | • Securing banking licence and participation into NPS;<br>• Securing capital;<br>• Securing sponsorship into NPS; and<br>• PFMA exemption. |
| SO 2 **Implement Operating Model to improve efficiencies and the customer service experience.** | • Implement operating model;<br>• Customer service experience;<br>• Automate processes;<br>• Implement fit for purpose; and<br>• Shift clients to choice channels |
| SO 3 **Stem out losses through sustainable revenue growth and cost containment.** | • Sustainable revenue generation;<br>• Operational resilience;<br>• Efficiency in processes; and<br>• Expansion of target market. |
| SO 4 **Maintain optimum business and operational resilience through liquidity and capital management.** | • Securing capital;<br>• Expansion of target market; and<br>• Sustainable revenue generation. |
| SO 5 **Treat risks, reduce compliance and audit issues.** | • Regulatory risk and compliance;<br>• On-time remediation of issues; and<br>• Obtain a clean audit |
| SO 6 **Run the bank and remodel IT capabilities.** | • Remodel IT capabilities;<br>• Digitisation of client records;<br>• Implement regulatory projects, i.e. RDARR, AML<br>• Delivery of IT roadmap; and<br>• Ensure system availability and security |
| SO 7 **Empower our people to lead for innovation and growth.** | • Talent retention and sustainable succession planning;<br>• Learning and development; and<br>• Performance management. |

### OUTLOOK

During the year, Ithala's Board and executive management undertook a review of the company's vision and mission statements. This effort aimed to clearly define the organisation's purpose and articulate how Ithala seeks to achieve its goals. The updated vision is: "To be a financial services provider of choice in creating wealth and transforming people's lives," while the revised mission is: "By providing responsive and customised solutions that are simple and accessible."

These new vision and mission statements have established the foundation for Ithala's strategic direction, taking into account the regulatory challenges faced during the year. In response, a comprehensive roadmap was developed to align the company's activities with regulatory expectations. This resulted in a three-pillar turnaround strategy: Protect & Stabilise, Invest & Rebuild, and Grow & Optimise. The primary focus for the 2024/25 period is to protect and stabilise operations by implementing measures that secure Ithala's future and ensure long-term sustainability. As part of this forward-looking approach, Ithala is working closely with shareholders and relevant stakeholders to maintain operations that enable the company to continue fulfilling its mandate of providing financial services to underserved communities.

Ithala remains dedicated to strengthening internal controls and ensuring compliance with regulatory requirements. To achieve this, we will continuously monitor and enhance our internal processes. Various initiatives have been implemented to improve financial performance and overall corporate health, addressing key challenges such as boosting revenue generation, optimising cost structures, modernising IT systems, managing credit risks, and enhancing operational efficiency.

# MATERIAL MATTERS

This integrated annual report highlights the key issues that are crucial to Ithala's value-creation process. We consider a material matter to be one that impacts our ability to execute our strategy and maintain commercial viability and social relevance within the communities we serve. These matters encompass both qualitative and quantitative aspects that influence our stakeholders' evaluation of the value the company provides.

Although Ithala did not perform a formal materiality assessment, the material matters discussed in this report are those that frequently emerge in various business engagements, including Board and committee meetings, executive sessions, and risk reports. The processes contributing to these engagements include extensive stakeholder engagements conducted during the reporting period, regular assessments of the business environment and strategy, stakeholder expectations, and issues identified through the risk management process. As a state-owned entity mandated to serve the underbanked, our materiality assessment is also shaped by broader societal expectations. As such, Ithala must prioritise the expectations of the KZN Provincial government and its role in advancing the development agenda.

Below is a discussion on material matters that have been identified to have the most impact in our ability to create sustainable value over the short, medium and long term.

MM 1

MATERIAL MATTER 1:

## BANKING LICENCE

CAPITALS

FC SC HC IC MC

### DESCRIPTION AND IMPORTANCE

One of our strategic objectives is to become a licensed bank under the Banks Act, which will determine our ability to continue to serve our customers into the future. Becoming a licensed bank under the Banks Act will allow Ithala to fulfil its vision and mission of serving under-banked communities, especially in townships and rural areas. A banking licence would certify that Ithala meets legal and regulatory requirements, especially when it comes to protecting depositors' funds and personal information.

### OUR STRATEGIC RESPONSE

Ithala has implemented a RRR strategy that will see the regularisation of the entity to obtain a banking licence. We have, since inception, been operating under exemption notices, granted and extended by the Minister of Finance and the PA. One of the objectives in FY2023.24 was to apply for authorisation to establish a bank under Section 12 of the Banks Act and once grated proceed to register as a bank as per Section 16 of the Banks Act.

In June 2023, we submitted to the PA an application for authorisation to establish a bank. The application was not assessed by the PA. Further, with the exemption expiring 15 December 2023, a request for exemption was also declined by the PA. From December 2023 Ithala has been operating under the Repayment Administrator appointed by the PA to work out an alternative plan for the business. Our shareholders are actively engaging with the relevant stakeholders to address this challenge.

MM 2

MATERIAL MATTER 2:

## SPONSORSHIP INTO NATIONAL PAYMENT SYSTEM

CAPITALS

FC SC IC

### DESCRIPTION AND IMPORTANCE

Access to the NPS is crucial to clear and settle payments. Our access into NPS is through ABSA, who had indicated their intent to terminate the long-standing arrangement in December 2023.

### OUR STRATEGIC RESPONSE

Ithala strategically appointed a payments specialist who comes with vast knowledge and experience in the payments space. Together with the specialist, we have devised a strategy that will see Ithala move from a sponsor to a designated clearing system participant and then ultimately be a direct bank clearing participant.

Currently, we continue to enjoy the long-standing and mutually beneficial relationship with ABSA, who remains our sponsor under the auspices of the Repayment Administrator.

MM 3

MATERIAL MATTER 3:

## ACCESS TO CAPITAL

CAPITALS

FC SC MC

### DESCRIPTION AND IMPORTANCE

Our key goal is for Ithala to acquire a banking licence under the Banks Act. This will ensure that we are best placed to deliver on our mandate of financial inclusion. For us to achieve this, significant capital investment is required to build on the IT infrastructure, improve processes as well as bringing in talent that has the requisite skills and experience in banking. Further, we will need additional capital to meet the higher capital requirements of a bank, ensuring that we meet the Basel 111 requirements.

### OUR STRATEGIC RESPONSE

The strategy addresses the issue of the financial support required to re-engineer the institution and develop it into a bank that is licensed under the Banks Act. The Board has endorsed alternatives that the business may adopt to obtain capital ensuring the short-, medium- and long-term sustainability of the business.

MM 4

MATERIAL MATTER 4:

## BUSINESS GROWTH AND PROFITABILITY

CAPITALS

FC SC MC

### DESCRIPTION AND IMPORTANCE

In recent years, the retail banking industry has seen more entrants, including non-traditional banking players, making the retail banking landscape more competitive. The provision of products and services that meet customers' needs is crucial to remain competitive and relevant to customers. As Ithala, we continue to serve our customers with utmost care, partnering with our customers on their journey of wealth creation and providing financial services to the under-banked, especially in rural areas.

### OUR STRATEGIC RESPONSE

We have realigned our strategy and are continuously improving our operating model with the aim of achieving an optimised and robust business model that supports financial sustainability in the short, medium and long term. Financial sustainability will in the long term reduce our reliance on the shareholder for funding the business.

MM 5

MATERIAL MATTER 5:

## REGULATORY AND COMPLIANCE REQUIREMENTS

CAPITALS

FC SC MC

### DESCRIPTION AND IMPORTANCE

We operate in an environment characterised by stringent regulatory and compliance requirements. The banking industry is under increasing scrutiny by regulators and financial institutions are expected to comply ensuring that their operations adhere to the requirements. As Ithala, we continue to strive for excellence by complying with all relevant legislation and regulations, including complying with the King Code on Corporate Governance, the Code of Banking Practice and Conduct Standards for Banks.

In recent years, the key focus by regulators has been on operational resilience, cybersecurity and data protection. As Ithala we continue to improve our risk management processes to ensure that such risks are adequately and sufficiently covered.

### OUR STRATEGIC RESPONSE

The Board approved our top high-risk legislation, which we shall continue to manage and monitor through the improvement and development of compliance risk management plans. In addition, we endeavour to ensure we are complying with the overall regulatory requirements contained in our over 70 pieces of legislation applicable to the organisation.

In July 2024, the FSCA suspended Ithala's Financial Services Provider (FSP) licence due to non-compliance with Sections 46 and 48 of Board Notice 194 of 2017. The shareholder, IDFC, made a representation to the FSCA requesting the transfer of the insurance business to IDFC FSP licence. Ithala is engaging with all the relevant stakeholders to ensure resolution of the matter.



MM 6

MATERIAL MATTER 6:

## TECHNOLOGY

CAPITALS

FC IC MC

### DESCRIPTION AND IMPORTANCE

As we evolve and prepare for the future in the banking industry, our innovative capabilities are essential. This largely depends on our technological systems and our ability to leverage and adapt on technological advancements. Advances in technology within the financial industry assist institutions to deliver services and products to customers more efficiently whilst customers enjoy the convenience of banking through the different platforms offered through technology.

### OUR STRATEGIC RESPONSE

Our IT systems are characterised by a lack of process automation that results in a significant proportion of manual workflows and leads to inefficiencies and errors and encumbers the management and monitoring of processes. To address this, we have adopted an IT strategy that will ensure that we deliver advanced services to our customers whilst also ensuring compliance with relevant regulations.

MM 7

MATERIAL MATTER 7:

## OUR PEOPLE

CAPITALS

FC SC HC IC MC

### DESCRIPTION AND IMPORTANCE

Our ability to build an institution that is equipped for the future, depends on our ability to attract and retain experienced and skilled people that will take the institution forward and meet its goals.

### OUR STRATEGIC RESPONSE

At the heart of our organisation is our employees and, in this regard, we aim to sustain our learning culture, strengthen our transformation drive, and employee value proposition by continuing to strengthen our reward and recognition offering. The revision and implementation of a performance incentive scheme is underway to ensure the retention of the organisation's top talent. We continue to upskill our people, equipping them with the required skills to perform their tasks effectively. Ithala is committed to embedding a culture of performance aimed at ensuring excellence across the organisation.

# HOW WE CREATE VALUE

Value creation is the consequence of how Ithala applies and leverages its capital, strategy and business model to preserve and create value over the short, medium and long term. The six capitals enable us to deliver on our strategy and business activities producing outcomes for the benefit of all our stakeholders. Our value-creation strategy is linked to our mandate as a provincial development finance institution (DFI), ensuring that the business remains resilient, sustainable and aligned to the KZN goals of economic development.

| | INPUT | BUSINESS ACTIVITIES | OUTPUTS | OUTCOMES |
|---|---|---|---|---|
| FC | **FINANCIAL CAPITAL**<br>R3.15 billion of total assets (2023: R3.13 billion)<br>R2.47 billion deposits (2023: R2.49 billion) | • Investment management<br>• Asset liability matching<br>• Experience analysis<br>• Governance of participation<br>• Products | CTIR: 114.8% (2023: 112.2%)<br>ROE: -24.6% (2023: -16.3%)<br>Jaws: -1.5% (2023: 5.0%)<br>ROA: 3.01% (2023: -1.96%)<br>CAR: 15.1% (2023: 18.1%) | • Going concern basis adopted in preparation of AFS<br>• Company incurred loss<br>• Company is reliant on continuous support of shareholder |
| HC | **HUMAN CAPITAL**<br>387 employees (2023: 376)<br>• Our culture<br>• Knowledge, skills and experience | • Client support services, including: administration and fulfilment, credit granting, human resources and information technology<br>• Distribution channels<br>• Investment management<br>• Asset liability matching<br>• Experience analysis<br>• Governance of participating | Value distributed to employees: R240.0 million (2023: R207.5 million) | • Organisational excellence through sound performance management<br>• Rewards policy in line with strategic imperatives of the business<br>• Trust-based relationship with employees<br>• Trust relationship with clients, better service delivery through experience and understanding of client |
| IC | **INTELLECTUAL AND REGULATORY CAPITAL**<br>• Brand<br>• IT systems and processes and procedures<br>• Innovative products<br>• Knowledge and expertise | • Retail and business banking solutions<br>• Insurance solutions<br>• Digitisation of client records<br>• Compliance and regulatory projects - RDARR, AML | Customer deposits: R2.47 billion (2023: R2.49 billion)<br>Number of debit cards 210 032 (2023: 142 696)<br>Loans and advances to customers: R2.13 billion (2023: R2.21 billion)<br>Taxi finance R188.3 million (2023: R212.3 million)<br>Interest paid to depositors R108.9 million (2023: R67.6 million)<br>Rural home loans: R12.5 million (2023: R16.0 million)<br>Home improvement loans: R496.0 million (2023: R440.4 million) | • Enhanced effectiveness through technology<br>• Enhanced positioning and brand identity<br>• Trust-based relationship with customers<br>• Contribution to wealth creation<br>• Contribution to economic development in KZN |
| MC | **MANUFACTURED CAPITAL**<br>• IT equipment<br>• Branches<br>• SSD's<br>• ATMs<br>• Rented buildings | Business support services, including financial management accounting, credit collections, regulatory reporting, human resources, operations and information technology | 38 branches (2023: 38)<br>48 SSDs (2023: 59)<br>78 ATMs (2023: 78) | • Enhanced market positioning and brand identity<br>• Established public sector banking services<br>• Enhanced effectiveness through technology<br>• Enhanced proximity to customers<br>• Contribution to financial inclusion and economic development |
| SC | **SOCIAL AND RELATIONSHIP CAPITAL**<br>Our relationships with:<br>• National and provincial government<br>• Our shareholder<br>• Regulators<br>• Suppliers<br>• Communities<br>• Media<br>• Employees<br>• Customers<br>• Environment | • Good relationships with stakeholders<br>• Responsible corporate citizens<br>• Compliance with regulatory requirements<br>• Treating customers fairly<br>• Supporting small-medium businesses | Value distributed to suppliers: R214.6 million (2023: R193.3 million)<br>Value distributed to government: R17.1 million (2023: R11.9 million)<br>Value distributed to the community: R1.1 million (2023: R1.4 million) | • Mutually beneficial strategic partnerships |
| NC | **NATURAL CAPITAL**<br>Signatory of the Principles for Responsible Banking (PRB) | Minimise harm to the environment by reducing our carbon footprint and being responsible in our use of natural resources (which include water and solar energy) in our business operations. | | • Increased recycling efforts<br>• Increased adoption of digital and paperless solutions |

# OPERATIONAL STRUCTURE

**RETAIL / CONSUMER BANKING**

| STRATEGY | | | |
|---|---|---|---|
| | STRATEGY AND PLANNING | MARKETING RESEARCH AND ANALYSIS | BRAND AND PROPOSITIONS |

| | | |
|---|---|---|
| SEGMENTS | Financial Illiterate / Underserved | Public Sector Entities |
| | Low Income | Small, Micro and Medium Businesses |
| | Middle Income | |
| | Public Sector Employees | Community / Affinity Groups |
| | Youth | |
| | Pensioners | |
| PRODUCTS | Savings | Disbursements |
| | Loans | Collections |
| | Debit Cards | Lending |
| | Insurance | Deposits |
| | | Insurance |
| CHANNELS | Branch Network | Branch Network |
| | ATM | ATM |
| | Contact Centre | Contact Centre |
| | Intermediary | Relationship Managers |
| | SSD | Internet Banking |
| | Internet Banking | Mobile |
| | Mobile | Social Media |
| | Social Media | POS |

# PRODUCTS AND SERVICES

Ithala is the only SOC that offers full banking services covering all four banking quadrants. These include transacting, savings, lending, and insurance (both short-term and long-term). We value our customers and enjoy a shared vision of creating sustainable wealth. We remain focused on unlocking the potential in each relationship, particularly where stakeholder insight and perspectives might help us to innovate as Ithala evolves exponentially.

During the financial year under review, the marketing division underwent some changes by creating two core capabilities or portfolios: the Strategic Marketing capability and the Product Development and Pricing portfolios. This work is part of the new organisational Operating Model, and the two portfolios will be capacitated in a phased approach over the next three financial years.

The team in the Strategic Marketing portfolio is primarily responsible for developing personas for each client segment and then using those personas to create or refine the value proposition for each product or service. This involves defining client segments and understanding their needs, priorities, and expectations. Develop compelling value propositions around which products and services can be built. Significant strides have been made in these areas, with client personas, and value propositions created for each of Ithala's chosen target market segments during the current year.

The Product Development and Pricing portlfolio team is responsible for the end-to-end design, development, support, and pricing of Ithala's products and services. Their role includes developing and articulating a clear product vision and strategy for sustainable and profitable growth through continuous innovation. To date, the product strategy that captures the customer value propositions and product roadmap, has been developed and approved. Product reviews and process enhancement for Rural Home Loans and Cash Advance were conducted and implemented following the New Product Committee (NPC) approval. As part of the growth strategy to target the middle market segment, product enhancements of the Vehicle and Asset Finance (VAF) offering were made and approved by NPC for launch in H2 of the 2025 Financial year.

Some of our noteworthy accolades include:

- Development and approval of the ***Dynamic Behavioural Risk-Based Pricing model***. The Risk-Based pricing review and enhancement resulted in the inclusion of two elements into the model: interest rate rewards and pricing for the supply and demand of capital. These additional elements will assist the organisation with client retention, increasing cross-ratio, managing capital risk, managing and preventing breaches of the lending-to-deposit ratio, and growing revenue.
- Product governance structures, policies, and procedures have been put in place, and we fully comply with market conduct standards.
- The annual pricing review was conducted and approved. This also included addressing revenue leakages, revenue enhancement opportunities, and alignment with both the product strategy and the organisational strategy.

Below is a catalogue of products offered by Ithala.

## HOME LOAN

Ithala Home Loan offers applicants an opportunity to buy, build, improve or renovate their own properties in urban and rural areas. The loan is secured by registering a mortgage bond against their property.

## VEHICLE AND ASSET FINANCE

Ithala VAF offers applicants an opportunity to buy a light commercial vehicle and passenger vehicle through a hire purchase agreement. Applicants can assess their affordability using the Ithala calculator before approaching Ithala for financing.

## CASH ADVANCE

Ithala cash advance offers access to immediate cash to deal with any personal emergencies. The advance is issued against the client's invested funds committed by term agreements at Ithala.

## INDIVIDUAL DEBIT CARD AND BUSINESS TRANSACTIONAL CARD PRODUCTS

The Ithala transactional account allows clients and businesses to perform debit and credit transactions on available balances at their convenience and provides them with access to cash through multiple channels, namely Automatic Teller Machine (ATM), Point of Sale (POS), Branch Network, Internet and Mobile Banking.

## TARGET SAVE

This investment account is specially designed to allow clients to save for a specific event like a child's education, for a wedding, for paying amalobolo and deposit for a dream home, to name but a few. The Target Save Account offers clients the opportunity to save an amount of their choice every month for a minimum period of six months. The savings period is renewable.

## FIXED DEPOSIT

This product is specially designed to maximise the growth of the client's investment, generating wealth, while providing the client with the peace of mind of financial security and guaranteed capital investment. A Fixed Deposit account is an account that locks the client's savings into an investment period of the client's choice and offers them a competitive interest rate to ensure the rapid growth of their capital.

## SAVINGS ACCOUNT BOOK

Ithala's customers expect personalised service, where staff communicate with them in their mother tongue, IsiZulu, and explain transactions related to their book accounts in a manner that promotes better comprehension and informed decision-making. As customers visit their branch at least once a month to deposit or withdraw money from their book accounts and to update their books with the latest transactions and balances, this personalised service is crucial in maintaining the loyalty of this significant customer group to the financial institution.

## CLUB SAVE

Customers who are members of stokvels and other affinity clubs remain an essential part of Ithala's customer base. Ithala provides meeting rooms that are available for these groups to use when their savings mature at the end of the year.

## PENSION-BACKED LOAN

Ithala's Pension-backed Loan product is aimed at customers who wish to purchase, build, renovate, or buy land to build their home using their pension fund as collateral. This product provides an affordable way for customers to enhance their assets and offers competitive interest rates and repayment periods.

## TAXI FINANCE

Taxi Finance offers funding to applicants who wish to venture into the business of transporting and commuting South Africans and those who are already in the Taxi industry and want to expand their Taxi businesses. Applicants are required to have an operating permit as part of the qualifying criteria. Ithala understands the seasonal nature of this business and offers a loan structure designed so that applicants have the option to repay the loan in shorter periods, if desired, without incurring significant penalties.

## BASIC FUNERAL COVER

The Ithala Funeral Plan allows customers to bury loved ones with the dignity they deserve and without the financial burden that comes with planning a funeral. This affordable cover helps customers save so that they can afford to pay for the unexpected costs of a funeral, giving them the freedom to grieve and support their family in their time of need. The funeral plan pays out a lump sum from a minimum of R5 000 to R15 000. Claims are paid out within 48 hours, as long as all the necessary documents are provided.

## FAMILY FOREVER FUNERAL COVER

The Ithala Family Forever Funeral Plan provides cover for an entire family with a single premium, including up to two spouses and eight children. This plan offers additional benefits as the premium payments cease when the primary member passes away, while the rest of the family continues to receive life cover. This affordable plan allows customers to cover the unforeseen expenses of a funeral, allowing them to focus on grieving and supporting their loved ones during difficult times. The plan provides a lump sum payout ranging from R20 000 to R80 000. Claims are processed within 48 hours, provided that all the required documents are submitted.

## INCOME BOOSTER

The Ithala Income Booster is a plan that provides cover for the main insured member in the event of their death, whether it is from natural causes or an accident. This plan offers a monthly cash benefit ranging from a minimum of R300 to R1 000 per month for 12 months. By providing regular monthly payments, this plan can help ease the financial burden for loved ones left behind and ensure they have some financial stability during a difficult time. With the Ithala Income Booster, customers can have peace of mind knowing they have a plan in place to provide for their family's financial needs in the event of their unexpected passing.

## CREDIT LIFE

This insurance product provides coverage for the insured in case of death or permanent disability. In the event of the insured passing away or becoming permanently disabled, the entire account balance is settled. Additionally, the policy can be taken with an optional retrenchment benefit, which provides up to six low instalments in case the insured member is retrenched.

## HOMEOWNERS' INSURANCE (BUILDING)

With an Ithala buildings policy, customers can rest assured that their residential homes and outbuildings are well protected. The policy covers a range of unexpected events, including fire, natural disasters, theft, vandalism and accidents. In the unfortunate event that a disaster does strike and leaves the home uninhabitable, the policy includes a temporary accommodation benefit, providing added peace of mind.

## HOMEOWNERS' INSURANCE (CONTENTS)

With Ithala's Household Goods Cover, customers can protect their household contents from risks such as theft, fire, natural disasters and vandalism. Additionally, the package includes a benefits package that covers smaller risks and costs, incorporating loss of guest or staff property, replacement of keys and locks, temporary security guarding, fridge contents, and trauma counselling.

## VEHICLE INSURANCE – COMPREHENSIVE

Ithala's comprehensive vehicle insurance product provides cover against accidents, fire and theft and claims by third parties where the customer is liable for their damage.

## VEHICLE INSURANCE THIRD PARTY, FIRE AND THEFT

Ithala's third party vehicle insurance product provides cover against loss or damage from fire, theft and third-party claims. It does not include cover for accidents.

## VEHICLE INSURANCE – THIRD PARTY ONLY

Ithala's third-party-only vehicle insurance policy provides coverage for third-party claims in which the policyholder is liable for the cost of damages or injuries. In addition, the package includes limited medical expense cover for passengers, trauma counselling, emergency hotel expenses, and key/remote replacement costs.



# EXTERNAL ENVIRONMENT

## MACRO-ECONOMIC ENVIRONMENT

The South African macroeconomic environment has been shaped by a range of global and domestic factors. The country grappled with persistent electricity shortages, which severely impacted industrial productivity and economic growth. The SARB continued to raise interest rates in response to high inflation. The global economic slowdown, worsened by geopolitical tensions and financial market volatility, also impacted on South Africa. Consequently, the country's gross domestic product (GDP) growth remained subdued, with forecasts for the 2024 slightly above 1%. These conditions, collectively created a tough environment for businesses and consumers alike, exerting pressure on business growth and investment as well as consumers' disposal income.

Despite these challenges, there were some positive developments as the government's efforts to stabilise the energy supply showed signs of progress. To address this challenge, the government plans to increase renewable energy capacity and improve the efficiency of existing power plants. Additionally, South Africa's fiscal policy aimed at reducing the budget deficit and managing public debt helped maintain investor confidence to some extent. However, the overall economic outlook remained cautious, with the need for structural reforms to address long-standing issues such as unemployment, inequality, and corruption. As the country navigates these complexities, the focus on sustainable growth and economic resilience will be crucial for the future.

# STAKEHOLDER REVIEW

Our stakeholders play a vital role in Ithala's ability to create and preserve value. We remain focused on unlocking the potential in each relationship, particularly where stakeholder insight and perspectives might help us to innovate in support of our core purpose. A concerted effort is placed on developing and maintaining strong mutually benefiting relationships with our stakeholders.

The following table provides a brief overview of our key stakeholder groups, our interdependencies in terms of value creation, the most material interests of each group, and how we engage with them to identify and address these interests.

## NATIONAL AND PROVINCIAL GOVERNMENT

### HOW WE ENGAGE

Ithala engages with government bodies annually through our annual reporting processes and financial statements or ad hoc as dictated by business requirements and priorities.

### PRIORITY INTERESTS AND CONCERNS

- Sustainable profitability
- Sustainable growth strategy
- Obtaining a full banking licence
- Promote and foster financial inclusion among underserved segments

### OUR RESPONSE

- A strong management team supported by a capable Board
- Sound corporate governance practices
- Accessibility, transparency and integrity in all our affairs
- Prompt and agile responses to queries and concerns

### OUTCOMES

Ithala had been granted an extension of the banking licence exemption until December 2023. Our shareholders are actively engaging with relevant stakeholders to address Ithala's operating licence challenge.

### CONTRIBUTION TO VALUE CREATION

National and provincial governments contribute to value creation through strategic partnerships and guidance and by creating an enabling business environment.

## OUR SHAREHOLDERS

### HOW WE ENGAGE

We engage our shareholders through quarterly shareholder meetings and the submission of an Annual Performance Plan (APP), through annual reporting process and AFS or on an ad hoc basis, as required.

### PRIORITY INTERESTS AND CONCERNS

- Deliver on the objectives set out in our corporate plan and targets outlined in our APP
- Sustainable profitability
- Sustainable growth strategy
- Strong balance sheet
- Obtaining a full banking licence
- Maintain good corporate governance

### OUR RESPONSE

- Ithala promotes financial inclusion and supports the IDFC in the delivery of its developmental mandate
- Repurposing of strategy with a view towards profitability
- Application for banking licence
- Securing sponsorship into the National Payment System (NPS) and application for designation as a Clearing Participant into the NPS
- Implementing a new operating model

### OUTCOMES

- Ithala submitted its Section 12 application for authorisation to establish a bank. Application was not assessed by the Prudential Authority (PA)
- Exemption extension was not granted by the PA
- Capable leadership team is now in place
- Engagements with several stakeholders with a view to adopt an alternative plan to secure stakeholder interests

### CONTRIBUTION TO VALUE CREATION

Shareholders contribute to value creation through strategic financial partnerships and strategic guidance.

## THE ENVIRONMENT

### HOW WE ENGAGE

We engage with environmental issues as dictated by business requirements.

### PRIORITY INTERESTS AND CONCERNS

We aim to cause the least amount of environmental damage possible.

### OUR RESPONSE

Practice environmentally friendly business practices such as use of electronic documents instead of printed, double-sided printing where necessary, energy efficient lights, use natural ventilation, use natural lighting.

### OUTCOMES

Increased awareness of our consumption among employees to ensure that it is kept to a minimum.

### CONTRIBUTION TO VALUE CREATION

Climate risks pose a major threat to the overall stability and long-term sustainability of the financial system.

## CUSTOMERS

### HOW WE ENGAGE

We engage our customers on an ongoing or ad hoc basis, as determined by customer requirements, business priorities and regulatory requirements. A customer satisfaction survey is conducted annually, reporting results in March.

### PRIORITY INTERESTS AND CONCERNS

- Innovative, relevant and accessible products and services including deposit-taking, lending and insurance
- Fair treatment
- Excellence in customer service
- Value for money banking
- Corporate responsibility

### OUR RESPONSE

- Conduct annual customer satisfaction surveys
- Roll out a relevant financial literacy programme aligned with the wealth-creation journey
- Streamline and optimise processes
- Build scale in multi-channel distribution
- Formation of a Strategic Marketing unit and moving the Product and Pring portfolio to Marketing
- Development of a Product Strategy and Roadmap
- Develop clear and compelling customer value propositions.

### OUTCOMES

Overall, Ithala customers are satisfied with the service they received from Ithala and remain very loyal; 86% of customers are satisfied with the service they receive from Ithala. The Net Promoter Score (NPSc) achieved for the year was 54%.

### CONTRIBUTION TO VALUE CREATION

Customers include individuals, youth and entrepreneurs, community-based businesses, taxi associations, cooperatives and stokvels. Ithala focuses on six customer segments: Youth, Low Income Market Segment, Middle Income Market Segments, Public Sector Banking, SMME and Community-Based Businesses.

## REGULATORY BODIES

### HOW WE ENGAGE

We engage with regulatory bodies on a daily basis or ad hoc as required. We also engage through reports, press releases and participation in or contribution to industry working groups.

### PRIORITY INTERESTS AND CONCERNS

- Compliance with all legal and regulatory requirements
- Active participation and contribution to industry regulatory initiatives
- Board leadership effectiveness
- Filling of key Executive positions with personnel with the requisite banking experience

### OUR RESPONSE

- Regulatory compliance
- Embracing sustainable and ethical business practices to enable a stable banking system
- Implementation of regulatory and compliance projects
- Board training
- Recruiting and retention of Board and Executives with banking experience

### OUTCOMES

- Improved relations resulting in a relationship that is based on transparency
- Reduction of systemic risk and contributes to the healthy functioning of the economy
- Increased customer confidence in Ithala

### CONTRIBUTION TO VALUE CREATION

Regulators include the SARB, Banking Association of South Africa (BASA), the Financial Sector Conduct Authority (FSCA), the Financial Intelligence Centre (FIC), Payments Association of South Africa (PASA), National Credit Regulator (NCR) and KZN Provincial and National Government. They provide Ithala with the regulatory and policy framework required for it to sustain its operations and create value.

## EMPLOYEES

### HOW WE ENGAGE

We engage with our employees in multiple ways including CEO roadshows, meetings with the line managers, performance appraisals and an internal newsletter. An annual culture survey is conducted by Afriforte. Ithala's HR function supports employees and line managers daily. Ad hoc engagements are conducted as required by the business and our employees.

### PRIORITY INTERESTS AND CONCERNS

- Provide wellness and health support to all employees
- Empower our people to lead for innovation and growth
- Innovate for internal client centricity and to optimise our people processes
- Enable a performance-driven culture
- Manage our people cost base
- Competitive remuneration
- Opportunities for career development and growth

### OUR RESPONSE

- Rewarding employees for the value they add
- Ongoing employee engagement
- Implementation of programmes aimed at ensuring the health, safety and wellness of our employees

### OUTCOMES

- Buy-in on repurposed strategy and operating model
- A safe and healthy work environment
- Competitive remuneration
- Fair recognition
- Opportunities for career development and growth

### CONTRIBUTION TO VALUE CREATION

Ithala employees are motivated and skilled. Their productivity allows us to achieve our mandate.

## COMMUNITIES

### HOW WE ENGAGE

We engage our communities on an ongoing basis or on an ad hoc basis as determined by community requirements.

### PRIORITY INTERESTS AND CONCERNS

- Responsible corporate behaviour
- Socio-economic transformation through job creation
- Investment in community initiatives
- Accessible banking and financial literacy
- Communities contribute to a conducive operating environment, which in turn allows Ithala to execute its mandate.

## SUPPLIERS

### HOW WE ENGAGE

We engage our suppliers on an ad hoc basis, through tender processes, Service Level Agreements (SLAs) and performance evaluations

### PRIORITY INTERESTS AND CONCERNS

- Fair and transparent Supply Chain Management (SCM) processes
- On time payments
- Localisation and transformation of supply chain

### OUR RESPONSE

- Adherence to supply chain policies and procedures
- Identification, vetting and procuring products cost effectively
- Service providers performance evaluation
- Prioritisation of Broad-Based Black Economic Empowerment suppliers.
- Payment of suppliers within applicable payment terms
- Anti-corruption Hotline.

### OUTCOMES

Establishment of

- SCM function
- Implementation of supplier evaluation

### CONTRIBUTION TO VALUE CREATION

Suppliers contribute through strategic partnerships that allow Ithala to implement its strategy and sustain operations.

## MEDIA

### HOW WE ENGAGE

We engage with the media on a regular basis quarterly, annually and ad hoc basis to share information and respond to media queries.

### PRIORITY INTERESTS AND CONCERNS

- Key developments within the business including the extent to which it is able to fulfil its mandate
- Response to perceived corporate governance breaches and corruption
- Progress with obtaining banking licence

### OUR RESPONSE

- Robust governance structures in place and strict adherence to applicable policies and procedures.
- Quarterly relationship building with the media.
- Training of all identifies media spokes people.
- Sharing of positive stories about the brand
- Timeous response to media queries

### OUTCOMES

Maintained ongoing positive relationship with the media

### CONTRIBUTION TO VALUE CREATION

The media supports Ithala through reporting and ongoing engagement with our brand.

# ENTERPRISE RISK MANAGEMENT

Effective risk management is crucial for an organisation's smooth operation. At the same time, it's important for the entity to seize opportunities for growth. The Ithala Board, through its sub-committees, oversees this dual responsibility. The RCMC handles risk management on behalf of the Board. Meanwhile, Senior Management fosters a risk-aware culture within the business through communication, education, and training. Our risk management policies are crafted to set appropriate limits and controls, and we regularly review them to ensure they align with market changes, new products, industry best practices, and legislative and regulatory updates. Our aim is to balance risk to minimize potential adverse effects on our financial performance.

| REBUILD<br>2023 - 2024 | REMODEL<br>2024 - 2025 | REIMAGINE<br>2025 - 2026 |
|---|---|---|
| We will invest to rebuild a foundation for the future growth of our franchise | We will remodel our capabilities for operational resilience and innovation | We will reimagine our business with a new delivery model and emerge stronger |
| 1. Sufficient and skilled resources.<br>2. Focus on risk culture and the change.<br>3. Risk Data Aggregation and Risk Reporting (RDARR) and other supporting systems.<br>4. Implementation of policies and improved oversight in all areas to minimise potential losses.<br>5. Re-active risk management to pro-active risk management. | 1. Remodel risk oversight in terms of the business strategy.<br>2. Pro-active and quantitative risk management. | World-class risk management approach |

During the year under review, there were many capacity constraints and these ranged from Executive, Senior Management and Operational levels respectively, thus limiting Ithala's ability to manage risk optimally and in line with best practise.

A major risk was the lack of approval by the Prudential Authority of the Exemption Notice as well as the approval of the Banking Licence. This leaves Ithala in an invidious position of whether to operate as a Financial Services Provider or a fully-fledged bank.



Ithala's five major risks are:

- Cyber risk – We minimise this by monitoring our ICT environment regularly
- Strategy risk – The Board, EXCO and other stakeholders deliberate on Ithala's business model and the execution thereof
- Capital adequacy risk – We ensure sufficient capital injection into Ithala's operations
- Financial crime risk (fraud) – Training and awareness programmes are complemented by a fraud management system
- Compliance risk – Working with regulators and stakeholders to monitor and rectify compliance issues

## Enterprise Risk Management Framework

In executing risk oversight, the Board has adopted an Enterprise Risk Management (ERM) framework, a tool that ensures a comprehensive view of the risks inherent in our strategy, business and operations. Consequently, the management of risk and opportunity is an integral part of all our planning and decision-making processes. Ethical behaviour, compliance with laws and regulations, and sound accounting practices form the foundation of our internal control processes, ensuring effective management of risk.

The ERM framework serves as the fundamental basis and support for the entire risk management structure within the company. The framework establishes the guidelines and procedures for identifying, evaluating, monitoring, and controlling at both the organisational and individual levels. By implementing this framework, Ithala ensures that risk management is a continuous and ongoing process.

## Three Lines of Defence

Ithala follows the Three Lines of Defence model that is aligned with the Basel Committee on Banking Supervision (BCBS) principles as well as the King IV™ Code on Corporate Governance.

The Three Lines of Defence Policy was introduced and approved by the Board in 2022.

The first line of defence at Ithala includes the Executive team, Business unit Managers and Employees. Together, they are responsible for fostering a risk-aware culture and implementing risk monitoring and prevention procedures. Every employee plays a role in this effort.

The second line of defence consists of the Compliance and Risk functions. These functions primarily play the independent assurance, oversight and advisory role and reporting to the Executive team, the Board and other relevant stakeholders.

The role of the third line of defence is fulfilled by the Internal Audit function, which conducts risk-based independent audits and assignments across the organisation.

## Coordinated Assurance

Coordinated Assurance (CA) is inherent in the second and third lines of defence, with a focus on integrating and aligning the assurance process to minimise the possibility of overlaps and also to extend the range of assurance coverage. The CA within Ithala aims to ensure that assurance providers, internal and external, work together to ensure that assurance is obtained in the right areas and in the most cost-effective way possible. This has been enforced by the approval of the CA policy in June 2023.

## The Risk Management Process

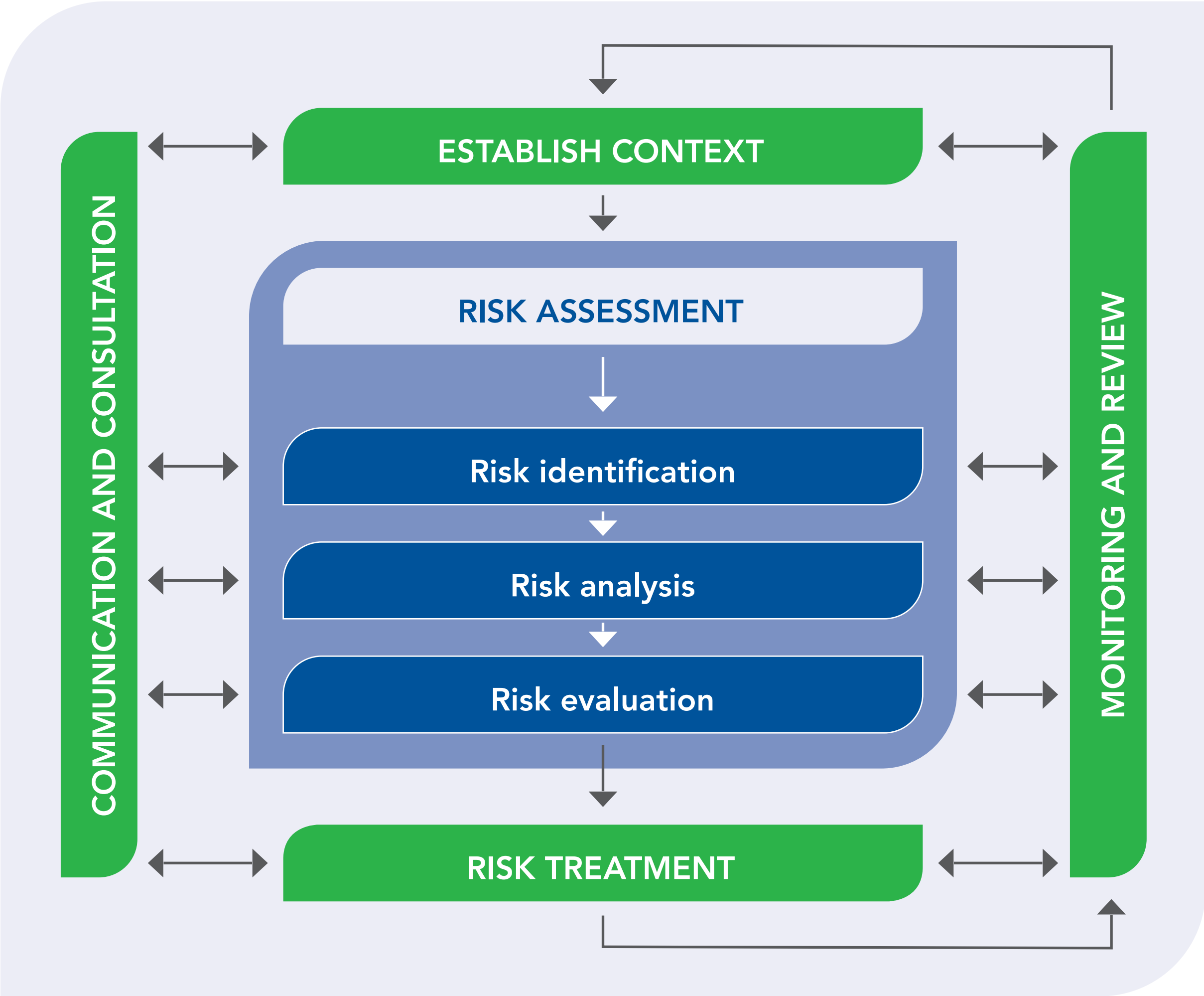
Ithala has implemented the ISO 31000 standard on risk management in its approach. This adoption reflects Ithala's commitment to manage risk effectively and ensuring a robust risk management framework. Within this framework, two key mechanisms have been established: monitoring and review of performance, and communication and consultation.

The monitoring and review of performance allows Ithala to continuously assess and evaluate our performance regarding risk management. By regularly monitoring and reviewing our activities, the business can identify potential risks, assess their impact, and take appropriate measures to mitigate risks. This proactive approach helps Ithala to navigate a volatile, uncertain, and fragile environment by staying responsive to emerging risks and adapting its strategies accordingly.

In addition, effective communication and consultation play a crucial role in managing risk within the organisation. By establishing clear channels of communication and actively engaging with stakeholders, Ithala ensures that information flows smoothly and that all relevant parties are involved in the risk management process. This fosters a culture of transparency and collaboration, enabling the business to gather valuable insights, receive feedback, and make informed decisions regarding risk management.

By incorporating these mechanisms into its risk management practices, Ithala demonstrates its commitment to proactive risk management and creating a resilient environment in the face of uncertainties and challenges. The adoption of ISO 31000 provides a structured framework for these activities, enabling Ithala to effectively identify, assess, and mitigate risks while promoting a culture of continuous improvement and stakeholder engagement.

Risk Management Process based on ISO31000




## Our risk response

To execute changes in the following areas:

1. Operating model
2. Capital injection
3. Change in shareholding, to enable Ithala to operate independent.
   - To raise capital, consolidate and digitise Ithala's IT systems.
   - Address areas of regulatory non-compliance
   - Respond to evolving customer needs with an appropriate array of offerings.

## Outlook

Ithala is committed to improving its internal controls, particularly in the areas of governance and business continuity. To this end, we will continue to monitor and enhance our internal control processes. Additionally, we will align our re-purposed strategy with our ERM Framework and increase its project management capacity to execute key projects, particularly in IT. This will help to reduce risks associated with outsourcing. To proactively detect fraud, Ithala will implement automated fraud detection mechanisms, reducing reliance on whistle-blowing and fraud tip-offs.

# COMPLIANCE

Ithala's Board has embraced a zero-tolerance approach when it comes to regulatory transgressions and unethical behavior. The commitment extends towards fostering a culture of compliance that transcends mere procedural formalities. This compliance ethos is deeply ingrained across all facets of the business. During the year under review, the focal points included aligning with the requirements, of amongst others, the Banks Act and Financial Intelligence Centre Act (FICA), along with the continuous enhancement of the compliance culture. In this context, the following initiatives were undertaken:

- The inspection of the Financial Intelligence Centre (FIC) in 2019 culminated in thirty (30) findings against Ithala. We worked tirelessly and are pleased to report that there are only four (4) findings remaining and this is decreasing steadily. It is expected that all findings will be resolved by the end of 2024, with the implementation of an Anti-Money Laundering (AML) system. This will have a significant impact and contribution on the country's removal from the greylisting dilemma.
- We have successfully embarked on the KYC exercise which resulted in the remediation of over 300 000 of our customers.
- We are working with the PA and the Repayment Administrator in resolving the challenges that emanated because of the non-renewal of the exemption notice which expired on the 15 December 2023.
- We are also engaging the FSCA to resolve the matters relating to non-compliance with Section 48 of Board Notice 194 of 2017 relating to the financial soundness requirements which are consequential to the non-renewal of the exemption notice by the PA.
- We have successfully implemented governance requirements that relate to Market Conduct requirements as contemplated in the Conduct Standards for Banks
- The organisation also embarked on a document digitisation project which ensures the maintenance of the integrity of Ithala business and records, further ensuring that customer information is stored securely on a digital platform.

All the above initiatives will ensure Ithala is fully compliant with many legislative requirements applicable to it as per its Board approved Regulatory Universe.

# INTERNAL AUDIT

Following regulation 38 of the Banks Act and King IV™, an internal audit has been established to assist in establishing and maintaining an effective system of internal controls to manage business risks and opportunities, serving as a third line of defence. The internal audit activities are conducted in line with International Standards for the Professional Practice of Internal Auditing. The Chief Audit Executive (CAE), who holds an independent role within the Executive Committee, reports functionally and directly to the ACC. The CAE is responsible for presenting the internal audit charter, a three-year rolling audit plan, and an annual audit plan to the ACC for review and approval during committee meetings. Every quarter, the CAE furnishes the ACC with a comprehensive report detailing the condition of the governance, risk and control environment, a summary derived from the conducted audit work.

During the year under review, the internal audit function was bolstered by data analysis software that streamlined and automated the internal audit function. Previously, this function was based on a sample representation. This software tests the entire population, thereby yielding comprehensive results and a wider vision of the internal audit function. The benefits of this innovation, whilst speaking volumes, offer Ithala audit outcomes that are far more accurate. The system went live in May 2023.

This was complemented by an automated auditing process that harnessed technology. This bold step also enhanced the internal audit function, paving the way for unqualified audit opinions in the future.

Staff members in the Internal Audit unit must be trained so that they become *au fait* with the mechanics of these systems so that they derive the maximum benefits and harness the technology optimally. Nine staff members in Internal Audit and five members of the Investigation teams were trained in aspects such as auditing, banking and regulatory compliance. This went a long way in upskilling this unit to deliver on their milestones.

The Unit also underwent a Quality Assurance Review which was conducted by an external provider that was accredited by the Institute of Internal Audit. The objective of this review was to verify that Ithala met the requisite professional standards.


# 6 Performance

# FINANCIAL OVERVIEW

The financial year 2023/24 has been marked by challenging economic conditions, characterised by high interest rates, inflationary pressures, and frequent electricity outages. These factors have strained both consumers and businesses, contributing to muted GDP growth.

## Financial Performance

For the financial year 2023/24, Ithala reported a financial loss of R92.0 million, compared to a restated loss of R56.8 million in the previous year. The increase in losses is primarily attributed to the prevailing tough economic conditions, which have resulted in a significant decline in clients' disposable income, impacting their ability to meet their financial obligations. Consequently, Ithala's ECL and bad debts written off surged from R8.7 million last year to R28.6 million this year. Additionally, the company incurred extraordinary and once-off costs related to the Section 12 banking licence application, legal fees, and regulatory compliance, totalling R14.1 million.

## Net Interest Income

Net interest income increased by 16% from R196.4 million to R228.1 million. This growth, despite a decline in loans and advances, was driven by rising interest rates, which resulted in a 28% year-on-year increase in interest income. However, this was counterbalanced by a significant rise in interest expenses, leading to a contraction in the interest margin compared to the previous year, as the company focused on raising funding and enhancing returns on investments to clients.

## Non-Interest Revenue

Non-interest revenue (NIR) grew by 13% increase, largely due to growth in fees from transactional banking and an uptick in transactional volumes. The expansion of our client base, particularly the attraction of more South African Social Security Agency (SASSA) beneficiaries, contributed positively to NIR.

## Credit Impairment Charge

The credit impairment charge rose by over 200% to R28.6 million, reflecting increased impairments and bad debts written off on loans and advances. The challenging economic landscape, marked by sharp rises in interest rates and persistent increases in fuel and food prices, has significantly affected our clients. Deteriorating credit scores due to constrained disposable income further exacerbated the rise in ECL.

## Operating Expenses

Our commitment to investing in personnel, processes, and systems to strengthen the company and ensure regulatory compliance has led to a substantial increase in operating costs, which grew by 16% to R492.1 million. The largest portion of this increase was attributed to staff costs, which rose to R240.0 million, reflecting a 14% year-on-year increase (2023: R211.3 million).

As a result of operating costs rising faster than revenue, our cost-to-income ratio deteriorated to 114.8% (2023: 112.2%). However, this ratio remains favourable compared to budgeted expectations.

## Loans and Advances

Gross loans advanced decreased from R2.31 billion in the previous year to R2.25 billion. This decline was influenced by regulatory restrictions imposed by the Prudential Authority. Of the gross loan balance, 10.1% (R227.4 million) is classified as stage 3, and total ECL raised amounted to R115.8 million, representing 5.14% (2023: 3.99%) of the gross loan balance.

## Amounts Owed to Depositors

Customer deposits at year-end amounted to R2.47 billion (2023: R2.49 billion), reflecting a marginal decrease from the prior year. This decline in deposits is a result of restrictions on actively sourcing customer deposits. Despite growth throughout the financial year, the deposit book was affected by the expiry of the banking licence exemption and regulatory restrictions imposed by the Prudential Authority.

## Capital and Liquidity

Ithala maintains a strong liquidity position, well above regulatory requirements. Our liquidity coverage ratio (LCR) was 401% (2023: 461%), and our net stable funding ratio (NSFR) was 140% (2023: 139%), both significantly exceeding the minimum regulatory threshold of 100%.

The capital adequacy ratio (CAR) ended the financial year at 15.1% (2023: 18.1%), remaining above the regulatory minimum. The year-on-year decline in the CAR is primarily due to the financial losses incurred.

## Conclusion

Despite the adverse economic environment, Ithala is committed to navigating these challenges and positioning itself for future growth. We appreciate the continued support of our stakeholders as we work towards sustainable recovery and enhanced financial stability.

# BUSINESS UNIT OVERVIEW

## Banking sales and services

During the year under review, our customers were constrained by challenging economic conditions and hefty price increases. The scourge of load shedding compounded the problem. Inflation and steep food price hikes culminated in our customers having to deal with decreased disposable incomes.

This consequently led to our customers "dipping" into their investments and savings to survive. This, together with other regulatory restrictions on deposits, resulted in Ithala not growing the savings book. The deposit balance for the year under review was R2.47 billion compared to R2.49 billion, a slight decrease (-0.47%) from the previous financial year.

Ithala saw an increase in its customer base by 11% due to attraction of more SASSA beneficiaries. Transactional banking also recorded an increase of 25% for personal accounts and 21% for business accounts. The rise in entrepreneurship also bodes well for the financial sector in KZN. During the year under review, the income from deposits totalled R170 million, of which debit card accounts contributed 71%.

The uncertainty of a banking licence and the non-renewal of the extension notice posed a mammoth problem for the Business Unit. This limited and impacted our growth, especially with our Public Sector clients receiving social grants from SASSA. Despite all the challenges, the Business Unit was able to onboard new debit card accounts, to the tune of 55 708, which was achieved through external sales activities.

Our active transactional accounts base at the beginning of the financial year, was 96 877 and by the end of the financial year, it had grown to 120 680 (24.57%).

The loans to deposit ratio (LDR), with an internal threshold of 85%, averaged 89% through the financial year. The pressure of our LDR was as a result of macro-economic challenges, making it difficult to extend credit, and also pressurised by the regulatory restrictions in attracting new deposits.

### Credit Granting

In spite of the challenging economic climate, Ithala was able to remain within the stipulated Board-approved credit risk appetite:

- Non-Performing Loans (NPL) – 10%
- Expected Credit Loss (ECL) – 5.5%

As tough economic times pose challenges to our clients, especially the low-to-middle-income groups, Ithala provides support in the form of debt arrangements and payment holidays. We also continued with a voluntary surrender programme, where clients are afforded the option of surrendering their assets with the intention of not incurring greater losses. 10% of our clients who were in distress, opted for this solution to prevent expensive and lengthy litigation.

Ithala managed to retain a healthy customer base despite the economic challenges and a gradually diminishing demand for credit, translating to a muted and negative growth in the loan book.

### Our Customers

Our customers' strong loyalty and affinity with our brand is evident in the Customer Satisfaction study. Ithala achieved an impressive 86% Customer Satisfaction score, surpassing our internal target of 80%. Moreover, our NPSc of 54% exceeded the target of 50% and outperformed the industry benchmark. A significant 58% of our customers expressed their willingness to recommend Ithala to their friends and family.

Customers also rated our brand positively based on key attributes aligned with our vision and brand positioning strategy, which aims to be the preferred financial service provider for wealth creation and transforming lives. These attributes include being a brand that helps customers manage money, save, and create wealth. Overall, our customers associate Ithala with being a long-standing banking partner, understanding their needs in difficult times, offering suitable financial products, enabling savings, convenient location, and supporting the creation of wealth. These results affirm the relevance of Ithala and its continued role in transforming lives and creating wealth within our communities.

## Insurance

At Ithala, we focus on financial planning and building professional relationships with our clients. We prioritise understanding their unique financial and personal situations to develop tailored financial plans and actively manage them in collaboration with our clients. Our commitment to serving the state and the people of South Africa has driven us to diversify our existing model.

One significant development in our diversification efforts is the establishment of Ithala SOC Corporate Brokerage. Through this initiative, we now offer our clients access to products and services that were previously unavailable. During the review period, we implemented a comprehensive four-pronged strategy aligned with our distribution channels.

1. **Cell Captives:** This allows us to provide both long- and short-term insurance solutions and generate revenue through binder and commission income.
2. **Brokerage Arrangements:** This enables us to distribute external insurance products and earn commission revenue.
3. **Key Account Arrangements:** We establish key account arrangements with entities throughout the province, offering customised solutions to these entities and their value chains using both cell captive and external insurance products.
4. **Digital Platform:** We have invested in our MyIthala website, which serves as a hub for all the products we market. We are actively engaging with various service providers to develop a digital end-to-end process that caters to the needs of individuals and businesses (B2B).

We have won the National Customer Award from Mutual & Federal (OMART) for two consecutive years, demonstrating our prowess and competitive edge. We continue to build strategic partnerships with entities such as EDTEA, Shackleton Life, Guard Risk, and OMART, focusing on increased business developments and retention.

The appointment of a new Key Account Manager will help build firm relationships, especially with the banking fraternity and government departments. We also plan to implement an automated system to streamline various insurance interactions. This will complement the automated application system that will replace the laborious manual system, affording us greater autonomy and refining our business processes further.

## People

The backbone of any entity is its people. It is therefore a core responsibility of Ithala to create a conducive work environment for its human capital. A high-performing workspace also necessitates the recruitment, development and retention of its people, which has been a key focus. Executive Management also played a proactive role in fostering a productive work culture, whilst prioritising wellness, safety and a healthy work-life balance.

We have prioritised training as a gateway to developing skills to empower Ithala staff members to deliver optimally in a stimulating work environment. We have leveraged funding from BankSeta to roll out multi-faceted IT training programmes.

As we move to a streamlined Office 365 platform, we intend to use Sharepoint to create and maintain a fully-functioning intranet so that employees can access information, templates and forms as we navigate the digital era with gusto. Communication is an important part of an entity, ensuring that it remains transparent and proactive in its dealing with its greatest asset: its people!

**Our strategic imperatives included:**

- Realignment of current talent and resources towards key strategic functions for the future of the business
- Development of a compelling value proposition to position Ithala as an employer of choice
- Implementation of capacity-building initiatives while maintaining existing development programmes
- Embed a performance culture through effective performance engagements
- Introduction of organisational development themes to shape Ithala's culture
- Engagement in learnership programmes for students
- Ensuring employee wellness and health, including Executive Wellness

# ANNUAL PERFORMANCE REPORT

Annual Performance Report for the financial year ended 31 March 2024.

## Summary

Out of the 41 goals set for the FY2023/24, Ithala has achieved 10, which is 24% of the set targets.

| FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 40%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicator** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| Secure the banking licence and designation as clearing participant in the National Payment System | Submit application for authorisation to establish a bank per Section 12 of the Banks Act | By 30 June 2023 | 30 June 2023 | Section 12 application for authorisation to establish a bank was submitted to the Prudential Authority (PA) on 30 June 2023. Ithala Section 12 application was not assessed by the PA and was declined on technical grounds. |
| | Submit application for registration as a bank as per Section 16 of the Banks Act | Within 12 months of being authorised under Section 12 of Banks Act | On hold | Section 16 application will commence once Section 12 authorisation to establish a bank has been obtained. |
| | Submit application for designation as a Clearing Participant into the National Payment System post-acquisition of banking licence | By 31 January 2024 | On hold | Request support and approval from the Repayment Administrator (RA) to apply for Designated Clearing System Participant (DCSP) upon securing a sponsor bank. |
| | Secure extension of Bank sponsorship beyond 31 December 2023 | By 31 October 2023 | In progress | Temporary extension of Bank sponsorship beyond 31 December 2023 was obtained from ABSA to 1 May 2024. Ithala's participation into the NPS, beyond 01 May 2024, continues with ABSA through the support of the RA. |

| FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 40%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicator** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| | Raise R498m capital injection from shareholders, excluding guarantees and commitments of R2.150bn for licence conditions (R'000) | ≥ R248 000 | R51 142 | Received R51,1 million in August 2023 out of a total of R156 million allocated for the 3 financial years to 2025/26. The ultimate shareholders (EDTEA) and Provincial Treasury have indicated that they currently do not have funding. Ithala is exploring other alternative funding mechanisms to ensure the company is adequately capitalised. |
| Stem out losses through sustainable revenue generation and cost containment | Achieve the targeted minimum/(maximum) net profit/(loss) by financial year end (R'000) | ≤ -R175 185 | -R92 047 | Target achieved |
| | Achieve the targeted maximum cost to income ratio (CTIR) by financial year end | ≤ 138.1% | 114.8% | Target achieved |
| | Achieve the targeted JAWS ratio by financial year end | ≤ -25.4% | -1.5% | Target achieved |
| | Achieve the targeted minimum net interest margin by financial year end | ≥ 71.2% | 67.5% | Margins squeezed due to higher rates paid on deposits. Additionally, lending ceased per RA instructions, which saw the decline in the loan book resulting in lower interest income. |
| | Achieve the targeted minimum non-interest income to total income ratio by financial year end | ≥ 50.4% | 48.7% | Non-interest income has fallen short of target, mainly due to lower fee income earned from transactional banking, deposits and fees earned from loans. |
| | Achieve the targeted minimum non-interest income to total expenses ratio by financial year end | ≥ 38.4% | 42.8% | Target achieved |

| FINANCIAL & SHAREHOLDER PERSPECTIVE (WEIGHTING = 40%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicator** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| Maintain optimum business and operational resilience through liquidity and capital management | Achieve the targeted minimum leverage ratio by financial year end | ≥ 12.3% | 10.3% | Capital received was R51.1 million and was lower than the budgeted amount. Ratio is above prudential requirements. |
| | Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by financial year end | ≥ 11.5% | 10.5% | Lower than budgeted growth in customer deposits affected the growth in surplus funds/ liquid assets. This is due to the directive issued by the RA to stop all deposit taking activities. Ratio is above prudential requirements. |
| | Achieve the targeted maximum impaired advances ratio by financial year end | ≤ 8.00% | 8.37% | Strained macro-economic environment and inflationary pressures have contributed to higher impairments over the financial period. |
| | Achieve the targeted minimum capital adequacy ratio (CAR) by financial year end* | ≥ 18.5% | 15.1% | Capital received was R51.1 million and was lower than the budgeted amount. Also, the increased losses have reduced the Teir 1 Capital. Ratio is above prudential requirements. |
| | Achieve the targeted loan to deposit ratio by financial year end | ≤ 83.2% | 91.1% | Due to the directive issued by the RA to stop all deposit taking activities, Ithala was unable able to attract and grow the deposit book in the last quarter of 2023/2024. |
| | Achieve the targeted growth of a mix of demand, term and savings deposits | ≥ 17.8% | -0.5% | Macro-economic challenges lead to less disposable income to save. The presence of the RA also doesn't allow Ithala to promote products. |

*Unaudited key performance indicator (KPI).*

| CUSTOMER PERSPECTIVE (WEIGHTING = 25%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicators** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| Implement Operating Model to improve efficiencies and customer service experience | Achieve the targeted minimum non-interest income from insurance activities by financial year end (R'000) | ≥ R14 949 | R11 057 | Insurance income impacted by the presence of the RA, especially in the last quarter of the financial year. |
| | Achieve the targeted minimum non-interest income from banking activities by financial year end (R'000) | ≥ R204 842 | R203 468 | Due to lower fees earned from loans and advances, fees earned from transactional banking and fees earned from customer deposits. |
| | Achieve the targeted minimum customer deposits balance by financial year end (R'000) | ≥ R2 970 037 | R2 473 764 | Due to the directive issued by the RA to stop all deposit taking activities, Ithala was unable able to attract and grow the deposit book in the last quarter of 2023/2024. |
| | Achieve the targeted minimum new advances amount by financial year end (R'000) | ≥ R546 100 | R260 220 | ALCO passed a resolution to restrict lending due to the breach of the Loans to Deposit Ratio for the first 2 quarters of the financial year. In addition to this, the PA and RA issued directives to stop all loan activities. Ithala has not been lending since January 2024. |
| | Achieve the targeted net primary clients through transactional banking | ≥ 58 600 | 55 708 | Due to the presence of the RA and directive by National Treasury, new SASSA accounts could not be opened. |
| | Achieve the targeted minimum advertising noting score by financial year end | Achieve target of advertising noting score of >50% | 13% | Advertising efforts cannot be sustained to achieve desired results within the current marketing investment. Strategic investment in platforms to maintain awareness throughout the year implemented. |
| | Achieve increased customer satisfaction through superior client service | Achieve customer satisfaction score of >80% | 86% | Target achieved |
| | Achieve increased customer confidence and loyalty through measuring the voice of the customer | Achieve net NPSc score of >50% | 54% | Target achieved |

| BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicators** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| Implement Operating Model to improve efficiencies and customer service experience | Implement the approved new operating model to drive efficiency | 100% adherence to the implementation milestones per approved project plans by 31 October 2023 | In progress | Top 10 high impact processes have been identified which are tracked and monitored by the Project Management Office. |
| | Automate processes to achieve fast response times | Reduce average waiting time by 50% | In progress | Full automation is dependent on other projects/systems which are not yet in place. Digitisation of client documents has assisted in speeding up client service. |
| | Implement fit for purpose to drive productivity | 100% deployment of identified resources by 31 October 2023 | In progress | Not achieved as operating model and branch structures still to be finalised. |
| | Revamp, rebuild and shift clients to choice channels | On time and on budget | In progress | A decision was taken not to proceed with the branch rebuilds or any other new branches as Ithala reconsiders its distribution channel strategy. |
| Run the bank and remodel IT capabilities | Deliver all regulatory risk and compliance initiatives in line with the Banks Act and directives | 90% adherence to the implementation milestones per the approved project plan | 75% | A service provider has been contracted to provide an alternative solution which would be implemented in 8 weeks. |
| | Achieve the execution and delivery of the IT roadmap and key initiatives | 90% adherence to the implementation milestones per the approved project plan | 86% | Delivery of projects staggered for budget purposes. IT resources were also temporarily withdrawn from projects to address fraudulent activities that were ongoing in Q4. |
| | Achieve the execution of support and maintenance of BAU activities ensuring business continuity and customer service | Achieve minimum uptime of 95% | 96% | Target achieved |

| BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%) | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | **Key Performance Indicators** | **Target 2023/2024** | **Actual 2023/2024** | **Management Comments** |
| Treat risks, reduce compliance and audit issues | Achieve an unqualified audit opinion (clean audit) with no material findings on compliance or pre-determined objectives for the financial year ended | Unqualified audit opinion with no material findings on compliance or pre-determined objectives | Unqualified audit opinion with findings on compliance (FY2022/2023) | An unqualified audit opinion, with financial statements free from material misstatements was achieved for FY2022/23. However, findings were raised on irregular expenditure incurred due to expired SLAs and no shareholders' compact. |
| | Achieve the targeted On-time remediation (OTR) threshold by resolving audit issues within agreed timelines | On-time remediation ≥ 75% | Zero audit issues were remediated on time | A total of 13 issues were resolved in 2023/24 FY, however none were resolved on time. Management and Internal Audit are applying effort to reduce the number of issues. |
| | Achieve the targeted reduction rate of Risk Issues Log for the financial year end | Overdue issues ≤ 15% | 63% | Management and Internal Audit are applying effort to reduce the number of issues and ensure overdue status is eliminated by engaging every quarter. |

| PEOPLE, LEARNING & GROWTH PERSPECTIVE (WEIGHTING = 10%) | | | | |
|---|---|---|---|---|
| Strategic Objectives | Key Performance Indicators | Target 2023/2024 | Actual 2023/2024 | Management Comments |
| Empower our People to Lead for Innovation and Growth | Achieve the targeted new job roles and skill set to embed a client centric operating model | 100% adherence to the implementation milestones per the approved project plan | 67% | All profiles to be signed off by line management by end Q1 FY 2024/25. |
| | Achieve the AfriForte requirements for the established standard | Meet all evidence requirements for the established standard | 0 of 9 Goals Achieved | Ithala is undergoing immense levels of uncertainty, which resulted in 6 of the measures to remain as per the previous financial year, and 3 measures deteriorating. |
| | Inculcate a high-performance culture and routine performance management | Performance rating distribution: 10% = <3; 85% = 3; 5% = >3 | 10% = <3<br>83% = 3<br>7% = >3 | Target achieved as at end Q3. 2023/24 results to be confirmed at talent forums scheduled in Q1 FY 2024/25 |
| | Achieve staff wellness through work-life balance and incentives for recognition and rewards | Meet all evidence requirements for the established standard | Work-home interference: 58%; Incentive Scheme Approved | Divisional plans to include interventions to foster a climate of work-life balance |
| | Achieve talent retention and sustainable succession planning | 40% of positions advertised to be earmarked for internal candidates; 50% of internal promotions to be reserved for female candidates | Internal appointments: 46.8%<br>Female appointments: 69.0% | Target achieved |
| | Achieve the targeted learning and development interventions to develop staff in their roles and functions | 80% adherence to the human capital development plan | 48.9% | Various training interventions could not be completed due to reasons ranging from training being discontinued by service provider to delegates not being available. |



# IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL - EXPENDITURE

## IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL EXPENDITURE

### DEFINITIONS

Irregular expenditure means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including—

(a) Public Finance Management Act No. 1 of 1999; or

(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or

(c) any provincial legislation providing for procurement procedures in that provincial government.

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

## FRUITLESS AND WASTEFUL EXPENDITURE

There was no fruitless and wasteful expenditure incurred in the current year (2023: R0).

## IRREGULAR EXPENDITURE

| | 2024 | 2023 |
|---|---|---|
| **Reconciliation of irregular expenditure** | | |
| Opening balance | 113 609 | 111 120 |
| Prior period errors | - | (1 985) |
| **As restated** | **113 609** | **109 135** |
| Add: Irregular expenditure confirmed | 1 366 | 4 474 |
| Less: Irregular expenditure condoned | - | - |
| Less: Irregular expenditure not condoned and removed | - | - |
| Less: Irregular expenditure recoverable | - | - |
| Less: Irregular expenditure not recovered and written off | - | - |
| **Closing balance** | **114 975** | **113 609** |

Irregular expenditure was incurred as a result of not complying with the Supply Chain Management Policy. Prior periods errors relate to transactions that were added to the irregular expenditure register. However, upon conducting determination test, in accordance with the provisions of the Irregular Expenditure Framework, the transactions were deemed not to be irregular expenditure.

| | 2024 | 2023 |
|---|---|---|
| **Reconciling notes to the annual financial statement disclosed** | | |
| Irregular expenditure that was under assessment | - | - |
| Irregular expenditure that relates to the prior year and identified in the current year | - | |
| Irregular expenditure for the current year | 1 366 | 4 474 |
| **Total** | **1 366** | **4 474** |

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year irregular expenditure (under assessment, determination, and investigation)** | | |
| Irregular expenditure under assessment | 4 107 | 4 107 |
| Irregular expenditure under determination | | |
| Irregular expenditure under investigation | 110 868 | 109 502 |
| **Total** | **114 975** | **113 609** |

Irregular expenditure under assessment are the items submitted to Provincial Treasury for condonation which were still being assessed by them at financial year end.

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year irregular expenditure condoned** | | |
| Irregular expenditure condoned | - | - |

No irregular expenditure was condoned.

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year irregular expenditure removed - (not condoned)** | | |
| Irregular expenditure not condonded and removed | - | - |

No irregular expenditure was removed.

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year irregular expenditure recoverable** | | |
| Irregular expenditure not condonded and removed | - | - |

No irregular expenditure was recovered.

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year irregular expenditure not recoverable and written off (irrecoverable)** | | |
| Irregular expenditure not condonded and removed | - | - |

No irregular expenditure was written off.

| | 2024 | 2023 |
|---|---|---|
| **Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure** | | |
| Total | - | - |

Irregular expenditure is being investigated to determine disciplinary action to be taken.



# INFORMATION ON SUPPLY CHAIN MANAGEMENT

## Reporting of procurement by other means, variations and expansions of contracts

REPORTING OF PROCUREMENT BY OTHER MEANS

| No | Project Description | Name of Supplier | Contract Number | Reason for the procure-ment by other means | Value of contract |
|---|---|---|---|---|---|
| 1 | Appointement of service provider for the implementation,maintenance and support of a software solution for Anti Money Laundering for a period of three years. | Sybrin SA (Pty) Ltd | RFB 10/22 | Closed multi-source | R6 340 424.66 |
| 2 | Appointment of a banking licence transaction adviser at Ithala SOC Limited Head Office for a period not exceeding 24 months | Edward Nathan Sonnenbergs Inc. (ENS Africa) | RFB 02/23 | Single Source | R3 500 000.00 |
| 3 | Appointment of a consultant for the Project Manager position in the Office of the CEO for a period of 12 months | Ernest Davidson Financial Service Consultants | RFB 06/23 | Single source procure-ment | R1 680 000.00 |
| 4 | The appointment of a service provider to implement a QLIK sense enterprise data warehouse solution and provide supporting services for a period of 36 months. | Direct Insight Consulting (pty) ltd | RFB 21/22 | Closed multi-source | R4 320 223.00 |
| 5 | Appointment of a service provider to manage the PASA application process for Ithala SOC Limited | Volker and associates (Pty) Ltd | RFB 07/23 | Single source | R2 480 000.00 |
| 6 | Contracting of microsoft desktop support technician | Storage Technology t/a Nexio | RFQ 21952 | Single source | R548 000.00 |
| 7 | Appoint service provider of licences for orbital middleware engine | Orbital Middleware Solutions | RFQ 22001 | Single source | R454 500.00 |
| 8 | Appointment of a service provider to provide led stadium advertising and activation services for Ithala SOC Limited for a period of twenty-four months | Sail Rights Commercializa-tion (Pty) Ltd | RFB 09/23 | Single source | R6 193 894.25 |
| 9 | Appointment of a suitable service provider for the consultation, supply, implementation, support and maintenance of RDARR (BCBS 239) consulting on software at Ithala SOC Limited | Casewise South Africa (Pty) Ltd | RFP 01/23 | Closed multi-source | R19 165 684.62 |
| 10 | Appointment of a service provider to provide and deliver hospitality service for Ithala SOC Limited Head Office | Megapro Holdings (Pty) Ltd | RFQ 22097 | Single source | R75 785.00 |

| REPORTING OF PROCUREMENT BY OTHER MEANS | | | | | |
|---|---|---|---|---|---|
| **No** | **Project Description** | **Name of Supplier** | **Contract Number** | **Reason for the procurement by other means** | **Value of contract** |
| 11 | Standard mail migration licences for Ithala SOC Limited | Storage Technology Services (Pty) Ltd t/a Nexio | RFQ 21915 | Single source | R78 990.58 |
| 12 | Appointment of a service provider to provide potential resources for the secondment of the it project manager for the period of six (6) months at Ithala SOC Limited Head Office | Highbury Solutions (Pty) Ltd | RFQ 22109 | Single source | R983 664.00 |
| 13 | Appointment of a service provider to provide security awareness campaign/programme for Ithala SOC Limited for a period of three (3) years | Business Connexion (Pty) Ltd | RFQ 22084 | Single source | R450 869.00 |
| 14 | Appointment of a service provider to render the reputation management services on an emergency basis at Ithala SOC Limited | Meropa Communications (Pty) Ltd | RFQ 22439 | Single source | R50 000.01 |
| 15 | RFQ 01/19012024- appointment of a service provider to conduct cyber incident response an emergency basis | Business Connexion (Pty) Ltd | RFQ 01/1901202 | Emergency | R 143 520.00 |
| 16 | Appointment of a service provider to implementation of biometrics proof of concept/pilot at Ithala Anton Lembede and Richards Bay branches | Sybrin SA | RFQ 01-19012024 | Single source | R476 512.39 |
| 17 | RFQ 01/25012024- appointment of a service provider to provide the CFO financial regulatory programme | JHJ Training cc | RFQ 01/25012024 | Single source | R247 250.00 |
| 18 | RFQ 22607- appointment of a service provider to provide media services for Ithala SOC Limited | South African Broadcasting Corporation SOC Ltd | RFQ 22607 | Single source | R 242 121.00 |
| 19 | Appointment service provider to provide duo Multi-Factor Authentication (MFA) services on the Virtual Private Network (VPN) on an emergency basis - for a period of 24 months. | Business Connexion (Pty) Ltd | RFQ 22680 | Single source | R 78 064.24 |
| 20 | Appoint a service provider to conduct digital forensics services on an emergency basis | KPMG Services Proprietary Limited | Memo | Emergency basis | R3 000 000.00 |

| REPORTING OF EXPANSIONS AND VARIATIONS OF CONTRACTS THAT ARE ABOVE THE THRESHOLD | | | | | | | |
|---|---|---|---|---|---|---|---|
| **No** | **Project Description** | **Name of Supplier** | **Contract Number** | **Reason for expansion or variation of contract** | **Original contract value** | **Value of contract expansion or variation of contract** | **Value of previous contract expansion or variation of contract** |
| 1 | 40% variation in the purchase order of the Kings Mead LAN cabling and infrastructure installation. | CNP Projects (Pty) Ltd | 10160709 | Realisation of additional work required during execution of works/ services | R514 073.00 | R208 388.63 | - |
| 2 | Shopfitting ad building at Kingsmead offices (42,9%) | Lakeshore Trading | RFQ 21229 | Additional work discovered | R993 545.00 | R426 726.09 | - |
| 3 | Editing and printing of the banking licence application | Ocean 23 (Pty) Ltd | RFQ 21641 | Unforseen additional work discovered during the assignment | R290 214.00 | R138 132.85 | - |
| 4 | Appointment of a service provider to provide white boxing services at Ithala SOC Limited Head Office (53,86) | Ka Lethabo Trading 92 | RFQ 21388 | Variation | R608 286.75 | R327 628.27 | - |
| 5 | Leasing of off-site sales equipment - extension of contract (79%) | Go Rental's (Pty) Ltd | RFQ 21177 | Extension of contract | R115 897.00 | R91 707.90 | - |
| 6 | Appointment of a service provider to advertise tenders in a newspaper. | Intwehlwe Media Services | RFQ 22030 | Erratum | R7 833.01 | R2 623.50 | - |
| 7 | Appointment of a service provider to service and repair faulty roller shutter door at Ithala SOC Limited Mega City branch | Ijozilami Construction and Projects | RFQ 22461 | Variation - 64,8% | R12 500.00 | R8 100.00 | - |
| 8 | Guarding security services at Ithala SOC Limited Head Office | Thabzo Security Services | RFQ 21328 | Contract expires on the 07 March 2024 | R998 844.00 | R249 710.97 | - |

The Accounting Officer confirms that the infomation captured in this report is a true reflection of the approved procurement by other means and the approved expansions and variations of contracts.

# SYSTEMS

In today's fast-evolving financial services landscape where customer expectations and technological advancements constantly shift, warranting financial institutions to stay ahead of the curve to remain competitive. The use of technology becomes vital part of every financial institution's business model to, inter alia, react to disruptive competitors, meet higher customer expectations, and reduce costs. However, the use and reliance on technology carry associated risks such as reputational, legal, and financial that have also risen drastically.

To address the mentioned challenges and opportunities, we embarked on a journey captured in the Ithala IT Roadmap aligned to the IT strategy and ultimately to the corporate strategy to deliver on key initiatives since FY 2022/23 to date, inter alia,

1. Implementation of the Software-Defined Wide Area Network (SD-WAN), which provides greater flexibility (scalability), enhanced security features, and business agility.
2. Migration from Microsoft Exchange 2016 to the O365 platform, to provide advanced security features, end-user productivity (Real-time collaboration, enhanced communication tools, etc), scalability, and cost efficiency.
3. Migration from shared network drives to the SharePoint platform, which provides enhanced accessibility, reduced IT infrastructure requirements, better security, etc.
4. Migration from the QlikView to the QlikSense platform, which provides augmented intelligence features, governed self-service analytics, collaboration hub, self-service data discovery, AI-enabled insights, etc.
5. Upgraded legacy AS/400 to Power9 platform, which delivers better performance, greater energy efficiency, and advanced security features
6. Implemented various cybersecurity tools to improve, amongst other things, our security posture to minimize the company's exposure to cyber risks.

# BUSINESS SUSTAINABILITY

Our goal is to ensure that our activities consistently create and preserve value, leading to both operational and financial sustainability for the business. Over the past few years, we have focused on re-engineering our operating model and modernising our systems.

As a result, we have seen improvements in various areas, with some processes becoming more efficient and taking less time to complete. Our aim is to provide seamless services to our customers, and we will continue our journey of modernization with the customer at the heart of our strategy.

Looking ahead, Ithala has devised a three-pillar strategy for the next three years. For FY2024/25, our goal is to protect and stabilise the business. We will implement measures to secure the future of the organisation and create a sustainable environment for effective operations.

The focus will be on resuming normal business activities and ensuring we deliver on our mandate to serve the under-banked. In the subsequent years, we will focus on investing in and rebuilding the business, leading to optimisation and growth. Our target is to grow our customer base to one million customers by 2027.

# SOCIO-ECONOMIC TRANSFORMATION REVIEW

### Ithala's commitment to community and youth development

Community outreach and youth development are vital for ensuring sustainability and increasing brand relevance. Building strong relationships with stakeholders, particularly with the youth is crucial. At Ithala, our community and youth outreach initiatives in the past year have centred around the flagship Ithala Edu Platform (IEP) online education platform, MEC Christmas for the elderly, Mandela Day, and the Dundee July.

### Ithala Education Platform (IEP)

The Ithala Edu Platform, launched in 2019, has been making significant strides and continues to provide crucial support to Grade 12 learners in KZN and across South Africa. The platform is built on two main pillars: Curriculum and Assessent Policy Statement (CAPS) for grade 12 and an Advanced Pillar comprising Digital Literacy and Financial Literacy. Under CAPS, the platform covers seven Grade 12 subjects, including Accounting, English First Additional Language, Computer Applications Technology, Geography, isiZulu Home Language, Mathematics, and Physical Science. Additionally, the programme offers wellness and career guidance to empower students beyond academics.

The Digital Literacy component equips students with essential digital skills needed for future workspaces and aligns with the 4th and 5th industrial revolutions. This training covers areas such as coding, Machine Learning, Robotics, Internet of Things (IoT), and Marketspace.

Financial literacy is provided through the renowned Ithala Money Talks programme. It guides students through a four-step wealth creation journey, helping them manage debt, start saving, invest and insure, and build multiple streams of income.

The platform fosters interactive engagement between tutors and learners and provides educational materials through its website and mobile application. In addition, it extends its reach beyond online platforms (www.myithala.education) to radio through a partnership with Radio Sajonisi in the Eastern Cape, and physical school roadshows, engaging with 2 000 learners in 32 schools in KZN during the 2023/24 financial year.

The impact of the programme is evident through positive survey results in seven schools across four districts. Students found value in the platform regarding accessibility, content integrity, tutor competence, and its impact on their performance. The programme's impact was recognised at the 2023 Grade 12 awards ceremony and the KZN Teachers Awards. One of our IEP learners, Mr. Uphile Shange, was first in the KZN Top Achievers Awards and was ranked third nationally. Additionally, two of our tutors won Provincial awards at the KZN Department of Education Teachers Awards Ceremony for their outstanding contributions.

### MEC christmas for senior citizens

This programme aims to express gratitude to elderly individuals from historically disadvantaged backgrounds in the KZN. By providing them with groceries during the holiday season, we ensure that they have a better Christmas. The MEC Siboniso Duma, from the Department of EDTEA, distributed over 200 food parcels and blankets to 200 needy families.

### Mandela Day

Mandela Day is a unifying celebration across South Africa, with businesses investing in uplifting the underprivileged. This is a powerful way to honour Mandela's legacy and drive positive change in local communities. As Ithala, we dedicated 67 minutes to revamping a Grade R classroom and play area in Umlazi township. We refreshed the worn-out paint inside and outside the classroom, transforming the space with vibrant colours and recycled tyres to breathe new life into the play area.

### The Dundee July

The Dundee July horse racing event has a rich 19-year history. It is considered the premier trotting horse racing event in KZN, held in Dundee in the Endumeni Municipality. This event plays a significant role in promoting the participation of Black horse owners and jockeys in the lucrative horse racing industry while also driving economic development in rural areas. With the event's objectives aligned with Ithala's mandate, Ithala has been a proud partner for the past 12 years, serving as the event's main banking partner and holding its main bank account. Ithala's involvement encompasses providing banking services to all stakeholders involved, including horse owners, jockeys, SMEs, and patrons, handling disbursements to winners and sponsoring the Miss Dundee pageant and the Fashion Show. The event has experienced remarkable growth, with spectators increasing from 500 to over 20 000, making significant contributions to the local economy and creating over 3 000 temporary jobs during the event. Furthermore, the stake money has grown substantially, jumping from token prizes to approximately R2 million in 2023. The event is an excellent platform for Ithala to fulfil its mandate and strengthen relationships with key stakeholders.

# 7

# Remuneration

# REMUNERATION REPORT
## STATEMENT FROM THE CHAIR OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

A key focus of our strategy for FY 2023/24 was to drive change within the organisation, and our organisational change and development programme yielded positive results. We were able to continue the implementation of several change and transformation pillars via the Ithala competency framework and Divisional change plans.

Our talent pipeline utilising LinkedIn supported us to fill most vacancies. We are also focused on the continued development of our internal pipeline to ensure growth opportunities for our staff, especially for our senior leaders and Executive positions, with a specific focus on the development of women.

Despite the downturn in the economy, we were able to implement salary increases for our staff. Like recent years, we did not activate the short- and long-term incentives owing to our loss making. However, we sustained our focus on building the organisation. Despite our financial challenges, we delivered our workplace skills and training plan that incorporated regulatory compliance training.

At the heart of our talent acquisition and retention strategy for FY2023/24, was our mandate as a state-owned provincial development financial institution, and the role we can play in South Africa's development agenda. We were also able to develop the young people in our province through a SETA-sponsored Learnership programmes. In addition to this, Ithala has also entered into a bespoke executive coaching programme.

We were able to sustain our comprehensive employee health and wellness offering across the business. In partnership with Lyra, the employee wellness and health service provider, we were able to provide the necessary psychological support to our staff. In addition, an executive wellness programme was introduced.

The company is also committed to continue its focus in responding to gender-based violence with the participation of employees across the business.

**Strategic objectives for FY2022/23 were as follows:**

| | |
|---|---|
| Objective 1: | To provide wellness and health support to all employees |
| Objective 2: | To empower our people to lead for innovation and growth |
| Objective 3: | To innovate for internal client centricity and to optimize our people process |
| Objective 4: | To enable a performance-driven culture |
| Objective 5: | To manage our people cost base |

I wish to thank all the Ithala employees, executive management, my fellow Board members and the human resources team for their commitment during this organisational growth phase.

### Our remuneration philosophy

Ithala's remuneration philosophy has remained like the previous financial years even though the company has not been able to activate its short- and long-term incentive scheme owing to a continued financial loss. In FY2023/24, Ithala was able to pay guaranteed salaries to employees.

Ithala has a distinct payment structure for junior employment levels (A to C levels) compared to management levels (D to F levels). For junior employees, the company pays a 13th cheque and benefits, whereas management levels receive a total cost to company remuneration package. Both categories of remuneration are subject to remuneration benchmarks every three years within the banking and financial sector for comparison purposes. Ithala also conducts salary benchmarks for alignment with the industry.



### Short-term employee benefits

Our short-term employee benefits include guaranteed salaries, annual leave, sick leave, study leave, 13th cheque for A–C band employment categories, contributions to retirement funds, housing subsidy, medical aid, and car and – cellphone allowances (should staff qualify by means of tool of trade).

### Long service award

The Remuneration and Benefits Policy states that the calculation will be based on a cash reward for every five years of continuous service up to retirement age.

An actuarial valuation of the provision for long service awards as of 31 March 2024 quantified the present value of obligations at R3.4 million (2023: R3,8 million). These actuarial valuations are conducted annually. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 11,20% (2023: 10.20%) and an average salary of inflation of 6,90% (2023: 6.10%).

### Termination benefits

If the termination benefits include post-employment benefits, they are accounted for as detailed above under post- employment benefits. Otherwise, termination benefits payable within 12 months after the end of the reporting period are measured in accordance with the requirements of short-term benefits. If termination benefits are payable beyond 12 months after the end of the reporting period, it is measured in accordance with the requirements of other long-term benefits.

The below benefits are applicable to staff and they are subjected to the following statutory requirements:

- Leave
- Retirement funding
- Healthcare
- Disability cover
- Death cover

Depending on the requirements of a role, the company may allow for certain job-specific structures and/or allowances such as housing allowance for employees who occupy A–C band positions.

### Retirement benefit obligations

Further information regarding retirement benefit obligations can be found in Note 16 of our annual financial statements, on pages 173 to 176.

### Principles and application of payment of incentives

Ithala endeavors to apply its remuneration principles in a fair and consistent manner, and the executive management team solicits guidance from the Human Resources and Remuneration Committee. To this effect the Ithala Incentive Scheme was reviewed and will be implemented in the next financial year. Due to the financial performance of the company, no incentives were paid to staff or executives.

For details on Directors' and Prescribed Officers' remuneration, please refer to Note 22 of our annual financial statements, on pages 179 to 181.

8

# Annual Financial Statements

# DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the Annual Financial Statements (AFS) of Ithala SOC Limited (Ithala), comprising:

- The statement of financial position as at 31 March 2024;
- The statement of comprehensive income;
- The statement of changes in equity;
- The statement of cash flow for the year ended 31 March 2024;
- The notes to the AFS, which include a summary of significant accounting policies and other explanatory notes; and
- The Directors' Report, in accordance with IFRS, as prescribed by the International Accounting Standards Board (IASB).

To enable the Directors to meet these responsibilities:

- The Board and management set standards while management implements systems of internal controls, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded, and the risk of fraud, error or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Audit and Compliance (ACC), appraises, and when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The ACC, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the Directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The company consistently adopts appropriate and recognised accounting policies which are supported by reasonable judgements and estimates, and provides additional disclosures when compliance with the specific requirements in accordance with International Financial Reporting Standards (IFRS) is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Company's financial position and financial performance.

The Directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management. All employees are required to maintain the highest ethical standards in ensuring that the company's practices are concluded in a manner, which is above reproach, in all reasonable circumstances.

The Directors conducted an assessment of the company's ability to continue as a going concern and included appropriate disclosure in the Directors' Report. The basis of accounting was adopted by the Board after enquiring from management and giving due consideration to information presented to the Board, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto. Accordingly, the Directors have no reason to believe that the company will not be able to continue as a going concern in the year ahead.

The Auditor General of South Africa (AGSA), who was appointed as independent auditor in terms of the Public Audit Act, Act No. 25 of 2004 and the PFMA, audited the Company's AFS. Their report is presented on pages 112 to 120.



# APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The AFS of Ithala were approved by the Board on 31 July 2024 and are signed on their behalf by:

| | |
|---|---|
| **Mr Mpumzi Pupuma** | **Dr Thulani Vilakazi** |
| Chairman of the Board | Chief Executive Officer |

# COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Company Secretary of Ithala, that for the year that ended 31 March 2024, the Company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up-to-date.

**Mrs Nomusa Mzimela**
Company Secretary



# AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee (ACC) presents its report for the financial year that ended 31 March 2024 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [In terms of Section 51(1)(a)(ii) and 76(4)(d) of the PFMA, Section 94(7)(f) of the Companies Act, the Banks Act, and the Code of Corporate Practices and Conduct set out in the King IV Report on Corporate Governance.

The ACC was constituted in accordance with applicable legislation and regulations.

**Purpose of the ACC**

The ACC is a Committee of the Board and in addition to having specific statutory responsibilities in terms of the Companies Act, assists the Board through advising and making submissions on financial reporting, and oversees the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the Company.

**Terms of reference**

The ACC adopted formal terms of reference that was approved by the Board and has executed its duties during the past financial year in accordance with these terms of reference.

**Membership and attendance**

The ACC consists of three members, all of whom are Independent Non-Executive Directors. The Committee meets at least four times per year.

The names of the members and attendance at meetings are recorded in the corporate governance section of the integrated report.

The CEO, CFO, Senior Executives of the Company and representatives from the external and internal auditors attend the Committee meetings by invitation only.

The internal and external auditors have unrestricted access to the ACC.

**Statutory duties**

In the execution of its statutory duties during the past financial year, the ACC:

- Believes that the appointment of the AGSA as auditor complies with the relevant provisions of the Companies Act and the PFMA;
- Reviewed and approved the fees to be paid to the AGSA as disclosed in Note 22 of the AFS;
- Reviewed and approved the terms of engagement of the AGSA;
- Reviewed the quality of financial information;
- Reviewed the Integrated Annual Report and AFS;
- Received no complaints relating to:
    - The accounting practices and internal audit of the Company;
    - The content or auditing of its financial statements;
    - The internal financial controls of the Company; and
    - Any other related matters.
- Made a submission to the Board on matters concerning the Company's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

**Oversight of risk management**

The ACC:

- Received assurance that the processes and procedures followed by the Risk and Capital Management Committee (RCMC) are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas were appropriately addressed:
    - Financial reporting risks;
    - Internal financial controls;
    - Fraud risk as it relates to financial reporting; and
    - IT risk as it relates to financial reporting.

**Internal financial controls**

The ACC:

- Reviewed the effectiveness of the Company's system of internal financial controls, including receiving assurance from management, internal audit and external audit;
- Reviewed significant issues raised through the internal and external audit processes;
- Reviewed policies and procedures for preventing and detecting fraud; and
- Reviewed significant cases of misconduct or fraud or any other unethical activity by employees of the Company.

Based on the processes and assurances obtained, the Committee believes that significant internal financial controls are effective.

**Regulatory compliance**

The Committee is of the opinion that controls over compliance with laws and regulations are partially effective, however, viable action plans are in place to address the areas of concern.

**External audit**

The ACC:
- Reviewed the external audit scope to ensure that the critical areas of the business are addressed; and
- Reviewed the external auditor's report including issues arising out of the external audit.

The external auditors furthermore provided written assurance to the ACC that they remained independent of the Company.

Details of the external auditor's fees are set out in Note 22 of the AFS.

**Internal audit**

The ACC:
- Reviewed and recommended the internal audit charter for approval;
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- Reviewed internal audit reports, including the response of management to issues raised therein;
- Satisfied itself that the internal audit function has the necessary resources, budget, and standing/authority within the Company to discharge its functions;
- Approved the internal audit plan; and
- Encouraged co-operation between external and internal audit.

**Combined assurance model**

The Committee determined that a process of coordinating all assurance activities is appropriate to address the significant risks facing the Company for each principal risk and business area.

The model is owned and managed by the Risk function, with the Internal audits and Compliance function being an integral part of the process.

The Committee recognises that there will be continuous enhancement of both the processes and its activities as it matures the approach to fully integrated reporting, particularly in respect of non-financial issues.

**Finance function**

The Audit and Compliance Committee believes that the Chief Financial Officer, Mr MH Gafoor CA(SA), possesses the appropriate expertise and experience to meet his responsibilities in that position.

The Committee is furthermore satisfied with the expertise and adequacy of resources within the finance function.

Based on the processes and assurances obtained, the ACC believes that Ithala's accounting practices are effective.

**Integrated Annual Report**

Based on processes and assurances obtained, we recommended the Integrated Annual Report to the Board for approval.

On behalf of the ACC

**Mrs Given Sibiya CA (SA)**
Chairperson



# DIRECTORS' REPORT

The Directors of Ithala take pleasure in presenting their report, for the year that ended 31 March 2024.

**Introduction**
Ithala is wholly-owned by IDFC, which, in turn, is wholly-owned by the KwaZulu-Natal Provincial Government. Formally established in 2001 to enhance the Group's capital position through its deposit-taking capability, the Company's purpose is to provide financial services to the people of KwaZulu-Natal in areas where such services were not readily available in the past, thereby contributing to the province's socio-economic development.

**Taxation**
The South African Revenue Service (SARS) granted Ithala an income tax exemption in accordance with Section 10(1)(cA)(ii) of the Income Tax Act.

**Changes in Directors**
A full list of Directors is included in the Corporate Governance Report. There was one new appointment to the Board during the period under review and no resignation.

- **Appointment:**
- Mr MH Gafoor (appointed 12 July 2023) – Executive Director

**Going concern**
Despite experiencing a loss of R92 million, primarily due to increased impairments and write-offs totalling R28,6 million and the extra-ordinary and once-off cost incurred, Ithala remains a financially sound business. The Company's robust liquidity position ensures that it can meet its financial obligations effectively. With the unwavering support of our shareholders, the Company is committed to implementing strategic measures to turnaround the business and ensure long-term financial sustainability. An analysis of the trading results in comparison to the prior year show revenue growth on both the net interest income lines and non-interest income lines. The increase in expenses is mainly due to an increase in staff cost to fill key regulatory and revenue generation positions, as per Ithala's turnaround strategy. Also contributing to the increase in expenses is once-off and extra ordinary costs incurred for Section 12 banking licence application, legal fees and other regulatory requirements. Ithala has implemented cost containment and cost reduction measures in the new financial year to ensure Ithala returns to profitability.

Ithala's liquidity continues to remain strong. This is evident in the growth in surplus funds and Ithala's key liquidity ratios which remain well above prudential requirements. As at 31 March 2024 the Company's total assets exceeded total liabilities by R354.2 million (31 March 2023: R395.1 million) and total surplus funds were R609.0 million (31 March 2023: R558.8 million). As at statement of financial position date the capital adequacy ratio of the Company was 15.14% (March 2023: 18.1%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15% (March 2023: 15%).

Despite posting a net loss, the expiry of the banking licence exemption and the suspension of the FSP licence, the Board, with the support of the shareholder and Government of Kwazulu-Natal and affirmed in the letter from the Minister of Finance which states a long-term solution must be found for Ithala, is certain that Ithala will continue to exist in the foreseeable future. The Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

**Financial results**
The results of Ithala for the year that ended 31 March 2024 are disclosed in the AFS, as set out on pages 121 to 214.

**Dividends**
No dividends were declared or paid during the period under review.

**Directors and Company Secretary**
Information relating to the Directors is included on pages 179 to 181. Information relating to the Company Secretary is included in the Integrated Annual Report. The Directors' interest in share capital and contracts, and Directors' remuneration are disclosed in the notes to the AFS.

**Material events after reporting period**

The Directors are not aware of any other events, which are material to the financial position of the Company that occurred between the statement of financial position date and the date of approval of the AFS.

# REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

## Opinion

1. I have audited the financial statements of Ithala SOC Limited (Ithala) set out on pages 121 to 214, which comprise the statement of financial position as at 31 March 2024, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ithala as at 31 March 2024 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

## Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in Note 1.2, the entity incurred a net loss of R 92,05 million (2023: R56,82 million) for the year ended 31 March 2024. Included in the net loss are credit impairments and bad debts written off of R28,55 million (2023: R8,70 million) raised for the year.
8. On 15 December 2023, Ithala's exemption notice expired and has not been renewed. The Prudential Authority's appointment of the Repayment Administrator and the instruction issued to stop lending and deposit-taking activities have contributed to the net loss for the year ended 31 March 2024.
9. Ithala has prepared a turnaround strategy, however, this had to be put on hold when the Repayment Administrator was appointed in December 2023. Ithala will continue to implement this strategy once certainty on its future is decided. The entity continues to rely on the financial support of its parent entity.





10. Furthermore, Ithala received a notice from the Financial Sector Conduct Authority (FSCA), on 26 July 2024, that Ithala's Financial Service Provider (FSP) licence has been suspended with immediate effect. On 27 July 2024, Ithala wrote back to the FSCA to give notice of its intention to file an application in terms of Section 230 of the Financial Sector Regulation Act, 2017 (FSRA) to the Financial Services Tribunal (FST) for a reconsideration of the decisions and also gave notice that it will also be filing an application in terms of Section 231 of the FSRA and in terms of Rule 15 of the Consolidated Rules of the FST that the FSCA's decisions be suspended pending the outcome of the Section 230 reconsideration application.
11. These events and conditions, along with other matters as set forth in note 1.2, indicate that material uncertainties exist which may cast significant doubt on the entity's ability to continue as a going concern.

## Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Material losses and impairments

13. As disclosed in note 27 of the annual financial statements, fraud amounting to R4.20 million was identified in the current year.
14. As disclosed in note 27 of the annual financial statements, the entity wrote off loans amounting to R19,15 million (2023: R4,31 million).
15. As disclosed in note 29 to the financial statements, an impairment loss of R33,31 million (2023: R11,92 million) was incurred as a result of an impairment raised for loans and advances to customers.

## Responsibilities of the accounting authority for the financial statements

16. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the requirements of the PFMA and Companies Act; and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting authority is responsible for assessing the entity'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 appropriate governance structure either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

## Responsibilities of the auditor-general for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the 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 my 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 9, forms part of our auditor's report.

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

21. I selected the following material performance indicators related to Financial and Shareholder Perspective objective presented in the annual performance report for the year ended 31 March 2024. I selected those indicators that measure the entity's performance on its primary mandated functions and that are of significant national, community or public interest.

- Submit application for authorisation to establish a bank per Section 12 of the Banks Act
- Submit application for registration as a bank as per Section 16 of the Banks Act
- Submit application for designation as a Clearing Participant into the National Payment System post acquisition of banking licence
- Secure extension of Bank sponsorship beyond 31 December 2023
- Raise R498m capital injection from shareholders, excluding guarantees and commitments of R2.150bn for licence conditions (R'000)
- Achieve the targeted minimum/(maximum) net profit/(loss) by financial year end (R'000)
- Achieve the targeted maximum cost to income ratio (CTIR) by financial year end
- Achieve the targeted JAWS ratio by financial year end
- Achieve the targeted minimum net interest margin by financial year end
- Achieve the targeted minimum non-interest income to total income ratio by financial year end
- Achieve the targeted minimum non-interest income to total expenses ratio by financial year end
- Achieve the targeted minimum leverage ratio by financial year end
- Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by financial year end
- Achieve the targeted maximum impaired advances ratio by financial year end
- Achieve the targeted minimum capital adequacy ratio (CAR) by financial year end*
- Achieve the targeted loan to deposit ratio by financial year end
- Achieve the targeted growth of a mix of demand, term and savings deposits





22. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery on its mandate and objectives.

23. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the entity's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets

24. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

25. I did not identify any material findings on the reported performance information for the selected indicators.

## Other matter

26. I draw attention to the matter below.

### Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement.

28. The table that follow provides information on the achievement of planned targets and lists the key indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages 84 to 90.

**Financial and Shareholder Perspective**

| Targets achieved: 29% | | |
|---|---|---|
| **Key indicators not achieved** | **Planned target** | **Reported achievement** |
| Submit application for registration as a bank as per Section 16 of the Banks Act | Within 12 months of being authorised under Section 12 of Banks Act | On hold |
| Submit application for designation as a Clearing Participant into the National Payment System post-acquisition of banking licence | By 31 January 2024 | On Hold |
| Secure extension of Bank sponsorship beyond 31 December 2023 | By 31 October 2023 | In Progress |
| Raise R498m capital injection from shareholders, excluding guarantees and commitments of R2.150bn for licence conditions (R'000) | ≥ R248 000 | R51 142 |
| Achieve the targeted minimum net interest margin by financial year end | ≥ 71.2% | 67.5% |
| Achieve the targeted minimum non-interest income to total income ratio by 31 March 2024 | ≥ 50.4% | 48.7% |
| Achieve the targeted minimum leverage ratio by financial year end | ≥ 12.3% | 10.3% |
| Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by 31 March 2023 | ≥ 11.5% | 10.5% |
| Achieve the targeted maximum impaired advances ratio by financial year end | ≤ 8.00% | 8.37% |
| Achieve the targeted minimum capital adequacy ratio (CAR) by 31 March 2024 | ≥ 18.5% | 15.1% |
| Achieve the targeted loan to deposit ratio by financial year end | ≤ 83.2% | 91.1% |
| Achieve the targeted growth of a mix of demand, term and savings deposits | ≥ 17.8% | -0.5% |

## REPORT ON COMPLIANCE WITH LEGISLATION

29. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.

30. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

31. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.





32. The material finding on compliance with the selected legislative requirements, presented per compliance theme is as follows:

### Consequence Management

33. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by Section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.

## OTHER INFORMATION IN THE ANNUAL REPORT

34. The accounting authority is responsible for the other information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act of South Africa. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in objective presented in the annual performance report that have been specifically reported on in this auditor's report.

35. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

36. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

37. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## INTERNAL CONTROL DEFICIENCIES

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

39. The matter reported below is limited to the significant internal control deficiencies that resulted in the material finding on compliance with legislation included in this report.

40. Slow response by management to investigate the reported irregular expenditure in the prior year was due to staff capacity. The entity should address the vacancies in order to finalise the investigations timeously and ensure compliance with the PFMA.

# OTHER REPORTS

41. I draw attention to the following engagements conducted by various parties. These reports do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

## Investigations

42. The entity's forensic investigator is conducting investigations into alleged irregularities in the current and prior year relating to the misappropriation of assets and the procurement processes. These investigations were in progress at the date of this report.

## Audit related services

43. Agreed-upon procedures reports were issued to the Prudential Authority relating to Banks Act returns issued in terms of the Banks Act 94 of 1990.
44. A report was issued to the National Credit Regulator on compliance with the National Credit Act 34 of 2005.
45. A report was issued to the National Department of Human Settlements relating to the annual return submitted in accordance with the Home Loans and Mortgage Disclosures Act 63 of 2000.
46. A limited assurance report was issued to the Registrar of Financial Services Providers on compliance in terms of Section 19(3) of the Financial Advisory and Intermediary Services Act 37 of 2002.
47. A report was issued to the Prudential Authority with respect to information technology project assurance and cybersecurity. The review was requested as part of bilateral engagements with the Prudential Authority in accordance with its powers under the Banks Act 94 of 1990.

Auditor - General.

Pietermaritzburg

31 July 2024





# ANNEXURE TO THE AUDITOR'S REPORT

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

# AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

## Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected material performance indicators and on the entity's compliance with selected requirements in key legislation.

## Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ''s internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Communication with those charged with governance

I 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 I identify during my audit.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

**Compliance with legislation – selected legislative requirements**

| The selected legislative requirements are as follows: Legislation | Sections or regulations |
|---|---|
| Public Finance Management Act No.1 of 1999 | Section 50(3)(b); 51(1)(a)(iii); 51(1)(b)(i); Section 51(1)(b)(ii); 51(1)(e)(iii); 52(b); 54(2)(c); Section 54(2)(d); 55(1)(a); 55(1)(b); 55(1)(c)(i); Section 56; 57(b); 57(d); 66(3)(d); 66(5); 67 |
| Treasury Regulations, 2005 | Regulation 29.1.1; 29.1.1(a); 29.1.1(c); 29.2.1; Regulation 29.2.2; 29.3.1; 31.2.5; 31.2.7(a); Regulation 32.1.1(a); 32.1.1(b); 32.1.1(c); 33.1.1; Regulation 31.1.2(c); 33.1.3 |
| Companies Act 71 of 2008 | Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); Section 45(4); 46(1)(a); 46(1)(b); 46(1)(c); Section 112(2)(a); 129(7) |
| Construction Industry Development Board Act 38 of 2000 | Section 18(1) |
| Construction Industry Development Board Regulations, 2004 | Regulation 17; 25(7A) |
| Second amendment to National Treasury Instruction No. 5 of 202/21 | Paragraph 1 |
| Erratum National Treasury Instruction No. 5 of 202/21 | Paragraph 2 |
| National Treasury Instruction No. 4 of 2015/16 | Paragraph 3.4 |
| National Treasury Instruction No. 5 of 2020/21 | Paragraph 4.8; 4.9; 5.3 |
| National Treasury SCM Instruction No. 03 of 2021/22 | Paragraph 4.2 |
| National Treasury SCM Instruction No. 11 of 2020/21 | Paragraph 3.1; 3.4(b); 3.9 |
| Preferential Procurement Policy Framework Act 5 of 2000 | Section 1; 2.1(a); 2.1(f) |
| Preferential Procurement Regulations, 2022 | Paragraph 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3; 5.4 |
| Preferential Procurement Regulations, 2017 | Paragraph 4.1; 4.2, 5.1; 5.3; 5.6; 5.7; 6.1; 6.2; Paragraph 6.3; 6.5; 6.6; 6.8; 7.1; 7.2; 7.3; 7.5; Paragraph 7.6; 7.8; 8.2; 8.5; 9.1; 10.1; 10.2; Paragraph 11.1; 11.2 |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA) | Section 34(1) |





# STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024

| | Note(s) | 2024 R '000 | 2023 Restated R '000 | 2022 Restated R '000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 3 | 419 956 | 320 050 | 426 355 |
| Statutory investments and reserves | 4 | 264 330 | 245 928 | 272 401 |
| Investments and deposits with banks | 5 | 180 196 | 226 539 | 194 191 |
| Inventories | 6 | 3 400 | 1 305 | 1 499 |
| Receivables | 7 | 21 618 | 18 760 | 19 337 |
| Loans and advances to customers | 8 | 2 127 908 | 2 207 869 | 2 047 328 |
| Properties in possession | 9 | 148 | 148 | 535 |
| Tangible assets and right-of-use assets | 10 | 119 547 | 96 232 | 80 622 |
| Intangible assets | 11 | 11 928 | 3 820 | 3 299 |
| **Total Assets** | | **3 149 031** | **3 120 651** | **3 045 567** |
| **LIABILITIES** | | | | |
| Trade and other payables | 12 | 173 082 | 132 653 | 126 598 |
| Provisions | 13 | 450 | 450 | 450 |
| Loan account with holding company | 14 | 95 427 | 56 493 | 17 899 |
| Customer deposits | 15 | 2 473 766 | 2 485 352 | 2 467 105 |
| Long service obligation | 16 | 3 442 | 3 761 | 4 154 |
| Retirement benefit obligation | 16 | 48 656 | 46 829 | 42 428 |
| **Total Liabilities** | | **2 794 823** | **2 725 538** | **2 658 634** |
| **EQUITY** | | | | |
| Share capital | 17 | 190 | 190 | 190 |
| Share premium | 17 | 839 523 | 788 381 | 723 381 |
| Actuarial reserve | 16 | 14 521 | 12 426 | 13 348 |
| Accumulated loss | | (500 026) | (405 884) | (349 986) |
| **Total equity** | | **354 208** | **395 113** | **386 933** |
| **Total Equity and Liabilities** | | **3 149 031** | **3 120 651** | **3 045 567** |

Refer to note 37 for a narrative disclosure of the impact of prior period errors on Trade and other payables, and the Accumulated loss.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Note(s) | 2024<br>R '000 | 2023 Restated<br>R '000 |
|---|---|---|---|
| Interest income from an effective interest rate | 18 | 337 075 | 264 044 |
| Interest expenditure from an effective interest rate | 19 | (108 939) | (67 613) |
| **Net interest income** | | **228 136** | **196 431** |
| Non-interest revenue | 20 | 194 656 | 171 668 |
| Credit impairments (raised)/reversed | 29 | (28 551) | (8 700) |
| Other income | 21 | 19 078 | 19 894 |
| **Operating income** | | **413 319** | **379 293** |
| Interest expense on non-trading activities | 19 | (15 411) | (10 205) |
| Operating expenses | 22 | (492 050) | (424 986) |
| **Loss for the year** | | **(94 142)** | **(55 898)** |
| **Other comprehensive income:** | | | |
| **Items that may not be reclassified to profit or loss:** | | | |
| Actuarial gains/(losses) | 16 | 2 095 | (922) |
| **Total comprehensive loss for the year** | | **(92 047)** | **(56 820)** |
| **Attributable to:** | | | |
| Equity holders of the Company | | (92 047) | (56 820) |

Refer to note 37 for a narrative disclosure of the impact of prior period errors on operating expenses.





# STATEMENT OF CHANGES IN EQUITY

| | Share capital<br>R '000 | Share premium<br>R '000 | Total share capital<br>R '000 | Actuarial reserve<br>R '000 | Accumulated loss<br>R '000 | Total equity<br>R '000 |
|---|---|---|---|---|---|---|
| Opening balance as previously reported | 190 | 723 381 | 723 571 | 13 348 | (367 223) | 369 696 |
| Adjustments | | | | | | |
| Prior period error (refer to note 37) | - | - | - | - | 17 237 | 17 237 |
| **Balance at 01 April 2022 as restated** | **190** | **723 381** | **723 571** | **13 348** | **(349 986)** | **386 933** |
| Loss for the year before restatement (refer to note 37) | - | - | - | - | (59 589) | (59 589) |
| Other comprehensive loss | - | - | - | (922) | - | (922) |
| Issue of shares | - | 65 000 | 65 000 | - | - | 65 000 |
| Prior period errors (refer to note 37) | - | - | - | - | 3 691 | 3 691 |
| **Balance at 01 April 2023 as restated** | **190** | **788 381** | **788 571** | **12 426** | **(405 884)** | **395 113** |
| Loss for the year | - | - | - | - | (94 142) | (94 142) |
| Other comprehensive loss | - | - | - | 2 095 | - | 2 095 |
| **Total comprehensive loss for the year** | **-** | **-** | **-** | **2 095** | **(94 142)** | **(92 047)** |
| Issue of shares | - | 51 142 | 51 142 | - | - | 51 142 |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **-** | **51 142** | **51 142** | **-** | **-** | **51 142** |
| **Balance at 31 March 2024** | **190** | **839 523** | **839 713** | **14 521** | **(500 026)** | **354 208** |
| Note(s) | 17 | 17 | 17 | 16 | | |

# STATEMENT OF CASH FLOWS

| | Note(s) | 2024<br>R '000 | 2023<br>Restated<br>R '000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss for the year | | (94 142) | (55 898) |
| **ADJUSTMENTS FOR:** | | | |
| Non-cash items included in loss for the year | 23 | 58 295 | 38 406 |
| Increase in operating liabilities | 24 | 47 958 | 66 981 |
| Decrease/(Increase) in operating assets | 24 | 51 244 | (173 207) |
| **Cash generated by/(utilised) from operating activities** | | **63 355** | **(123 718)** |
| **INVESTING ACTIVITIES** | | | |
| Acquisition and additions of tangible assets excluding leased assets | 10 | (14 919) | (25 820) |
| Acquisition and additions of intangible assets | 11 | (9 339) | (928) |
| Disposal of intangible asset | 11 | 711 | - |
| Cash receipt/(acquisition) of investment | 5 | 49 793 | (30 588) |
| (Increase)/Decrease in statutory investments and reserves | 4 | (18 405) | 26 606 |
| **Net cash generated/(utilised) by investing activities** | | **7 841** | **(30 730)** |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from shares issued | 17 | 51 142 | 65 000 |
| Payments of capital portion of lease liability | 30 | (22 432) | (16 857) |
| **Net cash generated by financing activities** | | **28 710** | **48 143** |
| **Net movement in cash for the year** | | **99 906** | **(106 305)** |
| Cash and cash equivalents at the beginning of the year | 3 | 320 050 | 426 355 |
| **Cash and cash equivalents at end of year** | **3** | **419 956** | **320 050** |
| **Additional information on the operational cash flows from interest** | | | |
| Interest received | | 345 486 | 263 453 |
| Interest paid | | (108 845) | (67 848) |





# ACCOUNTING POLICIES

**Corporate information**

The Company provides key retail financial services including savings and home loan products primarily to previously unbanked citizens. The Company is wholly-owned by the Ithala Development Finance Corporation Limited, a finance development agency which is in turn wholly-owned by the KwaZulu-Natal Provincial Government.

The Company is a limited liability company incorporated and domiciled in South Africa. The address of its registered office and principal place of business is 28 Somtseu road, North Towers, Kingsmead Office Park, Durban, South Africa.

The financial statements for the year ended 31 March 2024 were authorised for issue in accordance with a resolution of the directors on Wednesday, 31 July 2024.

## 1. MATERIAL ACCOUNTING POLICIES

Accounting policies set out below are in line with amendment to IAS1, effective 01 Jan 2023 which requires companies to disclose their material accounting policies rather than their significant accounting policies.

### 1.1 Basis of preparation

The financial statements have been prepared on a going concern basis utilising the historical cost concept except for the postretirement medical and defined benefit obligations are measured in terms of the projected unit credit method.

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS Accounting Standards) as issued by the International Accounting Standards Board (IASB). Its interpretations was adopted by the IASB, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements issued by the South African Financial Reporting Standards Council, Public Finance Management Act (PFMA) and the South African Companies Act, 2008.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.3.

The annual financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

**Functional and Presentation Currency**

The financial statements are presented in South African Rand, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

# ACCOUNTING POLICIES

### 1.2 FINANCIAL SUSTAINABILITY

Ithala posted a loss of R92.1 million (2023: R56.8 million) for the year ended 31 March 2024. The net loss for FY2024, includes Expected Credit Losses (ECL) and bad debts written off of R28.6 million (2023: R8,7 million) as well as extra ordinary and once off cost incurred for the Section 12 banking licence application, legal fees and regulatory compliance totalling R14,1 million. In addition, the appointment of the Repayment Administrator and the instruction issued by him to stop lending and deposit taking activities have seen a decline in revenue in the last quarter of FY2024, adding to the losses. The ECL increased from R8,7 million in the prior year to R28,6 million in the current year mainly due to clients defaulting on their loan obligations. The tough economic conditions experienced in the prior financial year carried over into the 2023/24 financial year. Clients' disposal income have been shrinking making it difficult for them to meet their monthly loan instalments.

As at 31 March 2024 the Company's total assets exceeded total liabilities by R354.2 million (31 March 2023: R395.1 million) and total surplus funds were R609.0 million (31 March 2023: R558.8 million). As at statement of financial position date the capital adequacy ratio of the Company was 15.14% (March 2023: 18.1%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15% (March 2023: 15%)

**Banking Licence Exemption Notice**

Since inception, Ithala has been operating under exemption notices, granted and extended by the Minister of Finance and the Prudential Authority. The last exemption notice expired on 15 December 2023 and the Prudential Authority declined Ithala's request for a further extension. Ithala also submitted a Section 12 application to establish a bank and this was also declined by the Prudential Authority. From 15 December 2023 Ithala has been operating under the Repayment Administrator appointed by the Prudential Authority. Ithala attempted to form an alliance with a registered bank to hold the deposit book while Ithala regularises its operation. However, this was unsuccessful.

Ithala has always been committed to meeting all of its exemption notice conditions. The previous banking licence exemptions had very stringent conditions that the Company had to fulfil. All but one condition was met. The condition that was not met was outside the control of Ithala as it required either Provincial Government of KwaZulu-Natal or National Government to provide the Prudential Authority with an irrevocable and unconditional guarantee equal to R0.75 for every R1.00 of the depositor funds held by the Company.

Ithala has made an application to the Minister of Finance to issue an exclusion notice in terms of Section 2(b)(vii) of the Banks Act, 1990 read together with Section 30(2) of the KwaZulu-Natal Ithala Development Finance Corporation, 2013. This application was followed up with a physical meeting with the Minister who committed to consider Ithala's proposal. The Minister of Finance, declined Ithala's request, however indicated that Ithala should co-operate with the RA so a long-term solution can be found for Ithala.

Ithala has been working tirelessly on alternative plans to not only find a short-term solution but a long-term solution. The application to the Minister was only a temporary solution for the short term. Ithala with the support of its shareholder is considering other options to ensure Ithala will be a going concern in the future. However, these options still require Ithala to follow governance process to get these options approved.





# ACCOUNTING POLICIES

**Financial Service Provider (FSP) Licence**

Ithala applied to the Financial Sector Conduct Authority (FSCA) for exemption from Section 48 of Board Notice 194 of 2017 which requires FSP that are not registered Banks to comply with the financial soundness requirements. It is important to note that the aforesaid section does not apply to FSP's that are registered Banks, however, the FCSA is expecting Ithala to comply with these requirements. Accordingly, Ithala has previously been exempted from the Section 48 by the FSCA despite it not being a registered Bank in terms of the Banks Act. The latest exemption application was submitted on July 2022 and the FSCA has since declined the request for exemption.

The decline immediately renders Ithala to be non- compliant with Section 48 of the Board Notice 194 of 2017. It is against that background that the FSCA initially served Ithala with a notice of intention to suspend Ithala's FSP licence and invited Ithala to make representations in countering the pending decision to suspend its FSP license. The FSCA expressed concerns relating to the risk exposure of the premiums collected and the financial soundness of Ithala when applying a simple insolvency test, a test to which registered Banks are not subjected to.

Ithala made representations following numerous engagements with the FSCA and indicated the rationale for the exemption to be granted and the need for the licence to be sustained. Ithala put more emphasis on the legislative gap to cater for its uniqueness and that a simplified calculation should not be applied due to it holding deposits which are recognised as current liabilities.

Ithala made a further submission for reconsideration of the FSCA decision to decline the exemption application and made available a guarantee of R4,1million against the premiums collected.

Ithala received a notice from the FSCA, on 26 July 2024, that the FSP licence has been suspended with immediate effect. On the 27 July 2024, Ithala wrote back to the FSCA that Ithala gives notice of its intention to file an application in terms of Section 230 of the Financial Sector Regulation Act, 2017 (FSRA) to the Financial Services Tribunal (FST) for a reconsideration of the decisions and also gave notice that it will also be filing an application in terms of Section 231 of the FSRA and in terms of Rule 15 of the Consolidated Rules of the FST that the FSCA's decisions be suspended pending the outcome of the Section 230 reconsideration application. We currently await the FSCA response.

**Going Concern Conclusion**

Despite experiencing a loss of R92 million, primarily due to increased impairments and write-offs totalling R28,6 million and the extra-ordinary and once-off cost incurred, Ithala remains a financially sound business. Our robust liquidity position ensures that we can meet our financial obligations effectively. With the unwavering support of our shareholders, we are committed to implementing strategic measures to turnaround the business and ensure long-term financial sustainability.

Despite the ongoing challenges Ithala faces, an analysing the trading results in comparison to the prior year show revenue growth on both the Net Interest income lines and Non-Interest Income lines. The increase in expenses is mainly due to an increase in staff cost to fill key regulatory and revenue generation positions, as per Ithala's turnaround strategy. Also contributing to the increase in expenses is once-off and extra ordinary cost incurred for Section 12 banking licence application, legal fees and other regulatory requirements. Ithala has implemented cost containment and cost reduction measures in the new financial year to ensure Ithala returns to profitability.

# ACCOUNTING POLICIES

Ithala's liquidity continues to remain strong. This is evident in the growth in surplus funds and Ithala's key liquidity ratios which remaining well above prudential requirements.

Ithala continues to receive financial support from the shareholder and KZN Government. The KZN Department of Economic Development Tourism and Environmental Affairs's (EDTEA's) has committed for fund Ithala for the next two financial years, as it has done historically.

Ithala SOC has prepared a turnaround strategy, however, this had to be put on hold when the Repayment Administrator was appointed in December 2023. Ithala will continue to implement this strategy once certainty on it future is decided.

Despite posting a net loss, the expiry of the banking licence exemption and the suspension of the FSP licence which creates a material uncertainty on Ithala's going concern status, management, with the support of the shareholder and Government of KwaZulu Natal and affirmed in the letter from the Minister of Finance which states a long-term solution must be found for Ithala, is certain that Ithala will continue to exist in the foreseeable future. It is expected that all obligations will be settled in the normal course of business and Ithala will implement its alternative option available and accordingly the going concern basis of accounting has been adopted in the preparation of the Annual Financial Statements.

## 1.3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing the Company's financial statements, management is required to exercise its judgment in the process of applying the Company's accounting policies, making estimates and assumptions that affect reported income, expenses, assets and liabilities and disclosure of contingent liabilities.

The Company makes estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities within the next financial year. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and assumptions made predominantly relate to going concern, impairment of loans and advances, tangible assets, intangible assets, measurement of lease assets and liabilities, and actuarial valuations for employment benefits plans.

The estimates and assumptions which may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

**Going Concern**

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Management's consideration for preparing the financial statements on the going concern basis is disclosed in Note 1.2.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# ACCOUNTING POLICIES

Measurement of the expected credit loss allowance – IFRS 9

The measurements of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 28, which also sets out key sensitivities of the ECL and to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Measurement of post-retirement obligations and long service awards

The cost of the defined benefit pension plan and long service awards are determined using an actuarial valuation. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.
Refer to Note 16 for the assumptions used.

Measurement of leased asset and leased liability - IFRS 16 (Note 30)

**Extension and termination options**

Some property leases contain extension options exercisable by the Company before the end of the non-cancelable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. Factors such as the importance of the underlying assets to our operations, undertaking of significant leasehold improvements and our past practice were taken into account to determine reasonable certainty. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

## 1.4 TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

Tangible assets comprise computer equipment, furniture and fittings, leasehold improvements, right of use assets, office equipment and motor vehicles.

Refer to note 1.8 for the accounting policy note for right of use asset.

# ACCOUNTING POLICIES

**Recognition and measurement**

An item of tangible assets is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Tangible assets and capital work-in-progress are initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets.The cost relating to testing the asset to determine that it is functioning properly and any proceeds of selling any items which were produced during the testing phase is included in profit and loss.

Expenditure incurred subsequently for major services, additions to or replacements of parts of tangible assets are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in the statement of comprehensive income in the year in which they are incurred.

**Subsequent measurement**

Tangible assets are subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using the straight-line method. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset

.

Tangible assets are depreciated over the following periods:
- Computer equipment: 3-10 years
- Furniture and fittings: 1-15 years
- Leasehold improvements: 1-10 years
- Office equipment: 2-5 years
- Motor vehicles: 5 years
- Leased property: 1-10 years
- Leased equipment: 1-10 years





# ACCOUNTING POLICIES

**Retirement and disposals of tangible assets**

A tangible asset shall be derecognised on disposal: or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition of a tangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised. Gains shall not be reclassified as revenue.

## 1.5 INTANGIBLE ASSETS

Intangible assets are recognised if it is probable that future economic benefits will flow to the entity from the intangible assets and the costs of the intangible assets can be reliably measured. Intangible assets comprise computer software and licences. Intangible assets are recognised at cost.

Intangible assets with a definite useful life are amortised using the straight-line method over their useful economic life, generally not exceeding 20 years. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

**Computer software and licences**

Acquired computer software and licences are capitalised as intangible assets on the basis of the costs incurred to acquire and bring the specific software into use. Capitalised computer software is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight–line method to write-down the cost of intangible assets to their residual values over their estimated useful lives from the date it is available.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

Costs associated with maintaining computer software programmes are recognised as an expense, as and when incurred.

Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the company and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as work-in-progress up to the date of completion of projects after which the asset is transferred to computer software and accounted for as per the computer software and licences policy. Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# ACCOUNTING POLICIES

**System development costs**

Development costs are recognised as intangible assets when the following criteria are met:
- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is an ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

**Retirement and disposals of intangible assets**

An intangible asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised. Gains shall not be reclassified as revenue.

**Impairment of tangible, Intangible and right of use assets**

The carrying amounts of the company's tangible, intangible and right of use assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss when the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Company assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for CGU or assets should be reversed. If any such indication exists, the recoverable amounts of those cash generating units' assets are estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

A reversal of an impairment loss of assets carried at cost or cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. The increased carrying amount of an asset or CGU attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.





# ACCOUNTING POLICIES

**1.6 FINANCIAL INSTRUMENTS**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as described otherwise:

**Initial recognition and measurement**

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the financial instrument except for loans and advances which is recognised when the funds are transferred. All financial instruments are measured initially at fair value adjusted for directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss (FVTPL) where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Company commits to purchase (sell) the instruments (trade date accounting).

**Day 1 profit or loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net operating income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

**Financial assets classification and subsequent measurement**

The company classifies its financial assets into the following measurement categories based on the company contractual terms and assessment of the business model:

Amortised Cost which consists of the following classes:
- Cash and cash equivalents;
- Loans and advances to customers;
- Investment and deposits with banks;
- Receivables; and
- Statutory investments and reserves

In the current year the Company had no financial assets classified under the fair value business model.

**Business Model**

The business model reflects how the Company managed the asset in order to generate cash flows. That is whether the Company's objective is solely to collect the contractual cash flow from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), the financial assets are classified as part of "other" business and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

# ACCOUNTING POLICIES

Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial assets' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration of time value of money, credit risk, other basic lending risks and a profit margin consistent with a basic lending arrangement. Based on these factors, the Company classifies its debt into the amortised cost category.

The Company reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

**Amortised Cost**

Assets that are held for collection of contractual cash flows where those cash flows represented SPPI and that are not designated at FVTPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured in terms of the Company's expected credit loss policy. A gain or loss from a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income in profit or loss using the effective interest rate method.

**Effective interest rate method**

The effective interest rate is the rate that discounts estimated future cash receipts or payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument. The effective interest rate method considers all contractual terms of the financial instrument and includes any fees or incremental costs which are directly attributable to the instrument and is an integral part of the effective interest rate, but not future credit losses.

In calculating interest income on Stage 1 and Stage 2 financial assets, the effective interest rate is applied to the gross carrying amount of the asset. However, for Stage 3 financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. If the financial asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

The carrying amount of the financial instrument is adjusted if the Company revises its estimate of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

In applying the effective interest method, the company identifies fees that are an integral part of the effective interest rate of loans granted. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. These include origination fees received by the company relating to the creation or acquisition of loans such as compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# ACCOUNTING POLICIES

**Impairment of financial assets**

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with financial assets carried at amortised cost and with the exposures arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company recognises a loss allowance at an amount equal to the lifetime ECL, except for financial assets on which credit risk has not increased significantly since their initial recognition. The loss allowance on financial assets on which credit risk has not increased significantly since their initial recognition are at an amount equal to the 12-month ECL. The loss allowance on receivables are always measured at an amount equal to the lifetime ECL.

**Significant increase in credit risk**

The Company assesses at each reporting date, whether the credit risk of a financial instrument has increased significantly since initial recognition. This is based on the comparison of the risk of default occurring on the financial instrument as at each reporting date to initial recognition over the expected life of the financial instrument. It considers available reasonable and supportable forward-looking information, including movement in the credit score since initial recognition or the last reporting date.

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days outstanding on its contractual payments.

**Impairment of financial assets: Definition of default**

The Company defines a default consistent to the internal risk for internal credit risk management purposes for the relevant financial instruments and considers qualitative factors when appropriate.

The Company's criteria in the determination of impairment of a financial asset or group of assets include observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the customer or borrower;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrowers' financial difficulty, granting the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over indebted; and
- Observable data indicate 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 that may have arisen from global economic conditions that correlate with defaults on the assets because of adverse changes in the financial services sector, which has impacted on borrowers.

# ACCOUNTING POLICIES

A backstop is applied and the financial instrument is considered to be in default if the borrower is more than 90 days outstanding on its contractual payments.

Financial assets subject to re-negotiated terms.

The Company sometimes re-negotiates or otherwise modifies the contractual cash flow of loans to customers. When this happens, the Company assesses whether the new terms are substantially different to the original term.

Loans with re-negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. These loans are not considered to be past due. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Restructuring activities include extended payment arrangements, and deferral of payments, amongst others.

Following restructuring, a previously overdue advance is managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue.

If the terms are substantially different, the Company derecognises the original asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the financial asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

**Write off of financial assets**

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

**Loan commitments**

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Loan commitments are measured at fair value, alternatively, measured at amortised cost if both of the following conditions are met:

- The asset held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.





# ACCOUNTING POLICIES

**Derecognition of financial assets**

When the Company transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset:

- If the Company transfers substantially all the risks and rewards of ownership of the financial asset, the financial asset is derecognised and recognised separately the assets or liabilities, and any rights or obligations created or retained in the transfer.
- If the Company retains substantially all the risks and rewards of ownership of the financial asset, the financial asset continues to be recognised.
- If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company determines whether it has retained control of the financial asset.
- If the Company has not retained control, it derecognises the financial asset and recognises separately the assets or liabilities, and any rights or obligations created or retained in the transfer.
- If the Company has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (measured at the date of derecognition) and any consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

If the transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognise a financial liability for the consideration received. In subsequent periods, the Company recognises any income on the transferred asset and any expense incurred on the financial liability.

**Financial liabilities**

**Classification and measurement**

Financial liabilities are initially measured at fair value adjusted for transaction costs and subsequently classified and measured at amortised cost. The company's financial liabilities at amortised costs included customer deposits, trade and other payables and a loan account with its holding company

**Derecognition of financial liabilities**

Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

**Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported on the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are offset only to the extent that their related instruments have been offset in the statement of financial position.

# ACCOUNTING POLICIES

**Receivables**

**Classification**

Other receivables are deferred assets which arise as a result of the Company having paid an amount in advance, for which the benefit of the corresponding goods and/or services will only be received within the course of the next 12 months from reporting date. These are not included as financial assets.

**Trade and other payables**

**Classification**

Trade and other payables (note 12), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

Trade and other payables are recognised when the company becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value adjusted for transaction costs, if any.

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability. If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of an interest expense, then it is included in profit or loss as interest expenditure calculated with an effective interest rate (note 19).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to note 28 for details of risk exposure and management thereof.

**Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, short-term investments and amounts due from banks on demand or with an original maturity of three months or less from the date of acquisition. Cash and cash equivalents are measured at amortised cost. The amortised cost of the cash and cash equivalents approximates its fair value.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# ACCOUNTING POLICIES

**1.7 TAX**

**Taxation**

The Company is not subject to normal tax as a result of an exemption granted in terms of Section 10(1)(CA)(ii) of the Income Tax Act. The Company is however, subject to indirect taxes which comprise non-recoverable value added taxation (VAT) and skills development levies (SDL).

**1.8 LEASES**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and.
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of tangible assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

# ACCOUNTING POLICIES

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-ofuse asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'tangible assets' and lease liabilities in 'trade and other payables' in the statement of financial position.

**Short-term leases and leases of low-value assets**

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 1.9 INVENTORIES

Inventories consist of debit cards and consumables. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula.

## 1.10 SHARE CAPITAL

Ordinary shares and share premium are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# ACCOUNTING POLICIES

## 1.11 EMPLOYEE BENEFITS

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as wages and salaries, annual leave, sick leave, bonuses, contributions to retirement funds, car allowance, housing subsidy, cellphone allowance and medical aid), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

**Defined contribution plans**

When an employee has rendered service to the company during a period, the company recognises the contribution payable to a defined contribution plan in exchange for that service:

- As a liability, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for services rendered before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
- As an expense.

**Post-retirement medical aid benefits**

The company operates a post-retirement medical aid benefit. The scheme is unfunded.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the post-retirement medical aid fund.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

Current service costs, past service costs, any gain or loss on settlement and interest on the defined benefit liability are recognised immediately in profit or loss to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income. The interest expense is determined on the defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Interest expense is recognised in profit or loss.

# ACCOUNTING POLICIES

**Pension fund and provident fund**

The company previously had a defined benefit provident fund and a defined benefit pension fund which was funded. The defined benefit plans were closed off and employees were transferred to the Old Mutual defined contribution plans. However, the defined benefit plans still have pensioners who have not yet been transferred to Old Mutual as the company is still waiting for the trustees and FSCA to give the go ahead to transfer the pensioners. Plan assets pertaining to the pensioners are therefore still currently held as at year end.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the liability that is outstanding as at year end for the pensioners as well as the plan assets.

When the projected unit credit method calculation results in a potential asset being recognised the net defined benefit asset shall be measured at the fair value of the plan assets less the present value of the defined benefit obligation limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. As at year end the potential asset has not been recognised as the plan assets have not yet been allocated to the company by the FSCA as yet for use in the reduction of future contributions or as a refund.

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise in other comprehensive income. The net interest expense is determined on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Net interest expense is recognised in profit or loss.

**Long service award**

The Company amended the long service award policy during the financial year ended 31 March 2023. Based on the new policy, the employee receives a cash reward for every 5 years of continuous service up to 25 years of service. Prior to the new policy, the employee received a certain percentage of the total cost to company in the year the payment is made based on the number of years the employee has rendered services to the company, which should be a minimum of 10 years. The payment of the award is the cost of providing the benefits which is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the long service award.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date as the valuations are normally performed just before year end.

Current service costs, past service costs, any gain or loss on settlement and interest on the defined benefit liability are recognised immediately in profit or loss to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

ACCOUNTING POLICIES

For the long service award, actuarial gains and losses are recognised in the year in which they arise in profit or loss. The interest expense is determined on the defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period taking into consideration any changes that were made due to contributions and benefit payments made. Interest expense is recognised in profit or loss.

**Termination benefits**

If the termination benefits include post-employment benefits, these shall be accounted for as detailed above under postemployment benefits, otherwise termination benefits payable within 12 months after the end of the reporting period are measured in accordance with the requirements of short-term benefits. If termination benefits are payable beyond 12 months after the end of the reporting period they are measured in accordance with the requirements of other long-term benefits.

## 1.12 PROVISIONS AND CONTINGENCIES

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the expenditure expected to be required to settle the obligation at the end of the reporting period.

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

Contingent liabilities, which include certain guarantees other than financial guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events, not wholly within the Company's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

## 1.13 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the company will comply with the conditions attaching to them, and the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or acquire non–current assets are deducted in arriving at the carrying amount of the assets. Except for non-current assets, the grants are recognised as income over the periods necessary to match the grant with the costs for which they are intended to compensate, on a systematic basis.

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

# ACCOUNTING POLICIES

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

### 1.14 INTEREST INCOME

Interest income is recognised in the statement of comprehensive income on the accrual basis using the effective interest rate method for all financial instruments measured at amortised cost.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Financial assets that have become credit impaired subsequent to initial recognition, the interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. If the financial asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

### 1.15 INTEREST EXPENSE

Interest expenses are recognised in the statement of comprehensive income on the accrual basis using the effective interest rate method for all interest bearing financial instruments.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

### 1.16 NON-INTEREST REVENUE

**Fee and commission income**

Fee income and commission earned from contracts with customers is recognised when the performance obligation (banking services and delivering agency services) has been satisfied by transferring control of the services to the customer. The amount of the consideration that is expected to be transferred in exchange for the services rendered is the transaction price per the contract.





# ACCOUNTING POLICIES

**Other Income**

Other income includes amounts recognised for dormant accounts which are greater than five years and efforts have been exhausted to contact the customer to refund the balances. The Company maintains records of dormant accounts recognised as income in line with the Banking Association of South Africa's guidelines. Amounts disclosed are net of amounts refunded to customers who were able to validate their dormant accounts.

### 1.17 PROPERTIES IN POSSESSION

Properties in possession are properties acquired by the Company which were previously held as collateral for underlying lending arrangements that subsequent to origination, have defaulted.

The Company's properties in possession includes properties registered and available for sale, and properties sold for which transfer to a purchaser is in progress. Properties in possession are classified as other assets upon foreclosure of the loan and they have met the reclassification criteria. The properties are initially recognised at cost, which is the lower of the outstanding loan balance and valuation of the property.

The properties are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses

# NOTES TO THE FINANCIAL STATEMENTS

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

**Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2**

The Company only discloses material accounting policy information in the financial statements. There has been no material impact.

**Definition of accounting estimates: Amendments to IAS 8**

The new definition of a change in accounting estimate has been applied by the Company, refer to accounting policy 1.3 Critical Accounting Judgements and Estimates. There has been no material impact.

**Classification of Liabilities as Current or Non-Current - Amendment to IAS 1**

The Company assessed the requirements to classify a liability as current or non-current based on whether the Company has the right at the end of the reporting period to defer settlement of a liability for at least twelve months after the reporting period. The Company concluded that they do not have the right to defer settlement for at least twelve months after the reporting period. There has been no material impact.

**IFRS 17 Insurance Contracts**

The Company assessed the implications of IFRS 17 to its financial reporting. With consideration to the role of the Company as an intermediary in particular the collection of premiums from policyholders for a brief period before funds are paid onward to the insurers, the activity falls outside the scope of IFRS 17 as the Company is not, as a result of this activity, accepting a transfer of insurance risk. Therefore, the requirements of IFRS 17 is not applicable to the Company. There has been no impact.

### 2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

**Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants: Amendments to IAS 1**

In January 2020 and October 2022, the Board issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer settlement must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has done an initial impact assessment and the Company confirmed that they do not have a right to defer settlement. A detailed assessment will still need to be done on all contracts.

**Lease Liability in a Sale and Leaseback: Amendments to IFRS 16**

The narrow scope amendment requires a seller-lessee in a sale and leaseback transaction to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of a gain or loss relating to the right of use retained by the seller-lessee. The new requirement does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has assessed the impact and the Company does not have any sale and leaseback agreements.

**Disclosures: Supplier Finance Arrangements: Amendments to IAS 7 and IFRS 7**

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has done an initial assessment and established that Company does not utilise finance providers to settle supplier accounts on their behalf

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **3. CASH AND CASH EQUIVALENTS** | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 54 183 | 70 628 |
| Bank balances | 129 851 | 118 156 |
| Call and money market funds | 198 585 | 100 290 |
| Short-term investments and deposits with bank | 37 338 | 30 976 |
| | **419 956** | **320 050** |

Included in cash is an amount of R15.2 million (2023: R 16.0 million) relating to cash in transit at year-end.

The ECL on cash and cash equivalents have not been raised as it was considered immaterial.

## 4. STATUTORY INVESTMENTS AND RESERVES

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Treasury bills | 205 588 | 187 553 |
| Balances with Central Bank | 58 807 | 58 437 |
| Impairment of statutory investments and reserves | (65) | (62) |
| **Total** | **264 330** | **245 928** |
| **Cash flow movement in statutory investments and reserves** | | |
| (Increase)/Decrease in statutory investments and reserves | (18 402) | 26 473 |
| (Decrease)/Increase in impairment of statutory investments and reserves | (3) | 133 |
| | **(18 405)** | **26 606** |

The Company invests in statutory investments to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2024 exceed the minimum reserve requirements by R30.5 million (2023: R 16.8 million), and are invested in terms of the Company's capital management policy.





# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **5. INVESTMENTS AND DEPOSITS WITH BANKS** | | |
| **Investments and deposits with banks are analysed, as follows:** | | |
| Fixed-term funds | 163 128 | 204 318 |
| Investments in state-owned company | 25 877 | 34 478 |
| | **189 005** | **238 796** |
| Impairment of investments | (6 167) | (10 926) |
| Modification loss of investments | (2 642) | (1 331) |
| | **180 196** | **226 539** |
| **Maturity analysis of investments and deposits with banks** | | |
| Maturing up to 1 month | 87 275 | 63 769 |
| Maturing after 1 month but within 3 months | 71 753 | 86 490 |
| Maturing after 3 months but within 6 months | 2 656 | 31 422 |
| Maturing after 6 months but not exceeding 1 year | 27 321 | 57 115 |
| **Total** | **189 005** | **238 796** |
| **Credit impairments for investments and deposits** | | |
| Balance at the beginning of the year | 10 926 | 14 017 |
| Impairments reversed | (4 759) | (3 091) |
| Balance at the end of the year | **6 167** | **10 926** |
| Comprising: | | |
| Impairments for performing investments (stage 1 and stage 2) | 6 167 | 10 926 |
| **Total credit impairments for investments and deposits with bank** | **6 167** | **10 926** |
| **Cash flow movement in investments and deposits with banks** | | |
| Decrease/(increase) in investments and deposits with banks | 45 034 | (33 679) |
| Decrease in impairments | 4 759 | 3 091 |
| | **49 793** | **(30 588)** |

# NOTES TO THE FINANCIAL STATEMENTS

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings (or equivalent rating) with a minimum long term rating of A and also invest surplus funds in other State Owned Companies (SOC's). The financial institutions, in which surplus cash is invested, are Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank and ABSA Bank Limited.

Funds on fixed deposit at ABSA Bank Limited are subject to a general cession in its favour up to an amount of R 60 million (2023: R60 million) for electronic banking facilities granted to the Company. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R 61.4 million (2023: R 150.3 million). In the prior year a R3 million guarantee was issued on behalf of the Company in favour of the South African Insurance Association and was cancelled in the current year.A guarantee of R4.1 million was issued in the current year on behalf of the Company in favour of Guardrisk Life Limited.

At March 2024 the gross carrying value of investments was R189 million (March 2023: R239 million) against which ECL of R6.2 million (March 2023: R10.9 million) was held. Of the ECL, R5.9 million (March 2023: R10.5 million) is from a single investment in Land Bank. The gross carrying value of this investment at 31 March 2024 was R25.9 million (March 2023: R34.0 million). The reduction in the gross carrying value was due to a capital settlement of R8.6 million (2023:R8.5 million). The capital reduction and improved prospects of recovering the investment has reduced the ECL from R10.5 million (March 2023: R13.8 million) to R8.6 million (March 2023:10.5 million). Refer to note 29 for further details.

A modification loss has been recognised on the Landbank instrument due to Landbank defaulting on the settlement of the investment and paying interest at a lower rate than when the investment was initially purchased.

The following table contains an analysis of the credit risk exposure of investments based on the internal credit risk rating grades and year-end stage classification. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these investments.

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Investments - 2024** | | | | |
| Credit Risk Rating Grades | | | | |
| Investment Grade | - | - | - | - |
| Standard Grade | 163 128 | - | - | 163 128 |
| Low Grade | - | 25 877 | - | 25 877 |
| Default | - | - | - | - |
| **Gross carrying amount** | **163 128** | **25 877** | **-** | **189 005** |
| Modification loss | - | (2 642) | - | (2 642) |
| Loss Allowance | (240) | (5 927) | - | (6 167) |
| **Carrying amount** | **162 888** | **17 308** | **-** | **180 196** |





# NOTES TO THE FINANCIAL STATEMENTS

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Investments - 2023** | | | | |
| Credit Risk Grades | | | | |
| Investment Grade | - | - | - | - |
| Standard Grade | 204 318 | - | - | 204 318 |
| Low Grade | - | 34 478 | - | 34 478 |
| **Gross carrying amount** | **204 318** | **34 478** | **-** | **238 796** |
| Modification loss | - | (1 331) | - | (1 331) |
| Loss allowance | (432) | (10 494) | - | (10 926) |
| **Carrying amount** | **203 886** | **22 653** | **-** | **226 539** |

## 6. INVENTORIES

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Debit cards on hand | 2 024 | 1 086 |
| Stationery | 1 376 | 219 |
| | **3 400** | **1 305** |

Inventories to the value of R3.9 million have been expensed during the current year (2023: R1.7 million)

## 7. RECEIVABLES

| | | |
|---|---|---|
| Receivables | 8 220 | 7 921 |
| **Non-financial instruments:** | | |
| Prepayments | 13 398 | 10 839 |
| **Total trade and other receivables** | **21 618** | **18 760** |

Receivables include accruals for service fees receivable, deposits placed and other recoverables.

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **8. LOANS AND ADVANCES** | | |
| Mortgage loans | 1 504 279 | 1 584 564 |
| Housing loans | 12 533 | 15 983 |
| Micro finance - secured loans | 737 479 | 710 551 |
| **Gross carrying amount** | **2 254 291** | **2 311 098** |
| Initiation fees EIR adjustment | (10 263) | (10 873) |
| Credit impairments for loans and advances | (116 120) | (92 356) |
| **Net loans and advances** | **2 127 908** | **2 207 869** |
| **Maturity analysis** | | |
| **Maturing:** | | |
| Up to 1 month | 103 550 | 91 829 |
| From 1 month to 6 months | 76 596 | 73 143 |
| From 6 months to 1 year | 81 010 | 81 865 |
| From 1 year to 5 years | 550 771 | 572 927 |
| After 5 years | 1 442 365 | 1 491 334 |
| | **2 254 292** | **2 311 098** |

The general terms and conditions for the granting of loans relate to serviceability of the loan by the applicant and adequacy of security provided. The loan pricing is linked to the prevailing prime interest rate.

The maturity analysis is based on the remaining period to contractual maturity date as determined at the end of the year.

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **Expected credit loss for loans and advances** | | |
| Balance at beginning of the year | 92 356 | 78 532 |
| **Charge to income statement** | | |
| Amounts written off against specific credit impairment | (19 149) | (4 311) |
| Impairments raised/(reversed) | 42 913 | 18 135 |
| **Balance at end of the year** | **116 120** | **92 356** |





# NOTES TO THE FINANCIAL STATEMENTS

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **Comprising:** | | |
| Impairment for performing loans | 34 687 | 31 631 |
| Impairment for non-performing loans | 81 433 | 60 725 |
| **Impairment for loans and advances** | **116 120** | **92 356** |
| **Credit impairment analysis of non performing loans** | | |
| Balance at beginning of the year | 60 725 | 45 475 |
| Impairment accounts written off | (19 149) | (4 311) |
| Net impairments reversed | 39 857 | 19 561 |
| | **81 433** | **60 725** |
| **Credit impairments analysis of performing loans** | | |
| Balance at beginning of the year | 31 630 | 33 056 |
| Net impairments raised | 3 057 | (1 426) |
| | **34 687** | **31 630** |
| **Segmental analysis of impairments in respect of non-performing loans** | | |
| Retail - Mortgage | 55 637 | 44 495 |
| Retail - Other | 25 796 | 16 230 |
| | **81 433** | **60 725** |

**Non-performing loans and advances - IFRS9**

A non-performing loan is an exposure where the credit quality has declined significantly, or an obligation is past due for more than 90 days. An obligation is past due when the borrower has failed to honour it at the point when it fell due.

At March 2024 the value of non-performing loans was R227 million (March 2023: R204 million) against which credit impairments of R81 million (March 2023: R61 million) were held. There was no individual loan or advance included above that exceeds 10% of the Company's qualifying capital reserves as at 31 March 2024.

# NOTES TO THE FINANCIAL STATEMENTS

**Impaired loans and advances, and specific credit impairments**

Impaired loans and advances are defined as loans and advances in respect of which the Company has raised specific credit impairments. Specific credit impairment is raised in respect of an asset that has triggered a loss event where the security held against the advance is insufficient to cover the total expected losses. Such a loss event may be, for example, significant financial difficulty of the borrower, a breach of contract such as a default, or delinquency in interest or principal payments.

The model aligns to industry standard to not move accounts that were in default back to Stage 1 or Stage 2 immediately after no longer meeting the definition of default (i.e. in excess of 90 days in arrears). Instead, accounts are kept in Stage 3 for a probation/curing period (of around 6 to 12 months for retail portfolios) before moving out of Stage 3.

**Portfolio credit impairment**

Portfolio credit impairment represents the impairment on loans and advances that have not been specifically impaired. These loans and advances have not yet individually evidenced a loss event. A period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident. This period is generally known as the "emergence period".

Qualitative criteria

- The Company considers that the client is unlikely to meet its credit obligations in full without the company having recourse to actions such as realising security (if held).
- The Company has applied for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation.
- The client is placed under business rescue in terms of the Companies Act, 71 of 2008.

**Impact of Interest Rate Hiking Cycle**

The start of the repo interest rate hike cycle by the SARB in at attempt to manage inflation saw a 6.75% total increase over consecutive periods until late 2023 where the prime remains unchanged at 11.75%. In response to the consecutive increases, clients succumbed to other pockets of income such as savings, overdrafts and revolving facilities to meet growing credit obligations as salaries remains largely unchanged or flat increases in 2022 and 2023. The incumbent effect saw our clients falling short on the ability to meet repayments and fall into arrears. Arrears grew to greater than 90 days pushing clients into Stage 3. Aggressive collections strategy, payment holidays and debt restructure credit solutions were provided to clients. The impact of these strategies yielded positive results however the continued negative macro-economic impacts continues to put pressure on the credit performance by clients. The continued inflationary pressures compounded by load shedding, petrol price increases and high unemployment levels requires a cautious approach which as been effected in credit granting, agile collections and conservative provision over the 12-month horizon.



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

**High Risk Taxi Portfolio**

Aggressive credit growth in this identified client need sector was adopted by Ithala SOC over the 2021 period onwards. Efforts to optimise the performance of this portfolio has remained under pressure where unlike the majority of the remaining portfolio falls within a payroll deduction collection, the self-employed clients remain most vulnerable to the negative macro-economic factors such as fuel price increases and loss of clients enroute (due to higher unemployment) levels. As such, necessary efforts to optimise performance such as de-risking via insurance (short-term and long-term) has been actively pursued. Nonetheless a cautious approach remains on this portfolio over the 12-month horizon via the ECL model.

**Expected credit Loss Allowance**

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in Probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

# NOTES TO THE FINANCIAL STATEMENTS

**Mortgage loans and Housing loans**

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Mortgage loans and Housing loans 2024** | | | | |
| Loss allowance as at 31 March 2023 | 1 804 | 19 686 | 46 859 | 68 349 |
| Recalibration of model | (155) | (5 486) | (555) | (6 196) |
| Loss allowance as at March 31, 2023 after recalibration | 1 649 | 14 200 | 46 304 | 62 153 |
| Excluding manual overrides as at 31 March 2023 | - | (159) | - | (159) |
| **Transfers:** | | | | |
| Transfer from Stage 1 to Stage 2 | (335) | 2 265 | - | 1 930 |
| Transfer from Stage 1 to Stage 3 | (46) | - | 2 420 | 2 374 |
| Transfer from Stage 2 to Stage 3 | - | (2 345) | 5 407 | 3 062 |
| Transfer from Stage 2 to Stage 1 | 1 017 | (2 359) | - | (1 342) |
| Transfer form Stage 3 to Stage 1 | 9 | - | (423) | (414) |
| Transfer from Stage 3 to Stage 2 | - | 345 | (1 276) | (931) |
| New financial assets originated or purchased | 68 | 364 | 573 | 1 005 |
| Change in PDs/LGDs/EADs | (3 725) | 6 774 | 11 862 | 14 911 |
| Changes to model assumptions | 3 046 | 2 465 | (352) | 5 159 |
| Macroeconomic forecasts | (31) | (9) | - | (40) |
| Financial assets derecognised during the period | (46) | (269) | (6 677) | (6 992) |
| **Total net P&L charge during the period** | **(43)** | **7 072** | **11 534** | **18 563** |
| **Loss allowance as at 31 March 2024** | **1 606** | **21 272** | **57 838** | **80 716** |
| Write offs | - | - | 7 525 | 7 525 |





# NOTES TO THE FINANCIAL STATEMENTS

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Mortgage loans and Housing loans 2023** | | | | |
| Loss allowance as at 31 March 2022 | 2 350 | 19 588 | 38 639 | 60 577 |
| Recalibration of model | (553) | (3 500) | (1 315) | (5 368) |
| Loss allowance as at March 31, 2022 after recalibration | 1 797 | 16 088 | 37 324 | 55 209 |
| **Movements with P&L impact** | | | | |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | (364) | 2 295 | - | 1 931 |
| Transfer from Stage 1 to Stage 3 | (52) | - | 2 334 | 2 282 |
| Transfer from Stage 2 to Stage 3 | - | (2 109) | 6 053 | 3 944 |
| Transfer from Stage 2 to Stage 1 | 1 208 | (2 761) | - | (1 553) |
| Transfer from Stage 3 to Stage 1 | - | - | (45) | (45) |
| Transfer from Stage 3 to Stage 2 | - | 143 | (558) | (415) |
| New financial assets originated or purchased | 340 | 1 532 | 474 | 2 346 |
| Change in PDs/LGDs/EADs | (2 623) | 6 546 | 10 694 | 14 617 |
| Changes to model assumptions | 1 592 | (1 535) | (6 228) | (6 171) |
| Macroeconomic forecasts | (49) | (170) | - | (219) |
| Applying overrides as at 31 March 2020 | - | - | - | - |
| Financial assets derecognised during the period | (47) | (343) | (3 295) | (3 685) |
| **Total net P&L charge during the period** | **6** | **3 598** | **9 536** | **13 140** |
| **Loss allowance as at 31 March 2023** | **1 804** | **19 686** | **46 859** | **68 349** |
| Write-offs | - | - | 2 443 | 2 443 |

# NOTES TO THE FINANCIAL STATEMENTS

The following table further explains changes in the gross carrying loan amount of the housing loans portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Mortgage loans and Housing loans - 2024** | | | | |
| Gross carrying amount as at 31 March 2023 | 932 279 | 497 133 | 171 134 | 1 600 546 |
| Recalibration of the model | 142 887 | (142 887) | - | - |
| Gross carrying amount as at 31 March 2023 | 1 075 166 | 354 246 | 171 134 | 1 600 546 |
| **Transfers:** | | | | |
| Transfer from Stage 1 to Stage 2 | (163 664) | 163 664 | - | - |
| Transfer from Stage 1 to Stage 3 | (15 170) | - | 15 170 | - |
| Transfer from Stage 2 to Stage 1 | 68 089 | (68 089) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (30 243) | 30 243 | - |
| Transfer from Stage 3 to Stage 1 | 5 756 | - | (5 756) | - |
| Transfer from Stage 3 to Stage 2 | - | 13 368 | (13 368) | - |
| Financial assets derecognised during the period other than write-offs | (42 135) | (11 983) | (18 340) | (72 458) |
| New financial assets originated or purchased | 25 327 | 3 953 | 1 818 | 31 098 |
| Interest accruals and payments received | (34 165) | (10 042) | 1 843 | (42 364) |
| **Gross carrying amount as at 31 March 2024** | **919 204** | **414 874** | **182 744** | **1 516 822** |
| Write offs | - | - | 9 051 | 9 051 |



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Mortgage loans and Housing loans - 2023** | | | | |
| Gross carrying amount as at 31 March 2022 | 975 220 | 473 363 | 147 143 | 1 595 726 |
| Recalibration of model | 18 777 | (18 729) | (48) | - |
| Gross carrying amount as at 31 March 2022 | 993 997 | 454 634 | 147 095 | 1 595 726 |
| **Transfers:** | | | | |
| Transfer from Stage 1 to Stage 2 | (164 675) | 164 675 | - | - |
| Transfer from Stage 1 to Stage 3 | (14 031) | - | 14 031 | - |
| Transfer from Stage 2 to Stage 1 | 101 995 | (101 995) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (30 480) | 30 480 | - |
| Transfer from Stage 3 to Stage 1 | 2 162 | - | (2 162) | - |
| Transfer from Stage 3 to Stage 2 | - | 10 057 | (10 057) | - |
| Financial assets derecognised during the period other than write-offs | (42 902) | (15 308) | (11 885) | (70 095) |
| New financial assets originated or purchased | 96 354 | 33 103 | 1 474 | 130 931 |
| Interest accruals and payments received | (40 622) | (17 550) | 2 157 | (56 015) |
| **Gross carrying amount as at 31 March 2023** | **932 279** | **497 133** | **171 134** | **1 600 546** |
| Write-offs | - | - | 3 302 | 3 302 |

# NOTES TO THE FINANCIAL STATEMENTS

**Micro finance - secured**

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro financed - secured 2024** | | | | |
| Loss allowance as at 31 March 2023 | 2 357 | 7 783 | 13 865 | 24 005 |
| Recalibration of the model | 169 | 1 615 | 2 032 | 3 816 |
| Loss allowance as at March 31, 2023 after calibration | 2 526 | 9 398 | 15 897 | 27 821 |
| **Movements with P&L impact** | | | | |
| Excluding manual overrides as at 31 March 2023 | - | (164) | 89 | (75) |
| **Transfers:** | | | | |
| Transfer from Stage 1 to Stage 2 | (527) | 1 324 | - | 797 |
| Transfer from Stage 1 to Stage 3 | (159) | - | 2 525 | 2 366 |
| Transfer from Stage 2 to Stage 1 | 650 | (1 319) | - | (669) |
| Transfer from Stage 2 to Stage 3 | - | (3 633) | 8 534 | 4 901 |
| Transfer from Stage 3 to Stage 1 | 15 | - | (514) | (499) |
| Transfer from Stage 3 to Stage 2 | - | 371 | (1 377) | (1 006) |
| New financial assets originated or purchased | 608 | 1 486 | 1 463 | 3 557 |
| Change in PDs/LGDs/EADs | (2 265) | 2 233 | 8 801 | 8 769 |
| Macroeconomic forecasts | (51) | (80) | - | (131) |
| Changes to model assumptions and methodologies | 1 396 | 364 | (6 992) | (5 232) |
| Financial assets derecognised during the period | (82) | (282) | (4 831) | (5 195) |
| **Total P&L charge during the period** | **(415)** | **300** | **7 698** | **7 583** |
| **Loss allowance as at 31 March 2024** | **2 111** | **9 698** | **23 595** | **35 404** |
| Write offs | - | - | 8 359 | 8 359 |





# NOTES TO THE FINANCIAL STATEMENTS

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro finance - secured 2023** | | | | |
| Loss allowance as at 31 March 2022 | 2 142 | 8 831 | 6 665 | 17 638 |
| Recalibration of model | (278) | (2 196) | (433) | (2 907) |
| Loss allowance as at March 31, 2022 after calibration | 1 864 | 6 635 | 6 232 | 14 731 |
| **Movements with P&L impact** | | | | |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | (395) | 1 428 | - | 1 033 |
| Transfer from Stage 1 to Stage 3 | (59) | - | 938 | 879 |
| Transfer from Stage 2 to Stage 1 | 624 | (956) | - | (332) |
| Transfer from Stage 2 to Stage 3 | - | (2 287) | 5 167 | 2 880 |
| Transfer from Stage 3 to Stage 1 | 10 | - | (180) | (170) |
| Transfer from Stage 3 to Stage 2 | - | 282 | (750) | (468) |
| New financial assets originated or purchased | 1 282 | 2 242 | 1 078 | 4 602 |
| Change in PDs/LGDs/EADs | (1 329) | 1 060 | 5 919 | 5 650 |
| Macroeconomic forecasts | (56) | 69 | - | 13 |
| Applying overrides as at 31 March 2023 | - | - | (31) | (31) |
| Changes to model assumptions and methodologies | 502 | (565) | (3 759) | (3 822) |
| Financial assets derecognised during the period | (86) | (124) | (749) | (959) |
| **Total net P&L charge during the period** | **492** | **1 149** | **7 634** | **9 275** |
| **Loss allowance as at 31 March 2023** | **2 357** | **7 783** | **13 865** | **24 005** |
| Write-offs | - | - | 528 | 528 |

# NOTES TO THE FINANCIAL STATEMENTS

The following table further explains changes in the gross carrying loan amount of the micro financed - secured portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro financed - Secured Loans 2024** | | | | |
| Gross carrying amount as at 31 March 2023 | 565 257 | 111 534 | 33 760 | 710 551 |
| Recalibration of model | 10 619 | (10 619) | - | - |
| Gross carrying amount as at 31 March 2023 | 575 876 | 100 915 | 33 760 | 710 551 |
| **Transfers:** | | | | |
| Transfer from Stage 1 to Stage 2 | (41 554) | 41 554 | - | - |
| Transfer from Stage 1 to Stage 3 | (10 234) | - | 10 234 | - |
| Transfer from Stage 2 to Stage 1 | 33 228 | (33 228) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (20 560) | 20 560 | - |
| Transfer from Stage 3 to Stage 1 | 3 037 | - | (3 037) | - |
| Transfer from Stage 3 to Stage 2 | - | 4 311 | (4 311) | - |
| Financial assets derecognised during the period other than write offs | (38 340) | (3 904) | (8 103) | (50 347) |
| New financial assets originated or purchased | 122 117 | 9 695 | 3 205 | 135 017 |
| Interest accruals and payments received | (34 818) | (16 242) | (6 691) | (57 751) |
| **Gross carrying amount as at 31 March 2024** | **609 312** | **82 541** | **45 617** | **737 470** |
| Write-offs | - | - | 10 097 | 10 097 |



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro financed - Secured Loans 2023** | | | | |
| Gross carrying amount as at 31 March 2022 | 424 801 | 94 310 | 20 722 | 539 833 |
| Recalibration of model | 13 438 | (13 438) | - | - |
| Gross carrying amount as at 31 March 2022 | 438 239 | 80 872 | 20 722 | 539 833 |
| Transfers: | | | | |
| Transfer from Stage 1 to Stage 2 | (38 034) | 38 034 | - | - |
| Transfer from Stage 1 to Stage 3 | (4 412) | - | 4 412 | - |
| Transfer from Stage 2 to Stage 1 | 14 752 | (14 752) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (15 292) | 15 292 | - |
| Transfer from Stage 3 to Stage 1 | 3 265 | - | (3 265) | - |
| Transfer from Stage 3 to Stage 2 | - | 2 886 | (2 886) | - |
| Financial assets derecognised during the period other than write-offs | (34 192) | (2 519) | (2 706) | (39 417) |
| New financial assets originated or purchased | 201 188 | 35 210 | 4 046 | 240 444 |
| Interest accruals and payments received | (15 922) | (12 905) | (1 482) | (30 309) |
| Applying overrides as at 31 March 2023 | 373 | - | (373) | - |
| **Gross carrying amount as at 31 March 2023** | **565 257** | **111 534** | **33 760** | **710 551** |
| Write-offs | - | - | 669 | 669 |

# NOTES TO THE FINANCIAL STATEMENTS

**Micro finance - unsecured**

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period.There are no changes in the current year.

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro finance - unsecured 2023** | | | | |
| Loss allowance as at 31 March 2022 | - | 146 | 171 | 317 |
| Recalibration of model | - | (20) | - | (20) |
| Loss allowance as at March 31, 2022 after calibration | - | 126 | 171 | 297 |
| **Movements with P&L impact** | | | | |
| Transfers: | | | | |
| Change in PDs/LGDs/EADs | - | (50) | (54) | (104) |
| Financial assets derecognised during the period | - | (76) | (117) | (193) |
| **Total net P&L charge during the period** | **-** | **(125)** | **(172)** | **(297)** |
| **Loss allowance as at 31 March 2023** | **-** | **-** | **-** | **-** |
| Write-offs | - | - | 311 | 311 |

The following table further explains changes in the gross carrying loan amount of the micro finance - unsecured portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above: There were no changes in the current year.

| | Stage 1: 12 month ECL R '000 | Stage 2: Lifetime ECL R '000 | Stage 3: Lifetime ECL R '000 | Total R '000 |
|---|---|---|---|---|
| **Micro Financed - Unsecured Loans - 2023** | | | | |
| Gross carrying amount as at 31 March 2022 | - | 176 | 176 | 352 |
| Transfers: | | | | |
| Financial assets derecognised during the period other than write-offs | - | (97) | (121) | (218) |
| Interest accruals and payments received | - | (78) | (55) | (133) |
| **Gross carrying amount as at 31 March 2023** | **-** | **-** | **-** | **-** |
| Write-offs | - | - | 343 | 343 |



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

**Modifications of loans and advances measured at amortised cost that did not result in derecognition:**

| **2024** | Stage 2 | | Stage 3 | |
|---|---|---|---|---|
| | Gross amortised cost before the modification R '000 | Net modification gain or loss R '000 | Gross amortised cost before the modification R '000 | Net modification gain or loss R '000 |
| Housing loans | 16 988 | - | 6 537 | - |
| Micro finance - secured | 2 839 | - | 1 791 | - |
| **Total** | **19 827** | **-** | **8 328** | **-** |

| **2023** | Stage 2 | | Stage 3 | |
|---|---|---|---|---|
| | Gross amortised cost before the modification R '000 | Net modification gain or loss R '000 | Gross amortised cost before the modification R '000 | Net modification gain or loss R '000 |
| Housing loans | 12 917 | - | 1 678 | - |
| Micro finance - secured loans | 1 876 | - | 2 626 | - |
| | **14 793** | **-** | **4 304** | **-** |

**Mortgage and Housing Loans**

The table below shows the credit quality and the maximum exposure to credit risk based on empirical scores used by the Company, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 28 and the entity's impairment assessment and measurement approach is also set out in Note 28.

| **31 March 2024** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **12 Month PD Range** | | | | |
| **Performing** | | | | |
| 0.00%-0.50% | 221 | 4 | - | 225 |
| 0.51%-11.70% | 918 983 | 307 909 | - | 1 226 892 |
| 11.71%-29.50% | - | 65 530 | - | 65 530 |
| 29.51%-100% | - | 41 431 | - | 41 431 |
| **Non-performing** | | | | |
| 100% | - | - | 182 744 | 182 744 |
| **Gross Carrying amount** | **919 204** | **414 874** | **182 744** | **1 516 822** |

# NOTES TO THE FINANCIAL STATEMENTS

| 31 March 2023 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **12 Month PD Range** | | | | |
| **Performing** | | | | |
| 0.00%-0.50% | 90 | 3 | - | 93 |
| 0.51%-11.70% | 932 189 | 419 007 | - | 1 351 196 |
| 11.71%-29.50% | - | 52 394 | - | 52 394 |
| 29.51%-100% | - | 25 729 | - | 25 729 |
| **Non-performing** | | | | |
| 100% | - | - | 171 134 | 171 134 |
| **Gross carrying amount** | **932 279** | **497 133** | **171 134** | **1 600 546** |

**Secured Loans**

The table below shows the credit quality and the maximum exposure to credit risk based on empirical scores used by the Company, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 28 and the entity's impairment assessment and measurement approach is also set out in Note 28.

| 31 March 2024 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **12 Month PD Range** | | | | |
| **Performing** | | | | |
| 0.00%-0.50% | 19 624 | - | - | 19 624 |
| 0.51%-11.70% | 589 687 | 38 944 | - | 628 631 |
| 11.71%-29.50% | - | 6 653 | - | 6 653 |
| 29.51%-100% | - | 36 946 | - | 36 946 |
| **Non-performing** | | | | |
| 100% | - | - | 45 616 | 45 616 |
| **Gross carrying amount** | **609 311** | **82 543** | **45 616** | **737 470** |

| 31 March 2023 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **12 Month PD Range** | | | | |
| **Performing** | | | | |
| 0.00%-0.50% | 19 040 | 815 | - | 19 855 |
| 0.51%-11.70% | 545 843 | 67 256 | - | 613 099 |
| 11.71%-29.50% | - | 11 348 | - | 11 348 |
| 29.51%-100% | 374 | 32 115 | - | 32 489 |
| **Non-performing** | | | | |
| 100% | - | - | 33 760 | 33 760 |
| **Gross carrying amount** | **565 257** | **111 534** | **33 760** | **710 551** |





NOTES TO THE FINANCIAL STATEMENTS

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **9. PROPERTIES IN POSSESSION** | | |
| Properties in possession | 148 | 148 |

Properties in possession expensed during the current year was nil (2023: R 0.4 million).

Properties in possession relate to immovable properties that have been repossessed by the Company and mainly comprise private residential dwellings.

### 10. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation R '000 | Accumulated depreciation R '000 | Carrying value R '000 | Cost or revaluation R '000 | Accumulated depreciation R '000 | Carrying value R '000 |
| Furniture and fixtures | 23 996 | (18 768) | 5 228 | 24 485 | (18 773) | 5 712 |
| Motor vehicles | 1 026 | (442) | 584 | 1 026 | (271) | 755 |
| Office equipment | 40 377 | (24 240) | 16 137 | 38 146 | (23 159) | 14 987 |
| Computer equipment | 48 440 | (29 643) | 18 797 | 42 254 | (27 063) | 15 191 |
| Leasehold improvements | 51 252 | (43 871) | 7 381 | 50 570 | (42 980) | 7 590 |
| Leased property Note 30 | 128 086 | (57 056) | 71 030 | 87 385 | (38 124) | 49 261 |
| Leased equipment Note 30 | 7 037 | (6 647) | 390 | 7 037 | (4 301) | 2 736 |
| **Total** | **300 214** | **(180 667)** | **119 547** | **250 903** | **(154 671)** | **96 232** |

# NOTES TO THE FINANCIAL STATEMENTS

**Reconciliation of tangible assets and right-of-use assets - 2024**

| | Opening balance R '000 | Additions/ Modification R '000 | Disposals R '000 | Depreciation/ impairment R '000 | Total R '000 |
|---|---|---|---|---|---|
| Furniture and fixtures | 5 712 | 275 | (19) | (740) | 5 228 |
| Motor vehicles | 755 | - | - | (171) | 584 |
| Office equipment | 14 987 | 6 191 | (568) | (4 473) | 16 137 |
| Computer equipment | 15 191 | 7 127 | - | (3 521) | 18 797 |
| Leasehold improvements | 7 590 | 1 326 | - | (1 535) | 7 381 |
| Leased property | 49 261 | 45 853 | - | (24 084) | 71 030 |
| Leased equipment | 2 736 | - | - | (2 346) | 390 |
| | **96 232** | **60 772** | **(587)** | **(36 870)** | **119 547** |

**Reconciliation of tangible assets and right-of-use assets - 2023**

| | Opening balance R '000 | Additions/ Modification R '000 | Disposals R '000 | Depreciation/ impairment R '000 | Total R '000 |
|---|---|---|---|---|---|
| Furniture and fixtures | 3 397 | 3 050 | (38) | (697) | 5 712 |
| Motor vehicles | 102 | 713 | - | (60) | 755 |
| Office equipment | 10 460 | 8 234 | (356) | (3 351) | 14 987 |
| Computer equipment | 7 397 | 9 233 | (47) | (1 392) | 15 191 |
| Leasehold improvements | 4 651 | 4 590 | (311) | (1 340) | 7 590 |
| Leased property | 49 533 | 15 857 | - | (16 129) | 49 261 |
| Leased equipment | 5 082 | - | - | (2 346) | 2 736 |
| | **80 622** | **41 677** | **(752)** | **(25 315)** | **96 232** |

Depreciation of R36.9 million (2023: R25.3 million) are included in the Statement of Comprehensive Income.





# NOTES TO THE FINANCIAL STATEMENTS

## 11. INTANGIBLE ASSETS

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation R '000 | Accumulated amortisation/ impairment R '000 | Carrying value R '000 | Cost or revaluation R '000 | Accumulated amortisation/ impairment R '000 | Carrying value R '000 |
| Computer software | 17 569 | (16 524) | 1 045 | 16 514 | (16 005) | 509 |
| Software work in progress | 51 965 | (41 082) | 10 883 | 44 393 | (41 082) | 3 311 |
| **Total** | **69 534** | **(57 606)** | **11 928** | **60 907** | **(57 087)** | **3 820** |

**Reconciliation of intangible assets - 2024**

| | Opening balance R '000 | Additions R '000 | Disposals R '000 | Transfers R '000 | Amortisation R '000 | Total R '000 |
|---|---|---|---|---|---|---|
| Computer software | 509 | 976 | - | 80 | (520) | 1 045 |
| Software work in progress | 3 311 | 8 363 | (711) | (80) | - | 10 883 |
| | **3 820** | **9 339** | **(711)** | **-** | **(520)** | **11 928** |

**Reconciliation of intangible assets - 2023**

| | Opening balance R '000 | Additions R '000 | Disposals R '000 | Amortisation R '000 | Total R '000 |
|---|---|---|---|---|---|
| Computer software | 916 | - | - | (407) | 509 |
| Software work in progress | 2 383 | 928 | - | - | 3 311 |
| | **3 299** | **928** | **-** | **(407)** | **3 820** |

Amortisation of R0.5 million (2023: R0.4 million) included in the Statement of Comprehensive Income.

Included in Software work in progress is an amount of R32.4 million that was recognised as an intangible asset impairment provision during the 2011 year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010.

Intrinsic value may exist within the capitalised amount from the Temenos MCB project which may be realised on the implementation of a new system.

# NOTES TO THE FINANCIAL STATEMENTS

In 2018 the Company initiated a new banking system project for implementation of an integrated enterprise-wide core banking platform with a digital customer centric paradigm expected to modernise the Company's technology as well as close various risk and compliance exceptions. Work-in-progress incurred to the value of R26 million which was funded by a R40 million grant received from the KZN government for the purpose of funding the project. System development has halted and legal action has been taken against the service provider.The R26 million carrying value has been reduced by the corresponding R40 million grant funding received, thus no impairment was required.

## 12. TRADE AND OTHER PAYABLES

| | 2024<br>R '000 | 2023 Restated<br>R '000 |
|---|---|---|
| Trade payables | 22 344 | 14 709 |
| Accruals* | 8 572 | 14 231 |
| Accrued audit fees* | 5 378 | 4 948 |
| Accrued leave pay | 11 886 1 | 1 132 |
| Accrued 13th cheques | 2 130 | 2 042 |
| Loans and advances reflecting credit balances | 3 966 | 3 134 |
| Deferred Income-Government income | 9 304 | 9 304 |
| Lease liability | 83 476 | 60 054 |
| Sundry Payables | 26 026 | 13 099 |
| | **173 082** | **132 653** |

Grant deferred income relates to a government grant received by the Company for the purposes of assisting it in developing its new banking system. System development has been halted and the full grant funding was not utilised.

Sundry payables include debit card funds due to clients, unallocated deposits received and dormant funds.

*Refer to note 37 for the restatement of Accrual and Audit fees.

**Lease liability reconciliation**

| | 2024 | 2023 |
|---|---|---|
| Opening balance | 60 054 | 61 053 |
| Additions | 45 853 | 15 857 |
| Interest | 9 545 | 5 284 |
| Repayments and other movements | (31 976) | (22 140) |
| | **83 476** | **60 054** |





# NOTES TO THE FINANCIAL STATEMENTS

## 13. PROVISIONS

**Reconciliation of provisions - 2024**

| | Opening balance<br>R '000 | Additions<br>R '000 | Utilised during the year<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|
| Provision | 450 | - | - | 450 |

**Reconciliation of provisions - 2023**

| | Opening balance<br>R '000 | Additions<br>R '000 | Utilised during the year<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|
| Provision | 450 | - | - | 450 |

A legal dispute arose in the early 2000's between Mr Mthembu and the Company. The matter of contention is that Mr Mthembu purchased a property through the Ithala bulk PIP scheme but has been unable to take occupation of the property as it is currently occupied by a third party. A settlement offer was proposed by the Company to Mr Mthembu to cover the following: The purchase price, interest of his loan, and legal cost which was limited to a specific amount.

The Company has offered to settle Mr. Mthembu the R0.5 million which has been rejected. This matter is currently ongoing and there is uncertainty on the settlement value.

## 14. LOAN ACCOUNT WITH HOLDING COMPANY

**Holding company**

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| Loan account with holding company | 95 427 | 56 493 |

The loan with the holding company is unsecured, bears no interest and has no fixed repayment terms

**Maturity analysis**

| | | |
|---|---|---|
| Within 1 year | 95 427 | 56 493 |

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **15. CUSTOMER DEPOSITS** | | |
| Call deposit accounts | 82 884 | 77 004 |
| Savings accounts | 1 080 192 | 1 065 132 |
| Term deposits | 1 310 690 | 1 343 216 |
| | **2 473 766** | **2 485 352** |
| **Maturity analysis:** | | |
| On demand | 1 170 434 | 1 144 787 |
| Up to 1 month | 153 136 | 186 303 |
| From 1 month to 6 months | 750 734 | 701 393 |
| From 6 months to 1 year | 368 219 | 415 119 |
| From 1 year to 5 years | 31 243 | 37 750 |
| | **2 473 766** | **2 485 352** |
| **Savings accounts are further analysed as follows:** | | |
| Savings | 713 103 | 656 876 |
| Trust accounts | 53 984 | 53 922 |
| Debit Card | 302 519 | 339 617 |
| Corporate | 10 586 | 14 717 |
| **Total Savings** | **1 080 192** | **1 065 132** |
| **Term deposits are further analysed as follows:** | | |
| Retail accounts | 909 107 | 844 249 |
| Corporate accounts | 401 583 | 498 967 |
| **Total Term deposits** | **1 310 690** | **1 343 216** |

Savings accounts, as disclosed in the table above, have no fixed terms and are available to customers on demand.

Term deposits are available to customers upon maturity.





# NOTES TO THE FINANCIAL STATEMENTS

## 16. RETIREMENT BENEFIT OBLIGATIONS

**Post-retirement medical obligations**

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date.

92 current and retired employees (2023: 93) are currently covered under the scheme.

The most recent actuarial valuation of the present value of defined benefit obligations were carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 13.60% (2023: 12.20%) and a healthcare cost inflation rate of 9.00% (2023: 8.10%). The movement in the liability annualised in the statement of financial position is as follows:

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Movement in the defined benefit obligation, is as follows :** | | |
| Balance at beginning of the year | 46 829 | 42 428 |
| Current service costs | 654 | 673 |
| Interest costs | 5 536 | 4 586 |
| Net actuarial (gain)/loss recognised during the year | (1 614) | 1 274 |
| Benefit payment | (2 749) | (2 132) |
| **Balance at end of the year** | **48 656** | **46 829** |
| **Amounts recognised in the statement of financial position are as follows:** | | |
| Present value of unfunded obligations | 48 656 | 46 829 |
| **Post retirement medical benefits** | | |
| **Actuarial (loss)/gain** | | |
| **The actuarial loss arose as a result of the following :** | | |
| Change in real discount rate | 2 357 | 3 675 |
| Higher than expected healthcare cost inflation including changes in members' benefit options | (5) | (1 130) |
| Unexpected changes in membership | (738) | (3 819) |
| **Total** | **1 614** | **(1 274)** |

# NOTES TO THE FINANCIAL STATEMENTS

**Actuarial assumptions used and sensitivity analysis**

**Sensitivity Analysis - unfunded accrued liability**

| | Assumptions | Change | 2024 R '000 | 2023 R '000 |
|---|---|---|---|---|
| Present value of obligation | | | 48 656 | 46 829 |
| Health care cost inflation | 9.00% | +1% | 54 087 | 52 428 |
| | | -1% | 44 027 | 42 097 |
| Discount rate | 13.60% | +1% | 44 214 | 42 275 |
| | | -1% | 51 919 | 52 272 |
| Expected retirement age | 60 years | +1 year | 50 173 | 45 506 |
| | | -1 year | 46 968 | 48 619 |

**Pension and Provident Fund Schemes**

The Company provides retirement benefits to all employees by contributing to pension and provident funds. Membership of either the pension or provident fund is compulsory. The defined benefit pension fund and the defined benefit provident fund are governed by the Pension Funds Act of 1956, with retirement benefits being determined with reference to both pensionable remuneration and years of service. Both funds are closed to new members.

The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956 and are open to new members and members who have elected to transfer from the defined benefit funds.

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2024 showed that in respect of both the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

The most recent actuarial valuation of plan assets and present value of defined benefits obligations were carried out for the current and prior annual financial years by Old Mutual Actuarial Consultants, fellow of the Institute of Actuaries of South Africa and as per the signed report. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.





# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Defined benefit provident fund** | | |
| Fair value of plan assets | (5 240) | (4 759) |
| Surplus | (5 240) | (4 759) |
| Amount allocated to employer surplus account | 5 240 | 4 759 |
| **Asset not recognized due to asset ceiling** | - | - |
| **The movement in the fair value of plan assets over the year, is as follows:** | | |
| Balance at beginning of the year | 4 759 | 4 406 |
| Benefits paid | (40) | - |
| Actuarial gain | 521 | 353 |
| **Balance at end of the year** | **5 240** | **4 759** |
| **Actuarial (loss)/gain** | | |
| **The actuarial gains arose as a result of the following:** | | |
| Actuarial gain arising changes in demographic assumptions | 114 | - |

The Company has not made any contributions to both the Company's defined benefit provident fund and the Old Mutual Superfund defined benefit provident fund (2023: nil on both funds), neither do we expect to make any contributions during the next financial year due to the payment holiday.

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Actuarial gains and losses analysis** | | |
| Pension and provident fund | 481 | 352 |
| Post retirement medical | 1 614 | (1 274) |
| | **2 095** | **(922)** |
| **Actuarial reserve movement** | | |
| Opening balance | 12 426 | 13 348 |
| Actuarial movement | 2 095 | (922) |
| | **14 521** | **12 426** |

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Long service obligation** | | |
| Balance at beginning of the year | 3 761 | 4 154 |
| Expensed during the year | 552 | 574 |
| Contributions paid | (871) | (967) |
| **Balance at end of the year** | **3 442** | **3 761** |
| **Amounts recognised in the statement of financial position are as follows:** | | |
| Present value of unfunded obligations | 3 442 | 3 761 |
| **Amounts recognised in the statement of comprehensive income are as follows:** | | |
| Current service cost | 399 | 427 |
| Interest cost | 330 | 335 |
| Net actuarial gain recognised in the year | (177) | (188) |
| | **552** | **574** |

**Sensitivity analysis**

| Assumptions | Change | 2024 R '000 | 2023 R '000 |
|---|---|---|---|
| Present value obligations | | 3 442 | 3 761 |
| Average salary inflation | +1% | 3 442 | 3 761 |
| | -1% | 3 442 | 3 761 |
| Average retirement age | +2 years | 3 564 | 3 864 |
| | -2 years | 3 279 | 3 605 |

The policy states that the calculation will be based on a cash reward for every 5 years of continuous service up to 25 years of service.

An actuarial valuation of the provision for long service awards at 31 March 2024 quantified the present value of obligations at R3.4 million (2023: R3.8 million). These actuarial valuations are conducted annually at statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 11.20% (2023: 10.20%) and an average salary inflation of 6.90% (2023: 6.10%).



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **17. SHARE CAPITAL** | | |
| **Authorised** | | |
| 191 000 000 Ordinary shares of 0.1 cent each | 191 | 191 |
| **Reconciliation of number of shares issued:** | | |
| Reported as at 01 April 2023 | 788 571 | 723 571 |
| Issue of shares – ordinary shares | 51 142 | 65 000 |
| | **839 713** | **788 571** |
| **Issued** | | |
| Ordinary | 190 | 190 |
| **190 064 970 (2023: 190 059 856) ordinary shares of 0.1 cent each issued and fully paid for** | | |
| Share premium | 839 523 | 788 381 |
| | **839 713** | **788 571** |

## 18. INTEREST INCOME FROM AN EFFECTIVE INTEREST RATE

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Interest income on call accounts | 23 488 | 15 916 |
| Interest income on fixed deposit accounts | 23 400 | 17 265 |
| Interest income on treasury bills | 16 912 | 13 056 |
| Interest earned on loans and advances to customers | 263 670 | 211 594 |
| Loan origination fees | 9 605 | 6 213 |
| **Total interest on loans and advances and surplus funds** | **337 075** | **264 044** |

## 19. INTEREST EXPENDITURE FROM AN EFFECTIVE INTEREST RATE

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Interest paid on customer deposits | 108 939 | 67 613 |
| Interest arising from post-employment benefits | 5 866 | 4 921 |
| Interest arising from leased liabilities | 9 545 | 5 284 |
| **Total** | **124 350** | **77 818** |

# NOTES TO THE FINANCIAL STATEMENTS

## 20. NON-INTEREST REVENUE

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| **Revenue generated by Insurance division** | | |
| Commission income | 10 876 | 12 146 |
| Administration fee | 4 603 | 1 026 |
| Funeral cover commission and other fees | 489 | 572 |
| **Commission and fee income from banking activities** | | |
| Fee income from loans and advances | 7 628 | 4 638 |
| Service fees from customer deposits | 170 414 | 152 742 |
| Other fee income | 646 | 544 |
| | **194 656** | **171 668** |

The Company earns revenue from contracts with customers for rendering banking services and administrating loans. Commissions received are from insurance services rendered to various clients.

## 21. OTHER INCOME

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Dormant account balances recognised in income | 9 995 | 10 051 |
| Bad debts recovered | 338 | 2 107 |
| Recovery of operating expenses from holding company | 446 | 439 |
| Sundry income | 8 299 | 7 297 |
| | **19 078** | **19 894** |

Sundry income mainly includes insurance proceeds of R7.0 million received in respect of the July 2021 unrest.





# NOTES TO THE FINANCIAL STATEMENTS

## 22. OPERATING EXPENSES

Operating expenses amounting to R492.1 million (2023: R425.0 million) is stated after the following items:

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Auditor's remuneration** | | |
| Audit fees* | 6 376 | 6 891 |
| Bilateral audit request by the Prudential Authority | - | 2 322 |
| | **6 376** | **9 213** |

*Refer to note 37 for audit fees restatement.

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Amortisation and impairment of intangible assets | 520 | 407 |
| Depreciation and impairment of tangible assets and right of use asset | 36 875 | 25 315 |
| Professional fees | 13 871 | 10 108 |
| Short-term leases and other cost* | 2 783 | 6 846 |
| Personnel costs (excluding Director's and key management remuneration) | 210 092 | 185 429 |
| **Included in personnel costs above are contributions to retirement benefit schemes:** | | |
| Defined benefit plans | 6 137 | 4 939 |
| Defined contribution plans | 9 541 | 9 075 |
| | **15 678** | **14 014** |

*Included in other costs are marketing costs and operational costs paid to lessors on certain properties.

**Non-executive Directors' emoluments**

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| G Sibiya | 863 | 771 |
| M Pupuma | 1 335 | 966 |
| Y Mjiako (appointed 01 September 2022) | 850 | 394 |
| INkosi SN Mkhize | 1 148 | 996 |
| S Mnguni | - | - |
| N Simelane | 654 | 692 |
| | **4 850** | **3 819** |

# NOTES TO THE FINANCIAL STATEMENTS

**2024**

**Executive Directors' remuneration**

| | Short-term employee benefits R '000 | Post-employment benefits R '000 | Total R '000 |
|---|---|---|---|
| T Vilakazi - Chief Executive Officer | 3 237 | 438 | 3 675 |
| M Gafoor - Chief Finance Officer (appointed 12 July 2023) | 2 307 | 280 | 2 587 |
| | **5 544** | **718** | **6 262** |

**Appointed Prescribed Officers remuneration**

| | Short-term employee benefits R '000 | Post-employment benefits R '000 | Termination benefits R '000 | Total R '000 |
|---|---|---|---|---|
| N Ngobese - Head Business Operations (appointed 01 October 2023) | 882 | 78 | - | 960 |
| S Xolo - Head Marketing and Communication | 1 898 | 160 | - | 2 058 |
| S Moodley - Head Retail and Business Banking | 1 812 | 156 | - | 1 968 |
| A Pather - Head Insurance | 1 798 | 160 | - | 1 958 |
| T Nell - Head HR | 1 798 | 160 | - | 1 958 |
| K Nkambule - Compliance Officer | 1 898 | 160 | - | 2 058 |
| B Van der Lingen - Chief Risk Officer (resigned 31 August 2023) | 755 | 65 | 201 | 1 021 |
| N Masuku - Company Secretary | 1 334 | 122 | - | 1 456 |
| R Jugoo - Head Credit (appointed 03 August 2023) | 1 057 | 88 | - | 1 145 |
| S Nsele - Chief Audit Executive | 1 859 | 155 | - | 2 014 |
| S Phakathi - Chief Information Officer | 2 039 | 176 | - | 2 215 |
| | **17 130** | **1 480** | **201** | **18 811** |





# NOTES TO THE FINANCIAL STATEMENTS

**2023**

**Executive Directors' remuneration**

| | Short-term employee benefits R '000 | Post-employment benefits R '000 | Total R '000 |
|---|---|---|---|
| T Vilakazi - Chief Executive Officer | 2 889 | 379 | 3 268 |

**Appointed Prescribed Officers remuneration**

| | Short-term employee benefits R '000 | Post-employment benefits R '000 | Termination benefits R '000 | Total R '000 |
|---|---|---|---|---|
| S Gwala - Head: HR (resigned 24 June 2022) | 392 | 35 | 191 | 618 |
| S Xolo - Head Marketing and Communication | 1 646 | 140 | - | 1 786 |
| T Nell - Head: HR (appointed 16 September 2022) | 929 | 71 | - | 1 000 |
| S Moodley - Head Retail and Business Banking | 1 709 | 145 | - | 1 854 |
| A Pather - Head Insurance | 1 557 | 140 | - | 1 697 |
| S Nsele - Chief Audit Executive | 1 650 | 137 | - | 1 787 |
| K Nkambule - Compliance Officer | 1 646 | 140 | - | 1 786 |
| X Khumalo - Head Credit (resigned 31 January 2023) | 1 401 | 122 | 174 | 1 697 |
| B Van Lingen - Chief Risk Officer | 1 467 | 122 | - | 1 589 |
| N Mzimela - Company Secretary | 1 077 | 95 | - | 1 172 |
| S Phakathi - Chief Information Officer | 1 925 | 164 | - | 2 089 |
| M Gafoor - General Manager Finance | 1 557 | 137 | - | 1 694 |
| | **16 956** | **1 448** | **365** | **18 769** |

# NOTES TO THE FINANCIAL STATEMENTS

## 23. OPERATING ACTIVITIES

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Non-cash items included in loss for the year** | | |
| Depreciation of tangible assets and ROUA | 36 870 | 25 315 |
| Amortisation of intangible assets | 520 | 407 |
| Loss on disposal of equipment | 586 | 752 |
| Credit impairment in loans and advances | 23 764 | 13 824 |
| Credit impairments reversals on investments and statutory investments | (4 756) | (3 223) |
| Modification loss | 1 311 | 1 331 |
| | **58 295** | **38 406** |

## 24. CHANGES IN OPERATING FUNDS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Increase in operating liabilities** | | |
| (Decrease)/Increase in customer deposits | (11 586) | 18 247 |
| Increase in trade and other payables * | 17 007 | 7 054 |
| Decrease in long service obligation | (319) | (393) |
| Increase in retirement benefit obligations | 3 922 | 3 479 |
| Increase in loan account with holding company | 38 934 | 38 594 |
| | **47 958** | **66 981** |
| **Increase in operating assets** | | |
| Decrease/(Increase) in loans and advances | 56 197 | (174 365) |
| Decrease in properties in possession | - | 387 |
| (Increase)/Decrease in receivables | (2 858) | 577 |
| (Increase)/Decrease in inventory | (2 095) | 194 |
| | **51 244** | **(173 207)** |

*Refer to note 37 for restatement details.





NOTES TO THE FINANCIAL STATEMENTS

## 25. COMMITMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Capital commitment** | | |
| • Acquisition of equipment | 4 031 | 3 332 |
| • Intangible assets | 17 206 | 475 |
| | **21 237** | **3 807** |

Capital expenditure will be financed from internal resources.

Unutilised facilities on advances at statement of financial position date were R5.4 million (2032: R11.6 million).

All commitment figures are VAT inclusive.

Intangible assets have increased to R17.2 million (March 2023: R0.5 million) in development costs since the Company has started multiple IT projects in the current year.

## 26. RELATED PARTIES

The holding company is Ithala Development Finance Corporation Limited and the ultimate controlling shareholder is the KwaZulu-Natal Provincial Government through the MEC of the Department of Economic Development, Tourism and Environmental Affairs.

The Company does not deem Government wide entities with no significant influence in terms of governance and operations as related entities.

The following are identified as related parties of the company:

**Ithala Development Finance Corporation Limited**

The nature of the relationship between Ithala Development Finance Corporation Limited and the Company is that of holding company and subsidiary.

The outstanding balance of the current loan accounts is disclosed in Note 14.

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **Outstanding balances with the holding company** | | |
| Outstanding balance on savings and fixed deposits | (13 734) | (13 537) |
| Loan account with holding company | (95 427) | (56 493) |

Savings and fixed deposit agreements entered into with the holding company are done so in the ordinary course of business and under terms no more favourable to those entered into with third parties at arm's length.

The transactions with the holding company during the financial year have been analysed below:

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **Transactions with the holding company** | | |
| Interest paid on customer deposits | 340 | 384 |
| Shared services | 9 168 | 6 677 |
| Recovery of operating expenses | (448) | (439) |
| Rental paid | 5 575 | 4 904 |
| Deposits due to property tenants | 55 603 | 53 885 |
| Administration fees received | (3 600) | - |
| **Total** | **66 638** | **65 411** |
| **Transactions with the holding company's subsidiaries** | | |
| Rental paid | 407 | 800 |
| Deposits due to property tenants | 1 917 | 1 793 |
| | **2 324** | **2 593** |

**KwaZulu-Natal Provincial Government**

The Department of Economic Development, Tourism and Environmental Affairs is the ultimate shareholder of the Company.

The Company received deposit funds from various entities within The Department of Economic Development, Tourism and Environmental Affairs' group of companies.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Deposits due<br>R '000 | Interest expense<br>R '000 | Deposits due<br>R '000 | Interest expense<br>R '000 |
| KwaZulu-Natal Growth Fund Trust | 82 590 | 10 840 | 107 590 | 7 493 |





# NOTES TO THE FINANCIAL STATEMENTS

The Company provides intermediary and binder services to KZN Growth Fund. Premiums collected from KZN Growth funds are paid over to the underwriter.

**Key management personnel - Directors of the Company and/or holding company**

Directors of the Company and holding company are the individuals responsible for planning, directing and controlling the activities of the Company.

The related party transactions detailed below refer to loans which were granted to key management personnel. Key management personnel compensation is disclosed in Note 22.

| | Outstanding balance<br>R '000 | Net realised amount of security<br>R '000 | Interest and fees received<br>R '000 |
|---|---|---|---|
| **Loans granted to executive management of the holding company** | | | |
| 2024 | 1 470 | 4 165 | 169 |
| 2023 | 1 563 | 2 630 | 124 |

| | Outstanding balance<br>R '000 | Net realised amount of security<br>R '000 | Interest and fees received<br>R '000 |
|---|---|---|---|
| **Loans granted to executive management of the Company** | | | |
| 2024 | 19 564 | 22 486 | 1 874 |
| 2023 | 12 465 | 17 325 | 734 |

**Impairment and terms of business relating to related party loans**

Loans to Executive Management are secured by mortgage bonds over properties for housing loans and the market value of the asset for vehicle and asset finance. The Company, in the ordinary course of business, entered into various transactions with related parties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length except for housing loans where all full time employees qualify for the prime lending rate less 1.75% and vehicle and asset finance where all full time employees qualify for the prime lending rate less 1.00% .

No amount has been expensed during this financial year in respect of bad or doubtful debts due from these related parties.

# NOTES TO THE FINANCIAL STATEMENTS

## 27. UNAUTHORISED, IRREGULAR EXPENDITURE, FRUITLESS AND WASTEFUL EXPENDITURE AND MATERIAL LOSSES

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| Unauthorised expenditure | - | - |
| Irregular expenditure | 1 366 | 4 474 |
| Fruitless and wasteful expenditure | - | - |
| | **1 366** | **4 474** |

**Unauthorised expenditure**

There was no unauthorised expenditure incurred in the current year (2023: R0).

**Irregular expenditure**

An amount of R1.4 million (2023: R4.5 million) which relates to irregular expenditure was incurred in the current financial year as a result of not complying with Supply Chain Management Policy. Irregular expenditure is being investigated.

**Fruitless and wasteful expenditure**

There was no fruitless and wasteful expenditure incurred in the current year (2023: R0).

**Material losses**

As disclosed in Note 8, loans and advances to the amount of R19.2 million (2023: R4.3 million) was written-off during the financial year. The Company suffered losses due to fraud of R4.2 million in the current financial year (2023: R3.5 million was identified relating to theft occurring in prior periods). The fraud case is currently under forensic investigations and is also being investigated by the Hawks. The Company did not suffer any losses as a result of a branch robbery in the current year (2023: R0.9 million). In July 2021 Kwazulu-Natal experienced social unrest and rioting. The Company suffered losses of R9.4 million which included the cost to bring affected branches and ATM's back to operation. The Company has put in a claim of R13,7 million from The South African Special Risk Association ('SASRIA). In the 2024 financial year, proceeds of R7.0 million (2023:R6.7 million) have been received against this claim (refer to note 36 for more details).



**Ithala SOC Limited**
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

## 28. FINANCIAL RISK MANAGEMENT

The core function of the Company's risk management department is to identify all key risks impacting the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

The Company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Company's primary financial risks are:
- Credit risk
- Liquidity risk
- Market risk

The Board takes overall responsibility for risk management and approves risk management strategies and policies. Senior management is responsible for its implementation and creating a risk management culture within the Company through communication, education and training. The risk management policies are designed to set appropriate limits and controls. These are reviewed at least annually.

The table below displays an explanation of the classes of financial instruments held and their related measurement categories.

**2024**

| | Note(s) | Financial assets and liabilities at amortised cost<br>R '000 | Non-financial instruments<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|
| Cash and cash equivalents | 3 | 419 956 | - | 419 956 |
| Statutory investments and reserves | 4 | 264 395 | - | 264 395 |
| Investments and deposits with banks | 5 | 189 005 | - | 189 005 |
| Loans and advances to customers | 8 | 2 254 291 | - | 2 254 291 |
| Receivables | 7 | 8 220 | 13 398 | 21 618 |
| Customer deposits | 15 | (2 473 766) | - | (2 473 766) |
| Trade and other payables | 12 | (77 720) | (95 362) | (173 082) |
| Loan account with holding company | 14 | (95 427) | - | (95 427) |
| | | **488 954** | **(81 964)** | **406 990** |

# NOTES TO THE FINANCIAL STATEMENTS

**2023**

| | Note(s) | Financial assets and liabilities at amortised cost R '000 | Non-financial instruments R '000 | Total R '000 |
|---|---|---|---|---|
| Cash and cash equivalents | 3 | 320 050 | - | 320 050 |
| Statutory investments and reserves | 4 | 245 990 | - | 245 990 |
| Investments and deposits with banks | 5 | 238 796 | - | 238 796 |
| Loans and advances to customers | 8 | 2 311 098 | - | 2 311 098 |
| Receivables | 7 | 7 921 | 10 839 | 18 760 |
| Customer deposits | 15 | (2 485 352) | - | (2 485 352) |
| Trade and other payables | 12 | (61 467) | (71 186) | (132 653) |
| Loan account with holding company | 14 | (56 493) | - | (56 493) |
| | | **520 543** | **(60 347)** | **460 196** |

The values above are considered to approximate the fair values due to the short-term nature and market related interest rates of the financial instruments.

**Credit risk**

Credit risk is the risk of financial loss, should any customers or market counterparties fail to fulfil their contractual obligations to the company. Credit risk arises mainly from commercial and consumer loans and advances. Credit risk is a significant risk requiring management to carefully manage its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

**Maximum exposure to credit risk**

The maximum exposure is the full amount exposed to credit risk without taking into account any form of security. The table below shows the maximum exposure to credit risk for the relevant component, as disclosed in the statement of financial position.



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

| | Note(s) | 2024 R '000 | 2023 R '000 |
|---|---|---|---|
| **Credit risk exposures relating to statement of financial position assets:** | | | |
| Cash and cash equivalents | 3 | 365 774 | 249 422 |
| Statutory investments and reserves | 4 | 264 395 | 245 990 |
| Investments and deposits with banks | 5 | 189 005 | 238 796 |
| Loans and advances to customers | 8 | 2 254 291 | 2 311 098 |
| Receivables | 7 | 21 618 | 18 760 |
| **Total assets subject to credit risk** | | **3 095 083** | **3 064 066** |
| Letters of undertaking issued | | 5 400 | 11 599 |

**Maturity analysis of credit risk exposures**

Residual contractual maturity analysis for credit risk exposures is as follows:

**31 March 2024**

| | Note(s) | Up to 1 month R '000 | From 1 to 6 months R '000 | From 6 months to 1 year R '000 | From 1 year to 5 years R '000 | After 5 years R '000 | Total R '000 |
|---|---|---|---|---|---|---|---|
| **Credit risk exposure relating to statement of financial position assets:** | | | | | | | |
| Cash and cash equivalents | 3 | 328 436 | 37 338 | - | - | - | **365 774** |
| Statutory investments and reserves | 4 | 108 634 | 155 761 | - | - | - | **264 395** |
| Investments and deposits with banks | 5 | 87 275 | 74 409 | 27 321 | - | - | **189 005** |
| Loans and advances to customers | 8 | 103 550 | 76 596 | 81 010 | 550 771 | 1 442 365 | **2 254 292** |
| Receivables | 7 | - | 21 618 | - | - | - | **21 618** |
| Letters of undertaking issued | | 5 400 | - | - | - | - | **5 400** |

# NOTES TO THE FINANCIAL STATEMENTS

**31 March 2023**

| | Note(s) | Up to 1 month R '000 | From 1 to 6 months R '000 | From 6 months to 1 year R '000 | From 1 year to 5 years R '000 | After 5 years R '000 | Total R '000 |
|---|---|---|---|---|---|---|---|
| **Credit risk exposure relating to statement of financial position assets:** | | | | | | | |
| Cash and cash equivalents | 3 | 218 415 | 17 192 | 13 784 | - | - | **249 391** |
| Statutory investments and reserves | 4 | 108 185 | 137 805 | - | - | - | **245 990** |
| Investments and deposits with banks | 5 | 63 769 | 117 912 | 57 115 | - | - | **238 796** |
| Loans and advances to customers | 8 | 91 829 | 73 143 | 81 865 | 572 927 | 1 491 334 | **2 311 098** |
| Receivables 7 | | - | 18 760 | - | - | - | **18 760** |
| Letters of undertaking issued | | 11 599 | - | - | - | - | **11 599** |

Individually assessed exposures

The Company considers certain exposures to be individually significant, warranting an assessment of impairment individually. Large exposures are housing loans exceeding R500 000.

**Management of credit risk**

**Loans and advances**

Credit risk

The company uses external Credit Risk Scoring provided by the Credit Bureau. TransUnion's Empirica Score is used in the assessment of the probability of default of individual counterparts arising from loans and advances. The borrower's income, expenses, collateral for retail secured exposure is taken into account and fed into the Credit Risk Assessment/Affordability Model (CCAM).

**Bank and investment balances**

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings (or equivalent rating) and also invests surplus funds in other State Owned Companies (SOC's). The financial institutions, in which surplus cash is invested, are Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank and ABSA Bank Limited. These investments are assessed for credit impairments.





# NOTES TO THE FINANCIAL STATEMENTS

**Credit risk measurement**

**Loans and advances to customers (including loan commitments and guarantees)**

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposures varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations of the likelihood of defaults occurring, of the associated loss ratios and of the default correlations between counterparties.

The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purposes of measuring ECL under IFRS 9.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument in then moved to 'stage 3'.

Stage 1

- Financial instruments in 'stage 1' have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months.

Stage 2 and 3

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information on initial recognition. The ECL is always measured on a lifetime basis (Stage 2 and 3).

A further explanation is provided on how the Company determines appropriate grouping when ECL is measured on a collective basis. Refer to the information below:

# NOTES TO THE FINANCIAL STATEMENTS

The following diagram summarises the impairment requirements under IFRS 9:

**31 March 2024**

| Stage 1 (Initial recognition) 12-month expected credit loss | Stage 2 (Significant increase in credit risk since initial recognition) Lifetime expected credit loss | Stage 3 (Credit-impaired assets) Lifetime expected credit losses |
|---|---|---|
| 3 717 | 30 970 | 81 433 |

**31 March 2023**

| Stage 1 (Initial recognition) 12-month expected credit loss | Stage 2 (Significant increase in credit risk since initial recognition) Lifetime expected credit loss | Stage 3 (Credit-impaired assets) Lifetime expected credit losses |
|---|---|---|
| 4 161 | 27 469 | 60 725 |

The key judgements and assumptions adopted by the Company in the assessment of stage 2 and stage 3 are addressed below:

**SICR**

The financial statements considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

**Probability of Default**

From origination of the facility and as at the impairment date, an assessment of the credit risk of the facility is performed and compared to the expectation of the credit risk as at origination of the loan. Historical data were used to estimate the 12-month PD per product and credit score bucket. Credit scores were segmented into buckets of similar default risk. If the current credit score falls into a worse PD bucket than at origination, subject to a minimum 15-point credit score deterioration, the account is moved to stage 2.

| 31 March 2024 | Performing PD | Arrears PD | Absolute increase | Relative increase |
|---|---|---|---|---|
| **Arrears SICR** | | | | |
| Home loans | 1.9 % | 23.1 % | 21.2 % | 1 090.4 % |
| Pension_b | 1.1 % | 4.7 % | 3.6 % | 325.0 % |
| Unsecured | 12.1 % | 61.1 % | 49.0 % | 406.5 % |
| VAF | 5.6 % | 29.2 % | 23.6 % | 419.1 % |



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

# NOTES TO THE FINANCIAL STATEMENTS

| 31 March 2023 | PD | SICR PD threshold | Absolute increase | Relative increase |
|---|---|---|---|---|
| **Credit Score SICR** | | | | |
| 580-600 | 10.4 % | 11.6 % | 1.2 % | 11.8 % |
| 600-625 | 6.5 % | 8.5 % | 1.9 % | 29.5 % |
| 625-650 | 5.3 % | 6.8 % | 1.6 % | 29.5 % |
| 650-675 | 4.0 % | 5.2 % | 1.2 % | 29.5 % |
| 675-700 | 2.9 % | 3.7 % | 0.9 % | 29.5 % |
| 700-725 | 2.0 % | 2.5 % | 0.6 % | 29.5 % |
| 725-750 | 1.2 % | 1.6 % | 0.4 % | 29.5 % |
| 750-775 | 0.7 % | 0.9 % | 0.2 % | 29.5 % |
| 775-800 | 0.4 % | 0.6 % | 0.1 % | 29.5 % |
| 800+ | 0.4 % | 0.5 % | 0.1 % | 29.5 % |

| 31 March 2023 | Performing PD | Arrears PD | Absolute increase | Relative increase |
|---|---|---|---|---|
| **Arrears SICR** | | | | |
| Home loans | 1.9 % | 23.3 % | 21.3 % | 1 116.4 % |
| Pension_b | 1.2 % | 5.9 % | 4.7 % | 403.3 % |
| Unsecured | 12.0 % | 45.0 % | 33.0 % | 274.2 % |
| VAF | 5.5 % | 28.6 % | 23.0 % | 415.0 % |

**Days past due**

A backstop is applied and the financial instruments are considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

The Company has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2024. The following table shows the impact on the 31 March 2024 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised:

# NOTES TO THE FINANCIAL STATEMENTS

| Lifetime PD band at initial recognition | Actual threshold applied | Change in threshold | Lower threshold | Higher threshold |
|---|---|---|---|---|
| **Housing loans** | | | | |
| **31 March 2024** | | | | |
| <=545 | <=545 | (87) | 27 400 | 27 314 |
| 545-570 | 545-570 | (10) | 12 286 | 12 275 |
| 570-605 | 570-605 | 600 | 19 319 | 19 919 |
| 605-625 | 605-625 | 443 | 8 942 | 9 385 |
| 625-650 | 625-650 | 177 | 7 396 | 7 573 |
| 650-675 | 650-675 | 631 | 2 686 | 3 317 |
| 675-999 | 675-999 | 2 564 | 2 687 | 5 252 |
| **31 March 2023** | | | | |
| <=545 | <=545 | 47 | 22 383 | 22 430 |
| 545-570 | 545-570 | 130 | 8 380 | 8 510 |
| 570-605 | 570-605 | 837 | 16 082 | 16 919 |
| 605-625 | 605-625 | 507 | 10 981 | 11 488 |
| 625-650 | 625-650 | 809 | 5 619 | 6 428 |
| 650-675 | 650-675 | 302 | 2 574 | 2 875 |
| 675-999 | 675-999 | 827 | 2 223 | 3 050 |
| | | | | |
| **Micro-finance secured loans** | | | | |
| **31 March 2024** | | | | |
| <=600 | <=600 | 1 056 | 24 247 | 25 303 |
| 600-699 | 600-699 | 1 177 | 11 157 | 12 333 |
| **31 March 2023** | | | | |
| <=600 | <=600 | 1 265 | 13 483 | 14 748 |
| 600-699 | 600-699 | 1 653 | 10 522 | 12 176 |

**Definition of default and credit-impaired assets**

The Company considers a financial instrument to be in default when one or more of the following criteria are met:

**Days past due**

The IFRS 9 standard incorporates a further rebuttable assumption requiring that delinquency beyond 90 days result in transition of the exposure into Stage 3. This assumption has not been rebutted in the model, and all such exposures are automatically transferred into Stage 3, in the staging module of the model.



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

**Status codes**

Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the Company uses status codes to indicate distressed accounts to be moved to Stage 3. The quantitative criteria are:

The borrower meets ‘unlikeliness to pay’ criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of a financial covenant(s)
- Concessions have been made by the lender relating to the borrower’s financial difficulty.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management processes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company’s expected loss calculation. A backstop is applied and the financial instruments are considered to have met the definition of default if the borrower is more than 90 days past due on its contractual payments.

**Transition due to manual override**

Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the model incorporates the use of manual overrides in order to allow management to transfer exposures to Stage2 and Stage 3 of the impairment model. This can be done on the basis of an individual assessment that indicates a change from management as an active client to a legal collections and rundown process.

**Measuring ECL — Explanation of inputs, assumptions and estimation techniques**

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (lifetime EAD).
- LGD represents the Company’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12M or lifetime basis, where 12M LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

# NOTES TO THE FINANCIAL STATEMENTS

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a profile from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12M and Lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products this is based on the contractual repayments owed by the borrower over a 12M lifetime basis.This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

The 12M and lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

**Forward-looking information incorporated in the ECL models**

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Forecasts of these economic variables (the "base economic scenario") are provided by Econometrix (prior year: Bureau of Economic Research "BER") on a quarterly basis and provide the best estimate view of the economy over the next three years.





# NOTES TO THE FINANCIAL STATEMENTS

The economic variables are reassessed at each reporting date. At 1 April 2023 and 31 March 2024 the Company concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12M lifetime ECL should be recorded. Following this assessment, the Company measures ECL as either a probability weighted 12M ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihood of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linarite and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

**Economic variable assumptions**

The most significant period-end assumptions used for the ECL estimate as at 31 March 2024 are set out below. The scenario 'base', 'Optimistic' and 'Downturn' were used for all portfolios.

| | | 2025 | 2026 | 2027 |
|---|---|---|---|---|
| **31 March 2024** | | | | |
| Household income to disposable income | Base | 65 | 65 | 65 |
| | Optimistic | 68 | 71 | 72 |
| | Downturn | 61 | 60 | 59 |
| Unemployment | Base | 32.7 | 33.0 | 33.0 |
| | Optimistic | 30.7 | 30.7 | 28.6 |
| | Downturn | 38.1 | 39.0 | 41.1 |
| Gross Domestic Product (GDP) | Base | 4,729,595 | 4,802,736 | 4,879,832 |
| | Optimistic | 4,993,310 | 5,159,693 | 5,369,755 |
| | Downturn | 4,307,235 | 4,267,020 | 4,183,754 |
| Consumer Price Index (CPI) | Base | 120.97 | 126.48 | 132.17 |
| | Optimistic | 119.96 | 124.78 | 129.64 |
| | Downturn | 124.77 | 133.16 | 142.51 |
| Private Consumption | Base | 3,153,152 | 3,212,572 | 3,281,931 |
| | Optimistic | 3,326,590 | 3,449,598 | 3,591,906 |
| | Downturn | 2,926,985 | 2,889,376 | 2,842,367 |

# NOTES TO THE FINANCIAL STATEMENTS

**31 March 2023**

| | | 2024 | 2025 | 2026 |
|---|---|---|---|---|
| Household income to disposable income | Base | 64 | 65 | 65 |
| | Optimistic | 67 | 66 | 65 |
| | Downturn | 61 | 60 | 58 |
| Unemployment | Base | 35.0 | 35.5 | 35.8 |
| | Optimistic | 31.4 | 31.5 | 29.5 |
| | Downturn | 38.3 | 39.2 | 40.2 |
| Gross Domestic Product (GDP) | Base | 4,732,837 | 4,825,430 | 4,916,060 |
| | Optimistic | 5,019,060 | 5,206,917 | 5,394,920 |
| | Downturn | 4,202,723 | 4,170,180 | 4,152,795 |
| Consumer Price Index (CPI) | Base | 116,58 | 121,89 | 127,45 |
| | Optimistic | 115,44 | 119,56 | 123,31 |
| | Downturn | 119,2 | 126,12 | 133,74 |
| Repo rate | Base | 6,75 | 6,00 | 5,75 |
| | Optimistic | 6.00 | 5,50 | 5,25 |
| | Downturn | 8,25 | 8,50 | 8.50 |

The weightings assigned to each economic scenario at 31 March 2024 were as follows:

| | Base | Optimistic | Downturn |
|---|---|---|---|
| **31 March 2024** | | | |
| All portfolios | 77 % | 5 % | 18 % |
| **31 March 2023** | | | |
| All portfolios | 77 % | 5 % | 18 % |

**Scenario Sensitivity**

The most significant assumptions affecting the ECL are as follows – 31 March 2024:

- Gross Domestic Product (GDP)
- Unemployment
- Consumer Price Index
- Private Consumption
- Household income to disposable income

Set out below are the changes to the ECL as at 31 March 2024 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Company's economic variable assumptions (for example, the impact on ECL of increasing the estimated Domestic GDP by in each of the base, Optimistic, Downturn scenarios).





# NOTES TO THE FINANCIAL STATEMENTS

| 31 March 2024 | | Unemployment R '000 | Gross Domestic Products (GDP) R '000 | Consumer Price Index R '000 | Household income to disposable income R '000 | Private Consumption R '000 |
|---|---|---|---|---|---|---|
| Domestic GDP | [-0.50%] | 116 118 | 116 121 | 116 086 | 116 114 | 116 540 |
| | No change | 116 120 | 116 120 | 116 120 | 116 120 | 116 120 |
| | [+0.50%] | 116 121 | 116 119 | 116 154 | 116 126 | 115 697 |

| 31 March 2023 | | Unemployment R '000 | Gross Domestic Products (GDP) R '000 | Consumer Price Index R '000 | REPO R '000 |
|---|---|---|---|---|---|
| Domestic GDP | [-0.50%] | 92 356 | 92 356 | 92 352 | 92 356 |
| | No change | 92 356 | 92 356 | 92 356 | 92 356 |
| | [+0.50%] | 92 356 | 92 356 | 92 351 | 92 356 |

Forward-looking information incorporated in the ECL models continued.

IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models were not calibrated for events such as the Covid-19 crisis. Post the event, the impacts of economic effects of Covid-19 have filtered through the Company's experience, the model assumptions have been recalibrated to include the deteriorating experience. Adjustments have been made to the PDs through forward-looking information.

# NOTES TO THE FINANCIAL STATEMENTS

As further distinct economic challenges arise, particularly relating to rising interest rates and inflation, predicting the economic and credit impacts of such an environment becomes increasingly challenging. Management adjustments may therefore be required, in addition to the model outputs, to provide a more appropriate assessment of risk. These additional management adjustments require greater governance across the Company and will be robustly reviewed by the Credit Impairment Committee. Even though the economy has shown signs of recovery to pre-Covid-19 levels, a new affordability strain is emerging due to rising inflation and interest rates. These factors remained at low levels during the course of the pandemic and did not contribute to the initial downturn. These new risks present additional uncertainty and a distinct economic strain than what was experienced during the initial Covid-19 contraction. A revised selection of variables, which includes CPI and repo rates, has been employed as part of the forward looking scenarios in financial year 2022/2023, which are being used to adjust PDs for forward-looking information, these variables still remain relevant in financial year 2023/2024.

**Estimation of PD, LGD, and SICR**

Since the Company's ECL modelling methodology does not automatically consider the typical complexity of the current economic environment, management applied the above macroeconomic scenarios in conjunction with the following considerations, to determine the appropriate management adjustment when recognising ECL losses for the reporting period:

**PDs and LGDs**

PDs and LGDs were adjusted for forward-looking information, on a portfolio basis.

The management adjustment was further updated by applying a scaling factor to security values, where applicable, to the modelled PDs and LGDs.

The above was, in turn, tested against various qualitative factors including industry forecasts and impacted industry exposures. Appropriate sense checks were performed on the quantitative outcomes.

These PD and LGD adjustments will be reassessed as the impacts of the Covid-19 pandemic become known and the level of customer distress becomes evident within the models.

**SICR events**

All available information was considered, including, whether a client or a portfolio is experiencing a short-term liquidity constraint, the respective industry and the anticipated arrears in the Covid-19 environment, to determine whether a SICR event, which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses), has taken place.





# NOTES TO THE FINANCIAL STATEMENTS

**Impairment losses pre- and post-management adjustments**

The table below provides a breakdown of the total ECL recognised at 31 March 2024 to reflect the impairment charge calculated using the Company's approved model together with the management adjustments raised to incorporate the effects of Covid-19.

**31 March 2024**

| | Impairment losses pre-management adjustments R '000 | Management adjustments R '000 | Impairment losses R '000 |
|---|---|---|---|
| Home loans | 80 716 | - | 80 716 |
| Micro finance - secured | 35 404 | - | 35 404 |
| | **116 120** | **-** | **116 120** |

**31 March 2023**

| | Impairment losses pre-management adjustments R '000 | Management adjustments R '000 | Impairment losses R '000 |
|---|---|---|---|
| Home loans | 68 349 | - | 68 349 |
| Micro finance - secured | 24 005 | - | 24 005 |
| | **92 354** | **-** | **92 354** |

**Grouping of instruments for losses measured on a collective basis**

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the portfolio to be statistically credible.

Where sufficient information is not available internally, industry practice has been that a proxy is considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Credit rating band
- Product type
- Month of book
- Arrears status

The appropriateness of groupings is monitored and reviews on a periodic basis by the Credit Risk team.

# NOTES TO THE FINANCIAL STATEMENTS

**Maximum exposure to credit - financial instruments subject to impairment**

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period.

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

**Credit impaired assets - 31 March 2024**

| | Gross exposure R '000 | Impairment allowance R '000 | Carrying amount R '000 | Fair value of collateral held R '000 |
|---|---|---|---|---|
| Housing loans | 1 516 822 | 80 716 | 1 436 106 | 2 517 237 |
| Micro finance - secured | 737 470 | 35 404 | 702 066 | 1 013 629 |
| | **2 254 292** | **116 120** | **2 138 172** | **3 530 866** |

**Credit impaired assets - 31 March 2023**

| | Gross exposure R '000 | Impairment allowance R '000 | Carrying amount R '000 | Fair value of collateral held R '000 |
|---|---|---|---|---|
| Housing Loans | 1 584 567 | 65 350 | 1 519 218 | 2 682 755 |
| Micro finance - secured | 710 547 | 24 005 | 686 542 | 954 650 |
| | **2 295 114** | **89 355** | **2 205 760** | **3 637 405** |

**The nature of security that is held by the Company in respect of loans and advances to customers is set out below:**

| Product | Type of security |
|---|---|
| Housing loans | Mortgage property |
| Home improvement loans | Pledge of pension and provident fund assets |
| Micro finance – secured loans | Cession of term deposit |
| Vehicle and taxi finance | Cession of movable asset |
| Commercial loans and property development loans | Mortgage bonds, cession of income, suretyships and where appropriate key man insurance policies |



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

**Valuation of security**

The amount of the loan is dependent on the value of the security. Therefore prior to a mortgage agreement being concluded, a valuation is done to ascertain the appropriateness of the security. The valuation is done according to the guidelines of the Valuers' Institute of South Africa. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant. The value of the security is updated every 3 years for the performing loans using a desktop valuation.

In respect of home improvement loans granted to customers, the pension/provident proceeds are ceded to the Company and the loan amount is dependent on the pension/provident amount accumulated at origination of the loan.

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which has been ceded to the Company.

**Enforcement of security**

In the event of a defaulter failing to rehabilitate an overdue loan, the Company will follow due legal process to attach and perfect the security. The properties will first be put on auction by the sheriff of the court and failure to receive an offer equal to or greater than the reserve price at the auction will result in the properties being repossessed and made available for sale.

**Write-off policy**

The company writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation (i) ceasing enforcement activity and (ii) where the company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 March 2024 was R19.2 million (2023: 4.3 million). The Company still seeks to recover amounts it is legally owed in full, but which have been partially written-off due to no reasonable expectation of full recovery.

**Credit risk concentration**

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Concentration of credit risk | | |
| Loans granted within the boundaries of KwaZulu-Natal | 2 229 011 | 2 283 692 |
| Loans granted outside the boundaries of KwaZulu-Natal | 25 281 | 27 406 |
| **Total** | **2 254 292** | **2 311 098** |

# NOTES TO THE FINANCIAL STATEMENTS

### Liquidity risk

Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayment structures of assets and liabilities resulting in the Company not being able to meet its financial obligations.

### Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework. The Asset and Liability Committee (ALCO) is specifically mandated to ensure appropriate liquid asset and cash reserves in relation to short term funding and stress events are available. ALCO monitors and controls adherence to the risk appetite and regulatory requirements, and ensures that adequate reserves are maintained by continuously monitoring forecasts and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. The tables below represent the contractual and expected maturities of financial liabilities as at the reporting date:

**Contractual maturity analysis of financial liabilities as at 31 March 2024**

| | | On demand R '000 | Up to one month R '000 | 1 - 6 months R '000 | 6 - 12 months R '000 | More than one year R '000 | Total R '000 |
|---|---|---|---|---|---|---|---|
| Deposits due to customers | 15 | 1 170 434 | 153 136 | 750 734 | 368 219 | 31 243 | 2 473 766 |
| Trade creditors and other payables | 12 | 26 935 | 35 031 | 8 036 | 7 719 | - | 77 721 |
| Loan account with holding company | 14 | 95 427 | - | - | - | - | 95 427 |
| **Total** | | **1 292 796** | **188 167** | **758 770** | **375 938** | **31 243** | **2 646 914** |
| **% of weighting** | | **49%** | **7%** | **29%** | **14%** | **1%** | **100%** |

**Contractual maturity analysis of financial liabilities as at 31 March 2023**

| | | On demand R '000 | Up to one month R '000 | 1 - 6 months R '000 | 6 - 12 months R '000 | More than one year R '000 | Total R '000 |
|---|---|---|---|---|---|---|---|
| Deposits due to customers | 15 | 1 144 787 | 186 303 | 701 393 | 415 119 | 37 750 | 2 485 352 |
| Trade creditors and other payables | 12 | 23 917 | 31 416 | 4 091 | 2 043 | - | 61 467 |
| Loan account with holding company | 14 | 56 493 | - | - | - | - | 56 493 |
| **Total** | | **1 225 197** | **217 719** | **705 484** | **417 162** | **37 750** | **2 603 312** |
| **% of weighting** | | **47%** | **9%** | **27%** | **16%** | **1%** | **100%** |





# NOTES TO THE FINANCIAL STATEMENTS

The maturity analysis is based on the contractual amounts payable (including interest) over the remaining periods to contractual maturity from year-end.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Company held deposits at call of R 198.6 million (2023: R 100.3 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

### Market risk

### Interest rate risk

The company is exposed to interest rate risk on loans and advances to customers, deposits with banks and customer deposits (savings and term).

Key assumptions applied in projections and forecast cash flows are that:

- levels of repayments (including prepayments) from existing clients will continue at a similar rate, and
- as a result of clients regularly depositing their incomes and renewing investments, net deposits (based on historical behaviour) continue growing except over the annual festive season during which higher than usual withdrawals are made. Provision for this reduction is made.

The table below demonstrates the re-pricing gap between the Company's assets and liabilities upon the application of a change in market interest rates. The table shows the impact of a 4% (2023: 4%) increase/decrease in interest rates on the interest income of the Company. The scenario analysis is limited to the impact on interest income and expenditure over the period of 12 months. The application of the change in interest rates is applied to a static statement of financial position and is in accordance with Regulation 30 of the Banks Act, 1990.

# NOTES TO THE FINANCIAL STATEMENTS

The sensitivity analysis below has been presented on a net interest income basis to reflect the operations of the Company. The projected impact on the statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates is as follows:

| | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|
| **Increase**: | | |
| Impact of increase in yield on assets on comprehensive income | 101 274 | 101 726 |
| Increased net interest income percentage | 44 % | 53 % |
| Impact of increase in cost of funds on comprehensive income | (35 650) | (55 189) |
| Increased net interest income percentage | (15) % | (29) % |
| **Decrease**: | | |
| Impact of decrease in yield on assets on comprehensive income | (101 274) | (101 726) |
| Increased net interest income percentage | (44) % | (53) % |
| Impact of decrease in cost of funds on comprehensive income | 47 710 | 44 591 |
| Increased net interest income percentage | 21 % | 23 % |

As the Company has no assets or liabilities subject to adjustments resultant from market rate fluctuations, equity change is limited to the above changes.

Changes from the previous year to this forecast are mainly due to changes in interest rates and the related strategy in application, changes to volume, differing maturities and hence terms of re-pricing.

## 29. CREDIT IMPAIRMENT CHARGES/(REVERSALS)

| | | |
|---|---|---|
| Net expected credit loss/credit impairments raised and released for loans and advances to customers | 33 307 | 11 924 |
| Net expected credit loss raised and released for statutory investments | 3 | (133) |
| Net expected credit loss raised and released for investments and deposits with banks | (4 759) | (3 091) |
| **Total** | **28 551** | **8 700** |





# NOTES TO THE FINANCIAL STATEMENTS

Included in the release of credit losses for investments and deposits with banks is the release of ECL of R4.6 million (2023: 3.3 million) on the Land Bank investment. The Company raising ECL on the investment when Land Bank was experiencing liquidity constraints and defaulted on interest and capital obligations. Since then, Land Bank has honoured all interest payments, including arrear interest due. In addition, the Land Bank has also settled capital balances R8.6 million (2023: R8.5 million) during the financial year .The above together with the proposed settlement solution being drafted by the Land Bank has contributed to the release of ECL.

## 30. LEASES (COMPANY AS LESSEE)

The Company's lease portfolio primarily consist of property, which included branch and ATM space, and printers. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are renegotiated on expiry of the lease to reflect market rentals. The branch and ATM space leases were entered into many years ago.

Extension options

Some property leases contain extension options exercisable by the Company before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-ofuse asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'tangible assets' and lease liabilities in 'trade and other payables' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and shortterm leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Details pertaining to leasing arrangements, where the Company is lessee are presented below:

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| **Net carrying amounts of right-of-use assets** | | |

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 10).

The carrying amounts of right-of-use assets are included in the following line items:

| | | |
|---|---|---|
| Leased property | 71 030 | 49 261 |
| Leased equipment | 390 | 2 736 |
| | **71 420** | **51 997** |

**Additions to right-of-use assets**

| | | |
|---|---|---|
| Leased property | 45 853 | 15 857 |

**Depreciation recognised on right-of-use assets**

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.

| | | |
|---|---|---|
| Leased property | 24 084 | 16 129 |
| Leased equipment | 2 346 | 2 346 |
| | **26 430** | **18 475** |

**Other disclosures**

| | | |
|---|---|---|
| Interest expense on lease liabilities | 9 545 | 5 284 |
| Total capital cash outflow from leases | 22 432 | 16 857 |

Lease liabilities have been included in the trade and other payables line item on the statement of financial position. Refer to note 12 trade and other payables.

Maturity Analysis - contractual undiscounted cash flows are as follows:

| | | |
|---|---|---|
| Within one year | 33 120 | 25 031 |
| Two to five years | 62 438 | 68 894 |





# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|

## 31. CURRENT TAX PAYABLE (RECEIVABLE)

There is no provision for normal taxation as the Company was granted an income tax exemption in accordance with Section 10(1)(CA)(ii) of the Income Tax Act.

## 32. CONTINGENT LIABILITIES

The Company is a defendant in the following matters or has provided guarantees which may result in possible loss to the Company:

| | | |
|---|---|---|
| Former employees | 11 112 | 3 000 |
| South African Insurance Association | - | 3 000 |
| Guardrisk Life Limited | 4 100 | - |
| Nkosini Investments CC | 612 | - |
| Tech Mahindra | 1 600 | 1 600 |
| | **17 424** | **7 600** |

**Former employees**

Claims were instituted against the Company by former employees. The claims are for alleged unfair retrenchment/dismissal. The claims have been quantified at an amount of R11.1 million (2023: R3.0 million). As at year end the matters are still pending.

**South African Insurance Association Guarantee**

In the current year the Company has cancelled a guarantee (2023: R3.0 million) in favour of the South African Insurance Association.

**Guardrisk Life Limited**

The Company has issued a guarantee of R4.1 million in favour of Guardrisk Life Limited.

**Nkosini Investments CC**

Nkosini Investments CC is suing the Company for specific performance, alternatively payment of damages because of Ithala's alleged breach of contract. The damages have been quantified at an amount of R0.6 million. As at year end the matter is still in progress.

# NOTES TO THE FINANCIAL STATEMENTS

| | 2024 R '000 | 2023 R '000 |
|---|---|---|

**Tech Mahindra**

In the financial year 2020 Tech Mahindra submitted invoices for R2.7 million in respect of licence fees and R18.6 million in respect of system implementation. These invoices have not been settled as there is a dispute regarding the work completed. The Company has received a summons to settle R1.6 million for services they claim were rendered.

## 33. EVENTS AFTER THE REPORTING PERIOD

No events occured between the balance sheet date and the date of this report that materially affect the reported results and the position of the Company

## 34. CHANGE IN ESTIMATE

**Asset Lives**

Tangible assets are depreciated over its estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:

| | 2024 R '000 | 2023 R '000 |
|---|---|---|
| Decrease in depreciation | 376 | 650 |
| Increase in net book value | 376 | 650 |

The future impact of the change in estimate will result in additional depreciation of R0.4 million (2023: R0.7 million) being recognised over the remaining life of the asset.

## 35. LOAN COMMITMENT

At 31 March 2024, the company had loan commitments amounting to R5.4 million (2023: R11.6 million). The loss allowance was estimated using the same impairment modelling methodology as that of loans and advances (refer Risk Management Note 28). Based on actual credit loss experience from previous years and the quantum of the loan commitments, management concluded that the loss allowance on loan commitments is immaterial and as such no loss allowances have been recognised.





# NOTES TO THE FINANCIAL STATEMENTS

## 36. CONTINGENT ASSETS

Civil unrest broke out in KZN, during the period 9 to 12 July 2021, resulting in extensive damage to Ithala SOC Limited's branch infrastructure, whereby buildings and infrastructure was vandalised and some buildings set alight.

In summary, the following properties were affected by the unrest:

- 16 Branches damaged/vandalised, of which 4 were torched.
- 22 Auto Teller Machines

Claims for damages and loss of income had been submitted to SASRIA, which is a state-owned insurer that provides special risk cover to individuals, businesses and government entities that own assets in South Africa. This is a unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism.

Claims amounting to R13.7 million were submitted to SASRIA as at March 2023 of which R7.0 million (2023: R6.7 million) was received during the financial year. In the current year additional claims for re-instatement of branches were submitted to SASRIA amounting to R5.2 million. As at year end these proceeeds have not been received.

## 37. CORRECTION OF PRIOR YEAR ERRORS

**Effects on statement of financial position**

| | Adjustment as at 2023 R '000 | Adjustment as at 2022 R '000 |
|---|---|---|
| Decrease in accrual for municipality charges* | 5 207 | 17 237 |
| Increase in provision for audit fees** | (1 516) | - |
| | **3 691** | **17 237** |

| | | |
|---|---|---|
| **Effects on statement of changes in equity** | | |
| Accumulated loss as previously reported | (426 812) | (367 223) |
| Decrease in accumulated loss as at March 2022 | 17 237 | 17 237 |
| Decrease in accumulated loss as at March 2023 | 3 691 | - |
| | **(405 884)** | **(349 986)** |

# NOTES TO THE FINANCIAL STATEMENTS

**Effect on statement of cash flows**

| | March 2023 previously reported R '000 | Restatements R '000 | March 2023 Restated R '000 |
|---|---|---|---|
| Accumulated loss | (59 589) | 3 691 | (55 898) |
| Operating liabilities | 70 672 | (3 691) | 66 981 |

The March 2023 impact of prior period errors on operating expenses in the statement of profit and loss is R3.7 million.

***Accrual of municipality charges**

Ithala incurs monthly municipal charges on its head office property, branches and on properties in possession (refer accounting policy 1.17 Properties in Possession). The municipal charges consist of sewage charges, refuse removal, water and electricity. At the end of every month, the Company raises an accrual for the municipal charges (which forms part of Trade and Other Payables) and at the beginning of the following month, the accrual is usually reversed.

When the Company analysed the municipal charges accrual balance at the end of the current year and compared this balance to the latest municipal charges statement, the Company noted that the municipal charges accrual balance as at 31 March 2024 was significantly overstated. Further investigations revealed the error emanated from the prior years. The overstatement was due to the prior months/periods accruals being incorrectly reversed, and additional accruals being raised and in some cases resulted in a duplication of cost. A restatement adjustment was processed to correct the prior years municipality accruals. Management have implemented controls where balances are verified against third party statements as part of the reconciliation process.

****Audit fee provision**

In the prior year, the audit fees provision was correctly recognised for the statutory audits. The under provision of audit fees stems from other assurance services that are provided by the auditors on an adhoc basis, and these expenses were allocated against the provision account and not statement of profit and loss. The restatement of audit fees in 2023 was due mainly to the bi-lateral audit work completed during 2023.



Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

## 38. CAPITAL MANAGEMENT - UNAUDITED SCHEDULE

**Capital requirements**

Tier I and Tier II capital is comprised of issued ordinary shares, share premium, (accumulated loss)/ retained income and other regulatory adjustments such as deduction of intangible assets. (Accumulated loss)/retained income is appropriated to reserves in July annually, and as such the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets. The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

The primary objective of the Company's capital management strategy is to ensure compliance with the Regulator's requirements as well as the maintenance of a healthy capital adequacy ratio required in order to support its business, maximise shareholder value and instil market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 15.14% (2023: 18.12%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank. The capital adequacy ratio is also above the Memorandum of Agreement requirement of 15%.

Capital planning is an integral part of capital management. The Risk and Capital Management Committee has been tasked with assisting the Board in discharging its capital management responsibility, and as such, should there be a need for additional capital, this Committee will drive the necessary processes in line with contingency capital planning.

**Capital adequacy**

| | Regulatory limit | | | Actual |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Capital adequacy ratio | >=15.00% | >=15.00% | 15.14 % | 18.12 % |
| Primary share capital and reserve funds adequacy ratio | >=11.875% | >=11.875% | 14.37 % | 17.30 % |
| Total risk weighted assets (R'000) | | | 2 245 706 | 2 158 832 |
| **Risk weighted assets** | | | | |
| Credit risk weighted assets | | | 1 379 176 | 1 423 944 |
| Other risk weighted assets | | | 147 129 | 101 972 |
| Operational risk | | | 719 401 | 632 916 |
| **Total** | | | **2 245 706** | **2 158 832** |

# NOTES TO THE FINANCIAL STATEMENTS

| | Notes | 2024<br>R '000 | 2023<br>R '000 |
|---|---|---|---|
| **Capital structure** | | | |
| Share capital | 17 | 190 | 190 |
| Share premium | 17 | 839 523 | 788 381 |
| Reserves | | (504 934) | (411 208) |
| Prescribed deductions against capital and reserve funds | | (11 923) | (3 820) |
| **Total tier I capital** | | **322 856** | **373 543** |
| General provisions | | 17 239 | 17 799 |
| **Total tier II capital** | | **17 239** | **17 799** |
| **Total qualifying capital** | | **340 095** | **391 342** |

PO Box 2588
Durban, 4000,
South Africa

Tel: (031) 366 2500,
Fax: (031) 366 2645

Ithala is an Authorised Financial Services and Credit Provider

FSP License No. 171 39 NCRCP No. 1559
Reg No. 2001/007427/30

Ithala SOC Limited is a wholly owned subsidiary of Ithala Development Corporation Limited. E&OE

WWW.MYITHALA.CO.ZA

SOC LIMITED