INTEGRATED ANNUAL REPORT 2018/2019

Ithala SOC LIMITED

WWW.MYITHALA.CO.ZA

ITHALA SOC LIMITED

INTEGRATED ANNUAL REPORT

2018/19

THE **SHAPE** OF **THINGS** TO **COME**

CONTENTS

SECTION 1: OUR BUSINESS

SECTION 2: OUR PERFORMANCE

SECTION 3: RISK AND CAPITAL MANAGEMENT

SECTION 4: GOVERNANCE AND TRANSPARENCY

SECTION 5: ANNUAL FINANCIAL STATEMENTS

NAVIGATING THIS REPORT

Forward-looking statements

Indicates a page or note reference of information which can be found elsewhere in this report

MATERIAL STAKEHOLDERS

- National and Provincial Government
- Shareholders
- Regulatory bodies
- Suppliers
- Strategic partners
- Public sector customers
- Employees
- Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, cooperatives and stokvels)
- The environment
- Communities
- Media

OUR CAPITALS

- Financial capital
- Human capital
- Intellectual capital
- Manufactured capital
- Social and relationship capital

LIST OF ABBREVIATIONS AND ACRONYMS

ACC	Audit and Compliance Committee
AFS	Annual Financial Statements
AGM	Annual General Meeting
AGSA	Auditor-General of South Africa
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
APP	Annual Performance Plan
APR	Annual Performance Report
AR	Annual Report
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
B-BBEE	Broad-based Black Economic Empowerment
CFT	Combating the Financing of Terrorism
CGU	Cash Generating Unit
COB	Class of Business
CPA	Consumer Protection Act
CPI	Consumer Price Index
EAD	Exposure at Default
ECL	Expected Credit Loss
ERM	Enterprise-wide Risk Management
EXCO	Executive Committee
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSR	Financial Sector Regulation
FVOCI	Fair Value Through other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
GDP	Gross Domestic Product
HLAMDA	Home Loan and Mortgage Disclosure Act
HRCC	Human Resources and Remuneration Committee
HRSEC	Human Resources, Social and Ethics Committee
IAC	Insurance Advisory Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IDFC	Ithala Development Finance Corporation
IFRS	International Financial Reporting Standards
IIP	Investors in People
IIRC	International Integrated Reporting Council
IMS	Insurance Management System

ITGC	IT Governance Committee
JIBAR	Johannesburg Interbank Agreed Rate
KI	Key Individuals
King IV	King Code of Governance for South Africa (2016)
KZN	KwaZulu-Natal
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MCC	Management Credit Committee
MOI	Memorandum of Incorporation
MPC	Monetary Policy Committee
NCR	National Credit Regulator
NFSR	Net Stable Funding Ratio
NII	Net Interest Income
NPS	Net Promoter Score
NPSA	National Payment Systems Act
OBS	Off-balance Sheet
OCI	Other Comprehensive Income
PASA	Payments Association of South Africa
PD	Probability of Default
PEP	Politically Exposed Person
PFMA	Public Finance Management Act, Act No. 1 of 1999
PIP	Properties in Possession
POPI	Protection of Personal Information
PPR	Policyholder Protection Rules
QPM	Quarterly Projection Model
RCMC	Risk and Capital Management Committee
RDARR	Risk Data Aggregation and Risk Reporting
SA GAAP	South African Generally Accepted Accounting Principles
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SB	Supervisory Body
SDL	Skills Development Levy
SESC	Social Ethics and Sustainability Committee
SETA	Sector Education and Training Authority
SICR	Significant Increase in Credit Risk
SLA	Service Level Agreement
SOC	State-owned Company
SOE	State-owned Entity
SOP	Standard Operating Procedure
SSD	Self-service Device
TVET	Technical Vocational Education and Training
VAT	Value Added Taxation

WHAT DRIVES US?

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 that 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 that 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.

> *We mould the shape of things to come by embedding innovation in our very operational DNA.*

ABOUT ITHALA

Introduction

Ithala is a licensed financial services provider and registered credit provider that conducts business through a banking licence exemption notice.

Ithala SOC Limited (Ithala) is a subsidiary of the Ithala Development Finance Corporation (IDFC), a state-owned entity (SOE), that is listed as a public entity in terms of Schedule 3 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

Formally established in 2001 to enhance the IDFC's capital position through its deposit-taking capability and in line with the recommendation from the South African Reserve Bank (SARB), our core purpose is to provide financial services to the State and people of South Africa, which in turn contributes to the country's socio-economic development.

An integral part of our mandate is to specifically provide financial services in areas that have been neglected in the past. To deliver on this mandate, we offer the following:

- Transactional banking services;
- Savings and investment products;
- Housing and loan products; and
- Insurance products and services.

We use a multi-channel distribution network, to ensure optimal reach of individuals, groups, businesses and other public sector entities.

Our compact with our shareholder incorporates our corporate (strategic) and annual performance plans (APPs), strategic objectives and aligned performance targets, with specific short-term deliverables.

Without a strategy, a vision will always just remain an illusion. Ithala fulfills its unique mandate through the diligent compilation of annual performance plans that actively drive its strategic objectives by setting clear performance targets and short-term deliverables.

KEY PERFORMANCE INDICATORS

Indicator	Change	2019	2018	2017
NET PROFIT/(LOSS)	-13.3%	(28.90) Rm	(33.32) Rm	(46.33) Rm
COST-TO-INCOME RATIO	2.5%	105.9%	108.7%	111.6%
JAWS	- 73.2%	2.4%	9.0%	16.6%
NUMBER OF DEBIT CARDS	14.1%	111,643	97,859	87,558
NON-PERFORMING LOANS	12.0%	5.5%	6.2%	7.3%
CAPITAL ADEQUACY RATIO	15.4%	17.7%	15.2%	^11.9%
LIQUIDITY RATIO	-11.3%	13.6%	15.3%	10.7%
LEVERAGE RATIO	11.8%	9.6%	8.6%	7.7%
CUSTOMER DEPOSITS	1.1%	2.4 Rb	2.4 Rb	2.3 Rb
TOTAL ASSETS	3.2%	2.9 Rb	2.8 Rb	2.6 Rb
RETURN ON ASSETS	17.3%	(1.0)%	(1.2)%	(19.0)%
RETURN ON EQUITY	27.8%	(10.3)%	(14.2)%	(1.8)%

Ithala identified and queried an issue relating to a large exposure to Nedgroup Investments Corporate Money Market Fund (Pty) Limited with the SARB. The SARB advised Ithala that the investment should be risk weighted at 100%, instead of 20%. This had a technical implication on the calculation of the capital adequacy ratio such that it reduced to 11.93%. The capital adequacy ratio would have been 13.98%, if not for this technical issue.

ABOUT THIS REPORT

Overview

As a truly South African financial services company. Ithala has a fundamental role to play in the development of the societies in which we operate. The success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term. This forms the very basis of our integrated thinking and integrated reporting.

The annual report (AR) covers Ithala's strategy, material issues and performance for the period from 1 April 2018 to 31 March 2019 and outlines our prospects for ongoing sustainability for the assurance of our stakeholders. This includes our holding company, IDFC; our ultimate shareholder, the KwaZulu-Natal (KZN) Provincial Government; National Treasury; the SARB; our regulators; and large investors.

This report may be read in conjunction with the IDFC's integrated AR 2018/19, which is available at www.ithala.co.za. The development of the content of this report is guided by the reporting requirements set by the Auditor-General of South Africa (AGSA), which stipulates that our performance must be demonstrated against the objectives of our annual performance plan (APP) (see page 31). Materiality is determined by the Board, in line with Ithala's mandate and the information requirements of its shareowners and regulators, as well as other key stakeholder groups.

We have furthermore incorporated the principles of the International Integrated Reporting Council (IIRC) Integrated Reporting Framework that was released in December 2013, as well as the King Code of Governance for South Africa (2016) (King IV). Other standards applied in the development of this report, include the International Financial Reporting Standards (IFRS), the Companies Act No. 71 of 2008 (Companies Act), the Banks Act, Act No. 94 of 1990 (Banks Act), and the (PFMA).

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking. These relate to Ithala's future plans, objectives, goals, strategies, operations and performance. Terminology such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will,' 'should' and similar expressions are typically indicative of a forward-looking statement.

These statements are not guarantees of Ithala's future operational, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from these expressed or implied by such statements.

Ithala makes no representation or warranty, express or implied, that the operational, financial or other results anticipated by such forward-looking statements will be achieved. As such, these forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Ithala undertakes no obligation to update the historical information or forward-looking statements in this document.

Feedback

We welcome the views of our stakeholders on our integrated AR. Please contact Neelan Naidoo at nnaidoo@ithala.co.za with your feedback.

APPROVAL AND ASSURANCE OF OUR REPORT

Approval and assurance of our report

The ACC is responsible for reviewing and recommending the integrated AR and the annual financial statements (AFS) to the Board for approval. The Board processed the content of this integrated AR and believes that it addresses all material issues, and fairly presents our performance. Both the internal and external audit resources provided additional assurance on the effectiveness of our risk management of material issues.

Similar to our previous report, a combined financial and non-financial assurance team from EY and the AGSA, supported by Ithala's internal audit team, adopted a combined assurance approach to the information in this report. In addition to the AFS and opinion included here, the external auditors provided assurance on selected information contained within the annual performance report (APR).

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

The reliability of the information in respect of the selected objectives was assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings on the performance information report concerning the usefulness and reliability of the information.

MALOSE KEKANA
Chairman

DANNY ZANDAMELA
Chief Executive Officer (CEO)

14 October 2019

STATEMENT OF THE BOARD OF DIRECTORS

The Board acknowledges its responsibility to ensure the integrity of the integrated AR, and in the Board's opinion; it addresses all material issues and fairly represents the company's integrated performance.

MALOSE KEKANA
Chairman

14 October 2019

DANNY ZANDAMELA
Chief Executive Officer (CEO)

Through a forward-looking approach, we help to mould the shape of things to come tomorrow, by taking them into cognisance today.

"ITHALA **OPERATES** IN A **HIGHLY REGULATED ENVIRONMENT**, WHICH **EXPOSES** IT TO **COMPLIANCE RISK**, THAT IS, THE RISK RELATING TO **NON-COMPLIANCE** WITH APPLICABLE LEGISLATIVE AND SUPERVISORY REQUIREMENTS."

SECTION 1:

OUR BUSINESS

STATEMENT OF THE CHAIRMAN AND CHIEF EXECUTIVE

MALOSE KEKANA
CHAIRMAN

DANNY ZANDAMELA
CHIEF EXECUTIVE OFFICER (CEO)

The South African economy continues to create a challenging environment with limited opportunities for growth across its various sectors, which requires an agile response and an ability to leverage the limited value that is available for business activity. In addition, Ithala experienced significant system limitations which restricted our operations and capacity to execute the business expansion objectives that were set. This in turn had a negative impact on our performance objectives.

Ithala weathered these headwinds by harnessing our key competencies and knowledge which are embedded in our core businesses. We continued to build robust corporate governance frameworks through a strong independent Board and management team.

As a result, Ithala achieved reasonable financial performance, in spite of the challenges that we had to face. Ithala incurred a net loss of R28.9 million as per IFRS. Whilst the results delivered are still not up to the desirable standard in absolute profitability terms, it must be recognised that we achieved an overall performance improvement to the value of R4.4 million during this financial year. This demonstrates that our previously initiated efforts to re-engineer business processes to create a mature and sustainable financial institution, are continuing to pay dividends.

2018/19 was the first full year of Ithala's three-year **build the bank** strategic plan that aims to accomplish the following objectives:

- Re-engineer the organisation;
- Implement a new integrated enterprise-wide digital core banking platform;
- Recruit skilled and experienced key individuals; and
- Recapitalise the organisation.

This is aligned to the requirements of the regulator and in preparation of our application to obtain a full banking licence, to become a key state-owned bank.

A new world-class, integrated and enterprise-wide digital core banking platform is in the process of being implemented. This is all-important in our next phase of growth, and involves being digital to the core, embedding ourselves in the customer's wealth creation journey and creating a mindset of continuous improvement. Good progress was made on all three fronts. Being truly digital involves a complete transformation of the organisation, from front to back end. To be successful, we must invest in people and skills differently at the front end, plus re-engineer our technology infrastructure and have systems and ways of working that shorten the release times at the back end.

At Ithala, we believe that our people are the most essential asset to our business. We are proactively working to ensure that our team is diverse and comprises seasoned professionals with in-depth expertise that encompasses all functional areas of banking, business transformation, risk management, finance and operations. With effect from 1 April 2018, Ithala realigned its organisational and management structure to enable us to execute the build the bank strategic plan.

The shareholder has committed to a total capital injection of R266.2 million over the next five years to fund the build the bank strategic plan.

Ithala has been operating under a banking licence exemption notice issued by the Minister of Finance. In 2019/20, this exemption was renewed until December 2021, to allow Ithala enough time to execute its re-engineering processes.

From a regulatory and compliance perspective, Ithala continues with ongoing efforts to achieve full compliance with the latest requirements of the various regulatory entities and bodies. More importantly, we are continuously improving to ensure that our business processes become more streamlined. Essentially, the aim is to embed continuous improvement in the very DNA of our business and to implement practices that will place us on par with our competition in the industry.

The first full year that we executed our build the bank strategic plan, demonstrated that the fundamental changes we envisioned remains relevant in the new conditions. In fact, several changes had to be implemented even faster than originally planned. We are committed to continue working diligently towards accomplishing our goals, and we will make every effort to be the best organisation for our clients and partners. We are dedicated to go that extra mile, and create shareholder value through continuous development.

> *A five-year capital injection of R266.2 million from our shareholder will enable Ithala to continue rollout of its build the bank strategic plan that ultimately aims to ensure that Ithala remains relevant in an ever-transforming business landscape.*

Looking ahead, we have a cautiously optimistic outlook about the medium and long term. To build the bank and grow our business even further, we remain focused on network expansion, our product offering and operational excellence. Concurrently, we will forge new strategic partnerships to achieve scale or access transformative technologies, products and markets. This will include investment in, and collaboration with, digital innovators of cutting-edge technologies to create new marketing channels and improve operational efficiency.

To this end, we are grateful for the unwavering support of our Board, shareholder, the IDFC, the former Member of the Executive Council (MEC) for the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) Ms. Nomusa Dube-Ncube, partners and regulators and we would like to acknowledge every one of them, for their consistent encouragement and total dedication. We would also like to thank our management, staff and all our entities for their dedication and hard work. To our customers: Please accept our heartfelt 'thank you' for your loyalty, trust and support of our businesses.

MALOSE KEKANA
CHAIRMAN

DANNY ZANDAMELA
CHIEF EXECUTIVE OFFICER (CEO)

HOW WE CREATE VALUE

Ithala requires substantial capital to deliver on its mandate and continue to create shared value for all our stakeholders. This 'capital' consists of the financial, manufactured, human, and natural elements, as well as the social and relationship resources that are necessary for the effective execution of our business activities.

It is fundamental to understand the meaning of capital in Ithala's context, the availability of it, our dependence on it, and how it impacts the delivery of our mandate. To ensure that we use our capital optimally and that we continue to create shared value for all stakeholders who have a material interest in our success, the Board developed a balanced scorecard approach that guides the implementation of our business strategy.

INPUT

FINANCIAL CAPITAL

R2.89 BILLION
OF TOTAL ASSETS
(2018: R2.80 billion)

HUMAN CAPITAL

358 EMPLOYEES
(2018: 362)

INTELLECTUAL AND REGULATORY CAPITAL

Brand, IT systems, processes, procedures and innovative products.

MANUFACTURED CAPITAL

R72.8 MILLION
(2018: R69.0 million)

SOCIAL AND RELATIONSHIP CAPITAL

Our relationships with:

- National and provincial government
- Our shareholder
- Regulators
- Suppliers
- Communities
- The media
- Employees
- Customers
- The environment

BUSINESS ACTIVITIES AND COMPETENCE

PRODUCT MANAGEMENT

- Investment management
- Asset liability matching
- Experience analysis
- Governance of participating
- Products

DISTRIBUTION AND CLIENT SUPPORT

Client support services, including: Administration and fulfilment, credit granting, human resources and information technology

Distribution channels

Investment management
Asset liability matching
Experience analysis
Governance of participating

PRODUCT DEVELOPMENT

Retail and business banking solutions

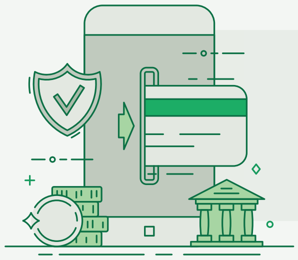
Insurance solutions

BUSINESS SUPPORT

Business support services, including: Financial management accounting, credit collections, regulatory reporting, human resources and information technology

CAPITAL AND RISK MANAGEMENT

- Redeployment of discretionary capital
- Regulatory compliance
- Optimal allocation of financial capital
- Internal audit
- Financial and actuarial risk management
- Corporate governance

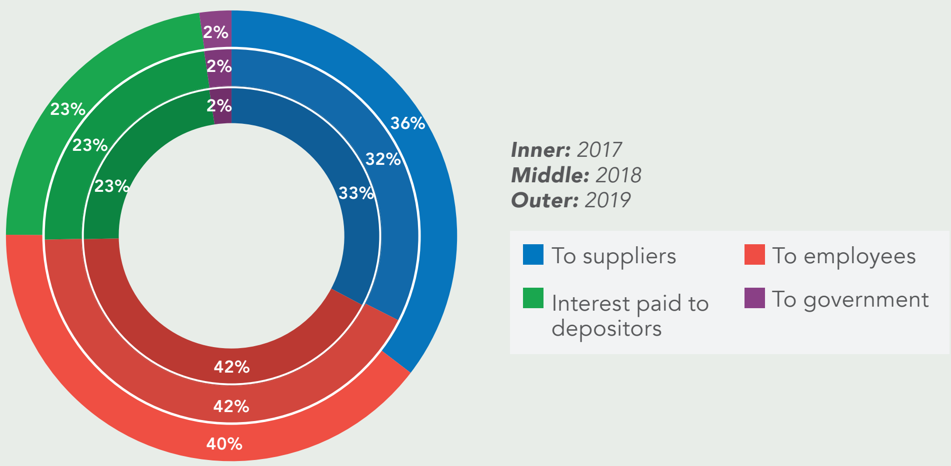


We are dependent on our capital input to conduct our business activities and create value over time.

THE CAPITAL TO OUR AVAIL, DETERMINES OUR CAPACITY TO MOULD THE SHAPE OF THINGS TO COME.

OUTCOMES

- Sustainable profitability
- Enhanced market positioning and brand identity
- Smart and beneficial strategic partnerships implemented
- Sound customer relationship management
- Effective risk management and compliance
- Effective customer service delivery
- Increased and enhanced capital base and assets
- Enhanced business effectiveness through technology
- Increased market share
- An organisational culture that promotes excellence
- Established public sector banking services
- Excellence through sound performance management

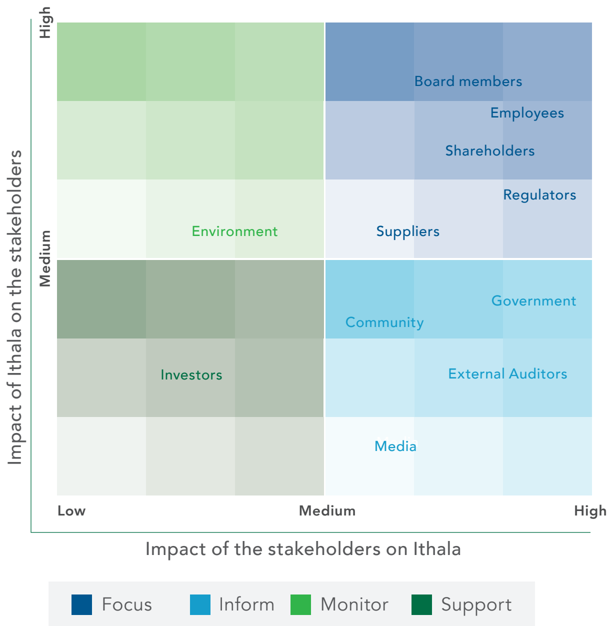


STAKEHOLDER ENGAGEMENT

At Ithala, our strategy development process is informed by stakeholder engagement to ensure that we create value and deliver on stakeholder expectations.

The Board is committed to meeting stakeholder information requirements and provides oversight of our stakeholder relationship management. We identify our material stakeholders by assessing our footprint to determine those who have a direct or indirect stake in Ithala, and who are affected or can be affected by our actions, objectives and policies.

We engage with stakeholders in varying degrees, based on the level of their interest in us and the impact of our actions on them. External governance structures also affect the degree of engagement. Our continuous engagement with the IDFC, the KZN Provincial Government, regulatory authorities, and the Minister of Finance, ensures they are updated on developments in Ithala.



Stakeholder	Material issues	Our response	Frequency of engagements
National and provincial government	• Fulfil our mandate as a sustainable and responsive provincially-owned retail deposit-taking institution. • Ensure alignment with mandate and understand how Ithala supports delivery of government priorities. • Achieve sustainable profitability. • Achieve a permanent banking licence.	• Ensure strategy and business plans are based on our mandate from government. • Aim to fulfil our mission to be a National State Bank that furthers the interests of government policy. • Collaborate with government entities and our shareholder to support delivery of government priorities.	• Annually, through issuing our AFS. • Ad hoc, as dictated by business requirements.
Our shareholders	• Deliver on our corporate plan and the targets that are outlined in our APP. • Understand our business performance and progress on implementation of business strategy. • Achieve sustainable profitability. • Achieve a permanent banking licence. • Maintain good corporate governance. • Monitor Board leadership and effectiveness.	• Promote financial inclusion and support the IDFC in the delivery of its developmental mandate. • Execute strategic plans to achieve sustainable profitability.	• Quarterly, through shareholder meetings. • Quarterly, through submission of our APP. • Annually, through issuing of the AFS. • Ad hoc, as dictated by business requirements.

Stakeholder	Material issues	Our response	Frequency of engagements
Regulatory bodies	• Maintain full regulatory and legal compliance. • Conduct risk management. • Ensure good corporate governance. • Monitor Board leadership and effectiveness.	• Maintain strong relationships with regulators including the SARB, the Banking Association of South Africa (BASA), the Financial Services Board (FSB), the Financial Intelligence Centre (FIC), the National Credit Regulator (NCR) and the Payments Association of South Africa (PASA). • Maintain compliance with legal and regulatory requirements, to ensure the retention of our various operating licences and minimise operational risk. • Implement a modern and effective human capital management organisational structure which addresses any deficiency in skills. • Ensure good governance. (More details are provided in the 'governance and transparency' section in this report). • Maintain a fully functional Board and sub-committee structure in line with the provisions of all applicable regulations and legislation.	• Daily. • Ad hoc, as dictated by business requirements.
Suppliers	• Pay invoices on time. • Apply fairness and transparency in procurement.	• Prioritise Broad-Based Black Economic Empowerment (B-BBEE) suppliers. • Ensure effective management of service level agreements (SLAs). Adhere to supply chain policies, procedures, legislation and regulations. • Utilise an anti-fraud hotline.	• Monthly. • Ad hoc, as dictated by business requirements.
Communities	• Provide access to affordable products. • Ensure relevant financial literacy programmes to assist with managing money and create wealth.	• Utilise CSI to give back, focusing on education initiatives. • Run an internship programme in partnership with various institutions of higher learning and sector education and training authorities (SETAs). • Roll out a financial literacy programme aligned to the wealth creation journey.	• Ongoing, and ad hoc, as determined by community requirements.

STAKEHOLDER ENGAGEMENT (CONTINUED)

Stakeholder	Material issues	Our response	Frequency of engagements
Media	• Manage perceived corporate governance breaches and corruption. • Communicate on State Bank and banking licence application.	• Maintain and enhance media relationships. • Update the media on progress on obtaining the banking licence.	• Regularly, and ad hoc, based on media queries.
Employees	• Maintain optimal employee engagement and wellness. • Implement reward and recognition programmes. • Ensure leadership stability and strategic direction.	• Improve and maintain employee wellness programmes. • Improve and maintain employee communication. • Improve and maintain employee engagement. • Implement relevant reward and recognition programmes in line with industry standards. • Maintain annual benchmarking exercises for rewards.	• Daily, to support line managers. • Quarterly, through the CEO road shows and performance appraisals. • Annually, through the culture survey by Investors in People (IIP). • Monthly, through the corporate newsletter. • Ad hoc, based on business requirements.
Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, cooperatives and stokvels)	• Provide access to affordable products. • Enhance customer service and experience. • Provide relevant financial literacy programmes to assist with managing money and create wealth. • Apply honest and understandable communication. • Ensure fair treatment. • Ensure trained and competent Ithala employees.	• Conduct quarterly customer satisfaction surveys. • Roll out a relevant financial literacy programme that is aligned to the wealth creation journey. • Leverage suitable partner relationships for the rollout of financial literacy training. • Develop and launch new products and services. • Develop strategic associations and collaborations with Fintech and Insurtech companies. • Develop a holistic view of our customers.	• Ongoing, and ad hoc, as determined by customer requirements, business priorities and regulatory requirements.
The environment	• Cause the least amount of environmental damage possible.	• Act on the limited impact that a financial institution such as Ithala has on the environment. • Increase awareness on our consumption amongst employees, to ensure that it is kept to a minimum.	• Ad hoc, as dictated by business requirements.

OUR OPERATING ENVIRONMENT

ECONOMIC CONDITIONS

South Africa remains in the longest business cycle downswing on record. This statement is based on the fact that our annual growth has been below the estimated potential growth rate of the country, since the fourth quarter of 2013, and that growth momentum remains very weak. The country's slow growth is not only affected by domestic issues, but also by other external factors such as rebalancing of the Chinese economy which is reducing demand for exports throughout the world and contributing to the fall in commodity prices.

Domestically, growth rebounded in the third and fourth quarter of 2018 after entering a technical recession in the second quarter. Growth declined by 2.6% in the first quarter and by a revised 0.4% (from -0.7%) contraction in the second quarter. The gross domestic product (GDP) increased by 2.6% and 1.4% quarter-on-quarter, and annualised in the third and fourth quarter of 2018 respectively. This equates to an average of 0.8% for the year.

During the fourth quarter of 2018, South Africa experienced growth of 1.4% and KZN accomplished 1.9%. This growth was supported by the significant recovery of the agricultural- and manufacturing sectors. Both these sectors contribute substantially to our GDP, and thus play a crucial role in the economy of the province.

Unemployment, especially among the youth, remains a burning issue. In the final quarter of 2018, our province's unemployment rate was 25.6% and our country's was 27.1%.

In KZN, employment has been declining gradually from its peak of 2.58 million in 2008Q4. The provincial employment remained below pre-recession levels for nine years, rising above the pre-crisis level for the first time in 2017Q4. In practise, this means that it took more than nine years to overcome the remnants of a crisis which lasted just over a year. In 2018Q4, the provincial employment was estimated at 2.648 million jobs, which is 13,000 more than in the previous quarter.

INFLATION

Inflation slowed from 5.3% in 2017 to 4.7% in 2018, as lower food and services inflation offset high petrol inflation in the second half of the year. Fuel inflation rose to 20.1% in the second half of 2018 due to higher oil prices, placing upward pressure on public transport and freight costs. The consumer price index (CPI) inflation is expected to reach 5.2% in 2019, as a result of rising food inflation associated with higher fuel and agricultural input prices. Electricity inflation is also expected to increase.

The near-term inflation forecast generated by the SARB's Quarterly Projection Model (QPM) has improved significantly since the previous Monetary Policy Committee (MPC) meeting. Headline inflation is now expected to on average be 4.8% in 2019 (down from 5.5%), before increasing to 5.3% in 2020 (down from 5.4%) and moderating to 4.8% in 2021.

The SARB MPC kept the repo rate on hold at the March 2019 meeting via a unanimous decision.

Over the medium term (2019 – 2023), the CPI is forecast to stabilise around 4.8% on the back of the following:

- Subdued GDP growth;
- Moderate Rand weakness (i.e. the currency is expected to stabilise at around R14.30c to the US$);
- A lower projected oil price over time; and
- A greater focus by policy makers on the midpoint (4.5%) of the inflation target range.

The implied path of policy rates generated by the QPM is for one hike of 25 basis points, reaching 7.0% by the end of 2019.

REGULATORY ENVIRONMENT

Ithala operates in a highly regulated environment, which exposes it to compliance risk, that is, the risk relating to non-compliance with applicable legislative and supervisory requirements. Failure to comply could result in fines, civil claims, withdrawal of licences and reputational damage. It is therefore imperative that we understand the full context of the environment in which we operate. We are committed to the preservation of our reputation, financial soundness and integrity, through compliance with all applicable regulatory requirements.

- Ithala has a dedicated and independent compliance function, as prescribed by the Banks Act. The compliance function assists the Board with all the following:
- Management of the risk of non-compliance with applicable legislation and supervisory requirements;
- Mitigation of risks through the identification, assessment, management, monitoring and reporting of non-compliance; and
- Identification of existing and emerging legislation relevant to the business and to ensure that these risks are clearly understood by the Board, sub committees and management.

Although Ithala operates under an exemption notice from the banking licence requirements, it currently complies with all applicable laws and regulations, including the Banks Act, as if it is a registered bank.

A key focus area for the year under review, was the enhancement of relationships with our primary supervisory bodies (SBs), namely the Prudential Authority and the Financial Sector Conduct Authority (FSCA), through regular engagements. This approach ensures the frequent exchange of salient information with our SBs and ensures that they remain abreast of key projects and challenges faced.

Financial Intelligence Centre Act

As an accountable institution in terms of Schedule 1 of the Financial Intelligence Centre Act (FICA), Ithala is required to comply with the requirements of this act. With the recent amendments to the FICA with effect from 1 April 2019, Ithala's primary focus was to ensure full compliance with all the new requirements.

Subsequently, all the following policies were approved by the Board in August 2018:

- Risk Management and Compliance Programme;
- Risk Based Approach Policy;
- Customer Risk Acceptance Framework;
- Financial Crime Policy; and
- Financial Crime Key Risk Framework.

The following standard operating procedures (SOPs) were approved by the ACC in November 2018:

- Sanction Standard;
- Transaction Monitoring and Reporting Standard;
- Client Remediation Standard;
- Politically Exposed Person (PEP) Standard;
- Financial Crime Training Standard;
- Financial Crime Record Keeping Standard; and
- PEP and Sanctions Alert Screening Standard.

Training was also provided in October 2018 and November 2018 to all staff on all Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) policies.

Focus was also placed on remediating the SARB findings based on the inspection conducted in 2017 in terms of the FICA.

A new screening tool was implemented which screens clients who use real-time technology, in line with the required Sanctions Watch List. This tool went live in May 2018. Real-time screening is conducted at client onboarding.

Financial Advisory and Intermediary Services Act

The focus for the year was on updating existing policies and procedures, and implementing new ones. A new Complaints Management and Resolution Policy was drafted, and the Financial Advisory and Intermediary Services (FAIS) Act Policy and Conflict of Interest Policy were updated. Another focus area, was to train the key individuals (KIs) and management on their roles and responsibilities in terms of the FAIS Act. In addition, the FAIS representative register was updated to ensure that all representatives and KIs are registered correctly according to their specific product categories, as well as the minimum fit and proper requirements.

National Credit Act

As part of its business activities, Ithala is a registered credit provider that provides secured and unsecured lending products which are concluded on the basis of a credit agreement. A risk management plan was developed to guide the review of the adequacy and effectiveness of all controls applicable in the credit granting and collections department.

The recent industry discussion on the draft National Credit Amendment Bill is expected to have an impact on the lending side of our products. For this reason, a risk management plan was implemented which provides for the controls to be entrenched in our SOPs, should the bill be promulgated.

5.4.4. Other acts

- Consumer Protection Act (CPA);
- Home Loan and Mortgage Disclosure Act (HLAMDA); and
- National Payment Systems Act (NPSA).

The CPA, HLAMDA and NPSA also form part of our regulatory compliance management framework. To test compliance with the regulatory obligations imposed by these acts, the compliance function developed compliance risk management plans. Regular monitoring of business key controls and procedures were furthermore developed, to ensure continued adherence with regulatory requirements.

The year ahead

Over the last year, the pace of regulatory change in the financial sector has shown little signs of abating. Whilst keeping a close eye on current legislation that affects Ithala, the compliance function also ensures an understanding and implication of the following pending legislation:

Protection of Personal Information Act

The Protection of Personal Information (POPI) Act was signed into law on 19 November 2013 and promulgated on 31 December 2018. The core purpose of the Act is to ensure that individuals and juristic persons know exactly what is being done with their personal information.

The Information Regulator granted a one-year transition period from the date of promulgation of the POPI Act for all relevant parties to fully comply with its provisions.

The compliance function prepared a Compliance Risk Management Plan and conducted an entity-wide impact analysis of the POPI Act. The findings of the impact analysis was communicated to the business and implementation of the requirements of the POPI Act as stipulated by the Information Regulator, will commence in the new financial year.

Financial Sector Regulation Act

The Financial Sector Regulation (FSR) Act, signed on 21 August 2017 and promulgated on 1 April 2018, provides a robust framework for the financial sector and is intended to support an extensive regulatory system. Its purpose is to reinforce financial stability and maintain the soundness of individual institutions while protecting their customers.

The compliance function prepared a Compliance Risk Management Plan and conducted an entity-wide impact analysis of the FSR Act.

National Credit Amendment Bill

The regulatory compliance portfolio is tracking the developments of the draft National Credit Amendment Bill. The main objective of the bill is to provide debt interventions for low income consumers with the aim of addressing over-indebtedness. It furthermore aims to provide for the evaluation and referral of debt intervention applications and the suspension of credit agreements considered to be reckless, as part of the enforcement functions of the NCR. As soon as the bill comes into effect, the risk management plan will be updated in line with developments of the bill and an impact analysis will be prepared accordingly.

Ithala departed from SA GAAP and adopted IFRS for the first time in the 2019 financial year. The impact of the transition to IFRS is reported in note 6 of the AFS.
In April 2018, we also adopted and implemented

Ithala has a dedicated compliance function to ensure that our operations are not only aligned to all the current relevant regulations and legislation, but that we are also geared for the legal shape of things to come.

"ITHALA **IMPLEMENTED COST CONTAINMENT MEASURES** IN QUARTER 3 OF 2018, TO **ENSURE SUSTAINABILITY** OF OPERATIONS AND TO RETURN THE **BUSINESS TO PROFITABILITY**"

SECTION 2:
OUR PERFORMANCE

OUR FINANCE AND PERFORMANCE REVIEW

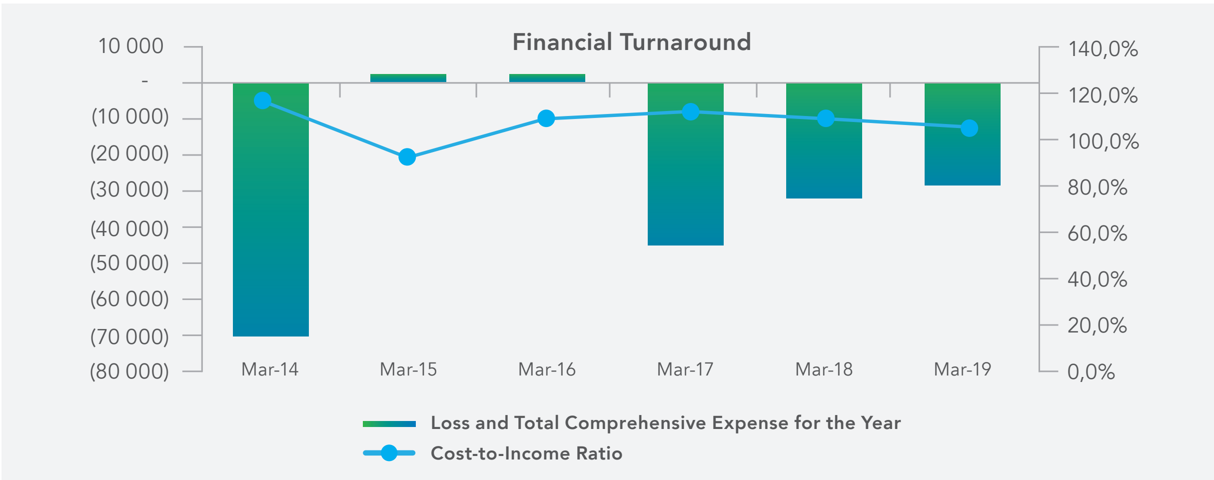
IFRS 9. IFRS 9 replaced the International Accounting Standards (IAS) 39. IFRS 9 introduced new Expected Credit Loss (ECL) impairment requirements that will result in the earlier recognition of credit provisions. The impact of adopting IFRS 9 is reported in Note 10 of the AFS.

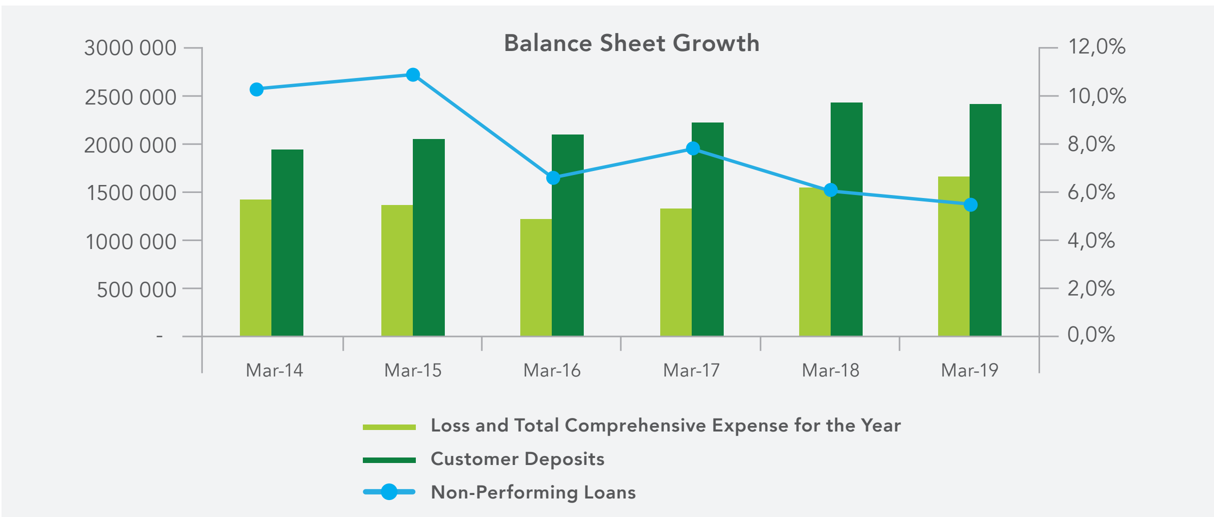
CONTINUOUSLY IMPROVING

Ithala made significant strides towards achieving its strategic objective of maintaining financial sustainability. This progress is reflected in the growth in income, cost containment and key indicators of the jaws ratio and cost to income.
The financial year closed with a net loss of R28.9 million, which, although below expectation, is a substantial improvement when compared to the performance of the previous two years. The net loss improved year-on-year by 13.3% (2018: loss of R33.3 million) and 37.6% when compared to the year before (2017: loss of R46.3 million). The major contributors to the improved results are detailed below.

The jaws ratio for 2019 was a positive 2.4% (2018: positive 9.0%) as a result of a revenue increase of 6.8% against an increase of 4.4% in our expenses, year-on-year.

Historical financial performance for the last five years





STATUTORY INCOME STATEMENT ANALYSIS

The overview that follows, highlights the main reasons for the variance in the major category line items in the income statement during the year under review.

R'000	Change %	2019	2018
Interest income	2%	**265 855**	260 697
Interest expenditure	-1.4%	**(93 586)**	(92 323)
Net interest income	2,3%	**172 269**	168 374
Non-interest revenue	12,6%	**149 441**	132 758
Operating income	6,8%	**321 710**	301 132
Operating expenditure	-4.4%	**(339 486)**	(325 141)
Depreciation and amortisation	20.0%	**(9 861)**	(12 333)
Impairment of tangible and intangible assets	-812.3%	**(2 819)**	(309)
Interest expense on non-trading activities	-32.8%	**(6 705)**	(5 047)
Operating expenditure	-4.1%	**(320 101)**	(307 452)
Net operating income		**(17 776)**	(24 009)
Impairment of financial assets	-34.6%	**(18 117)**	(13 464)
Loans and advances to customers	-34.0%	**(17 678)**	(13 193)
Trade receivables	-62.1%	**(439)**	(271)
(Loss) / profit for the year	4,2%	**(35 893)**	(37 474)
Other comprehensive income			
Items that may not be classified as profit and loss			
Actuarial gains/(losses)	68,4%	**6,995**	4,153
Total comprehensive income (loss) for the year	13,3%	**(28 898)**	(33 321)

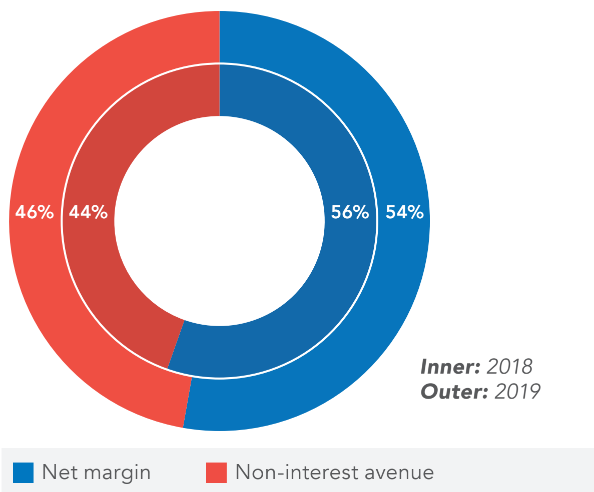
Net interest income

The growth achieved in the previous year continued into the 2019 year, with interest income increasing by 2.0% to R265.9 million (2018: R260.7 million) while interest expense increased by 1.4% to R93.6 million (2018: R92.3 million), resulting in an increase in net interest income by 2.3% to R172.3 million (2018: R168.4 million). Interest income received from housing loans during the year represents 58% of the total interest income.

Non-interest income

Ithala recorded R149.4 million non-interest revenue during 2019, building on 2018's robust result of R132.8 million. This strong non-interest revenue is primarily attributable to fees earned from debit cards. This growth in debit cards continued in the 2019 financial year, with revenue from this product growing by 30.6%.

% of total operating income before impairments



Operating expenditure

The overall cost-to-income ratio for 2019 was 105.9% (2018: 108.7%). The ratio decreased from the prior year, due to the increase in operating revenue.

Ithala implemented cost containment measures in quarter 3 of 2018, to ensure sustainability of operations and to return the business to profitability. These cost management strategies continue to bear fruit in the 2019 financial year with operating expenses increasing year-on-year by only 4.4%, which is well below inflation. Staff costs, which account for 55.7% of the total expenses, decreased by 2.4% to R189.1 million (2018: R193.7 million). This containment was achieved through a decrease in temporary staff costs, subsistence and travel costs, and recruitment fees paid.

Impairment of financial assets

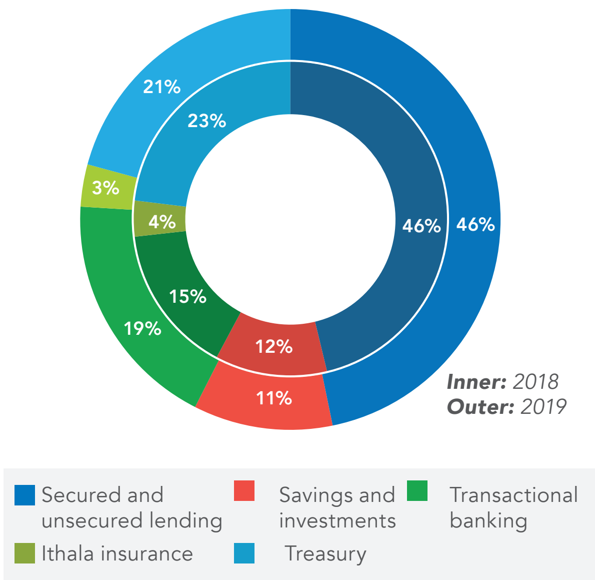
Ithala adopted and implemented IFRS 9 in the 2019 financial year. The adoption of IFRS 9 resulted in a R21.4 million release in provisions. This release arose from the change from the IAS 39 impairment model in which collateral was not taken into consideration when determining the bad debt provision to IFRS 9 where the security value is taken into consideration.

The impairment charge increased to R17.7 million (2018: R13.2 million) from the prior year in tandem with a growth in the loan book portfolio. More details are provided in the 'loans and advances section' of this document.

Business unit overview

Business unit contributions to revenue are reflected below. Growth can be seen in the transactional banking business units while the other business units remained stagnant.

Contribution to revenue for the year – by business unit at a glance



STATUTORY BALANCE SHEET ANALYSIS

Since 31 March 2018:

- Total assets grew by 3.2% to R2.89 billion (2018: R2.80 billion). The growth in the asset book is mainly attributable to the growth in the loans and advances book which grew 11.4% to R1.73 billion (2018: R1.55 billion);
- Total liabilities grew by 0.9% to R2.57 billion (2018: R2.55 billion). Customer deposits grew 1.1% to R2.41 billion (2018: R2.39 billion);
- Shareholders' equity increased by 27.2% to R314.8 million (2018: R247.5 million) due to a capital injection of R74.8 million received from the shareholder during the financial year, reduced by the losses incurred. The capital injection aims to increase the equity capital base to fund growth while ensuring Ithala remains above the prudential capital adequacy ratio of 15%;
- At the financial yearend, the capital adequacy ratio was 17.7% (2018: 15.2%), which is above the capital adequacy requirement of 15%;
- The return on assets improved from -1.2% to -1.0%; and
- The return on shareholders' equity improved from -14.2% to -10.3%.

Ithala's comparative balance sheet position as at 31 March 2019 is as follows:

R'000	Change %	2019	2018
Assets			
Cash and cash equivalents	-12.7%	**592 604**	679 123
Statutory investments	0,4%	**188 389**	187 714
Investments and deposits with banks	-1.2%	**306 664**	310 391
Loans and advances to customers	11,4%	**1 727 741**	1 551 320
Receivables	1,6%	**13 145**	12 935
Inventory	-5.6%	**1 320**	1 399
Lease receivable	0%	**-**	-
Properties in possession	-48.4%	**3 610**	6 997
Tangibles	100,0%	**41 719**	34 023
Intangible assets	-4.9%	**13 016**	13 692
Total assets	3,2%	**2 888 208**	2 797 594
Liabilities			
Customer deposits	1,1%	**2 414 080**	2 387 119
Trade and other payables	-15.2%	**91 582**	108 060
Provisions	0,0%	**450**	450
Loan account with holding company	986,7%	**13 291**	1 223
Long service obligation	3,4%	**15 384**	14 884
Retirement benefit obligation	0,6%	**38 614**	38 384
Total liabilities	0,9%	**2 573 401**	2 550 120
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	0,0%	**190**	190
Issued share premium	17,2%	**509,498**	434,710
(Accumulated loss)/retained income	7,7%	**(201 572)**	(187 122)
Actuarial gains/(losses)	-2302.6%	**6 691**	(304)
Total equity	27,2%	**314 807**	247 474
Total liabilities and equity	3,2%	**2 888 208**	2 797 594

Cash, investments, deposits and statutory investments

Ithala's liquidity portfolio comprises cash, investments and liquid assets. As at 31 March 2019, the portfolio stood at R1.1 billion (2018: R1.2 billion). Ithala invests in liquid assets to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Ithala has sufficient liquidity to meet all financial obligations on a timely basis. As at 31 March 2019, the liquidity ratio was 13.6% (2018: 15.3%).

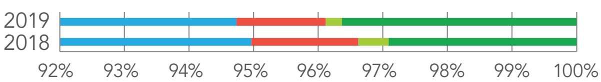
Surplus funds held as at 31 March 2019, amounted to R899.3 million (2018: R989.5 million). Surplus funds are invested with financial institutions that are rated in accordance with Fitch ratings (or equivalent ratings) with a minimum long term rating of A, and that also invests surplus funds in other state-owned companies (SOCs).

Loans and advances to customers

Net loans and advances to customers increased by 11.4% to R1.7 billion (2018: R1.6 billion). New advances for 2019 amounted to R433.4 million (2018: 405.8 million).

The strength and the quality of the loan book continues to be within acceptable levels; the non-performing loans percentage decreased by 0.7% to 5.5% (2018: 6.2%) and total impairments raised as at 31 March 2019 amounted to R61.5 million (3.42%).

Gross loans and advances by product



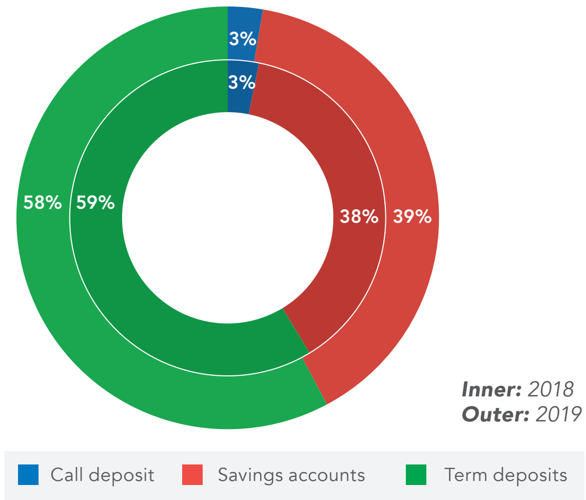
	2018	2019
Housing Loans	95,0%	94,7%
Cash Loans	1,7%	1,4%
Commercial property loans	0,0%	0,0%
Unsecured loans	0,5%	0,2%
Vehicle and taxi finace	2,9%	3,6%

Customer deposits

The customer deposits balance increased by 1.1% to R2.41 billion (2018: R2.39 billion). Whilst this is a modest increase, it is nonetheless commendable, given the reduced savings appetite of customers due to lower disposable income.

On-demand type accounts currently account for 42.2% of the total savings control. Term deposits currently account for 57.8% of the total deposits.

Customer deposits by product



FUTURE OUTLOOK

Looking forward to the next financial year, we expect a slight increase in economic activity. Our continued investment in our people resulted in a notable and positive improvement in our IIP programmes. We are confident that this, together with our investment in our new integrated enterprise-wide digital core banking platform, which is due for completion in the new financial year, will propel Ithala to the next level that is necessary for the ultimate achievement of our vision.

Total new advances will be increased to R487 million for the year. The main driver of income growth will continue to be derived from non-interest revenue, namely fees on the new and innovative electronic banking and insurance products.

Distribution channels will be expanded to include self-service devices and additional automated teller machines (ATMs). Our 'branch of the future' project will continue into the next year.

Ithala is forecasting a moderate loss in the next financial year.

ANNUAL PERFORMANCE REPORT

Every year, as an SOE, Ithala agrees on its performance objectives, measures and indicators, as well as its annual targets with its ultimate shareholder, EDTEA and Provincial Treasury, in line with the PFMA.

Financial & Shareholder Perspective (Weighting = 25%)

Objectives	Key Performance Indicators	Actual 2017/18	Target 2018/19	Actual 2018/19	Management Comment
Sustainable Profitability	Maintain the total budgeted expenditure as at 31 March 2019 (R'000)	New KPI not in 2017/18	R 410,405	R 339,486	Target achieved.
	Achieve the budgeted annual net profit/(loss) by 31 March 2019 (R'000)	R33,321	R 2,902	-R 28,898	Target not achieved. The delay in the implementation of the new integrated enterprise-wide digital core banking system, has impacted the different revenue streams which were envisaged. Coupled with the delayed appointment of a new Treasurer, this has led to the target not being achieved. Additional constraints regarding accepting PFMA and MFMA deposits has posed challenges in growing the customer deposits. Despite not achieving the budget, the net loss for the period ending 31 March 2019 is R6, 8 million lower when compared to the prior year, which is a 20.8% improvement.
	Achieve the budgeted cost-to-income ratio (CTIR) by 31 March 2019	108,70%	93,30%	105,94%	
Smart & Beneficial Strategic Partnerships Implemented	Enter into strategic agreements with the targeted number of Fintech and Insurtech companies by 31 March 2019	New KPI not in 2017/18	Enter into an agreement with two such companies	0	Target not achieved. This target is dependent on the availability of the new integrated enterprise-wide digital core banking system.
Effective Risk Management & Compliance	Achieve an unqualified audit opinion (clean audit) with no findings on compliance or pre-determined objectives for the financial year that ended 31 March 2018	New KPI not in 2017/18	Unqualified audit opinion with no findings on compliance or pre-determined objectives	Unqualified audit opinion with no findings on pre-determined objectives	Target not achieved. Although an unqualified audit opinion was achieved and there were no findings on pre-determined objectives; there were findings raised on compliance.
Increase & Enhance Capital Base & Assets	Achieve the budgeted capital adequacy ratio (CAR) by 31 March 2019*	15,24%	24,30%	17,67%	Target not achieved. The budget included a turnaround grant of R90 million which was anticipated to be received by October 2018; however, this did not happen. The capital injections received from the shareholder will however ensure that the ratio stays above the minimum capital adequacy ratio of 15% that is required by the SARB.

* Unaudited key performance indicator (KPI).

Customer Perspective (Weighting = 25%)

Objectives	Key Performance Indicators	Actual 2017/18	Target 2018/19	Actual 2018/19	Management Comment
Increase Market Share	Achieve the budgeted insurance revenue amount by 31 March 2019 (R'000)	R13,434	R 14,946	R 13,018	Target not achieved. Despite achieving a respectable 87.1% of the budget, the insurance revenue has decreased by 7.2% from the prior year indicating the effect of not having an insurance management system and suitably skilled personnel.
	Achieve the budgeted transactional banking revenue amount by 31 March 2019 (R'000)	New KPI not in 2017/18	R 70,830	R 76,502	Target achieved.
	Achieve the budgeted customer deposits amount by 31 March 2019 (R'000)	R2,387,119	R 2,651,183	R 2,414,080	Target not achieved. Despite not achieving the budget, the customer deposits balance has increased by 1.1% from the prior year and achieved an encouraging 91.0% of the budget.
	Achieve the budgeted retail and consumer banking new advances amount by 31 March 2019 (R'000)	New KPI not in 2017/18	R 528,525	R 433,394	Target not achieved. Despite not achieving the budget, the insurance revenue has increased by 96.4% from the prior year and achieved an encouraging 96.4% of the budget.
	Achieve the budgeted commercial and public sector banking new advances amount by 31 March 2019 (R'000)	New KPI not in 2017/18	R 50,000	R 0	Target not achieved. These targets were dependent on the availability of the new integrated enterprise-wide digital core banking system
Establish Public Sector Banking Services	Enter into agreements to provide banking services to the targeted number of public sector entities by 31 March 2019	New KPI not in 2017/18	Enter into an agreement with four entities	0	
Enhanced Market Positioning & Brand Identity	Conduct financial literacy programmes at the targeted number of schools by 31 March 2019	New KPI not in 2017/18	15	11	Target not achieved. A total of 15 unique financial literacy programmes were conducted during the year; however, only 11 schools were visited during the year.
Sound Customer Relationship Management	Achieve the targeted net promoter score (NPS) by 31 March 2019	New KPI not in 2017/18	50%	85%	Target achieved.
	Achieve the targeted score per the customer satisfaction measure by 31 March 2019	91%	80%	90%	Target achieved.

Business Process Perspective (Weighting = 25%)					
Objectives	**Key Performance Indicators**	**Actual 2017/18**	**Target 2018/19**	**Actual 2018/19**	**Management Comment**
Effective Customer Service Delivery	Install and operationalise the budgeted number of new self-service devices (SSDs) by 31 March 2019	19	215	75	Target not achieved. The rollout of ATMs has been going through a protracted integration process, with most of the challenges now having been overcome.
	Install and operationalise the budgeted number of new automatic teller machines (ATMs) by 31 March 2019	9	30	5	Target not achieved Acquisition of profitable sites remain challenging; ATMs have been unable to achieve the minimum number of transactions to maintain financial viability.
	Achieve the call centre solution implementation milestones by 31 March 2019	New KPI not in 2017/18	90% adherence to the implementation milestones	n/a	Target not achieved. This project was dependent on the availability of the budgeted turnaround funding from the shareowner and the availability of the new integrated enterprise-wide digital core banking system.
Enhanced Business Effectiveness through Technology	Achieve the new integrated enterprise-wide banking technology platform implementation milestones by 31 March 2019	New KPI not in 2017/18	90% adherence to the implementation milestones	63% adherence to the implementation milestones	Target not achieved. A project "deep-dive" has been conducted which identified additional work streams and requirements for additional in-house technical resources. An updated project plan is being prepared to cater for the additional work streams while human resources (HR) is recruiting the additional required resources.
	Achieve the customer relationship management (CRM) solution implementation milestones by March 2019	New KPI not in 2017/18	90% adherence to the implementation milestones	63% adherence to the implementation milestones	

People, Learning and Growth Perspective (Weighting = 25%)					
Objectives	**Key Performance Indicators**	**Actual 2017/18**	**Target 2018/19**	**Actual 2018/19**	**Management Comment**
An Organisational Culture that Promotes Excellence	Implement the Investors in People (IIP) Standard by 31 December 2019	Met 17 of the 27 requirements for the developed standard	Meet all evidence requirements for the developed standard	n/a	Target not achieved. The Investors in People (IIP) Standard assessment for the 2018/19 year has not been performed following delays with the supply chain management (SCM) process.
Excellence through Sound Performance Management	Achieve the targeted employee productivity measure by 31 March 2019	New KPI not in 2017/18	R 3,500 net profit per employee per year	R 80,720 net loss per employee per year	Target not achieved. Despite not achieving the budget, the net loss for the period ending 31 March 2019 is R4.4 million lower when compared to the prior year, which is a 13.3% improvement.

HOW WE DELIVER

INFORMATION TECHNOLOGY

The information technology (IT) unit is a strategic partner to business that focuses on improved operational efficiency through the automation and integration of core business processes and the provision of information for decision-making.

Although Ithala still runs outdated disparate systems that have not been upgraded in more than 10 years, the IT team utilised the means to their avail to ensure continued support to the business. Where possible, system controls were implemented to mitigate risks related to these outdated platforms, whilst ensuring improved accessibility to the systems.

The availability of the legacy system and the hosted banking system in quarter 4 of 2018/19, has averaged more than 96%, which can be supported by improved system availability to service our customers. The availability of our WAN lines was largely satisfactory, with a network availability of above 98%, and no indication of over utulisation. The disk utilisation of most of the branches on the IBS AS400 platform was however above 80.0%. This indicates a critical requirement to replace this solution, as it is no longer upgradable.

To mitigate the legacy system challenges, an integrated enterprise-wide digital core banking platform tender was awarded. This solution will replace both the legacy IBS and Enterprise platforms with a modern, agile and functionality rich integrated core banking solution, with full digital platform capability that is closely aligned to the 'build the bank' strategy. Implementation of this solution is currently underway. It will be deployed to our data centre and we are also making provision for a recovery site. Services that Ithala require to address the cyber security challenges are being investigated. The organisation committed to execute an IT infrastructure upgrade at all branches. Training plans for IT staff are being formulated to ensure alignment with the new solution requirements for system support.

OPERATING INFRASTRUCTURE

Our self-service channels

Technology plays a significant role in the delivery of our service to our customers. A technology road map that includes the implementation and enhancement of our core banking platform is currently underway. This will enable us to improve the speed of service and accessibility of our services, as well as enhance our customer experience at all service touch points; be it at the branch, customer contact centre or digital platforms i.e. mobile banking, ATMs, etc.

The introduction of electronic or digital banking channels requires that banks revisit their branch sizes and design. Most customers, especially the younger generation, do most of their day-to-day banking through digital channels, i.e. Internet, mobile applications and ATMs. The physical branch however remains a critical point of contact for transacting and end-to-end services, especially amongst lower income market segment customers.

To remain relevant, we invested in the development of our digital capability, which includes mobile and internet banking and self-service devices (SSDs). During the 2018/19 financial year, Ithala installed a further five (5) ATMs and 75 SSDs.

The SSDs that were rolled out, was a pilot project executed in partnership with the eThekwini Municipality and Business Association. These devices can be found in informal businesses in the rural and peri-urban areas that support the township revival programmes.

Our branch network

Ithala's legacy was established by being the champion of making banking and financial services accessible to the previously financially excluded people and areas of KZN. The customer loyalty that the brand enjoys is a clear indication of a solid foundation that has been built over the years. Our customers trust Ithala and remain committed to the culture of saving, mainly using our flagship book-based products. The future growth of Ithala will be built on this strong foundation. Ithala's brand is being repositioned in line with its vision of becoming a national player and serving the people of South Africa and the state. Central to the positioning, is being a partner in enabling ordinary South Africans to manage their money and create wealth.

Ithala's physical presence, particularly in rural areas, remains key to our market positioning. Some of our thirty nine (39) branches can be found in areas where there are no other financial service providers.

To keep up with the ever evolving banking landscape, we developed our 'branch of the future' concept which will transform the branch into a customer engagement platform where the physical branch is integrated with digital channels.

The 'branch of the future' project was launched with the re-design and refurbishment of the Mega City branch. The design and décor was completely revised to provide a high tech platform for customer engagement and transaction. This project does not only improve the look and feel of the branch, but also the customer experience.

Adding meaningful value to our customers' lives is one of the key differentiators that has set us apart from our competitors and has driven loyalty to our brand. Our brand is being repositioned to play a significant role in improving our customers lives, by assisting them to progress financially. This includes providing access to knowledge on financial literacy and money management, which in turn enables wealth creation. Simply put, our new positioning will take our customers on a journey from financial indebtedness to prosperity.

Customer service

The Ithala brand has a strong heritage of being people-centred, a trait that has traditionally set us apart from competitors and continues to be our main differentiator. Satisfied and loyal customers drive brand value and are the life blood of any business. It is for this reason that we strive to not only meet, but exceed our customer expectations. We track and measure customer satisfaction levels twice a year and we have set an internal customer satisfaction score target of 80%. This is above the financial services industry benchmark of 76.3%.

Overall, our customers are satisfied with the service they receive at Ithala. During the financial year, we achieved a customer satisfaction score of 90%, which exceeds our target by far. One of the key drivers of our level of customer satisfaction, is friendly and helpful staff. This brings our people-centred brand value to life and resonates with the market we serve.

Our customers are our ambassadors, and our surveys indicate that 86% of Ithala customers are likely to recommend Ithala to their friends and family. The net promoter score (NPS) achieved for the year is 85%. The brand endorsement from satisfied customers plays a critical role in the growth of our brand, as well as the acquisition of new customers.

Meeting and exceeding customer expectations across all customer touchpoints will continue to mould the shape of things to come and Ithala's current digital transformation is a strategic enabler that will help us to accomplish exactly that.

With banks that are redesigned to enable high-tech engagement and transaction for our customers, coupled with access to the relevant financial support, tools and knowledge to enable wealth creation, Ithala is leading the shape of things to come in the financial services sector.

OUR ACCOUNTABILITY

SOCIO-ECONOMIC DEVELOPMENT

Ithala was established to provide essential financial services to the people of KZN. Today, we are a unique retail financial services institution that provides money management solutions for individuals, businesses and government.

Affordable housing

We finance quality affordable housing units for households with income levels of between R5 500 and R18 000 a month. We were initially the only financial institution that provided home loans in the so-called "red-lined" township areas and we continue to do so. We remain the only provider of housing loans to rural communities on land that is under tribal tenure in KZN. In the 2018/19 financial year, we issued rural home loans to the value of R2.913 million (2017/18: R2.072 million).

Low income earners who belong to pension and provident funds, may qualify for a home improvement loan which would grant them access to credit to build or renovate a home. In 2018/19, we issued home improvement loans to the value of R50.898 million (2017/18: R36.841 million). A high level of customer indebtedness is a particular challenge when providing housing finance to low income earners. We consider factors such as combined household income and the contributions of other family members to the expenses. We are constantly investigating innovative ways to ensure that our customers in the low income market segment are able to access affordable home improvement loans.

Support for emerging entrepreneurs and enterprise development

Ithala works with the IDFC to support the development of entrepreneurs and emerging enterprises. The IDFC has a primary mandate to provide finance and working capital in this space, whilst Ithala provides support, inclusive of transactional banking facilities and insurance products. We are currently also rolling out several innovative electronic payments solutions.

The Ithala-IDFC collaboration includes ongoing support for the strategically important National School Nutrition Programme, with the IDFC providing working capital and Ithala offering payment solutions and banking services to service providers.

During the 2018/19 financial year, Ithala, in partnership with the EDTEA, also launched an enterprise development model that enables access to funds through banking services and SSDs for various small businesses in rural and peri-urban areas.

Alignment with key development strategies and programmes of government

Ithala's overall goals and strategies are aligned with the socio-economic policies and strategies of Government, without detracting from the governance requirements and the independence required of a regulated financial institution.

Ithala's relationship and ongoing interaction with Provincial Government, as its 'ultimate shareholder,' ensures that the organisation's business focus is aligned with the key strategic imperatives of Government. This includes:

- Promoting financial inclusion;
- Supporting emerging enterprises, entrepreneurship and employment creation; and
- Providing services to Government and SOEs.

This alignment is secured through governance processes, which includes the compilation of an APP and five-year corporate plans, which amongst others, serve to demonstrate how Ithala's objectives are aligned to provincial and national development plans and priorities. Ithala's key strategic objectives that are aligned with the Provincial Government's strategic goals, are: Inclusive economic growth, human and community development and strategic economic infrastructure.

Our employees are the heart of our organisation, and throughout this year, we delivered on our brand promise to improve the lives of local communities, through employing local talent. Considering that we have a very low attrition rate as well as a lean organisational structure that balances our staff cost with the generated revenue, we opted to avail learnership opportunities to the youth, and in particular, recent graduates and learners.

OUR PEOPLE AND CAPACITY

Employee profile

As at 31 March 2019, our headcount was 358 (2018: 362), of which 93% (333) are African and 61% (218) women with 58% (207) being African women. The management component of the same group (D band and above), is 12% (43), 77% (33) of which comprises males. We created our own Skills Development and EE Committee that functions independently from our parent company. This committee developed our employment equity plan for the next three (3) years. We have a total of 20 additional fixed term contract employees, and 112 graduates/learners from Technical Vocational Education and Training (TVET) Colleges who are offered experiential training.

Investment in human capital

Considering that this has been a key focus area of the SARB in the past year, Ithala also took cyber security into consideration in its people development efforts, with the aim to enhance the information security capability within our IT Department. To this end, we partnered with the Durban University Technology through Masithuthuke Holdings, an initiative that yielded the recruitment of five (5) graduates who are deployed to information security, hackathons and data carpentry.

We also maintained our regulatory compliance through conducting training sessions for our branch sales teams on the topics of the FAIS Act and the Class of Business (COB) stipulations that form part of the 'fit and proper' requirements of the Board Notice 194 of 2017. In addition, our FICA training manual was updated and approved and the entire branch network received training on it.

A total of twenty one (21) learners were trained and successfully completed the National Certificate for Wealth Management, which is an NQF Level 5 qualification. A number of these trainees were offered fixed term contracts in various divisions, to add meaningful value and growth for them, particularly in the insurance division.

We placed a total of 112 learners across the organisation, which constitutes 28% of our permanent headcount. It remains a priority for us to develop the communities we serve and create hope for the youth in rural and non-metro areas of KZN. Our partnership with TVET colleges in all regions of the province, is thus primarily aimed at benefitting the local communities, which is evident in our ability to grow local talent.

Employee engagement and change

We partnered with a reputable entity that specialises in organisational development and change management, with the aim to provide support and guidance to our human resources team and project management structures. This change management initiative integrates other aspects of change as well, including creating awareness and embedding a culture of compliance.

Whilst our change management drive contributes to our organisational culture, it is also imperative for us to achieve a number of key system and technical milestones to establish a user-friendly digital environment to optimise our operations. This will be accomplished through migrating from multiple systems to a single integrated core banking platform with advanced features that will enhance our customer service. The platform will for example enable our frontline employees to have a single view of a customer.

Reward and recognition

Over the last two financial years, we offered performance-based salary increases to all our employees, but we lacked any short- and long term incentives. To address this issue, a performance incentive scheme was approved in 2018/19 that improves our employee value proposition, which in turn had a positive impact on our recruitment and retention strategies. To alleviate the impact of the countrywide economic downturn, we also maintained our employee preferential rates on monthly repayments for both housing and vehicle and asset finance, at prime minus 1.725.

Employee wellness and health

We improved our response to our staff's wellness needs significantly, through the establishment of a comprehensive repertoire of wellness services for our employees, in partnership with ICAS Southern Africa. Our health and wellness days has been well-attended over the year and our sick leave rate has decreased. Based on reports, there has also been a high usage of the ICAS services that are available through the tollfree line. The health and wellness of our employees remains vital to the success of our organisation, and proactive suggestions from the staff are encouraged through our employee blog.

"WE **CREATE VALUE** BY OPTIMISING OUR CAPITALS (**FINANCIAL, MANUFACTURED, HUMAN, NATURAL**, AND **SOCIAL AND RELATIONSHIP)** IN THE EXECUTION OF OUR BUSINESS ACTIVITIES."

SECTION 3:

RISK AND CAPITAL MANAGEMENT

RISK AND CAPITAL MANAGEMENT REPORT

RISK MANAGEMENT APPROACH

Prudent and effective risk management while pursuing our strategic objectives is required to grow our shareholder value sustainably.

By following a systematic and integrated approach, Ithala gained a better understanding of its strategic goals, culture, marketplace, regulatory requirements and financial sensitivity to risk, which informed the development of the 'build the bank' strategy.

Enterprise risk management at Ithala is an evolving process that is gradually being integrated with our day-to-day operations, as we build on our risk culture. Proactive risk management is essential for sound corporate governance and a crucial enabler for realising opportunities. As such, we are significantly enhancing our capability to anticipate risks and respond with agility and confidence in managing them.

In the year under review, we continued to evolve our risk management approach to ensure flexibility and relevance to business needs in a changing operating environment, while facilitating appropriate standardisation. We take a holistic and forward-looking view of the risks we face, and continuously assess both current and emerging risks.

Our Enterprise-wide Risk Management (ERM) Framework is currently under review, with the aim to strengthen the link between risk and strategy, incorporating the six capitals in terms of value creation and providing additional emphasis on embedding risk management into key decision-making processes. The revised framework will enable our departments to respond effectively to risks and opportunities in a standardised and systematic way. It also serves as an integrated, strategic tool that will enable our staff to unlock optimal value for the business.

We assess, manage and report on all significant risks in accordance with our defined risk reporting protocol. As part of our journey to become more proactive and responsive, we continuously monitor the external and internal environment to identify key developments related to our significant risks and the implications for Ithala and related key responses. Our process ensures that emerging risk themes and material matters are actively monitored.

Risk materiality is based on the following factors as prescribed in our current ERM Framework:

- The guidelines issued by National Treasury;
- The nature of our business;
- Applicable statutory requirements;
- The inherent risks and controls that affect Ithala;
- Quantitative aspects, such as financial losses in excess of 2.0% of qualifying capital and reserve funds;
- Qualitative aspects, such as the reputation of the company being negatively affected to the extent that it causes a deterioration in overall liquidity; and
- Stakeholder expectations.

The risk management objectives for 2019/20 is to partner with business by:

- Increasing the value of business through a systematic approach to managing risk;
- Protecting the business through our 'three lines of defense' model; and
- Instilling a culture of collective responsibility, whereby the anticipation and management of risk is everyone's concern.

The aim of the risk objectives is to embed risk within our management processes, with managers being accountable for risk management within their operational areas. Ongoing processes for identifying, evaluating and managing risks that threaten the achievement of corporate, departmental and project objectives are in place and operational throughout the year to mitigate risks continuously.

Risk governance

Risk governance is the management of risk with the responsibility of oversight by the Board and Board committees, namely:

- The Risk and Capital Management Committee (RCMC);
- The Audit and Compliance Committee (ACC);
- The IT Governance Committee (ITGC);
- The Insurance Advisory Committee (IA);
- Human Resources and Remuneration Committee (HRRC); and
- The Social, Ethics and Sustainability Committee (SESC).

Operational risks are managed by:

- The Executive Committee (EXCO);
- The Management Credit Committee (MCC); and
- The Asset and Liability Committee (ALCO).

The roles and responsibilities of the various committees in managing risks within Ithala are set out below:

The Board of Directors

The tone for risk management is set at the top and the overall responsibility for risk management lies with the Board. The Board ensures that risks are managed and remain within acceptable parameters. The Board is assisted by the RCMC and the ACC in the execution of its risk management responsibilities.

Risk and Capital Management Committee

The RCMC assists the Board with:

- Evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the company in the day-to-day management of the business;
- Identification of the buildup and concentration of the various risks to which the company is exposed; and
- Development of risk mitigation strategies to ensure that the company manages risk in an optimal manner.

Audit and Compliance Committee

The role of the ACC is to assist the Board with the fulfilment of its oversight responsibilities, especially the evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes that form part of the day-to-day management of the business.

IT Governance Committee

The responsibility of the ITGC includes assisting the Board with evaluation and monitoring of IT-related risks, including cyber risk, disaster recovery planning, physical security, information security, and computer security, as well as oversight of system development.

Insurance Advisory Committee

The responsibility of the IA Committee is to consider and ensure implementation of the insurance strategy and business plan with the aim to enhance the company's ability to achieve its strategic objectives. The committee regularly conducts reviews to monitor the company's performance against the approved strategy, objectives, business plans and budgets and ensures that the necessary corrective action is taken timeously.

Human Resources and Remuneration Committee

The objective of the HRRC is to assist the Board in discharging its responsibility with regards to the governance of employee remuneration and human resources matters. The committee further provides strategic guidance on Executive and Director remuneration in accordance with best corporate practices.

Social, Ethics and Sustainability Committee

The committee is vested with the responsibility and function of reporting and making recommendations to the Board on any relevant legislation that relate to matters of sustainability, ethics, social and economic development; good corporate citizenship; the environment, health and public safety; and consumer relationships, including Ithala's advertising, public relations and compliance with consumer protection laws, as well as labour and employment legislation.

Executive Committee

As part of its overall responsibility for the day-to-day business of the company, the EXCO:

- Manages strategic and reputational risks;
- Actively monitors other risks, including stakeholder, compliance and human resources risks; and
- Identifies and monitors new types of risks.

In addition, the EXCO is responsible for:

- Ensuring the adequacy of all policies, procedures and controls applied to the business;
- Promoting a risk culture within the business, and
- Making sure that the risk and compliance functions are independent, impartial and effective.

It furthermore reviews internal audit's reports on operational and compliance practices, as well as matters arising from the meetings of management committees, and monitors progress against our corporate plan and strategic objectives.

Management Credit Committee

The MCC is responsible for the following:

- Ensuring implementation of the strategies aimed at ensuring that Ithala conforms to the risk appetite and levels of exposure, as approved by the Board;
- Reviewing of the credit risk reports and credit risk legislative requirements; and
- Recommending changes in policies and procedures.

Where necessary, it also recommends amendments to the credit granting and control environment within the business to the Board and the RCMC.

The committee is furthermore responsible for:

- Considering and monitoring the performance of the loans portfolio, including large exposures;
- Monitoring the performance of properties in possession (PIPs), including losses from sales thereof;
- Recommending credit granting and control policies and procedures for new products;
- Reviewing of re-scheduled loans;
- Monitoring the effectiveness of credit risk controls; and
- Monitoring our exposure to credit and counterparty risk.

Asset and Liability Committee

The ALCO ensures that all strategies conform to the risk appetite and levels of exposure as approved by the Board and focuses on protecting our equity base and ensuring balance sheet growth over time.

It is also responsible for managing the interest rate and liquidity risks that occur in the business and ensures adequate pricing methodology across the business units, as well as developing a contingency funding plan.

RISK APPETITE

Our risk appetite measures the extent and types of risk that we are prepared to take in executing our strategy. It combines a top-down view of capacity to take risk, with a bottom-up view of the risk profile associated with each department's ambitions.

Financial risk appetite metrics were reviewed and approved and are already enhancing the decision-making process at Ithala. Financial risk appetite metrics relate to credit risk in terms of expected credit losses, non-performing loans, and our credit risk weighted assets and credit growth. Other metrics amongst others include, our capital adequacy ratio, liquidity coverage, net stable funding and cost-to-income ratio. Ithala monitors the impact of applicable risks on its financial risk appetite and tolerance metrics and implements appropriate management action, where required, to ensure that risk appetite metrics are managed within its appetite and tolerance levels.

The Board approved the risk appetite framework that governs the risk that the company is willing to take in pursuing its strategic objectives. A built-in escalation model is proposed to guide Board oversight in the new financial year (2019/20). The risk appetite will be reviewed annually to determine its adequacy for the company. Ithala's well-defined risk appetite is used as a:

- Benchmark for the Board to evaluate the impact of pursuing unexpected market opportunities;
- Vehicle for ensuring key managers with business unit and functional responsibilities to understand all elements of our appetite for risk;
- Tool for circumventing off-strategy behaviour and containing strategic drift before a significant problem arises;
- Baseline for monitoring the risk profile and driving strategic decisions to right size if it is out of line with expectations of the Board and management;
- Way of setting expectations for departmental, regional or business unit strategic reviews and regular discussions on how to manage unexpected economic or market events; and
- Means to enhance communication with the investor community.

STRESS TESTING

Our stress testing evaluates our financial position under severe, though plausible scenarios and includes defining our risk appetite and risk tolerance, strategic planning and budgeting process, and capital planning and management. We develop risk mitigation and contingency plans across a range of these stress conditions. In our recovery and resolution planning, we assess the adequacy and plausibility of proposed recovery actions.

We conduct stress testing across all major risk types by using a number of macro-economic stress scenarios. Stress testing is augmented by product and service-specific stress testing and sensitivity analyses, to identify the drivers of our risk profile. Our RCMC approves both the appropriateness of the stress scenarios we use and the impact of these stress situations on the risk profile for use in the internal capital adequacy assessment process (ICAAP) and our broader capital planning process.

> *To ensure sustainability of this unique and strategic South African institution, Ithala operations are founded within a principle which is best captured in the words of a former Chair of the Federal Reserve of the United States, Alan Greenspan: 'Indeed, better risk management may be the only truly necessary element of success in banking.'*

Capital management

Capital management is focused on ensuring the business is capitalised in line with our risk appetite and targeted ratios, both of which are approved by the Board, to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance.

To ensure that adequate capital is maintained to support current business activities as well as anticipated growth and absorption of unexpected losses, capital adequacy assessments are conducted, which take the following into consideration:

- Current and future minimum regulatory capital requirements;
- Additional internal capital requirements for risks that are not fully covered by regulatory minimums, if the need arises, and as assessed by the Board;
- Available capital against capital required to grow the business as planned; and
- Our ability to raise additional capital.

Our ICAAP assesses our capital requirements against available capital. The process is forward-looking and considers budgeted growth, risk exposures and anticipated losses. In addition, stress testing is conducted to test our capacity to absorb unexpected losses.

Capital structure

Common equity tier I (CET I) capital consists of issued ordinary shares, share premium and retained income. Tier II capital comprises secondary unimpaired reserve funds which consist of the prescribed general allowance for credit impairment. Capital requirements are calculated using the standardised approach for credit risk and the basic indicator approach for operational risk. Other risk relates to other assets for which we are also required to hold capital. Ithala has a very simple capital structure as we do not have any hybrid debt/equity instruments and the phase-out requirements therefore do not affect any of our issued equity instruments. The only deduction applied against capital, is that of our intangible assets balance.

Our capital position

Our yearend capital adequacy ratio was 17.7%, which is above the regulatory minimum of 15%.

How we manage capital

Ithala developed its 'build the bank' strategic plan which outlines the capital requirements for the next five years. This serves as a business case for the ultimate shareholder, the KZN Province, to allocate the necessary funds.

Credit risk

Credit risk arises from the potential that a borrower is either unwilling to perform on an obligation, or the borrower's ability to perform such obligation is impaired, resulting in economic loss to the organisation.

Credit risk consists of counterparty risk (including primary, pre-settlement, issuer and settlement risk) and concentration risk.

The major portion of credit risk exposure arises via individuals in the form of home-, home improvement-, personal-, or cash loans and vehicle- and taxi finance. The balance flows from businesses and property developers in the form of property development- and commercial property loans.

Reporting according to the IRFS 9 model commenced in March 2018, which produced acceptable non-performing loan and coverage ratios for Ithala. A month-to-month comparison of the new and old regulation reports were produced in March and April 2018. The exercise will continue retrospectively for a period of 12 months, to assess whether there is a significant change in Rand value.

To date, the new regulation has considered factors that were previously excluded, such as assumptions on macro-economic data and credit score (amongst many factors), when assessing expected credit loss.

How we manage credit risk

The responsibility for credit risk management primarily resides with the Board which, together with the RCMC, oversees our credit risk management processes.

The EXCO and MCC implement our credit risk processes on a day-to-day basis. The RCMC approves key aspects of our rating systems, credit risk modelling and credit concentration risk decision-making and delegates implementation thereof to credit officers and committees charged with credit management.
Where necessary, it recommends amendments to the credit granting and control environment within the business to the Board via the RCMC. The MCC is also responsible for:

- Considering and monitoring the performance of the loans portfolio, including large exposures;
- Monitoring the performance of PIPs, including losses from sales; and
- Recommending credit granting and control policies and procedures for new products.

In addition, it reviews re-scheduled loans, monitors the effectiveness of credit risk controls and monitors our exposure to credit and counterparty risk.

Credit risk is further mitigated by way of:

- Maintaining a strong culture of responsible lending and a robust risk policy and control framework;
- Investing time in understanding our target market;
- Setting clearly-defined risk appetite thresholds and triggers, using applicable stress test measures;
- Identifying, assessing and measuring credit risk clearly and accurately across the group, from the level of individual facilities, up to the total portfolio;
- Continually defining, implementing and re-evaluating our risk appetite under actual and stress conditions; and
- Monitoring our credit risk relative to limits, ensuring that there is expert scrutiny and independent approval of credit risks and its mitigation.

Ithala approved the following mitigation strategies to ensure that the risk that is absorbed to pursue strategic objectives, remains within the approved risk appetite:

- The coverage ratio must be maintained below 5.0%; with the target to reduce this to 4.5% and 4.0% over the next 24 months and beyond;
- The non-performing loan percentage must remain below 5.0%, with a concerted effort to reduce it to 3.5% over the next 24 months and beyond;
- Growth of the loan and advances must be supported in line with the budget outlined in the 'build the bank' strategic plan; and
- The skills of the credit management team must be enhanced.

We implemented a more prudent approach and updated our policies to be more stringent in provisioning for accounts in arrears and write-offs including:

- Full provision of accounts at loss category; and
- Our write-off policy now provides for accounts to be written-off after 12 months of non-payment.

The credit processes

The credit and collections processes are aligned to the current regulations and are updated regularly, to give effect to the changes recorded in the NCA.

This ensures that credit and collections are compliant and maintain a culture of responsible lending within the ambit of a robust risk policy, which defines the risk appetite that is supported by stress testing outcomes.

In respect of home loans, the underlying asset is secured by means of a mortgage bond and additional security of life insurance cover. Home improvement loans are secured by pledges against the pension fund.

Provisioning

The provisioning model is based on the Basel III standards and is reviewed by the SARB and the AGSA. The approach is prudent, and the model ensures that the loans in the loss category are fully provided for in general.

In line with industry practice, the loans under debt review are rescheduled to the performing loans category upon receipt of six consecutive payments. The write-off policy recommends write-off of loans after 12 consecutive months of non-payment.

Collections

Payments due are collected via an employer deduction, debit order and stop order payments. The outbound call centre of the collections department follows up on unsuccessful collections and past due amounts. The strategy employed is to review large- and group exposures and collections based on urgency.

Rescheduling is also used as a collections strategy and is governed by an approved policy on rescheduling of loans.

Recovery

A trace team within the credit and collections department is responsible for tracing clients, confirmation of employment, renegotiation of resumptions of repayment terms and reinstatement of salary deductions and debit orders. Further assistance is offered on property disposal. Legal action is the last resort to recover outstanding loans.

LIQUIDITY RISK

Liquidity risk is the risk that Ithala will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk arises from mismatches between maturities of assets and liabilities. Ithala's business-as-usual liabilities are sufficiently matched with appropriate assets and it has significant liquidity available to cover its obligations. The company's liquidity and ability to meet financial obligations is constantly monitored by the ALCO and the RCMC.

The business activities of Ithala are geared towards short-term maturities on deposits and long-term maturities on advances, which compound the liquidity risk.

Our liquidity portfolio primarily consists of bank balances and cash on hand, money market instruments such as call- and fixed term deposits with banks, treasury bills issued by the SARB, promissory notes and floating rate notes issued by SOEs.

How we manage liquidity risk

Ithala's liquidity position is continuously monitored by the ALCO. The liquidity risk is managed in accordance with the approved liquidity risk policy. The policy is designed to ensure proper management of liquidity risks and that regulatory, prudential, as well as internal minimum requirements are met, at all times. This is achieved through maintaining adequate liquidity buffers to ensure that cash flow requirements can be met.

Cash flow forecasts and maturity gap analyses are used to assess and monitor liquidity requirements and risk levels. A maturity gap profile report is reviewed and analysed by the ALCO, on a monthly basis.

Ithala successfully implemented the liquidity coverage ratio (LCR), in accordance with Basel III. The LCR determines minimum requirements to ensure a short-term resilience of liquidity risk profile i.e. maintenance of an adequate level of unencumbered level one- and level two high-quality liquid assets, that can be converted to cash, to meet the bank's liquidity needs over a 30-calendar day period, under a significantly severe liquidity stress scenario.

An additional requirement in respect of liquidity risk management that is set to be introduced, is the Basel III net stable funding ratio (NFSR). NSFR determines minimum requirements to promote resilience over a one-year period and ensures continuous maintenance of a specified number of stable sources of funding relative to the liquidity profile of the liabilities and the potential for contingent liquidity needs arising from off-balance sheet (OBS) commitments. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. As at 31 March 2019, Ithala exceeded the 100% minimum requirement of the NSFR.

Liquidity risk measurement

Liquidity risk is measured by conducting an analysis of net funding requirements. Net funding requirements are determined by analysing future cash flow based on the assumptions of the expected behaviour of assets and liabilities and OBS items.

Liabilities are short-term with the major part maturing contractually within six months. Assets are long-term and the major part falls within the greater than one year maturity category.

In terms of section 72 of the Banks Act, on a monthly basis, all banks are obliged to hold an average amount of statutory investments that shall not be less than 5.0% of its liabilities to the public. It was agreed with the SARB that we would hold a further 2.5%, instead of depositing an amount as a reserve balance with the

SARB. In terms of Ithala's liquidity management policy, a buffer of 20% above the prudential requirements is held to ensure that the minimum balances required to be held are not breached in any instance. These funds are not available for use in operational activities.

Business-as-usual liquidity mismatch

Behavioural profiling is applied to assets, liabilities and OBS commitments, as well as to certain liquid assets, because actual cash flow typically vary significantly from the contractual position. Behavioural profiling assigns probable maturities, based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of core deposits, such as savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Business-as-usual liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of balance sheet items and to highlight potential risks within the company's defined liquidity risk thresholds.

Under business-as-usual circumstances, adequate liquidity is maintained as deposits are rolled over and not withdrawn on maturity.

CONTINGENCY LIQUIDITY RISK MANAGEMENT

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an early warning indicator process supported by clear crisis response strategies. In terms of our liquidity risk management policy, the advances to deposits ratio which is in excess of 85.0%, will trigger the implementation of the contingency funding plans.

Crisis response strategies are formulated for the relevant crisis management structures that address the following:

- Internal and external communications and escalation processes;
- Liquidity generation management actions and operations; and
- Heightened and supplementary information requirements to address the crisis event.

Liquidity stress testing and scenario analyses

Stress testing is conducted to assess the ability of the organisation to withstand stressed liquidity conditions and to determine how it will cope in such a situation. Stressed liquidity is defined as a condition that arises from a sudden deterioration of the perceived safety and credibility of the organisation, which results in substantial withdrawal of funds by depositors.

A liquidity crisis arises when the organisation is unable to roll over deposits or replace withdrawn deposits and as a result, cannot meet its financial obligations.

Stress testing and scenario analyses are based on hypothetical as well as historical events.

Full scope stress testing is performed and reported to the ALCO on a monthly basis, whereas the LCR is calculated daily.

The advances to deposits ratio is 71.6%, which is below the 85% internal threshold. Ithala continues to maintain a contingency plan in case that expected capital is not received.

With regards to standby lines of credit and the availability of funding in stress scenarios, the MEC: EDTEA signed the request for renewal of a provincial guarantee to the value of R300 million annually over three years to January 2022, as part of the resolution plan by the KZN Provincial Government.

An application for R500 million as standby lines of credit from the five major banks is currently being processed.

INTEREST RATE RISK

Ithala is exposed to interest rate risk due to its deposit-taking and lending activities. The repricing mismatches of these assets and liabilities, because of the change in prime lending rates, exposes Ithala to this risk.

Ithala's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, Ithala needs to measure and manage its interest rate risk exposure over both the short- and long term, to protect the earnings stream and ensure its continued financial sustainability

How we manage interest rate risk

Interest rate risk is the responsibility of the ALCO at management level, and the RCMC at Board level.

The role of management is to protect both the financial performance of Ithala, as a result of a change in earnings, as well as its long-term economic value.

The finance department, under the supervision of the ALCO, manages our interest rate exposure within the Board-approved limits. The treasury department hedges against the impact of interest rate risk by investing large client funds in back-to-back investments, as well as investing surplus funds in financial instruments that change when market interest rates change, such as the Johannesburg Interbank Agreed Rate (JIBAR)-linked financial instrument. Ithala does not invest or trade in any derivative instruments.

Interest rate risk is also monitored and managed through margin analyses and the monitoring of mismatch levels between re-pricing assets and liabilities.

Sensitivity analysis is another tool used by Ithala to manage and monitor interest rate risk. Sensitivity analyses are performed regularly, which measures the impact of a shock increase or decrease in interest rates. For regulatory purposes, an interest rate shock of 200 basis points is used, and for business purposes it is aligned to the expected basis points increase/decrease per economists' views, which was 50 basis points for the year under review.

Sensitivity analysis

Assuming that there is no change in the balance sheet and no management intervention in response to interest rate movements, a 200bps increase in interest rates will result in an increase of R9.1 million (2018: R14.0 million) in the projected 12-month NII and a 200bps decrease in interest rates will result in a reduction of R18.2 million (2018: R30.0 million) in the projected 12-month NII.

OPERATIONAL RISK MANAGEMENT

Amongst other, Ithala's approach to managing risks is to pay special attention to the top ten risks that may prevent the organisation from achieving its strategic goals and business objectives. The adopted practice is the implementation of an adequately aggressive operational risk management framework that gives effect to the micromanagement of operational risks from its point of origin. Operational risk analysts, internal audit and the compliance function, provide assurance services and provide an opinion on the business' performance in managing risks.

The mandate of operational risk is to build a solid foundation for an operational risk management culture and to implement programmes that will drive the achievement of efficient and effective customer service.

Fraud risk

Ithala has a zero tolerance for fraud, meaning that acts of dishonesty or similar unethical behaviour are not tolerated. As such, we apply consistent consequence management, in line with the laws of our country that governs criminal activity.

Our fraud risk management policy contains an end-to-end fraud risk solution for the proactive and reactive management of fraud risks that impact the organisation. Our fraud risk management processes include:

Prevention

Fraud prevention policies, controls and initiatives contribute to reduce the risk of fraud and to prevent fraud and misconduct before it occurs.

Detection

Detection of fraud occurs in a timely manner, as a result of our vigilant and proactive approach to the investigation of fraud.

Investigation

Fraud investigation activities at Ithala includes:

- Establishing investigation protocols;
- Increasing turnaround times;
- Conducting investigations without favour or prejudice;
- Reporting on investigations; and
- Providing recommendations on findings.

Remediation

During the course of fraud investigations, the relevant shortcomings in the control environment are identified and recommendations for corrective action are provided.

Monitoring

The control environment is continuously monitored to ensure that all remediation recommendations are implemented.

Underpinned by our zero tolerance approach, the organisation focuses on the mitigation of fraud risk and other criminal activities before it occurs. This is supported by initiatives such as:

- Promoting honesty and ethical conduct;
- Educating employees on matters relating to fraud, corruption and theft;
- Establishing procedures that govern the escalation of fraud allegations; and
- Providing support to whistle-blowers.

In addition, we extensively communicate on fraud by increasing awareness on potential fraud scenarios and identifying common types of fraud, and by educating our employees on the Code of Ethics and Fraud Prevention Policy. We also make sure that our controls are sufficient to reduce fraud-associated risks.

RISK MANAGEMENT TOOLS

The operational risk tools implemented assists the organisation to:

- Efficiently maintain the risk registers of the organisation;
- Monitor risk exposure levels;
- Manage and monitor management action items relating to risks in their control environment; and
- Provide supporting information to assist management in prioritising actions according to their level of importance and urgency.

"ITHALA'S APPROACH TO **MANAGING RISKS** IS TO PAY SPECIAL ATTENTION TO THE **TOP TEN RISKS** THAT MAY PREVENT THE **ORGANISATION** FROM ACHIEVING ITS **STRATEGIC GOALS** AND **BUSINESS OBJECTIVES**"

SECTION 4:

GOVERNANCE AND TRANSPARENCY

HOW OUR BUSINESS IS GOVERNED

The Board believes that complete transparency and good governance is fundamental to be a responsible corporate citizen that considers its social, cultural and environmental responsibility towards the communities within it operates in all aspects of its operations, as well as its financial and economic responsibility to its shareholder and immediate stakeholders.

Ithala operates in a highly regulated environment that is constantly evolving. For this reason, the Board constantly reviews our compliance universe to ensure that we not only meet but exceed the legal requirements for governance. To this end, our governance processes are founded on the principles of the King Report on Corporate Governance (King Code or King IV), and the spirit and principles of good governance are firmly embedded in every element of our operations.

The Board also believes that good governance ensures responsible behavior and enhances accountability, effective leadership, robust risk management, clear performance management and transparency. The Board acknowledges its responsibilities and that it should serve as the focal point and custodian of corporate governance.

The Board delegates to relevant Board committees and the CEO according to clearly defined terms of reference and delegated powers of authority, allowing the Board to allocate sufficient time and attention to matters reserved for decision-making. Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a clear mandate and terms of reference, which the Board reviews once annually.

The day-to-day management of Ithala is vested in the CEO, subject to the delegated powers of authority approved by the Board. The EXCO assists the CEO in the day-to-day management of the affairs of Ithala. The Company Secretary plays a vital role in the corporate governance of the organisation. The Company Secretary is responsible to the Board for, inter alia, ensuring compliance with procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties.

BOARD OF DIRECTORS

MALOSE FRANS KEKANA (CHAIRMAN OF THE BOARD) **(AGE – 48)**
(Appointed in June 2013)

Malose is a graduate of the University of Witwatersrand with a BCom Degree in Finance. Malose is the Group Chief Executive Officer of Pareto Limited. He has over 23 years' experience in the finance and banking industry. He started his banking career with Standard Bank, thereafter joined Rand Merchant Bank, a division of FirstRand Bank, working in Risk Control, Corporate Finance and spent most of his career as a member of RMB Ventures, the private equity division. Malose was the founding CEO of the Umsobomvu Youth Fund, a Government Development Funding Institution, which was subsequently incorporated into the National Youth Development Agency. This entity was responsible for investing over R2 billion in youth skills and SMME development initiatives.

INKOSI SBONELO MKHIZE (DEPUTY CHAIRMAN) **(AGE – 40)**
(Appointed in March 2018)

INkosi Mkhize has a Bcom Degree in Economics which he obtained at the University of KwaZulu-Natal and a Certificate in Public Policy which he completed at the University of California Berkeley in 2014. He pursued a career in investment banking in London and since his inauguration as traditional leader; he has served his community with excellence. INkosi Mkhize is the Chief of AbaMbo Traditional Council: Hlatikhulu, UThukela District, KwaZulu-Natal and Chairman of UThukela Local House of Traditional Leaders and Convener of Economic Development Portfolio Committee of the KwaZulu-Natal Provincial House of Traditional Leaders. In 2014, he was selected to participate in the President Barack Obama Washington Fellowship exchange programme – under the Young African Leaders' Initiative (YALI).

Independent Non-Executive Directors

GIVEN REFILWE SIBIYA (CHAIRMAN OF THE SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE) **(AGE – 50)**
(Appointed in August 2017)

Given is a Chartered Accountant and Director of Xabaniso Consulting, and previously served on the Board of Basil Read Holdings. Given was the Head: Internal Audit at SekelaXabiso (Pty) Ltd, a division with approximately 60 professional staff members and a client portfolio of an estimated R30m revenue. She has over 23 years' experience in internal and external auditing, risk management, management consulting, corporate governance and forensic and special investigations. Prior to joining SekelaXabiso, she spent nine years at SizweNtsaluba VSP, where she was Director: Forensics and where she was transferred to the firm's Corporate Governance Services Division in 2005. She also worked for Anglo American Corporation as an Internal Auditor in the Group Audit Services Department.

SIPHO CYPRIAN NGIDI (CHAIRMAN OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE) **(AGE – 63)**
(Appointed in August 2010)

Sipho has a BAdmin Degree and Honours in BCom and is an independent business professional with over 30 years' experience in shaping people systems in the corporate sector. He started off his career as a junior research fellow at the Maurice Webb Race Relations Unit at the University of Natal and then entered the corporate sector as the Operations Manager for South African Breweries. Sipho was then appointed to Group Human Resources for Nampak Limited for over five years – and thereafter, served as the Group Human Resources Director for Standard Bank, for a period of approximately 10 years. Sipho was Chairperson of the Bankmed Board, Institute of Bankers, and Banking Sector Education Authority; and currently chairs the Fibre Processing and Manufacturing SETA.

Independent Non-Executive Directors

BABALWA NGONYAMA (CHAIRMAN OF THE AUDIT AND COMPLIANCE COMMITTEE AND INTERIM CHAIRMAN OF THE IT GOVERNANCE COMMITTEE) **(AGE – 44)**
(Appointed in March 2018)

Babalwa is a Chartered Accountant with extensive experience in the auditing finance and mining industries. Babalwa is the CEO of Sinayo Securities, a women-owned and managed business. Prior to joining Sinayo Securities, she was CFO at Safika Holdings and also the Group Chief Internal Auditor of Nedbank. Babalwa is a former audit partner in Deloitte's Financial Institutions Services Team division. She qualified as a chartered accountant in 1999. She was chairperson of Deloitte's Transformation Advisory Board and also the transformation champion for FIST, where she was responsible for setting transformation strategies and the monitoring of their effective implementation.

POLO RADEBE (CHAIRMAN OF THE RISK AND CAPITAL MANAGEMENT COMMITTEE AND INSURANCE ADVISORY COMMITTEE) **(AGE – 43)**
(Appointed in August 2015)

Polo has a post-graduate diploma in Auditing and a BCom Degree from the University of Western Cape. Polo is a highly accomplished and experienced entrepreneur and private equity investor. She is the Executive Director and Co-founder of IDF Capital - a South African based entrepreneurial financier and advisory firm. Through IDF Capital, Polo has contributed towards channeling investments into women-owned SMEs across South Africa. In 2015, she co-founded Alitheia Identity to continue investing in high growth businesses across Sub-Saharan Africa that are women-owned and led. Polo is an accountant by training and has varied experience in both the public and private sectors of South Africa, which includes accounting and auditing, corporate finance, investment banking, public policy formulation and venture capital and private equity in the SMME sector.

Non-Executive Directors

MAHMOOD MIA (BOARD MEMBER) **(AGE – 71)**
(Appointed in December 2009)

Mahmood is a Director of companies, a former banker who spent 19 years with Natal Building Society and thereafter became a Managing Director of New Republic Bank. He serves as a consultant/advisor on mergers and acquisitions. He serves as a Non-Executive Director of Credit Guarantee Insurance Corporation of Africa Limited and as an Independent Non- Executive Director of Tongaat Hulett Limited.

MBUSISWA NGCOBO (BOARD MEMBER) **(AGE – 35)**
(Appointed in January 2019)

Mbusiswa is a Chartered Accountant and entrepreneur with a passion for African continental growth opportunities. His professional background ranges from auditing, venture financing, development finance, business development, banking to mention a few. Mbusiswa, over and above his current responsibilities at Crescendo, also serves as the President of The Association for the Advancement of Black Accountants of Southern Africa (ABASA), and is also a member of the Accounting Programs Advisory Board at the University of KwaZulu-Natal.

Non-Executive Directors

THEMBINKOSI MATHE (BOARD MEMBER) **(AGE – 56)**
(Appointed in June 2013)

Themba holds a BA Degree and a Post-graduate Diploma in Business Management from the University of KwaZulu-Natal. He has been in the banking industry since 1988 and during this period he has worked in different areas in the bank, ranging from personal banking to corporate- and merchant banking. This exposure has given Themba a very good grounding in banking as whole. His specific skills include credit risk assessment, business finance, small business development and advisory, personal financial planning, branch and strategic business unit management on a balance scorecard basis and bank management at a strategic level. Themba's excellent leadership qualities, his ability to inspire teamwork and his skill to drive performance and position the bank among stakeholders in Mpumalanga province led to him being awarded a highly coveted ABSA Executive Prestige Award in 2005. Themba was in a development finance environment where he assumed various roles, ranging from Executive responsible for Group Strategy, Acting Chief Executive Officer (subsidiary retail bank) and Group Marketing, Communications & Human Resources Executive, to Acting Group Chief Executive.

MARTINA THANYANE MADALI (BOARD MEMBER) **(AGE – 49)**
(Appointed in January 2018 and resigned in February 2019)

Martina has been in the professional services industry for more than 23 years specialising in IT audit, information security, business continuity management, IT project management, IT governance and information risk management. Prior to joining SekelaXabiso, Martina was the Managing Director at Thatama Consulting. She also worked for various organisations, including KPMG, Nkonki Sizwe Ntsaluba, Gobodo Risk Management, SARS, ABSA, Nedco Bank, Arivia.com and Arthur Andersen. Martina holds a National Diploma in Information Systems and a Higher Diploma in Computer Auditing from the University of Witwatersrand, a National Diploma in Business Continuity Management and a National Diploma in Project Management from the University of South Africa, a Manager's Service Delivery and Service Support Certificate from UNISA, and a Management Advancement Programme qualification from the Wits Business School.

Executives

DANETE HIGGINS ZANDAMELA (CHIEF EXECUTIVE OFFICER) **(AGE – 56)**
(Appointed in September 2017)

Danete holds a Master of Science in Strategic Management Degree (Derby, UK) and is currently completing a Doctorate in Business Administration Degree (Sheffield-Hallam, UK). He is a corporate, commercial and retail banking professional with industry experience of over 35 years, with 30 of those being at a management level, and the last 15 years being at a senior executive level in the FirstRand Group. He has been a CEO in FirstRand for the last 15 years. Among some of his key achievements was his successful growth of FNB Botswana from a historic 19% to 28/30% sustained annual profitability to overtake Barclays Botswana and become the largest bank in the country.

LEBOGANG SERITHI (CHIEF FINANCIAL OFFICER) **(AGE – 39)**
(Appointed in October 2017 and resigned in March 2019)

Lebogang qualified as a Chartered Accountant in 2005 and in the same year he obtained a Master of Commerce degree, specialising in Financial Management from the University of Johannesburg. He completed his articles at Investec Bank Plc, after which he joined a number of private equity firms including Rand Merchant Bank and Mvelaphande. In 2009, he was appointed Group Head of Operations and Investments at Land Bank, responsible for a retail and corporate banking book of R15 billion. In 2011, he was appointed Group Chief Financial Officer with IT, Finance, Treasury, Facilities reporting to him. In this role, he was responsible for a funding book of R30 billion and assets of R40 billion.

BOARD MEETING ATTENDANCE

Board Member	Board of Directors	Directors Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committee	Human Resource and Remuneration Committee	Social, Ethics and Sustainability Committee	Insurance Advisory Committee
	Number of meetings: 9	Number of meetings: 2	Number of meetings: 7	Number of meetings: 5	Number of meetings: 6	Number of meetings: 4	Number of meetings: 1	Number of meetings: 4
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Malose Kekana	9	2	n/a	n/a	n/a	n/a	1	n/a
INkosi Sbonelo Mkhize	9	2	n/a	5	0	n/a	1	4
Mahmood Mia	8	1	n/a	5	4	4	1	4
Sipho Ngidi	6	1	n/a	n/a	n/a	2	1	n/a
Babalwa Ngonyama	9	2	7	5	4	n/a	n/a	4
Given Sibiya	8	1	6	5	n/a	4	1	n/a
Polo Radebe	7	1	7	5	4	n/a	n/a	4
Martina Madali	9	2	n/a	4	5	n/a	n/a	n/a
Thembinkosi Mathe	7	2	n/a	3	0	2	1	4
Mbusiswa Ngcobo	1		2					
Danete Zandamela	9	n/a	n/a	5	4	4	1	4
Lebogang Serithi	9	n/a	n/a	5	4	2	0	1

The HRSEC was dissolved and new committees were formed, namely the Human Resources and Remuneration Committee (HRRC) as well as the Social Ethics and Sustainability Committee (SESC) on 14 November 2018.

Appointment, rotation and induction of Directors

In terms of the Shareholder Compact, all Non-executive Directors retire every year and are, if available, considered for reappointment by the shareholder at the annual general meeting (AGM). The Board has a formal and transparent process in place for the appointment of Directors which is in line with the Banks Act. The Directors' Affairs Committee (DAC) serves as the nominations committee of the Board and identifies suitable candidates for recommendation and approval by the Board. A formal induction process is followed to familiarise new incumbents with the business and the operational and legislative context within which it operates.

In terms of the Memorandum of Incorporation (MOI), when a Director reaches the age of 70, he or she ceases to be a Director of the company from the end of the AGM. Prior to the convening of the AGM in question, the Board resolved that the Director shall not retire at that meeting and a statement to that effect was made in the notice convening the meeting. Mr Mahmood Mia turned 70 and the Directors resolved to extend his term of office by another year, and the shareholder's approval was obtained.

Board effectiveness and evaluation

The cyclical and specialist nature of banking necessitates the retention of Directors with long-serving Board experience. In practise, this means that it would be impractical, and not in stakeholders' best interest for Directors to retire after nine years of service. A robust annual evaluation of Director independence is undertaken on a bi-annual basis. The evaluation process includes the completion of a comprehensive self-assessment questionnaire, evaluating their own performance, as well as the performance of their peers. This assists the Chairman to identify the training and skills requirements of the Board members.

Effective governance of ethics

The Chairman and the Board set the tone of the company and collectively ensure that the conduct of the Board and Executive management is aligned to the company's values and the business code of conduct and ethics management protocol. Evaluation of the effectiveness of the Board, includes the measurement of their ethical behavior.

BUSINESS CODE OF CONDUCT AND ETHICS MANAGEMENT

Ithala is committed to the business code of conduct and ethics management protocol for fair dealing and integrity in the conduct of their business. This commitment, which is actively endorsed by the Board, is based on a fundamental belief that business should be conducted honestly, fairly and legally. Ithala expects the Board and all employees to share its commitment to high quality standards on research, as well as moral, ethical and legal aspects of the business.

EMBEDDING ETHICAL BEHAVIOUR

An approach of ongoing awareness and reinforcement ensures that Ithala establishes an ethical culture in all day-to-day operations and decisions of the business. The Board established the SESC to monitor our activities, taking into consideration all relevant legislation, regulations and prevailing codes of best practice.

BOARD REMUNERATION

The Non-executive Directors' remuneration is determined at the AGM, in line with the provisions of the National Treasury guidelines on remuneration for Non-executive Directors of SOEs. The Directors are remunerated on the basis of a monthly retainer and meeting attendance.

DECLARATION OF INTEREST

The Board conforms to a conflict of interest process, which stipulates that any interest in matters tabled before the Board or its committees must be disclosed by the relevant individual Directors at each meeting. In instances where there may be such a conflict of interest, Directors recuse themselves from the meeting. There were no matters of conflict in the reporting period.

The Board submit a declaration of interest, on an annual basis. Declarations are tabled at next meetings to make members aware of any outside commitments of Directors and to enable them to confirm that they are satisfied that Directors allocate sufficient time for the efficient discharge of their responsibilities.

BOARD AND COMMITTEE MEETINGS

Meetings of the Board and its committees are finalised before the end of the previous year and approved by the Board. The Chairman approves the agenda, assisted by the Company Secretary, and in consultation with the CEO. The Board has an opportunity to deliberate or raise any matters not deemed fit for discussion in the presence of the Executives in an in-committee session.

FAIR AND RESPONSIBLE REMUNERATION

The Board endeavours to ensure that their remuneration is fair and transparent, and that the outcomes are aligned with the stakeholders' expectations. The Board approved a remuneration and benefits policy during the year under review. The Board set a goal of remunerating its staff at the median of the market. The Board further approved a performance incentive bonus scheme. This is considered the ideal value proposition for all employees as it ensures that their remuneration is highly competitive and market-related. It also enhances the company's ability to attract and retain top talent and effectively mitigate the human capital risk element, as banking skills are scarce skills.

COMPANY SECRETARY

The appointment and removal of the Company Secretary is a matter for consideration by the Board as a whole. The Company Secretary is the organisation's custodian of good governance and ensures compliance with statutory and regulatory procedures.

The Company Secretary attends all Board and Board committee meetings and has unrestricted access to the Chairman. The Company Secretary provides a central source of advice and guidance on business ethics, compliance with good corporate governance, and changes in legislation, assisting the Board as a whole, and its members individually, with guidance on how their duties, responsibilities and powers should be adequately discharged and exercised in the best interest of Ithala.

The Company Secretary also maintains and regularly updates a corporate governance manual, copies of which are distributed to all Directors, and organises and conducts an induction programme to familiarise new Directors with Ithala's operations, their fiduciary duties and responsibilities as Directors.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board exercises leadership, integrity and judgment in directing the company to ensure that its strategic plan, goals and objectives are achieved in an accountable manner. The Board must also exercise effective control over the company and its management, and be involved in all decisions that are material to ensure that the company remains a going concern.

The Board committees assist the Board in the discharge of its duties and responsibilities. Each committee has formal terms of reference that are reviewed annually and effectively delegated in respect of certain of the Board's responsibilities.

Board of Directors
Chair: Mr Malose Kekana

Role of the Board

- Exercise leadership, integrity and judgment in directing the company to ensure that its business plan, including its goals and objectives, are achieved in an accountable manner;
- Approve the strategic direction of the company as defined in the business plan, as well as the long-term strategies of the business, and monitor its implementation by management;
- Ensure that the business is a going concern, effectively control the company and its management and be involved in all decisions that are material for this purpose;
- Approve all company policies including risk management strategies and policies and be satisfied that the appropriate policies, procedures and practices are in place and are duly observed, to protect the company's assets, employees and reputation

Committee composition, skills and experience

The Board is chaired by an independent Non-executive Director and comprises seven independent Non-executive, three Non-executive and two Executive Directors. Collectively, the Board Members have the relevant skills and experience in corporate governance, the regulatory environment, financial services and business leadership.

Key activities

For the year under review, the Board is satisfied that it has fulfilled its obligations in terms of its mandate. The Board convened nine meetings during 2018/19, including two special meetings to approve the AFS, integrated annual report and budget, corporate plan and APP.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the Board Charter:

- Approval of the 2019 budget, APP and corporate plan recommended by the ACC,
- Monitoring of management's plans in respect of future changes to IFRS 9 and other regulations,
- Focussing on ensuring that the financial systems, processes and internal controls are operating effectively;
- Monitoring the implementation of the enterprise-wide digital core banking system through the ITGC;
- Reviewing the company's solvency, liquidity and going concern status in line with the Companies Act, and obtaining quarterly feedback from the Chairs of the Board committees;
- Engaging with the supervisory team of the SARB in line with the SARB's annual supervisory programme;
- Ensuring that the risk management and capital management processes are appropriate in the context of a challenging local and global economy, the current risk environment and a changing business landscape;
- Approving company policies as recommended by the various Board committees;
- Monitoring the capital adequacy ratio and sourcing of additional capital from the shareholder; and
- Ensuring that the organisation is a going concern and obtaining an extension of the banking licence exemption for the next two years, ending in 2021.

Audit and Compliance Committee
Chair: Mrs Babalwa Ngonyama

Role of the Board

- Evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the company as may be necessary for the day-to-day management of the business;
- Facilitation and promotion of communication between the Board, the executive officers, external auditors and the employees charged with the internal auditing of the transactions of the company; and
- Introduction of such measures as in the committee's opinion may serve to enhance credibility and objectivity of the financial statements and reports prepared with reference to the affairs of the company.

Committee composition, skills and experience

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

Key activities

For the year under review, the ACC is satisfied that it has fulfilled its obligations in terms of its mandate. The ACC had seven meetings during 2018/19, including two special meetings to approve the submission of the draft AFS by the external auditors.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the terms of reference:

- Assisting the Board in its evaluation of the integrity of the AFS through evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and internal auditing applied in the day-to-day management of our business;
- Recommending the AFS and the annual integrated reports to the Board of Directors for approval;
- Recommending the implementation of the IFRS 9 to the Board for approval;
- Monitoring the implementation of the IFRS9;
- Reviewing and approving internal audit, as well as the internal audit plan and combined assurance framework;
- Reviewing quarterly reports from internal audit, including progress on delivery of the audit plan; an analysis of the results of the audit outcomes for the year, and the status of material issues previously reported;
- Reviewing and approving the compliance mandate, which sets out the mission, approach, accountability, roles, responsibilities and authority;
- Confirming the independence and effectiveness of the compliance function;
- Considering and approving the compliance function's annual plan and monitoring their activities;
- Reviewing of quarterly reports from the compliance officer, including progress on delivery of the compliance plan and key compliance matters across the company. The report also provides an overview of interactions with various regulators, as well as the findings from the compliance inspection on the Prudential Authority's Anti-money Laundering and Combating the Finance of Terrorism (AML/CFT) Programme that was conducted during 2017;
- Reviewing and approving the Conflict of interest-, FAIS- and Compliance Policies, the Anti-Money Laundering and Combating the Finance of Terrorism and Sanctions Risk Management and Compliance Programme; and the Financial Crime Key Risk- and Risk Based Approach Frameworks;

- Managing the relationship with the external auditors and assessing their independence and effectiveness.
- Meeting with external audit during a closed session to discuss their experience from the engagement with management during the statutory audit, as well as external audit's perspective on the effectiveness of the finance function;
- Facilitating and promoting communication between the Board, executive management, external auditors and internal audit;
- Reviewing the external auditors' report on findings for the 2017/18 financial year, and receiving quarterly progress reports on the resolutions of the findings from the audit;
- Meeting with the Prudential Authority with regards to guidance note 2/2018 to banks, and presenting an overview on how the ACC ensures that the requirements on auditor independence and quality are met and continuously monitored;
- Reviewing management reports in terms of resolving audit findings;
- Reviewing the governance report to assess compliance with all other statutory requirements in terms of the Companies Act, King IV, the Banks Act, 1990 and any other applicable regulatory requirements, and confirming that no reportable irregularities were identified and reported by the external auditors; and
- Recommending the appointment of the external auditors to the shareholder.

Ithala is a unique and strategic South African institution that believes complete transparency and good governance is fundamental to be a responsible corporate citizen that considers its social, cultural and environmental responsibility towards the communities within it operates in all aspects of its operations, as well as its financial and economic responsibility to its shareholder and immediate stakeholders.

Risk and Capital Management Committee
Chair: Ms Polo Radebe

Role of the Board

- Oversee the development and annual review of the risk management framework and recommend it to the Board for approval;
- Monitor external developments relating to risk management, including emerging risks and their potential impact;
- Introduce measures as may be necessary to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within Ithala;
- Oversee the governance of risk and capital management by directing the way risk and capital management should be approached and addressed; and
- Ensure that risk and capital management standards and policies support the strategy and are well documented.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises four independent Non-executive- and three Non-executive Directors. 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.

Key activities

For the year under review, the RCMC is satisfied that it has fulfilled its obligations in terms of its mandate. During 2018/19, five quarterly meetings were held.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the terms of reference:

- Assisting the Board in fulfilling its credit risk oversight responsibilities, particularly with regard to the evaluation of credit mandates and governance, policies and credit risk;
- Considering quarterly management updates and reports on events that occurred or risks that emerged, and directly or indirectly impacting the risk profile;
- Reviewing detailed risk management reports, including key risk types, as well as credit- and operational risks;
- Reviewing quarterly updates on BCB239 Risk Data Aggregation and Risk Reporting (RDARR) compliance;
- Reviewing capital adequacy and liquidity ratios on a quarterly basis, including events that could lead to the company becoming non-compliant with the set targets by the Prudential Authority;
- Reviewing the strategic risk registers to ensure that the risks raised are mitigated by management;
- Reviewing the disaster recovery tests results of the current banking system;
- Reviewing and recommending the following policies to the Board for approval:
  - The asset and liability management strategy, including the liquidity interest rate risk management policies and strategies
  - Property Valuation and Re-Valuation
  - Communications-, Credit Risk Management-, Write-Off-, Debt Restructure-, and Property in Possession Policies
- Appointing a Chief Risk Officer.

IT Governance Committee
Interim Chair: Mrs Babalwa Ngonyama

Role of the Board

- Oversee the governance of technology and information to support the organisation in setting and achieving its strategic objectives;
- Review and monitor ICT policies and strategies and prioritise project proposals to determine which project will return most value to the organisation;
- Assess and monitor the materiality and relevance of system failures and plans to take corrective action and prevent reoccurrence;
- Ensure that IT outsourcing is managed effectively and that SLAs are appropriately managed; and
- Oversee the implementation of the new enterprise-wide digital core banking platform.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises two independent Non-executive-, two Non-executive Directors and an independent co-opted member with IT skills that is a permanent attendee. The CEO, CFO, Head: IT and Group Chief Technology Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, IT audit, regulatory universe, financial services and business leadership.

Key activities

For the year under review, the ITGC is satisfied that it has fulfilled its obligations in terms of its mandate. During 2018/19, six quarterly committee meetings were held.

The following were some of the key focus areas for the year in the discharge of its responsibilities as set out in the terms of reference:

- Reviewing the Head: IT's quarterly report, including an update on the implementation of IT's strategy and enterprise-wide digital core banking system;
- Recommending the enterprise-wide digital core banking system and project plan to the Board for approval and establishing project steering committees and board governance structures to assist the committee with successful implementation of the project;
- Reviewing the terms of reference for the appointment of a quality assurance service provider;
- Reviewing and monitoring of IT performance against budget, including key priorities of the IT projects;
- Considering key interactions with the Prudential Authority pertaining to IT and the responses to matters raised as part of the regulator's supervisory programme; and
- Ensuring alignment and implementation of a well-coordinated, efficient, and effective and properly resourced IT strategy, which will enhance the organisation's competitivity.

Human Resources and Remuneration Committee
Chair: Mr Sipho Ngidi

Role of the Board

- Reviewing and recommending remuneration policies and procedures for Board approval;
- Promoting a culture of performance through remuneration policy;
- Approving the annual remuneration adjustments for all staff;
- Approving the remuneration packages required to attract, retain and motivate high performing Executive Directors and executive management, based on the mandate approved by the Board;
- Reviewing succession planning processes and succession plans developed at executive and senior management level; and
- Monitoring implementation of HR policies and evaluating whether it promotes the achievement of strategic objectives and encourages individual performance.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises two independent Non-executive- and two Non-executive Directors. The CEO, CFO, and Head: HR, are standing invitees. Collectively, the committee members have the relevant skills and experience in corporate governance, HR, the regulatory environment, financial services and business leadership.

Key activities

For the year under review, the HRRC is satisfied that it has fulfilled its obligations in terms of its mandate. During 2018/19, four quarterly committee meetings were held.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the Board Charter:

- Enabling the Board to achieve its responsibilities in relation to the Remuneration Policy, processes and procedures;
- Considering and approving the percentage of increases for the organisation;
- Considering the latest market updates and regulations on banking remuneration, including a report on executive pay and inequality;
- Recommending the performance incentive scheme to the Board for approval;
- Reviewing and recommending the Remuneration and Benefits Policy to the Board for approval;
- Reviewing and recommending the following policies to the Board for approval: Employee Wellness; Employment; General Conditions of Employment; Business Code of Conduct and Ethics Management; Talent Development; and Performance Management;
- Reviewing the HR status update reports; and
- Reviewing the occupational health and safety status update reports.

Social, Ethics and Sustainability Committee

Chair: Ms Given Sibiya

Role of the Board

» Guide and monitor the social, ethical, economic, environmental, transformation and consumer relationship initiatives in line with the relevant legislation, codes and regulations.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises two independent Non-executive-, and two Non-executive Directors. The CEO, CFO and Head: HR are standing invitees. Collectively, the committee members have the relevant skills and experience in corporate governance, HR, the regulatory environment, financial services, transformation, organisational development and ethical leadership.

Key activities

The SESC was established in November 2018, following the Board resolution for the organisation to have a specific focus on social and ethical matters in line with the principles of King IV. For the year under review, the SESC is satisfied that it has fulfilled its obligations in terms of its mandate. During 2018/19, one quarterly committee meeting was held.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the Board Charter:

- Reviewing of the approved terms of reference and workplan for the 2019/20 financial year;
  - Setting the agenda to monitor the company's activities with regard to matters relating to social and economic development, including:
  - The company's standing in terms of the goals and purposes of the 10 principles set out in the United Nations Global Company Principles
  - The OECD recommendations regarding corruption
  - The Employment Equity Act, No 55 of 1998
  - The Broad-Based Black Economic Empowerment Act, No 53 of 2003
- Good corporate citizenship, including:
  - Promotion of equality, and prevention of unfair discrimination and measures to address corruption
  - Our contribution to the development of the communities in which we primarily operate or within which our products or services are predominantly marketed
  - The environment, health and public safety, including the impact of the company's activities and of its products or services
- Reviewing the company's performance in implementing the provisions of the code of ethics and the assertions made in this regard;
  - Ensuring that management allocated adequate resources to comply with social and ethics policies, codes of best practice and regulatory requirements;
  - Monitoring that management develops and implements programmes, guidelines and practices in alignment with the company's social and ethics policies;
- Presenting the work of the committee to the shareholder at the AGM.

Insurance Advisory Committee
Chair: Ms Polo Radebe

Role of the Board

- Consider and ensure implementation of the insurance strategy and business plan to enhance the company's ability to achieve its strategic objectives;
- Regularly review the performance of the company against the approved strategy, objectives, business plans and budgets, and ensure that any necessary corrective action is taken;
- Review regular reports from internal audit, external audit, compliance and risk and others on the operational effectiveness of measures relating to risks; and
- Consider the capital and liquidity in relation to such capital adequacy and liquidity requirements and practices as is applicable from time to time, and make recommendations as appropriate and necessary to the Board.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises two independent Non-executive-, and three Non-executive Directors. The CEO, CFO and Head: Insurance, are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, HR, the regulatory environment, financial services, transformation, organisational development and ethical leadership.

Key activities

For the year under review, the Insurance Advisory Committee (IAC) is satisfied that it has fulfilled its obligations in terms of its mandate. During 2018/19, four quarterly committee meetings were held.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the Board Charter:.

- Reviewing the insurance division business plan to ensure that it is aligned to the strategic plan;
- 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 and liquidity requirements applicable to Ithala insurance and reporting any breaches to the Board; and
- Monitoring the implementation of the Insurance Management System (IMS).

Directors Affairs Committee
Chair: Mr Malose Kekana

Role of the Board

- Establish and maintain the Board continuity programme;
- Review the performance for planning of successors to the Executive Directors;
- Assist the Board in the nomination of successors to the key positions in the company to ensure that a management succession plan is in place; and
- Ensure compliance with all applicable laws, regulations and codes of conduct and practices.

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises seven independent Non-executive and three Non-executive Directors. Collectively, the committee members have the relevant skills and experience in corporate governance, audit, the regulatory environment, financial services and business leadership.

Key activities

For the year under review, the DAC is satisfied that it has fulfilled its obligations in terms of its mandate. The DAC had two meetings during 2018/19.

The following were some of the key focus areas for the year, in the discharge of its responsibilities as set out in the Board Charter:

- Considering the executive management succession plans;
- Reviewing and recommending the Board Continuity Programme to the Board for approval;
- Considering, monitoring and reporting to the Board on reputational- and compliance risk, application of the King IV principles and the corporate governance provisions of the Banks Act, 94 of 1990; and
- Acting as the Nominations Committee for the Board.

"THE **DIRECTORS ASSESSED** THE COMPANY'S ABILITY TO CONTINUE AS A **GOING CONCERN** AND INCLUDED **APPROPRIATE DISCLOSURE** IN THE DIRECTORS' REPORT"

SECTION 5:

ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the AFS of Ithala comprising:

- The statement of financial position as at 31 March 2019;
- The statement of comprehensive income;
- The statement of changes in equity;
- The statement of cash flow for the year then ended;
- The notes to the AFS, which include a summary of significant accounting policies and other explanatory notes; and
- The Directors' Report, in accordance with the IFRS, as prescribed by the Accounting Standards Board.

To enable the Directors to meet these responsibilities:

- The Board and management set standards, while management implements systems of internal controls and 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 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; and
- 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 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 the IFRS are 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' responsibility also includes 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 assessed 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 about 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 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 71 to 74.

Approval of the annual financial statements

The AFS of Ithala was approved by the Board on 14 October 2019 and are signed on their behalf by:

Malose Kekana	Danete Zandamela
Chairman	CEO

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Company Secretary of Ithala, that for the year that ended 31 March 2019, 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.

Thabisile Mungwe
Company Secretary

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA SOC LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of the Ithala SOC Limited set out on pages 79 to 144, which comprise the statement of financial position as at 31 March 2019, the statement of 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 the Ithala SOC Limited as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa,1999 (Act No. 1 of 1999) (PFMA) the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and the Banks Act of South Africa,1990 (Act No. 94 of 1990) (Banks 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 auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code)), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and the 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 codes.

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 financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

7. As disclosed in note 2 of the financial statements, the company posted a net loss for the year ended of R28,90 million (2018 : R33,32 million). Although the company incurred a loss and is reliant on the continued support of its holding company and other government entities for the implementation of its turnaround plan, the accounting authority 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 AFS. The Minister of Finance agreed to extend the banking licence exemption to 31 December 2021 subject to the company, together with its stakeholders, fulfilling certain conditions.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

MATERIAL LOSSES

9. As disclosed in note 10 to the financial statements, material losses of R12,37 million (2018: R24,76 million) was reported by the entity as a result of the write-off of previously impaired loans and advances.

Responsibilities of accounting authority for the financial statements

10. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, the requirements of the PFMA, the Companies Act and the Banks 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.

11. In preparing the financial statements, the accounting authority is responsible for assessing the Ithala SOC Limited's ability to continue as a going concern, disclosing, as applicable, matters relating to a 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.

Auditor-general's responsibilities for the audit of the financial statements

12. 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.

13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

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

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

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the entity for the year that ended 31 March 2019:

Programmes	Pages in the annual performance report
Programme 1: Financial and shareholder perspective	31
Programme 2: Customer perspective	32

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

18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the programmes tabulated in paragraph 17 above.

Other matters

19. I draw attention to the matters below.

ADJUSTMENT OF MATERIAL MISSTATEMENTS

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the customer perspective programme. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

ACHIEVEMENT OF PLANNED TARGETS

21. The annual performance report on pages 31 to 33 includes information on the achievement of planned targets for the year and explanations for the underachievement or overachievement of a significant number of targets.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

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

23. The material findings on compliance with specific matters in key legislation are as follows:

ANNUAL FINANCIAL STATEMENTS

24. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of intangible assets, deferred income, properties in possession and the financial and risk management disclosures identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

EXPENDITURE MANAGEMENT

25. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R17,17 million (2018: R6,45 million) as disclosed in note 32.3 to the AFS, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by the procurement process not being properly followed in terms of the PFMA and the supply chain management policy.

OTHER INFORMATION

26. The accounting authority is responsible for the other information. The other information comprises the 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 . The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

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

28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

29. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal controls deficiencies that resulted in the findings on compliance with legislation included in this report.

31. The executives did not implement adequate internal controls to ensure timely and accurate implementation of the overall processes to comply with the IFRS accounting framework.

32. Management did not take effective steps to ensure that staff fully understand the requirements of the IFRS financial reporting framework.

33. Management have not implemented adequate controls to ensure that all extensions or modifications to contracts are done in accordance with the SCM policy.

OTHER REPORTS

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

AUDIT-RELATED SERVICES

35. Agreed upon procedures were performed on various returns required to be submitted to the South African Reserve Bank in terms of the Banks Act.

36. A report was issued to the National Credit Regulator on compliance with the National Credit Act of South Africa, 2005 (Act No.34 of 2005) for the period that ended 31 March 2018.

37. 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 of South Africa, 2000 (Act No.63 of 2000) for the period that ended 31 December 2018.

Auditor-General

Pietermaritzburg

10 October 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. 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 programmes and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. 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 entity's internal control;
   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the accounting authority;
   - Conclude on the appropriateness of the Board of Directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ithala SOC's ability 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 the 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 the entity to cease continuing as a going concern;
   - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. 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.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The ACC presents its report for the financial year that ended 31 March 2019 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 as 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 processes 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 four 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;
- Determined the fees to be paid to the AGSA as disclosed in Note 26 of the AFS;
- Determined the terms of engagement with the AGSA;
- Reviewed the quality of financial information;
- Reviewed the integrated AR and AFS;
- Received no complaints relating to:
    - o The accounting practices and internal audit of the company;
    - o The content or auditing of its financial statements;
    - o The internal financial controls of the company; and
    - o 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 RCMC are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas were appropriately addressed:
    - o Financial reporting risks;
    - o Internal financial controls;
    - o Fraud risk as it relates to financial reporting; and
    - o 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 the company's internal financial controls requires significant improvement.

REGULATORY COMPLIANCE

The ACC reviewed the effectiveness of the system for monitoring compliance with laws and regulations.

EXTERNAL AUDIT

The ACC:

- Reviewed the external audit scope to ensure that the critical areas of the business are being 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 26 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 cooperation between external and internal audit.

COMBINED ASSURANCE MODEL

In addition to its normal activities, the committee dealt with the implementation of a combined assurance model for the company.

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 will be owned and managed by internal audit, with the risk 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

Mr L Serithi, the Chief Financial Officer, resigned on 31 March 2019. The search for a suitable candidate who possesses the appropriate expertise and experience to meet the responsibilities of this role is currently underway.

In the interim, Mrs Lana Meyer has been appointed as Acting Chief Financial Officer.

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 recommend the integrated annual report to the Board for approval.

On behalf of the ACC

____

Mrs Babalwa Ngonyama
Chairperson

DIRECTORS' REPORT

The Directors of Ithala take pleasure in presenting their report, for the year that ended 31 March 2019.

INTRODUCTION

Ithala is wholly-owned by IDFC, which, in turn, is wholly-owned by the KZN 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 KZN 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. The following changes to the Board were made during the period under review.

- Appointments:
  - Mr M Ngcobo - 17 January 2019

- Resignations:
  - Ms M Madali - 28 February 2019**
  - Mr L Serithi - 31 March 2019
  - Mr BTT Mathe - 30 April 2019
  - Mr M Ngcobo - 24 June 2019
  - Mr M Mia (retired) - 26 July 2019
  - Mrs B Ngonoyama - 26 July 2019

The Board thanks Mr L Serithi and Mr M Mia for their dedicated service.

** Ms M Madali was deployed and appointed as Acting Head of Information Technology from 1 March 2019.

GOING CONCERN

The company posted a net loss of R28.9 million (2018 net loss: R33.3 million) for the year that ended 31 March 2019. As at 31 March 2019, the company's total assets exceeded its total liabilities by R314.8 million (2018: R247.5 million) and total cash resources were R899.3 million (2018: R989.5 million).

As at the statement of financial position date, the capital adequacy ratio of the company was 17,67% (2018: 15,24%). This level is above the minimum capital adequacy ratio of 15% that Ithala is required to hold and as also stipulated by the SARB. During the 2019 financial year, the shareholder provided capital of R74.8 million (2018: R60 million) million to recapitalise the company.

Although the company continues to incur losses and is reliant on the continued support of its holding company and other Government entities for the implementation of its turnaround plan, the Board expects all obligations to be settled in the normal course of business and accordingly, adopted the going concern basis of accounting in the preparation of the AFS.

The Minister of Finance confirmed renewal of the company's banking licence exemption from 1 January 2020 until 31 December 2021, subject to the company fulfilling certain conditions. The Directors implemented processes to ensure that these conditions are met by the agreed dates.

FINANCIAL RESULTS

The results of Ithala for the year that ended 31 March 2019 are disclosed in the AFS, as set out on pages 70 to 145.

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 54 to 58. Information relating to the Company Secretary is included on page 70 of 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 BALANCE SHEET DATE

The Directors are not aware of any 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.

The Financial Matters Amendment Act, 2019 promulgated on 23 May 2019 amended Section 12 of the Banks Act, 1990 whereby only a nationally state-owned company may apply to establish a bank.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR THAT ENDED 31 MARCH 2019

	Note	2019 R'000	Restated 2018 R'000
Interest income	22	**265 855**	260 697
Interest expenditure	23	**(93 586)**	(92 323)
Net interest income		**172 269**	168 374
Non-interest revenue	24	**137 984**	121 897
Impairment of loans and advances to customers	10	**(17 678)**	(13 193)
Other income	25	**11 457**	10 861
Operating income		**304 032**	287 939
Interest expense on non-trading activities	23	**(6 705)**	(5 047)
Operating expenditure	26	**(333 220)**	(320 365)
Loss for the year		**(35 893)**	(37 473)
Other comprehensive income			
Items that may not be reclassified to profit and loss			
Actuarial gains		**6 995**	4 153
Total comprehensive loss for the year		**(28 898)**	(33 320)
Attributable to:			
Equity holders of the company		**(28 898)**	(33 320)

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

Assets	Note	2019 R'000	Restated 2018 R'000	Restated 1 April 2017 R'000
Cash and cash equivalents	7	**592 604**	679 123	596 431
Statutory investments	8	**188 389**	187 714	177 769
Investments and deposits with banks	9	**306 664**	310 391	378 522
Inventory	12	**1 320**	1 399	1 433
Loans and advances to customers	10	**1 727 741**	1 551 320	1 398 875
Receivables	11	**13 145**	12 935	13 172
Properties in possession	13	**3 610**	6 997	8 702
Tangible assets	14	**41 719**	34 023	40 054
Intangible assets	15	**13 016**	13 692	15 195
Total assets		**2 888 208**	2 797 594	2 630 153
LIABILITIES				
Trade and other payables	17.1	**91 582**	108 060	64 122
Provisions	17.2	**450**	450	450
Loan account with holding company	18	**13 291**	1 223	5 397
Customer deposits	16	**2 414 080**	2 387 119	2 285 509
Long service obligations	19	**15 384**	14 884	14 757
Retirement benefit obligations	20.1	**38 614**	38 384	39 124
Total liabilities		**2 573 401**	2 550 120	2 409 359
EQUITY				
Capital and reserves attributable to the equity holders of the shareholder				
Share capital	21	**190**	190	190
Share premium	21	**509 498**	434 710	374 710
Accumulated loss		**(201 572)**	(187 122)	(149 649)
Actuarial gains/(losses)		**6 691**	(304)	(4 457)
Total equity		**314 807**	247 474	220 794
Total liabilities and equity		**2 888 208**	2 797 594	2 630 153

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR THAT ENDED 31 MARCH 2019

	Note	Attributable to equity holders of the entity				
		Issued share capital	Issued share premium	Actuarial gains/ (losses)	Retained income/ (loss)	Total equity
2018		R'000	R'000	R'000	R'000	R'000
Balance as previously reported		**190**	**374 710**	**-**	**(154 378)**	**220 522**
Adjustments:						
Prior period error		-	-	-	5 625	5 625
Adoption of IFRS 1		-	-	(4 457)	(896)	(5 353)
Restated balance as at 31 March 2017		190	374 710	(4 457)	(149 649)	220 794
Share issue	21	-	60 000	-	-	60 000
Loss for the year		-	-	-	(37 473)	(37 473)
Other comprehensive income		-	-	4 153	-	4 153
Restated balance as at 31 March 2018		**190**	**434 710**	**(304)**	**(187 122)**	**247 474**
2019						
Impact of adopting IFRS 9		**-**	**-**	**-**	**21 443**	**21 443**
Restated opening balance under IFRS 9 as at 01 April 2019		**190**	**434 710**	**(304)**	**(165 679)**	**268 917**
Share issue	21	**-**	**74 788**	**-**	**-**	**74 788**
Loss for the year		**-**	**-**	**-**	**(35 893)**	**(35 893)**
Other comprehensive income		**-**	**-**	**6 995**	**-**	**6 995**
Balance as at 31 March 2019		**190**	**509 498**	**6 691**	**(201 572)**	**314 807**

STATEMENT OF CASH FLOWS

FOR THE YEAR THAT ENDED 31 MARCH 2019

	Note	2019 R'000	2018 R'000 Restated
Loss for the year		**(35 893)**	(37 473)
Operating activities			
Adjustments for:			
Non-cash items included in loss for the year	27	**15 329**	635
Increase in operating liabilities	28	**30 276**	144 914
Decrease in operating assets	28	**(157 028)**	(138 900)
Cash generated from operations		**(111 423)**	6 649
Net cash flow utilised in operating activities		**(147 316)**	(30 824)
Investing activities			
Acquisition and additions of tangible assets	14	**(16 339)**	(4 218)
Acquisition of intangible assets		**(26 866)**	(1 089)
Proceeds from sales of tangible assets		**64**	368
Disposal of intangible assets		**-**	269
Grant funding utilised		**26 098**	-
Increase/(decrease) in statutory investments		**(675)**	(9 945)
Decrease in investments and deposits with banks		**3 727**	68 131
Net cash flow (utilised) and generated in investing activities		**(13 991)**	53 516
Financing activities			
Proceeds from shares issued	21	**74 788**	60 000
Net cash flow utilised in financing activities		**74 788**	60 000
Net movement in cash for the year		**(86 519)**	82 692
Cash and cash equivalents at the beginning of the year	7	**679 123**	596 431
Cash and cash equivalents at the end of the year	7	**592 604**	679 123
Additional information on the operational cash flows from interest			
Interest received		**265 855**	260 697
Interest paid		**(93 856)**	(92 323)

CORPORATE INFORMATION

The company provides key retail banking services, including savings and home loan products, primarily to previously unbanked citizens. The company is wholly-owned by IDFC, a finance development agency which is in turn wholly-owned by the KZN Provincial Government.

The company is a limited liability enterprise incorporated and domiciled in South Africa. The address of its registered office and principal place of business is Delta Towers Building, 303 Dr. Pixley KaSeme Street (formerly West Street), Durban, South Africa.

The AFS for the year that ended 31 March 2019 were authorised for issue in accordance with a resolution of the Board of Directors (Board) on 14 October 2019.

1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements were prepared on a going concern basis, utilising the historical cost concept, except for the post-retirement medical and defined benefit obligations which are measured in terms of the projected unit credit method. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The IASB interpretations were adopted, as well as 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 and the South African Companies Act, 2008.

The financial statements for the year that ended 31 March 2019 are the first statements that the Company has prepared in accordance with IFRS. For all periods up to and including the year that ended 31 March 2018, the Company prepared its financial statements in accordance with the South African Generally Accepted Accounting Principles (SA GAAP). Refer to Note 6 for information on how the company adopted IFRS.

The preparation of AFS in alignment 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 5.

The AFS 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 operational currency. All financial information presented has been rounded to the nearest thousand, unless otherwise stated.

2. FINANCIAL SUSTAINABILITY

The Company posted a net loss of R28.9 million (2018 net loss: R33.3 million) for the year that ended 31 March 2019). As at 31 March 2019, the Company's total assets exceeded its total liabilities by R314.8 million (2018: R247.5 million) and the total surplus funds were R899.3 million (2018: R989.6 million). As at the statement of financial position date, the Company's capital adequacy ratio was 17.67% (2018: 15.24%). This level is above the minimum capital adequacy ratio of 15% required by the SARB.

Turnaround strategy

The company developed a detailed turnaround strategy to achieve its goal of establishing itself as a bank with the financial means to comply with the requirements of the Banks Act and solid management capability to manage and grow the bank. The 'Build the Bank' strategy, as called for by the SARB and the Minister of Finance, defines how the company will turn performance around to achieve profitability and quantify the recapitalisation value required to successfully implement this turnaround strategy. The plan encompasses all aspects of the company's turnaround interventions, including the necessary business model, IT and infrastructure investment, and the amount and timing of fiscal transfers and/or capital injections.

A new enterprise-wide digital core banking system will be implemented during 2020 that serves to provide the company with the operational capability to effectively compete within the banking industry, by meeting customers' needs in terms of product, pricing and service delivery. The new system also provides for process automation with the aim to enhance operational efficiency. This will in turn drive growth in market share and revenue, while simultaneously improving margin through an improved cost-to-income ratio. In addition, the goal is to reduce the dependency on external consultants and outsourced services, by filling all key executive and senior management positions by the end of the 2020 financial year.

In line with the turnaround strategy, the KZN Provincial Government budgeted for capital injections of R266.2 million over the next five years, R59.8 million of which is committed for the 2019/20 year.

The Company budgeted to achieve a R5 million profit for the year ending 31 March 2020, before turnaround expenses. This performance turnaround is based on increasing the number of active debit cards to stimulate a strong growth in fee income and increase net interest margins, as well as improve the Jaws and cost-to-income ratios.

Liquidity and standby lines of credit

As at 31 March 2019, cash, deposits with banks and non-statutory investments amounted to R899.3 million, which represents a decrease of R90 million compared to March 2018. Current cash flow projections for the next 12 months reflect no cash flow shortages. The current liquidity surplus provides for continued organic growth. If it is executed in an efficient and responsible manner, supported by sound risk management, this will lay the foundation for restoring profitability.

On a monthly basis, the Company is obliged to hold an average amount of statutory investments of no less than 7.5% of its liabilities to the public. The Company holds a buffer of 20% above this value, to ensure the minimum balances required are not breached in any instance. These funds are not available for use in operational activities. As at 31 March 2019, the Company held R268 million (13.5%) in liquid assets which exceeded the total statutory minimum target of R149 million (7.5%) that forms part of the Memorandum of Agreement (MoA) with the SARB, by R120 million.

The liquidity gap on a contractual basis is negative on a business as usual basis; however, the Company does not reflect a cumulative negative mismatch in any time band disclosed in the BA 300. For the purposes of the going concern assessment, the above factors indicate that the Company has adequate liquid resources to continue operations and to pay its creditors as and when payments become due.

Going concern conclusion

Even though the Company incurred a loss and is reliant on the continued support of its holding company and other government entities for the implementation of its turnaround plan, the Board expects all obligations to be settled in the normal course of business. Accordingly, the Board adopted the going concern basis of accounting in the preparation of the AFS.

Banking licence exemption

The Minister of Finance agreed to extend the banking licence exemption to 31 December 2021, subject to the Company and its stakeholders fulfilling certain conditions. The Directors implemented processes to ensure that these conditions are met by the agreed dates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FINANCIAL INSTRUMENTS (EFFECTIVE FROM 1 APRIL 2018)

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 plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss 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

From 1 April 2018, 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;
- Investments and deposits with banks;
- Receivables; and
- Statutory investments.

Fair value through profit or loss, or fair value through other comprehensive income

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

Business model

The business model reflects how the Company manages its assets to generate cash flow. It also outlines whether the Company's objective is solely to collect the contractual cash flow from the assets, or 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 fair value through profit of loss (FVTPL). Factors considered by the Company in determining the business model for a group of assets, include past experience of 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.

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. For example, 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 occurs 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 under review.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay, and that evidence a residual interest in the issuer's net assets e.g. basic ordinary shares.

The Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate any equity investments as fair value through other comprehensive income (FVOCI) when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income (OCI) and are subsequently not reclassified to profit and loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair value.

Amortised cost

Assets that are held for collection of contractual cash flows in instances where the cash flows represent SPPI and 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. For purchased or originated credit-impaired financial assets, the company applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

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.

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 FVOCI 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.

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 due 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 borrower's 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 indicates 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

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

Financial assets subject to re-negotiated terms

The Company sometimes renegotiates or otherwise modifies the contractual cash flow of loans to customers. When this occurs, the Company assesses whether the new terms are substantially different from the original terms.

Loans with renegotiated 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 full recovery.

Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The initial fair value is amortised over the life of the loan commitment.

Loan commitments are subsequently measured at the lower of the following:

(a) The amount of the loss allowance; or
(b) The amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The difference between the carrying amount of a financial liability and the consideration paid, including any non-cash transferred or liabilities assumed, is recognised in profit or loss.

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 substantially transfers all the risks and rewards of ownership of the financial asset, the financial asset is derecognised and recognised separately as assets or liabilities and any rights and obligations created are retained in the transfer.
- If the company substantially retains all the risks and rewards of ownership of the financial asset, the financial asset continues to be recognised.
- If the company neither substantially transfers nor retains 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 it separately as assets or liabilities and any rights and obligations created, are retained in the transfer; or
  - 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

If the transfer does not result in derecognition because the company has substantially retained 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 including transaction costs and and are subsequently classified and measured at amortised cost. The company's financial liabilities at amortised costs include 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' obligations are extinguished, that is, when the obligations are discharged, cancelled or expire.

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 were offset in the statement of financial position.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the cash flow statement comprise 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.

RECEIVABLES

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 the reporting date.

FINANCIAL INSTRUMENTS (EFFECTIVE PERIODS PRIOR TO 1 APRIL 2018)

Initial recognition

Financial instruments are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Financial instruments are recognised on the date that the Company commits to purchase or sell the instruments (trade date).

Initial measurement

All financial instruments are initially recognised at fair value plus transaction costs.

Subsequent measurement

Financial assets that are classified as loans and receivables for measurement purposes, are held at amortised cost. Loans and receivables are measured at amortised cost, using the effective interest rate method, less any impairment losses. SARB debentures/treasury bills are classified as held-to-maturity financial assets as the debentures/treasury bills are non-derivative financial assets with fixed or determinable payments and fixed maturity. The Company intends to hold these assets to maturity. Held-to-maturity assets are carried at amortised cost, using the effective interest rate method, less any impairments.

All financial liabilities are classified as non-trading financial liabilities and are measured at amortised cost. Origination transaction costs and origination fees received that are integral to the effective rate, are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. They are not entered into with the intention of immediate or short-term resale.

Fair value of financial assets and liabilities is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. On initial recognition, the best evidence of the fair value of a financial instrument is the asset's transaction price carried at amortised cost. The Company does not hold any derivative instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Amortised cost

Amortised cost is calculated by taking into account any discount or premium on acquisition or issue, including fees and costs that are an integral part of the effective interest rate. The amortisation is accounted for as 'Interest and similar income' or 'Interest expenditure and similar charges' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income as 'Credit impairment charges'.

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 takes into account 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. 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.

Impairment of financial assets

Loans and advances are assessed at each reporting date to determine whether there is objective evidence of impairment. Impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition, but before the reporting date, that indicates that it is probable that the Company will be unable to collect all amounts due. Losses expected as a result of future events, no matter how likely, are not recognised.

The impairment of non-performing advances is based on periodic objective evaluations of advances and takes into account past loss experiences adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual losses experienced.

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 borrower's financial difficulty, granting the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over-indebted; or
- Observable data indicates 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 as a result of adverse changes in the financial services sector which has impacted on borrowers.

The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount through the provision of an allowance and after taking into account the appropriate value of the underlying security and or collateral. The estimated recoverable amount of the advance is calculated as the present value of expected future cash flows discounted at the effective interest rate. In estimating the expected future cash flows from the realisation of "permission to occupy" security, past experience in realising this type of security is taken into account.

When a loan carried at amortised cost is identified as impaired, the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of the security, discounted at the financial asset's effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as credit impairment in the statement of comprehensive income.

In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created, based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions develop after initial recognition which may impact on future cash flows.

Once all reasonable attempts have been made at collection and there is no realistic prospect of recovering outstanding amounts, the advance is written off against the related allowance account. When the impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in previous years.

A reversal of an impairment loss is immediately recognised in the statement of comprehensive income. Impairment provisions raised during the year, less recovery of advances previously written off, are charged to the statement of comprehensive income. Subsequent to impairment, the effects of discounting unwind over time as interest income.

Derecognition of financial instruments

The Company derecognises a financial asset or group of financial assets when:

- Amortised cost is calculated by taking into account any discount or premium on acquisition or issue, including fees and costs that are an integral part of the effective interest rate. The amortisation is accounted for as 'Interest and similar income' or 'Interest expenditure and similar charges' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income as 'Credit impairment charges';

- The company transferred its right to receive cash flows from an asset, or entered into a pass-through arrangement, and neither substantially transferred or retained all the risks and rewards of the asset, nor transferred control of the assets, in which case the asset is recognised to the extent of the company's continuing involvement in the asset;

- A financial liability or group of financial liabilities are extinguished, i.e. when, and only when the obligation specified in the contract is discharged, cancelled or has expired; and

- The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including non-cash assets transferred or liabilities assumed, is recognised in comprehensive income for the year.

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.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand net of bank overdrafts, short-term highly liquid investments and short-term deposits with banks.

Receivables

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 the reporting date.

Borrowed funds

Borrowed funds arise from contractual arrangements which result in the Company having an obligation either to deliver cash or another financial assets to the holder. Borrowed funds are recognised initially at fair value of proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings as interest.

TANGIBLE ASSETS

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

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 and adjustments in respect of hedge accounting, where appropriate.

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; and
- Motor vehicles: 4 years.

Retirement and disposals of tangible assets

A tangible asset is 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 is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised. Gains are not reclassified as revenue.

INTANGIBLE ASSETS

Intangible assets are recognised if it is probable that future economic benefits will flow from the intangible assets to the entity, and the costs of the intangible assets can be reliably measured.

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 yearend 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.

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 is 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 is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised. Gains are not reclassified as revenue.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of the company's tangible and intangible 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 was recognised in prior periods for CGU or assets. If any such indication exists, the recoverable amounts of those CGU's 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 other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

PROVISIONS AND CONTINGENT LIABILITIES

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 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.

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 pay, sick leave, bonuses, contributions to retirement funds, car allowances, housing subsidies, cell phone allowances and medical aid contributions), 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:

(a) As a liability, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the company recognises 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; or
(b) As an expense.

Post-retirement medical aid benefit

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 yearend.

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.

Pension 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 FSB to give the go ahead to transfer the pensioners. Plan assets pertaining to the pensioners are therefore still currently held as at yearend.

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 yearend.

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 yearend 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 is 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 yearend, the potential asset has not been recognised, as the plan assets have not yet been allocated to the Company by the FSB 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

For the long service awards the company pays out, the employee receives 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 service to the company, which should be a minimum of 10 years. The payment of the awards 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 awards.

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 yearend.
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 long service awards, 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, 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, they are measured in accordance with the requirements of other long-term benefits.

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.

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.

For 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.

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.

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) was 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.

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 of which the primary condition is that the Company should purchase, construct or acquire it, non-current assets are deducted in arriving at the carrying amount of the assets. Except for non-current assets that are

measured at fair value, 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.
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.

OPERATING LEASES

Determining whether an arrangement is or contains a lease, is based on the substance of the arrangement and requires an assessment of whether:

- Fulfilment of the arrangement is dependent on the use of a specific asset or assets; and/or
- The arrangement conveys a right to use the asset.

Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

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).

INVENTORY

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.

PROPERTIES IN POSSESSION

PIPs 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 PIPs include properties registered and available for sale and properties sold for which transfer to a purchaser is in progress. PIPs are classified as other assets upon foreclosure of the loan and that have met the reclassification criteria.

The properties are initially recognised at cost. 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.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations were published but are not yet effective.

Standard	Description	Effective for annual periods beginning on or after
IAS 1	**IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments)** The amendments clarify the definition of material and how it should be applied by including it in the definition guidance that, until now, has featured elsewhere in IFRS. In addition, the explanations accompanying the definition were improved. The amendments ensure that the definition of material is consistent across all IFRS. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.	1 January 2020
IFRS 16	**Leases** This is a new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Given the nature of the company's operations, this standard is expected to have a significant impact on the company's AFS when applied.	1 January 2019
IAS 19	**Employee Benefits** Plan amendment, curtailment or settlement: The amendments require an entity to use the updated assumptions from a premeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The impact on the Company's AFS has not yet been assessed.	1 January 2019

5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and assumptions made, predominantly relate to a going concern, impairment of loans and advances 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 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 its business for the foreseeable future. Management's consideration for preparing the financial statements on the going concern basis is disclosed in Note 2.

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 33, which also sets out key sensitivities of the ECL and 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 increases 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 the expected credit loss allowance – IAS 39

The Company arrived at the credit impairment allowance using the following factors:
- Default rates;
- Ratio of accounts that remained non–performing over the back-testing period;
- Estimated cash flows; and
- Time taken to realise security.

The time period selected for back-testing is based on the following factors:
- The consistency of the base period in relation to the current financial period; and
- Consideration of the prevailing economic conditions.

This key area of judgment is subject to uncertainty and is highly sensitive to factors such as loan portfolio growth, product mix, unemployment rates, loan product features, economic conditions such as property prices, the level of interest rates, the rate of inflation, account management policies and practices, and other factors that can affect customer payment patterns.

These judgment areas and their underlying assumptions are reviewed at the statement of financial position date.
The Company assesses its loans and advances for impairment at each reporting date. In particular, judgment by management is required in the estimation of the timing of the recoverable amount.

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 19 and 20 for the assumptions used.

6. FIRST-TIME ADOPTION OF IFRS

Explanation of transition to IFRS

The Company prepared financial statements that comply with IFRS applicable as at 31 March 2019, together with the comparative period data for the year that ended 31 March 2018, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 April 2017, which is the Company's date of transition to IFRS. For all periods up to and including the year that ended 31 March 2018, the Company prepared its financial statements in accordance with the SA GAAP.

6.1 Exemptions applied

IFRS 1 allows first-time adopters to apply certain exceptions and exemptions in applications of other standards in its 1st set of IFRS compliant financial statements. The Company elected to apply the following exceptions and exemptions:

6.1.1 Exemption from the requirement to restate comparative information for IFRS 7.

IFRS 1 provides an exemption that allows a first-time adopter of IFRS not to comply with IFRS 7 disclosures for comparative information. The Company elected to apply the IAS 39 disclosure requirements for the 2018 comparative information and disclosed the impairment on an incurred loss model rather than the ECL model as required by IFRS 9.

6.1.2 Exemption from retrospective restatement for initiation fees

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Ithala SOC has elected to apply the following exemption:

- The company elected to retrospectively apply the effective interest method in IAS 39, which implies that the fair value of the financial asset or the financial liability at the date of transition to IFRS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to IFRS.

6.1.3 Disclosure of interest received and interest paid separately – Prior period error

The tables below explain the principal adjustments made by the Company in restating SA GAAP financial statements, including the statement of financial position as at 1 April 2017, and the financial statements for the year that ended 31 March 2018.

RECONCILIATION OF EQUITY

AS AT 1 APRIL 2017 (TRANSITION DATE)

ASSETS	Note	SA GAAP R'000	Prior period errors and reclassifications R'000	Effect of transition to IFRS due to change in accounting policy R'000	1 April 2017 (Transition date) IFRS R'000
Cash and cash equivalents	e)	46 500	549 931	-	596 431
Statutory investments		177 769	-	-	177 769
Investments and deposits with banks	e)	928 453	(549 931)	-	378 522
Loans and advances to customers		1 398 875	-	-	1 398 875
Inventory		1 433	-	-	1 433
Receivables		13 172	-	-	13 172
Properties in possession		8 702	-	-	8 702
Tangibles	c)	34 439	5 615	-	40 054
Intangible assets		15 195	-	-	15 195
				-	
Total assets		2 624 538	5 615		2 630 153
LIABILITIES					
Trade and other payables		64 122	-	-	64 122
Provision		450	-	-	450
Loan account with holding company		5 397	-	-	5 397
Customer deposits		2 285 509	-	-	2 285 509
Long service obligation		14 757	-	-	14 757
Retirement benefit obligations	a)	34 888		4 236	39 124
Total liabilities		2 405 123	-	4 236	2 409 359
EQUITY					
Capital and reserves attributable to the equity holders of the shareholder					
Issued share capital		190	-		190
Issued share premium		374 710	-		374 710
Retained income		(155 485)	5 615	221	(149 649)
Reserves	a)	-		(4 457)	(4 457)
Total equity		219 415	5 615	(4 236)	220 794
Total liabilities and equity		2 624 538	5 615	(4 236)	2 630 153

RECONCILIATION OF EQUITY

AS AT 31 MARCH 2018

ASSETS	Note	SA GAAP R'000	Prior period errors and reclassifications R'000	Effect of transition to IFRS due to change in accounting policy R'000	IFRS R'000
Cash and cash equivalents	d & e)	34 477	644 646	-	679 123
Statutory investments		187 714	-	-	187 714
Investments and deposits with banks	e)	950 397	(640 006)	-	310 391
Loans and advances to customers	b)	1 554 667	(3 347)	-	1 551 320
Inventory		1 399	-	-	1 399
Receivables		12 935	-	-	12 935
Properties in possession		6 997	-	-	6 997
Tangibles	c)	35 625	(1 602)	-	34 023
Intangible assets		13 692	-	-	13 692
				-	
Total assets		2 797 903	309	-	2 797 594
LIABILITIES					
Trade and other payables	d)	103 420	4 640	-	108 060
Provision		450	-	-	450
Loan account with holding company		1 223	-	-	1 223
Customer deposits		2 387 119			2 387 119
Long service obligation		14 884	-	-	14 884
Retirement benefit obligations	a)	38 331		53	38 384
Total liabilities		2 545 427	4 640	53	2 550 120
EQUITY					
Capital and reserves attributable to the equity holders					
Issued share capital		190	-	-	190
Issued share premium		434 710	-	-	434 710
Retained income		(182 424)	(4 949)	251	(187 122)
Reserves		-	-	(304)	(304)
Total equity		252 476	(4 949)	(53)	247 474
Total liabilities and equity		2 797 903	(309)	-	2 797 594

RECONCILIATION OF TOTAL COMPREHENSIVE INCOME

AS AT 31 MARCH 2018

	Note	SA GAAP R'000	Prior period errors R'000	Effect of transition to IFRS due to change in accounting policy R'000	IFRS R'000
Interest income	b)	259 149	1 548	-	260 697
Interest expenditure		(92 323)	-	-	(92 323)
Net interest income		166 826	1 548	-	168 374
Non-interest revenue	b)	126 792	(4 895)	-	121 897
Impairments of loans and advances to customers		(13 193)	-	-	(13 193)
Other income		10 861	-	-	10 861
Operating income		291 286	(3 347)	-	287 939
Interest from non-trading activities	a)	-	-	(5 047)	(5 047)
Operating expenditure	a & c)	(323 810)	(1 602)	5 047	(320 365)
Loss for the year		(32 524)	(4 949)	-	(37 473)
Other comprehensive income					
Actuarial gains and losses	a)	-		4 153	4 153
Total comprehensive loss for the year		(32 524)	(4 949)	4 153	(33 320)
Attributable to:					
Equity holders of the Company		(32 524)	(4 949)	4 153	(33 320)

6.2 Notes to the reconciliation of equity as at 1 April 2017 and 31 March 2018 and total comprehensive income for the year that ended 31 March 2018:

(a) Employee costs – change in accounting policy

Under SA GAAP the surplus on the defined benefits that is the difference between the plan assets and the plan liability is recognised to the extent that any actuarial gains recognised may not exceed 10% of the greater of the medical aid benefit or the fair value of plan assets. Under IFRS, the surplus recognised is limited to the amount that meets the definition of the asset. For the pension fund and provident fund that were closed off, the surplus has already been recognised to the extent that the trustees allocated the amount to the Company. As a result, no adjusting journals were posted, as the surplus allocated to the Company is an amount that the Company can use for purposes of reducing future contributions to the new defined pension contribution funds. For any actuarial gains and losses that were not recognised previously on the post-employment medical aid benefit, an adjustment of R4 183 513 was made to recognise these on adoption of IFRS, as IAS 19 requires that all actuarial gains and losses are recognised, whereas SA GAAP requires that a limit is placed on the recognition of actuarial gains.

Under SA GAAP, all movements in the liability of employee expenses must be presented in the 'Other employee costs' line item, whereas IFRS requires that only service costs are presented with 'Other employee costs' and interest is presented in the 'Finance costs' line item. An amount of R6 698 835 was reclassified from operating expenditure to interest from non-trading activities.

Under SA GAAP, actuarial gains and losses for the post-retirement medical aid are presented in profit or loss and IFRS requires that actuarial gains and losses for all post-employment benefits are presented in 'Other comprehensive income.' An amount of R1 628 894 was reclassified from profit and loss to 'Other comprehensive income' in 2018. Under SA GAAP, disclosures are not required for each actuarial gain/loss arising from changes in demographic assumptions, actuarial gains/losses arising from changes in financial assumptions, changes in the effect of limiting the net defined benefit asset if applicable, past service costs/gains arising from settlement, contributions to the plan showing those by the employer separately from those by the employee, and payments from the plan with respect to settlements. IFRS now requires that these disclosures are made.

(b) Loan initiation fees – prior period error

Initiation fees for loans were recognised as income upfront on receipt. IFRS 9 and IAS 39 (SA GAAP) Application Guidance state that origination fees should be part of the effective interest rate rather than being recognised in full upfront on receipt.

Origination fees "may include 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".

Fees that are not considered to be an integral part of the effective interest rate of a financial instrument include "fees charged for servicing the loan", which should be accounted for under IFRS 15 Revenue from Contracts with Customers, as the service is rendered.

Adjustments must be made to reclassify the loan initiation fees from income to be a component of the effective interest.

(c) Restatement of assets with nil net book values – prior period error

In the current financial year the Company embarked on a project to reassess the useful lives of all assets with a nil book value. The effect of the adjustments was a reduction in the accumulated depreciation in the prior years, and an additional depreciation for these assets in the current and prior financial periods.

(d) Outstanding cheques – reclassification

Outstanding cheques were reclassified to conform to the current year's presentation. The reclassification did not affect previously reported total equity and profit or comprehensive income.

(e) Cash and cash equivalents, investments and deposits with banks – reclassification

Cash and cash equivalents, investments and deposits with banks were reclassified to conform to the current year's presentation. The reclassification did not affect previously reported total assets, total liabilities, equity and profit or comprehensive income.

(f) Revenue

No material impact was identified on transitioning to IFRS, and the transitional provision required in IFRS 1 D 34-35 had no material impact.

6.3 Financial instruments – IFRS 9 adoption

Classification of financial instruments

IFRS 9 requires that all financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.

The classification of the Company's financial instruments in accordance with IAS 39 and IFRS 9 at 1 April 2018 is compared as follows:

Financial assets	IAS 39	IFRS 9
Cash	Measurement Category	Measurement Category
Statutory investments	Loan and receivables at amortised cost	Amortised cost
Investments and deposits with banks	Held to maturity at amortised cost	Amortised cost
Loans and advances to customers	Held to maturity at amortised cost	Amortised cost
Receivables	Loans and receivables at amortised cost	Amortised cost
	Loans and receivables at amortised cost	Amortised cost
Financial liabilities		
Customer deposits	Non-trading financial liabilities and are measured at amortised cost.	Amortised cost
Trade and other payables	Non-trading financial liabilities and are measured at amortised cost.	Amortised cost
Loan account with holding company	Non-trading financial liabilities and are measured at amortised cost.	Amortised cost

Measurement of financial instruments

ECL model

The ECL model in IFRS 9 is a transition from the IAS 39 incurred loss approach. The expected credit loss model requires entities to recognise impairment losses in advance of having objective evidence of impairment. The ECL model applies to financial assets measured at either amortised cost or at fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

The Company adopted IFRS 9 as issued by the IASB in July 2014 and made the transition on 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not adopt IFRS 9 early in previous periods. As permitted by the transitional provisions of IFRS 9 and the short-term exemptions of IFRS 1, the Company elected to not restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition, were recognised in the opening retained earnings of the current period. The most significant impact of the adoption of IFRS 9 was a change in the impairment model of loans and advances, from the incurred loss model to the expected credit loss model. Refer to Note 10 for further information in this regard.

7. CASH AND CASH EQUIVALENTS

	2019 R'000	Restated 2018 R'000
Cash	**67 227**	34 477
Bank balances	**120 658**	135 921
Call and money market funds	**290 718**	288 293
Short-term investments and deposits with banks	**114 001**	220 432
Total	**592 604**	679 123

Included in cash is an amount of R16.3 million (2018: R12.1 million) relating to cash in transit at yearend.

8. STATUTORY INVESTMENTS

	2019 R'000	2019 R'000
Treasury bills	**188 389**	187 714
Total	**188 389**	187 714

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 2019 exceed the minimum reserve requirements by R39.8 million (2018: R55.4 million), and are invested in terms of the Company's capital management strategy.

9. INVESTMENTS AND DEPOSITS WITH BANKS

	2019 R'000	Restated 2018 R'000
Investments and deposits with banks	**306 664**	310 391
Investments and deposits with banks are analysed, as follows:		
Fixed term funds	**120 197**	89 150
Investments in state-owned companies	**135 907**	136 112
Other investments	**50 560**	85 129
Maturity analysis of investments and deposits with banks		
Maturing up to 1 month	**34 751**	-
Maturing after 1 month but within 3 months	**19 065**	-
Maturing after 3 months but within 6 months	**113 901**	108 110
Maturing after 6 months but not exceeding 1 year	**37 768**	126 651
Maturing after 1 year	**101 179**	75 630
Total	**306 664**	310 391

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings (or equivalent ratings), with a minimum long-term rating of A, and also invests surplus funds in other state-owned companies (SOCs). Surplus cash is invested in the following financial institutions: Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank, Absa Group Limited and the Bank of China Limited. Due to investments being held in institutions that are highly rated, these instruments are neither past due, nor impaired.

Funds on fixed deposits at Absa Group Limited, are subject to a general cession in its favour, up to an amount of R30 million for electronic banking facilities granted to the Company, and R3 million for a guarantee issued on behalf of the Company in favour of the South African Insurance Association. At yearend, funds on fixed deposits with Absa Group Limited, totalled R34.5 million (2018: R34.3 million).

10. LOANS AND ADVANCES TO CUSTOMERS

	2019 R'000	2018 R'000
Mortgage loans	**1 516 825**	1 384 072
Housing loans	**36 636**	44 743
Micro finance – secured loans	**240 312**	196 355
Commercial property loans	**-**	135
Micro finance – unsecured loans	**4 389**	7 552
Gross loans and advances	**1 798 162**	1 632 857
Initiation fees EIR adjustment	**(5 748)**	(3 347)
Stage 3 EIR adjustment	**(2 620)**	-
Credit impairments for loans and advances	**(62 053)**	(78 190)
Loans and advances net of impairment	**1 727 741**	1 551 320
Maturity analysis		
On demand	**56 073**	66 356
Maturing from 1 month to 6 months	**50 702**	50 840
Maturing from 6 months to 1 year	**51 200**	49 137
Maturing from 1 year to 5 years	**373 233**	340 586
Maturing after 5 years	**1 266 954**	1 125 938
Total	**1 798 162**	1 632 857

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 periods to contractual maturity from yearend based on the contractual instalments to be received.

Incurred loss credit impairment

The information disclosed below relating to the impairment losses comparative information for 2018 was prepared in terms of IAS 39, using the incurred credit loss model. The Company applied the exemption provided to first-time adopters in relation to IFRS 7 disclosure requirements and IFRS 9 to the extent that the disclosures required by IFRS 7 relate to items within the scope of IFRS 9. The impairment loss notes information for 2018 as set out below, was therefore not restated in compliance with the disclosures relating to the expected credit loss model. Refer to Note 6 for a detailed explanation of the exemption adopted.

Credit impairments for loans and advances	2019 R'000	2018 R'000
Balance at beginning of the year	**78 190**	89 759
Expected credit loss (IFRS 9 adoption)	**(21 442)**	-
Restated balance at beginning of the year	**56 748**	89 759
Amounts written off against specific credit impairment	**(12 373)**	(24 762)
Impairments raised	**17 678**	13 193
Balance at end of the year	**62 053**	78 190
Comprising:		
Impairments for performing loans	**34 899**	23 167
Impairments for non-performing loans	**27 154**	55 023
Total credit impairments for loans and advances	**62 053**	78 190

Credit impairment analysis in respect of performing and non-performing loans	2019 R'000	2018 R'000
Non-performing loans		
Balance at beginning of the year	**55 023**	67 845
Impaired accounts written off	**(12 373)**	(24 762)
Net impairments (reversed)/raised	**(15 496)**	11 940
Balance at end of the year	**27 154**	55 023
Performing loans		
Balance at beginning of the year	**23 167**	21 913
Net impairments raised	**11 732**	1 254
Balance at end of the year	**34 899**	23 167
Total	**62 053**	78 190

Segmental analysis by industry of impairments in respect of non-performing loans	2019 R'000	2018 R'000
Retail – Mortgage	**18 790**	36 758
Retail - Other	**8 364**	18 265
Total	**27 154**	55 023

Non-performing loans and advances – IFRS 9

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

Impaired loans and advances, and specific credit impairments

Impaired loans and advances are defined as loans and advances in respect of which the Company raised specific credit impairments. A specific credit impairment is raised in respect of an asset that 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.

Portfolio credit impairment

Portfolio credit impairment represents the impairment on loans and advances that was not 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".

At 31 March 2019 the value of non-performing loans was R99 million against which credit impairments of R27 million were held. There was no individual loan or advance included in this, that exceeds 10% of the company's qualifying capital and reserves.

The information disclosed below relating to the impairment losses for 2019 was prepared in terms of IFRS 7, using the expected credit loss model in terms of IFRS 9.

Expected loss credit impairment in terms of IFRS 9

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 derecognised 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 input into 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.

(a) 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:

Housing Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	2 449	21 962	23 456	47 867
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(499)	2 767	-	2 268
Transfer from Stage 1 to Stage 3	(27)	-	7	(20)
Transfer from Stage 2 to Stage 3	-	(2 246)	570	(1 676)
Transfer from Stage 2 to Stage 1	2 651	(5 528)	-	(2 877)
Transfer from Stage 3 to Stage 1	617	-	(625)	(8)
Transfer from Stage 3 to Stage 2	-	1 506	(1 506)	-
New financial assets originated or purchased	1 290	5 259	-	6 549
Changes in PD/LGD/EAD	(5 635)	7 958	2 487	4 810
Changes to model assumptions and methodologies	2 892	(2 201)	1 682	2 373
Modification of contractual cash flows of financial assets				-
Unwind of discounts (a)	21	185	166	372
Financial assets derecognised during the period	(88)	(601)	(4 260)	(4 949)
Total net P&L charge during the period	1 222	7 099	(1 479)	6 842
Loss allowance as at 31 March 2019	**3 671**	**29 061**	**21 977**	**54 709**
Write-offs	-	-	8 602	8 602

The following table further explains changes in the gross carrying 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:

Housing Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	912 210	418 662	95 735	1 426 607
Transfers:				
Transfer from Stage 1 to Stage 2	(171 453)	171 453	-	-
Transfer from Stage 1 to Stage 3	(5 424)	-	5 424	-
Transfer from Stage 2 to Stage 3	-	(18 750)	18 750	-
Transfer from Stage 3 to Stage 2	4 663	-	(4 663)	
Transfer from Stage 2 to Stage 1	-	9 079	(9 079)	-
Financial assets derecognised during the period other than write-offs	113 231	(113 231)	-	-
New financial assets originated or purchased	(43 857)	(17 367)	(13 196)	(74 420)
Modification of contractual cash flows of financial assets	171 970	81 577	-	253 547
Modification of contractual cash flows of financial assets				-
Changes in interest accrual	(34 018)	(16 556)	(1 699)	(52 273)
Gross carrying amount as at 31 March 2019	947 322	514 867	91 272	1 553 461
Write-offs			9 800	9 800

(b) Micro Finance - Secured 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:

Micro Finance - Secured Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	462	1 332	2 368	4 162
Movements with P&L impact				-
Transfers:				-
Transfer from Stage 1 to Stage 2	(52)	121	-	69
Transfer from Stage 1 to Stage 3	(5)	-	1	(4)
Transfer from Stage 2 to Stage 3	-	(79)	20	(59)
Transfer from Stage 2 to Stage 1	443	(679)	-	(236)
Transfer from Stage 3 to Stage 1	113	-	(114)	(1)
Transfer from Stage 3 to Stage 2	-	76	(76)	-
New financial assets originated or purchased	454	496	3	953
Change in PDs/LGDs/EADs	(873)	(31)	711	(193)
Changes to model assumptions and methodologies	239	(66)	62	235
Modification of contractual cash flows of financial assets				-
Unwind of discounts (a)	4	11	17	32
Financial assets derecognised during the period	(26)	(168)	(401)	(595)
Total net P&L charge during the period	297	(319)	223	201
Loss allowance as at 31 March 2019	759	1 013	2 591	4 363
Write-offs	-	-	213	213

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

Micro Finance - Secured Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	156 024	36 027	4 304	196 355
Transfers:				-
Transfer from Stage 1 to Stage 2	(15 402)	15 402	-	-
Transfer from Stage 1 to Stage 3	(487)	-	487	-
Transfer from Stage 2 to Stage 3	-	(1 051)	1 051	-
Transfer from Stage 3 to Stage 1	489	-	(489)	-
Transfer from Stage 3 to Stage 2	-	284	(284)	-
Transfer from Stage 2 to Stage 1	11 954	(11 954)	-	-
Financial assets derecognised during the period other than write-offs	(27 354)	(5 285)	(756)	(33 395)
New financial assets originated or purchased	77 475	9 452	54	86 981
Modification of contractual cash flows of financial assets				
Changes in interest accrual	(7 048)	(2 457)	(125)	(9 630)
Gross carrying amount as at 31 March 2019	195 651	40 418	4 242	240 311
Write-offs	-	-	420	420

(c) Micro Finance - Unsecured 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:

Micro Finance - Unsecured Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	72	642	3 917	4 631
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(7)	10	-	3
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(203)	51	(152)
Transfer from Stage 2 to Stage 1	60	(98)	-	(38)
Transfer from Stage 3 to Stage 1	83	-	(86)	(3)
Transfer from Stage 3 to Stage 2	-	106	(106)	-
New financial assets originated or purchased	-	-	-	-
Changes in PD/LGD/EAD	(164)	(103)	87	(180)
Changes to model assumptions and methodologies	41	(3)	161	199
Modification of contractual cash flows of financial assets	-	-	-	-
Unwind of discounts (a)	1	9	32	42
Financial assets derecognised during the period	(13)	(34)	(1 472)	(1 519)
Total net P&L charge during the period	1	(316)	(1 333)	(1 648)
Loss allowance as at 31 March 2019	73	326	2 584	2 983
Write-offs	-	-	3 050	3 050

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

Micro Finance - Unsecured Loans	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	1 062	1 457	5 033	7 552
Transfers:				
Transfer from Stage 1 to Stage 2	(55)	55	-	-
Transfer from Stage 1 to Stage 3	(15)	-	15	-
Transfer from Stage 2 to Stage 3	-	(409)	409	-
Transfer from Stage 3 to Stage 1	108	-	(108)	
Transfer from Stage 3 to Stage 2	-	136	(136)	-
Transfer from Stage 2 to Stage 1	160	(160)	-	-
Financial assets derecognised during the period other than write-offs	(597)	(179)	(1 897)	(2 673)
New financial assets originated or purchased	32	3	1	36
Modification of contractual cash flows of financial assets	-	-	-	-
Changes in interest accrual	(306)	(222)	2	(526)
Gross carrying amount as at 31 March 2019	389	681	3 319	4 389
Write-offs	-	-	-	-

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

	Stage 2		Stage 3	
	Gross amortised cost before the modification	Net modification gain or loss	Gross amortised cost before the modification	Net modification gain or loss
	R'000	R'000	R'000	R'000
Housing loans	10 973	-	219	-
Micro finance - secured loans	50	-	138	-
Micro finance - unsecured loans	157	-	66	-
Total	11 180	-	423	-

Non-performing loans and advances - IAS 39 (2018)

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

Impaired loans and advances, and specific credit impairments

Impaired loans and advances are defined as loans and advances in respect of which the Company raised specific credit impairments. A specific credit impairment is raised in respect of an asset that 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.

Portfolio credit impairment

Portfolio credit impairment represents the impairment on loans and advances that were not specifically impaired. 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".

The following table is an analysis of financial assets that are past due but not impaired. The credit granting process on these loans should mitigate any potential risk around the credit quality of these assets. The security provided is considered to be sufficient to mitigate potential risk around default in the event that the credit quality is compromised.

Age analysis of assets past due but not impaired

2018 R'000	Less Than 30 Days	31 to 60 Days	61 to 90 Days	Total
Housing loans	42 186	18 968	13 222	74 376
Micro finance – unsecured loans	6	10	30	46
Commercial property loans	-	-	-	-
Vehicle and taxi finance	1 703	431	57	2 191
Total	43 895	19 409	13 309	76 613

11. RECEIVABLES

	2019 R'000	2018 R'000
Receivables	**6 230**	3 188
Prepayments	**6 915**	9 747
Total	**13 145**	12 935

12. INVENTORY

	2019 R'000	2018 R'000
Debit cards on hand	**1 320**	1 399
Total	**1 320**	1 399

Inventories to the value of R2.4 million were expensed during the current year (2018: R 1.3 million).

13. PROPERTIES IN POSSESSION

	2019 R'000	Restated 2018 R'000
Properties in possession	**3 610**	6 997
Total	**3 610**	6 997

PIPs to the value of R2.8 million were expensed during the current year (2018: (R0.3) million).

PIPs relate to immovable properties that were repossessed by the company and mainly comprise private residential dwellings.

14. TANGIBLE ASSETS

Cost	2019 R'000	Restated 2018 R'000
Computer equipment	**61 730**	52 226
Furniture and fittings	**23 641**	22 542
Office equipment	**27 287**	25 024
Leasehold improvements	**50 403**	48 940
Motor vehicles	**478**	165
Total	**163 539**	148 897
Accumulated depreciation		
Computer equipment	**42 293**	39 779
Furniture and fittings	**19 208**	18 589
Office equipment	**16 953**	14 946
Leasehold improvements	**43 185**	41 411
Motor vehicles	**181**	149
Total	**121 820**	114 874
Net book value	**41 719**	34 023

Movement in equipment

2019	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improvements R'000	Motor vehicles R'000	Total R'000
Net carrying value at beginning of the year	**12 415**	**1 532**	**10 022**	**10 039**	**15**	**34 023**
Additions	**9 964**	**1 280**	**3 358**	**1 463**	**313**	**16 378**
Disposals	**(52)**	**(8)**	**(166)**	**-**	**-**	**(226)**
Adjustments	**(14)**	**1**	**(26)**	**-**	**-**	**(39)**
Depreciation	**(2 907)**	**(793)**	**(2 911)**	**(1 774)**	**(32)**	**(8 417)**
Net carrying value at end of the year	**19 406**	**2 012**	**10 277**	**9 728**	**296**	**41 719**

Movement in equipment

2018 (Restated)	Computer equipment R'000	Furniture & fittings R'000	Office equipment R'000	Leasehold improvements R'000	Motor vehicle	Total R'000
Net carrying value at beginning of the year	16 486	3 027	8 701	11 819	23	40 056
Additions	127	34	4 030	27	-	4 218
Disposals	(60)	(71)	(109)	-	-	(240)
Depreciation	(4 138)	(1 458)	(2 600)	(1 807)	(8)	(10 011)
Net carrying value at end of the year	12 415	1 532	10 022	10 039	15	34 023

Depreciation of R8,4 million (2018: R10, 0 million) is included in the Statement of Comprehensive Income.

15. INTANGIBLE ASSETS

Intangible assets	2019 R'000	2018 R'000
Cost		
Computer software	**17 181**	16 382
Software - work in progress	**42 696**	42 727
Total	**59 877**	59 109
Accumulated amortisation		
Computer software	**14 457**	13 013
Accumulated impairment		
Software - work in progress	**32 404**	32 404
Net book value	**13 016**	13 692

Movement in intangible assets:

2019	Computer software R'000	Software- work in progress R'000	Total R'000
Net carrying value at beginning of the year	**3 370**	**10 322**	**13 692**
Additions	**569**	**199**	**768**
Disposals	**-**	**-**	**-**
Transfers	**230**	**(230)**	**-**
Amortisation	**(1 444)**	**-**	**(1 444)**
Net carrying value at end of the year	**2 725**	**10 291**	**13 016**

Movement in intangible assets:

2018	Computer software R'000	Software- work in progress R'000	Total R'000
Net carrying value at beginning of the year	5 467	9 728	15 195
Additions	-	1 089	1 089
Disposals	-	(270)	(270)
Transfers	225	(225)	-
Amortisation	(2 322)	-	(2 322)
Net carrying value at end of the year	3 370	10 322	13 692

Amortisation of R1,4 million (2018: R2, 3 million) is included in the Statement of Comprehensive Income.

An amount of R32.4 million has been 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. Testing conducted by the Company revealed significant deficiencies which led to the Board of Directors delaying the "go live" decision. The impairment was recognised due to rectification efforts by the vendor failing to produce the desired result and significant uncertainty as to the implementation of the system. Subsequent negotiations with the vendor relating to the rectification of the deficiencies and the continuation of the project on amended terms and conditions were not successful.

The long term strategy of the Company includes the possible implementation of a bespoke banking system, and as such certain intrinsic value may exist within the capitalised amount from the previous project which may be realised on the implementation of the new system. The recoverable amount from the asset will be reassessed during the development and final implementation of the new banking system. Should the assessment of the intangible asset prove that there is no value in the asset, the Company will follow the policy based on the delegated powers of authority for the asset to be written off against the impairment provision. The new banking system project for implementation of an integrated enterprise-wide digital core banking platform designed for digital banking with a customer-centric paradigm is expected to modernise the Company's technology as well as close several audit, risk and compliance exceptions. The first two phases of the project are concluded, and the project is currently in the system configuration phase. It is anticipated that the enterprise-wide digital core banking system will be implemented during the 2020/21 financial year. The banking platform yearend work-in-progress carrying value of R26 million is funded by the grant received from the KZN government for this purpose.

16. CUSTOMER DEPOSITS

	2019 R'000	2018 R'000
Call deposit accounts	**64 561**	70 349
Savings accounts	**954 578**	967 944
Term deposits	**1 394 941**	1 348 826
Total deposits	**2 414 080**	2 387 119
Maturity analysis		
On demand	**1 022 525**	1 131 455
Maturing up to 1 month	**208 542**	123 928
Maturing after 1 month but within 6 months	**754 663**	717 057
Maturing after 6 months but within 1 year	**383 213**	373 753
Maturing after 1 year but within 5 years	**45 137**	40 926
	2 414 080	2 387 119

Savings accounts are further analysed as follows:-	2019 R'000	2018 R'000
Savings	638 748	649 639
Trust	56 098	57 844
Debit cards	237 122	212 181
Corporate	22 610	48 280
Total savings	954 578	967 944
Term deposits are further analysed as follows:-		
Retail accounts	950 633	899 035
Corporate accounts	444 308	449 791
Total term deposits	1 394 941	1 348 826

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.

17.1. TRADE AND OTHER PAYABLES

	2019 R'000	2018 R'000
Trade creditors	**5 586**	2 847
Accruals	**24 793**	16 155
Accruals for leave pay	**15 080**	13 881
Accruals - bonuses	**1 917**	1 853
Loans and advances reflecting credit balances	**3 348**	3 471
Deferred income - government income	**11 888**	37 986
Sundry payables	**28 970**	31 867
Total trade and other payables	**91 582**	108 060

Grant deferred income relates to a government grant received by the Company for assistance with the development of its new banking system. As the new banking system has not yet been fully developed by the yearend, only a portion of the grant has been utilised.

17.2. PROVISIONS

	2019 R'000	2018 R'000
Provisions	**450**	450

	2019 R'000	2018 R'000
Balance at beginning of the year	**450**	450
Additions	**-**	-
Utilised	**-**	-
Balance at end of the year	**450**	450

A legal dispute arose in the early 2000's between Mr Mthembu and Ithala. 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. Ithala proposed a settlement offer to Mr Mthembu to cover the following: The purchase price, interest of his loan, and legal cost, which was limited to a specific amount.

18. LOAN ACCOUNT WITH HOLDING COMPANY

	2019 R'000	2018 R'000
Loan account with holding company	**13 291**	1 223

The loan account with the holding company is unsecured, bears no interest and has no fixed terms of repayment.

19. LONG SERVICE OBLIGATIONS

	2019 R'000	2018 R'000
Other employee benefits comprise:		
Long service awards	**15 384**	14 884
Total	**15 384**	14 884

Long service awards	2019 R'000	2018 R'000
Balance at beginning of the year	14 884	14 757
Expensed during the year	1 551	1 951
Benefits vesting during the year	(1 051)	(1 824)
Balance at end of the year	15 384	14 884
Amounts recognised in the statement of financial position, are as follows:		
Present value of obligations	15 384	14 884
Amounts recognised in the statement of comprehensive income, are as follows:		
Current service costs	1 648	1 664
Interest costs	1 238	1 205
Net actuarial (gain)/loss recognised during the year	(1 335)	(918)
Total included in staff costs	1 551	1 951

Sensitivity analysis			
Assumption	Change	2019 R'000	2018 R'000
Present value of obligations		**15 384**	14 884
Average salary inflation	+1%	**16 538**	16 059
	-1%	**14 346**	13 831
Average retirement age	-2 years	**17 030**	13 259
	+2 years	**13 714**	16 473

The Company provides long service awards to permanent employees in the form of cash at ten years of continuous service and every five years thereafter.

An actuarial valuation of the provision for long service awards at 31 March 2019 quantified the present value of obligations at R15.4 million (2018: R14.9 million). These actuarial valuations are conducted annually at the statement of financial position date. The most recent actuarial valuation of the long service awards was carried out in 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 9.2% (2018: 8.7%) and an average salary inflation of 6.9% (2018: 6.7%).

20. RETIREMENT BENEFIT OBLIGATIONS

20.1 Post-retirement medical benefits

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at the statement of financial position date. 87 Current and retired employees (2018: 91) are currently covered under the scheme.

The most recent actuarial valuation of the present value of defined benefit obligations were carried out in 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 10.40% (2018: 9.60%) and a health care cost inflation rate of 8.60% (2018: 8.40%). The movement in the liability annualised in the statement of financial position is as follows:

Post-retirement medical benefits	2019 R'000	2018 R'000
Movement in the defined benefits obligations, is as follows:		
Balance at beginning of the year	**38 384**	39 125
Current service costs	**802**	887
Interest costs	**3 616**	3 770
Net actuarial (gain)/loss recognised during the year	**(2 823)**	(4 153)
Benefit payments	**(1 365)**	(1 245)
Balance at end of the year	**38 614**	38 384
Amounts recognised in the statement of financial position, are as follows :		
Present value of unfunded obligations	**38 614**	38 384
Net liability in the statement of financial position	**38 614**	38 384

Actuarial (loss)/gain	2019 R'000	2018 R'000
The actuarial gains arose as a result of the following:		
Change in Real discount rate	**4 015**	3 680
Lower than expected healthcare cost inflation including changes in members' benefit options	**(1 479)**	288
Unexpected changes in membership	**287**	185
Total	**2 823**	4 153

Actuarial assumptions used and sensitivity analysis

Sensitivity analysis – unfunded accrued liability (1 479)				
Assumption	**Assumptions**	**Change**	**2019 R'000**	**2018 R'000**
Present value of obligations			**38 614**	38 384
Healthcare cost inflation	8.6%	+1%	**44 589**	44 774
		-1%	**33 739**	33 227
Discount rate	10.4%	+1%	**33 867**	33 342
		-1%	**44 502**	44 714
Expected retirement age	60 years	+1 year	**37 096**	36 938
		-1 year	**40 200**	39 954

20.2 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, 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 2019 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 in the current and prior annual financial years by Old Mutual Actuarial Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the projected unit credit method.

20.2.1 Defined benefit pension fund

Defined benefit pension fund	2019 R'000	2018 R'000
Present value of funded obligations	**291**	894
Fair value of plan assets	**(2 462)**	(11 148)
Surplus	**(2 171)**	(10 254)
Amount allowed as a reduction of future contributions	**-**	7 202
Assets not recognised due to asset ceiling	**(2 171)**	(3 052)

Net asset balance currently recognised	2019 R'000	2018 R'000
Amount allowed as a reduction of future contributions	5 175	7 202
Amount utilised for contributions	(5 175)	(2 184)
Assets as per balance sheet	-	5 018

Sensitivity analysis – unfunded accrued liability				
Assumption	Assumptions	Change	2019 R'000	2018 R'000
Present value of obligation			**291**	894
Discount rate	8.9%	+1%	**291**	894
	-1%	291	**894**	
Expected salary rate	6.3%	+1%	**291**	894
	-1%	291	**894**	

It was resolved during the 2012 financial year to close the defined benefit pension fund. All active members of the fund were transferred to a defined contribution fund of the Company as at 31 December 2011. The trustees agreed to utilise the surplus in the pension fund to fund the employer contributions towards the Old Mutual Superfund. The Company started utilising the contribution holiday from July 2017.

	2019 R'000	2018 R'000
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of the year	**894**	808
Interest cost	**47**	73
Past service costs	**1 292**	-
Benefits paid	**(1 925)**	-
Actuarial loss	**(17)**	13
Balance	**291**	894
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	**3 947**	9 516
Interest income	243	856
Benefits paid	(1 925)	-
Actuarial gain	354	776
Balance at end of the year	2 619	11 148

Actuarial (loss)/gain	2019 R'000	2018 R'000
The actuarial gain arose as a result of the following:		
Actuarial gain arising from changes in demographic assumptions	**-**	-
Actuarial gain arising from changes in financial assumptions	**213**	776

The Company expects to make no contributions to the company defined benefit pension fund due to the closure of the fund as disclosed above.

20.2.2 Defined benefit provident fund

Defined benefit provident fund	2019 R'000	2018 R'000
Present value of funded obligations	**21 456**	23 232
Fair value of plan assets	**(25 220)**	(24 884)
Surplus	**(3 764)**	(1 652)
Amount allocated to employer surplus account	**3 764**	1 652
Assets not recognised due to asset ceiling	**-**	-

Defined benefit provident fund	2019 R'000	2018 R'000
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of the year	23 232	15 940
Interest cost	1 804	1 651
Current service cost	-	414
Past service cost	-	9 984
Actuarial loss	(1 609)	1 731
Benefits paid	(1 971)	(6 488)
Balance	21 456	23 232
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	24 884	29 028
Interest income	1 942	2 336
Contributions received	-	212
Benefits paid	(1 971)	(6 488)
Actuarial gain	365	(204)
Balance at end of the year	25 220	24 884

Actuarial (loss)/gain	2019 R'000	2018 R'000
The actuarial gain arose as a result of the following:		
Actuarial gain arising from changes in demographic assumptions	**365**	-
Actuarial gain arising from changes in financial assumptions	**1 609**	204

Sensitivity analysis – unfunded accrued liability

Assumption	Assumptions	Change	2019 R'000	2018 R'000
Present value of obligations			**21 456**	23 232
Discount rate	3%	+1%	**21 456**	24 245
		-1%	**21 456**	24 245
Expected salary rate	6.0%-2018	+1%	**21 456**	24 245
	6.3%-2019	-1%	**21 456**	24 245

The Company expects to make no contribution (2018: Nil) to the company defined benefit provident fund and no contribution (2017: R0) to the Old Mutual Superfund defined benefit provident fund during the next financial year due to payment holiday.

21. SHARE CAPITAL AND SHARE PREMIUM

	2019 R'000	2018 R'000
Authorised share capital:		
191 000 000 ordinary shares of 0.1 cent each	**191**	191
Issued share capital and premium:		
190 031 968 ordinary shares of 0.1 cent each issued and fully paid for	**190**	190
Share premium	**434 710**	374 710
7 478 ordinary shares (2018: 6 000 ordinary shares) of 0,1 cent par value each issued and fully paid for in the prior year	**-**	-
Share premium	**74 788**	60 000
Total	**509 688**	434 900

22. INTEREST INCOME

	2019 R'000	Restated 2018 R'000
Interest received on call accounts	**25 707**	24 883
Interest received on fixed deposit accounts	**43 676**	48 030
Interest income on treasury bills	**13 920**	15 345
Interest earned on loans and advances to customers	**180 087**	170 891
Loan origination fees	**2 465**	1 548
Total interest on loans and advances and surplus funds	**265 855**	260 697

23. INTEREST EXPENDITURE

	2019 R'000	2018 R'000
Interest paid on customer deposits	(93 586)	(92 323)
Interest arising from post-employment benefits	(6 705)	(5 047)
Total	(100 291)	(97 370)

24. NON-INTEREST REVENUE

	2019 R'000	Restated 2018 R'000
Revenue from contracts with customers		
Revenue generated by insurance division	**13 018**	13 434
Commission income	**10 884**	11 267
Administration fee	**1 188**	1 090
Funeral cover commission and other fees	**946**	1 077
Commission and fee income from banking activities	**124 966**	108 463
Fee income from loans and advances	**4 911**	5 065
Service fees from customer deposits	**119 531**	102 958
Other fee income	**524**	440
Total fees	**137 984**	121 897

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.

25. OTHER INCOME

	2019 R'000	2018 R'000
Dormant account balances recognised in income	**7 390**	6 558
Bad debts recovered	**1 265**	2 000
Recovery of operating expenses from holding company	**511**	925
Sundry income	**2 291**	1 378
Total other income	**11 457**	10 861

26. OPERATING EXPENDITURE

Operating expenditure is stated after the following items:

	2019 R'000	2018 R'000
Auditors' remuneration	5 113	4 377
Audit fees	4 864	4 085
Prior year under provision	249	292
Amortisation of intangible assets	1 444	2 322
Depreciation of tangible assets	8 417	10 011
Loss on disposal of equipment	163	-
Professional fees	8 781	8 550
Operating leases	20 715	19 493
Personnel costs (excluding Director's and key management remuneration)	147 397	149 989
Included in personnel costs above are contributions to retirement benefit schemes:	12 527	12 006
Defined benefit plans	3 609	3 339
Defined contribution plans	8 918	8 667

	2019 R'000	2018 R'000
Directors' emoluments	5 358	3 731
MF Kekana	1 025	950
M Mia (resigned 01 June 2017 and re-appointed on 31 August 2017)	598	744
B Ngonyama	869	700
SC Ngidi	339	304
T Nyoka (resigned 31 May 2017)	-	32
P Radebe	652	621
G Sibiya (appointed 01 August 2017)	506	318
T Mathe (appointed 20 October 2017)	-	-
M Madali (appointed on 31 January 2018, resigned on 28 February 2019)	412	62
Inkosi SN Mkhize (appointed 23 March 2018)	829	-
M Ngcobo (appointed 17 January 2019)	128	-

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
2019	R'000	R'000	R'000	R'000
Executive Directors' remuneration	5 523	1 218	-	6 741
D Zandamela – Chief Executive Officer	3 159	715	-	3 874
L Serithi- Chief Financial Officer and Acting Chief Risk Officer (resigned 31 March 2019)	2 364	503	-	2 867
Appointed Prescribed Officers' remuneration**	7 701	1 174	-	8 875
S Gwala - Head: HR	1 432	214	-	1 646
S Xolo - Marketing and Sales Manager	862	128	-	990
T Mungwe - Company Secretary	1 093	165	-	1 258
S Moodley - Head: Segments	950	130	-	1 080
L Keyise - Chief Technology Officer	1 238	183	-	1 421
M Sewchuran - Compliance Officer (appointed 14 May 2018)	1 081	183	-	1 264
D Mti - Head: Credit (appointed 01 July 2018)	1 045	171	-	1 216
Acting Prescribed Officers' remuneration	931	113	-	1044
N Ndlovu - Acting Head: Insurance (appointed 01 December 2017)	823	113	-	936
M Madali - Acting Chief Technology Officer (appointed 01 March 2019)	108	-	-	108

2018	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
	R'000	R'000	R'000	R'000
Executive Directors' remuneration	6 197	747	-	6 944
PA Ireland – Chief Executive Officer (resigned 31 May 2017)	911	79	-	990
M Mia - Acting Chief Executive Officer (appointed 01 June 2017 and resigned on 31 August 2017)	624	-	-	624
D Zandamela - Chief Executive Officer (appointed 01 September 2017) and Acting Compliance Officer	3 662	417	-	4 079
L Serithi - Chief Finance Officer and Acting Chief Risk Officer (appointed 01 October 2017)	1 000	251	-	1 251
Appointed Prescribed Officers' remuneration**	10 076	1 626	710	12 412
PN Salanje – Compliance Officer (resigned 31 December 2017)	1 277	148	710	2 135
S Gwala - Head: HR	1 231	190	-	1 421
S Xolo - Marketing and Sales Manager	841	121	-	962
Z Mthiyane - Head: Ithala Connect (resigned 17 November 2017)	567	-	-	567
T Mungwe - Company Secretary	968	141	-	1 109
F Dikgale - Chief Risk Officer (resigned 08 December 2017)	1 236	240	-	1 476
D Pillay - Chief Audit Executive (resigned 31 August 2017)	777	97	-	874
MC Zikalala - Head: IT (resigned 31 March 2017)	175	246	-	421
S Moodley - Head: Segments	837	129	-	966
S Johnson - Acting Head: Distribution Channels (resigned 31 August 2017)	577	87	-	664
A Ndlovu - Head: Insurance (appointed 15 September 2016, resigned 26 May 2017)	203	25	-	228
M Tloubatla - Head: Credit (appointed 1 April 2016, resigned 31 October 2017)	614	80	-	694
L Keyise - Chief Technology Officer (appointed 01 August 2017)	773	122	-	895
Acting Prescribed Officer's remuneration	337	-	-	337
N Ndlovu – Acting Head: Insurance (Appointed 01 December 2017)	337	-	-	337

**Prescribed officers include every person, by whatever title the office is designated that:

- Exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company; or
- Regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.

27. OPERATING ACTIVITIES

Non-cash items included in loss for the year	2019 R'000	Restated 2018 R'000
Depreciation of tangible assets	**8 417**	10 011
Amortisation of intangible assets	**1 444**	2 322
Loss/(Profit) on disposal of equipment	**163**	(129)
Credit impairment in loans and advances	**5 305**	(11 569)
Total	**15 329**	635

28. CHANGES IN OPERATING FUNDS

	2019 R'000	Restated 2018 R'000
Increase in operating liabilities		
Increase in deposits	26 961	101 610
(Decrease)/Increase in trade and other payables	(16 478)	43 938
Increase in long service obligations	500	127
Increase in retirement benefit obligations	7 225	3 413
Increase/(Decrease) in loan account with holding company	12 068	(4 174)
Total	30 276	144 914
Decrease in operating assets		
Increase in loans and advances	(160 284)	(140 876)
Decrease in properties in possession	3 387	1 705
(Increase)/Decrease in receivables	(210)	237
Decrease in inventory	79	34
Total	(157 028)	(138 900)

29. COMMITMENTS

Capital expenditure	2019 R'000	2018 R'000
Authorised and contracted for	**51 958**	2 713
Comprising:		
Acquisition of equipment	**445**	438
Development of intangible assets	**51 513**	2 275

Capital expenditure will be financed from internal resources.

Operating lease commitments	2019 R'000	2018 R'000
Non-cancellable operating lease commitments are as follows:		
Not later than one year	**11 928**	9 802
Later than one year and not later than five years	**8 454**	5 989
Total	**20 382**	15 791

All related party lease agreements with the holding company expired. The lease agreements were not renewed and are currently running on a month-to-month basis.

The Company entered commercial leases for premises. These lease agreements contain clauses that indicate an average lease period of three years and in some instances, a one term renewal option. Operating lease commitments were calculated on the original lease term. No renewal periods were considered due to the uncertainties, amongst others, around the amount to be paid on renewal.

Unutilised facilities on advances at the statement of financial position date were R4.7 million (2018: R9.2 million).

All commitment figures are VAT inclusive.

30. RELATED PARTIES

The holding company is IDFC and the ultimate controlling shareholder is the KZN Provincial Government through the MEC of EDTEA.

The following are identified as related parties of the Company:

30.1 Ithala Development Finance Corporation Limited

The nature of the relationship between IDFC and the Company is that of holding company and subsidiary.

The outstanding balance of the current loan accounts is disclosed in Note 18.

Outstanding balances with the holding company	2019 R'000	2018 R'000
Outstanding balance on savings and fixed deposits	**73 670**	77 559
Loan account with holding company	**13 291**	1 223

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 are analysed below:

Transactions with the holding company	2019 R'000	2018 R'000
Interest paid on customer deposits	**5 193**	5 040
Shared services	**11 340**	14 246
Rental paid	**5 068**	4 769
Recovery of operating expenses	**(511)**	(925)
Other costs	**8 300**	10 935
Total	**29 390**	34 065

30.2 KwaZulu-Natal Provincial Government

The EDTEA is the ultimate shareholder of the Company.

The Company received deposit funds from various entities within The EDTEA group of companies.

Related entities	2019 Deposits due R'000	2019 Interest expense R'000	2018 Deposits due R'000	2018 Interest expense R'000
KwaZulu-Natal Growth Fund Trust	**18 823**	**841**	10 000	1 231
Ezemvelo KZN Wildlife	**-**	**1 311**	30 000	686

30.3 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 26.

Loans granted to executive management and Directors of the holding company	Outstanding balance R'000	Net realised amount of security	Interest received R'000
2019	**3 969**	**4 614**	**347**
2018	5 170	5 896	480

Loans granted to executive management and Directors of the Company	Outstanding balance R'000	Net realised amount of security	Interest received R'000
2019	**4 780**	**5 808**	**406**
2018	4 868	6 842	430

Impairment and terms of business relating to related party loans

Loans to Executive and Non-Executive Directors 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 favorable to those entered into with third parties at arm's length, except for housing loans where all full time employees qualify for the prime overdraft rate less 1.75% and vehicle and asset finance where all full time employees qualify for the prime overdraft 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.

31. CONTINGENT LIABILITY

The Company is a defendant in the following matters or has provided guarantees which may result in possible loss to the Company:

	2019 R'000	2018 R'000
Mr. PR Bele	**325**	325
Mpikwana Co-operative	**900**	900
South African Insurance Association	**3 000**	3 000
Pinespring Properties	**664**	644
Ithunzi Protection Services	**50**	50
Gerald Shelembe	**-**	-
Emerging Search Consultants	**449**	-

31.1 Mr. PR Bele

Mr. PR Bele instituted a claim against the Company. The claim is for alleged damages resulting from incorrect investment advice given by a branch manager. The claim was quantified by the applicant at an amount of R0.3 million. The Company disputed and defended the claim, on the basis that no such advice was provided. The matter was closed at yearend and Ithala awaits the plaintiff to set the matter down for trial. At the end of the financial year, the probability of success was fair.

31.2 Mpikwana Co-operative

Mpikwana Corporative instituted a claim against the Company for monies attached from its bank account and returned to the KZN Department of Health, which according to the latter were fraudulently obtained. The Company defended the claim and joined the Department of Health which also instituted criminal charges against the members of the cooperative. The claim was quantified by the applicant to an amount of R0. 9million. At yearend, the plaintiff set the matter down for trial. Ever since, the client and the department have resolved the dispute and the plaintiff is expected to withdraw the action.

31.3 South African Insurance Association Guarantee

The Company issued a guarantee of R3 million (2018: R3 million) in favour of the South African Insurance Association.

31.4 Pinespring Properties

The plaintiff, a former landlord, is suing the Company for arrear rentals and damages for failure to put the premises in good order. The plaintiff served amended particulars of the claim and a list of its required admissions. Our counsel is attending to drafting an amended plea and a reply to the plaintiff's list of required admissions. At yearend, the matter was certified as ready for trial, and the Company is awaiting a trial date. At the end of the financial year, the probability of success was fair.

31.5 Ithunzi Protection Services

The plaintiff, a former service provider, is suing the Company for professional services rendered. The claim was quantified at an amount of R0.5 million. The matter is still under investigation and at yearend the outcome was still uncertain.

31.6 Gerald Shelembe

Mr. Shelembe referred the CCMA award confirming his dismissal to the Labour Court for review. The company filed the notice of intention to oppose the application. At yearend the applicant has not taken any steps to bring this application to finality.

31.7 Emerging Search Consultants (Pty) Ltd

The plaintiff, Emerging Search Consultants, alleges that it rendered recruitment services to the Company, and procured and introduced a prospective candidate(s) intended for employment by the Company, and also performed pre-employment screening investigations in respect of the prospective candidate(s). The plaintiff further alleges that it complied with its obligations under its service level agreement and that one of the candidates was employed as a result, and that the company is therefore liable to pay the plaintiff a sum of R0.4 million for services rendered. At yearend, the plaintiff responded to the Defendant's Notice of Exemption by providing a copy of the alleged agreement between the plaintiff and the company. The Company served and filed its plea with the plaintiff's attorneys. At the end of the financial year, the probability of success was fair.

32. FRUITLESS AND WASTEFUL EXPENDITURE, MATERIAL LOSSES AND IRREGULAR EXPENDITURE

32.1 Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred during the year (2018: Nil).

32.2 Material losses incurred

As disclosed in Note 10, loans and advances to the amount of R12.4 million (2018: R 24.8 million) were written-off during the financial year.

The Company suffered a loss of R2.3 million as a result of a branch robbery (2018: R1.0 million). Staff fraud amounted to nil in the current year (2018: R0.1 million).

32.3 Irregular expenditure

An amount of R17.2 million (2018: R6.5 million) which relates to irregular expenditure was incurred in the current financial year or identified in the current financial year that related to prior years, as a result of not complying with the Company's Supply Chain Management Policy. The table below reflects a summary of expenditure incurred and condoned by the Accounting Authority:

		2019 R'000	2018 R'000
Opening Balance		**6 454**	2 426
Add: Irregular expenditure – current year		**16 822**	5 480
Add: Prior year amounts identified in the current year		**352**	974
Less: Amount condoned		**-**	(2 426)
Irregular expenditure awaiting condonation		**23 628**	6 454
Analysis of expenditure awaiting condonation per age classification			
Current year		**16 822**	5 480
Prior years		**6 806**	974
Total		**23 628**	6 454
Details of irregular expenditure – Current year			
Incident	Disciplinary steps taken/ criminal proceedings		
Non-compliance with supply chain management policies	Employee dismissed	**-**	-
Non-compliance with supply chain management policies	Employee received a verbal warning	**-**	-
Non-compliance with supply chain management policies	The Board was notified of the irregularity of the transaction.	**-**	1 372
Non-compliance with supply chain management policies	No action could be taken against the responsible person as the officials are no longer in employ of the Company. The matter was under investigation in the prior year.	**-**	-
Non-compliance with supply chain management policies	No action could be taken as the officials are no longer in the employ of the Group.	**-**	39
Non-compliance with supply chain management policies	No action could be taken against the responsible person as the officials are no longer in employ of the Company.	**-**	60
Non-compliance with supply chain management policies	Matters under investigation.	**17 174**	4 983
Total		**17 174**	6 454
Incident	Condoned by (condoning authority)		
Non-compliance with supply chain management policies	Accounting Authority	**-**	2 426
Total		**-**	**2 426**

33. 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; and
- 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.

2019	Note	Financial assets and liabilities at amortised cost	Non-financial instruments	Total
		R'000	R'000	R'000
Cash and cash equivalents	7	592 604	-	592 604
Statutory investments	8	188 389	-	188 389
Investments and deposits with banks	9	306 664	-	306 664
Loans and advances to customers	10	1 789 794	-	1 789 794
Receivables	11	6 230	6 915	13 145
Customer deposits	16	(2 414 080)	-	(2 414 080)
Trade and other payables	17.1	(76 337)	(15 245)	(91 582)
Loan account with holding company	18	(13 291)	-	(13 291)

2018 (Restated)	Note	Financial assets and liabilities at amortised cost	Non-financial instruments	Total
		R'000	R'000	R'000
Cash and cash equivalents	7	679 123	-	679 123
Statutory investments	8	187 714	-	187 714
Investments and deposits with banks	9	310 391	-	310 391
Loans and advances to customers	10	1 629 510	-	1 629 510
Receivables	11	3 188	9 747	12 935
Customer deposits	16	(2 387 119)	-	(2 387 119)
Trade and other payables	17.1	(91 687)	(16 371)	(108 058)
Loan account with holding company	18	(1 223)	-	(1 223)

The values above are considered to approximate the fair values of the related financial instruments.

33.1 Credit risk

Credit risk is the risk of suffering 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 resulting in management carefully managing its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the CEO.

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.

Credit risk exposures relating to statement of financial position assets:	Note	2019 R'000	2018 R'000
Cash and cash equivalents	7	525 377	644 646
Statutory investments	8	188 389	187 714
Investments and deposits with banks	9	306 664	310 391
Loans and advances to customers	10	1 798 162	1 632 857
Receivables	11	13 145	12 935
Total assets subject to credit risk		2 831 737	2 788 543
Letters of undertaking issued		4 742	9 226

Maturity analysis of credit risk exposures

Residual contractual maturity analysis for credit risk exposures is as follows:

31 March 2019

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	7	450 978	74 399				525 377
Statutory investments	8	24 958	163 431	-	-	-	188 389
Investments and deposits with banks	9	34 751	132 966	37 768	101 179	-	306 664
Loans and advances to customers	10	56 073	50 702	51 200	373 233	1 266 954	1 798 162
Receivables	11		13 145				13 145
Total assets subject to credit risk		566 760	434 643	88 968	474 412	1 266 954	2 831 737
Letters of undertaking issued		4 742	-	-	-	-	4 742

31 March 2018 - Restated

Credit risk exposure relating to statement of financial position assets:	Note	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	7	449 616	195 030				644 646
Statutory investments	8	-	187 714	-	-	-	187 714
Investments and deposits with banks	9	-	108 110	126 651	75 630	-	310 391
Loans and advances to customers	10	66 356	50 840	49 137	340 586	1 125 938	1 632 857
Receivables	11		12 935				12 935
Total assets subject to credit risk		515 972	554 629	175 788	416 216	1 125 938	2 788 543
Letters of undertaking issued		9 226	-	-	-	-	9 226

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 grading
The Company uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties arising from loans and advances. The Company uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income and level of collateral for retail exposures) is fed into the rating model.

Bank and investment balances

The Company invests surplus funds with financial institutions that are rated in accordance with Fitch ratings (or equivalent ratings), with a minimum long-term rating of A, and also invests surplus funds in other SOCs. Surplus cash is invested in the following financial institutions: Investec Limited, Nedbank Limited, Standard Bank Limited, First National Bank, Absa Group Limited and the Bank of China Limited. Due to investments being held in institutions that are highly-rated, these instruments are neither past due, nor impaired.

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 PD, EAD and LGD. This is similar to 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; and
- 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

- Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to the information below for a description of inputs, assumptions and estimation techniques used in measuring the ECL; and
- 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:

The following diagram summarises the impairment requirements under IFRS 9:

Stage 1	Stage 2	Stage 3
(Initial recognition) 12-month expected credit loss	(Significant increase in credit risk since initial recognition) Lifetime expected credit loss	(Credit-impaired assets) Lifetime expected credit losses
4 501	**30 398**	**27 154**

The key judgements and assumptions adopted by the Company in the assessments of stage 2 and stage 3 are addressed below:

Significant Increase in Credit Risk

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Probability of default

PD was created for current credit scores and credit scores as at origination of respective contracts. Wherever the bands differed between the two points in time, an account was transferred to:

- The next worse stage in cases where the PD band for the current credit score is lower than the one as at origination; or
- The next better stage in cases where the PD band for the current credit score is higher than the one as at origination.

The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold per the table below:

Housing Loans

Lifetime PD band at initial recognition	Increase in lifetime PD at reporting date which is considered significant
<=545	3.12%
545-570	0.85%
570-605	1.05%
605-625	1.02%
625-650	0.47%
650-675	0.43%
675-699	

Micro Finance unsecured

Lifetime PD band at initial recognition	Increase in lifetime PD at reporting date which is considered significant
<=550	33.06%
550-590	20.49%
590-625	9.14%
625-999	3.20%

Micro Finance secured

Lifetime PD band at initial recognition	Increase in lifetime PD at reporting date which is considered significant
<=550	2.75%
550-570	1.96%
570-620	0.99%
620-999	0.55%

To illustrate the application of these thresholds, take for example a 24-year housing loan exposure which at initial recognition a year ago had a lifetime PD of 0.33% and was expected to have a residual lifetime PD of 87.69% a year later at the current reporting date. If at the current reporting date the lifetime PD is actually 87.69% and this exceeds the expected PD of 7.23% by more than the threshold shown above, then a significant increase in credit risk has occurred.

The assessment of SICR incorporates forward-looking information and is performed on a quarterly basis at a portfolio level for all retail financial instruments held by the Company.

Days past due

A backstop is applied and the financial instruments 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 did not use the low credit risk exemption for any financial instruments in the year that ended 31 March 2019. The following table shows the impact on the 31 March 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised:

Lifetime PD band at initial recognition	Actual threshold applied	Change in threshold	Lower threshold	Higher threshold
Housing Loans				
<=545	<=545	548	4 604	5 152
545-570	545-570	973	5 476	6 449
570-605	570-605	6 363	17 177	23 540
605-625	605-625	3 927	11 032	14 959
625-650	625-650	4 991	9 300	14 291
650-675	650-675	4 737	4 921	9 657
675-999	675-999	1441	1 679	3 119
Micro finance - unsecured loans				
<=550	<=550	47	669	716
550-590	550-590	(2)	1 383	1 381
590-625	590-625	7	536	543
625-999	625-999	-	393	393
Micro finance - secured loans				
<=600	<=600	1 458	3 016	4 474
600-699	600-699	2 617	1 348	3 965

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 was rebutted in the model, and all such exposures are automatically transferred into Stage 3 in the staging module of the model.

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); or
- Concessions have been made by the lender relating to the borrower's financial difficulty.

The criteria above were 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 was consistently applied 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 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); and
- 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.

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 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; and
- For unsecured products, LGDs are typically set at product level, due to the limited differentiation in recoveries achieved across different borrowers. These LGDs 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 performed a 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 the holding company's economist on a bi-annual basis, and provide the best estimate view of the economy over the next three years.

In addition to the base economic scenario, the holding company's economist also provides other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each reporting date. At 1 April 2018 and 31 March 2019, 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 on the credit score bands shifts, 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 I, 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 I), 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 likelihoods 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 analysed the non-linearities 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 2019 are set out below. The scenario "Base", "Optimistic" and "Downturn" were used for all portfolios.

		2019	2020	2021
Domestic GDP	Base	2.30	1.50	2.20
	Optimistic	2.36	1.50	2.20
	Downturn	2.24	1.40	1.90
Prime rate	Base	10.30	10.00	10.00
	Optimistic	10.24	10.00	10.00
	Downturn	10.37	10.00	10.00
Consumer Price Index	Base	4.80	4.80	4.90
	Optimistic	4.77	4.80	4.90
	Downturn	4.82	5.20	5.50

The weightings assigned to each economic scenario at 31 March 2019 were as follows:

	Base	Optimistic	Downturn
All portfolios	75%	10%	15%

The most significant period-end assumptions used for the ECL estimate as at 31 March 2019 are set out below. The scenario "Base", "Optimistic" and "Downturn" were used for all portfolios.

		2019	2020	2021
Interest rates	Base	10.30	10.00	10.00
	Optimistic	10.24	10.00	10.00
	Downturn	10.37	10.00	10.00

The weightings assigned to each economic scenario at 31 March 2019 were as follows:

	Base	Optimistic	Downturn
All portfolios	75%	10%	15%

Scenario Sensitivity

The most significant assumptions affecting the ECL allowance are as follows:

(i) Domestic GDP;
(ii) Prime rate; and
(iii) CPI.

Set out below are the changes to the ECL as at 31 March 2019 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).

		CPI R'000	Prime R'000	GDP R'000
Domestic Prime	[-0.50%]	60 766	59 617	61 911
	No change	62 053	62 053	62 053
	[+0.50%]	62 312	63 539	61 156

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 Company to be statistically credible. Where sufficient information is not available internally, the company 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; and
- Arrears status.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Maximum exposure to credit - financial instruments subject to impairment

The Company's policies regarding obtaining collateral have not changed significantly 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	Gross exposure R'000	Impairment allowance R'000	Carrying amount R'000	Fair value of collateral held R'000
Housing loans	1 516 826	50 127	1 466 699	2 667 473
Micro finance - secured loans	240 312	4 363	235 949	350 632
Total credit-impaired assets	1 757 138	54 490	1 702 648	3 018 105

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 bonds
Home improvement loans	Pledge of pension and provident fund assets
Micro finance – secured loans	Cession of term deposits
Vehicle and taxi finance	Cession of movable assets
Commercial loans and property development loans	Mortgage bonds, cession of income, suretyships and where appropriate, key man insurance policies

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 three 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 follows due legal processes to attach and perfect the security. The properties are first put on auction by the sheriff of the court and when it fails to receive an offer equal to or greater than the reserve price at the auction, the properties are 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 that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- Ceasing enforcement activity; and
- 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 full recovery.

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 that ended 31 March 2019, was R12.4 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

Concentration of credit risk	2019 R'000	2018 R'000
Loans granted within the boundaries of KwaZulu-Natal	**1 788 146**	1 632 857
Loans granted outside the boundaries of KwaZulu-Natal	**10 016**	-
Total	**1 798 162**	1 632 857

Credit Risk – IAS 39 (2018)

Credit portfolio analysis

The credit quality of the Company's advances is presented in the table below:

As at 31 March 2018 Category of assets	Assets that are neither past due nor impaired R'000	Assets that are past due but not yet impaired R'000	Assets that are impaired R'000	Total R'000
Housing loans	1 387 909	74 376	88 479	1 550 764
Cash loans	26 884	-	37	26 921
Commercial property loans	135	-	-	135
Micro finance – unsecured loans	2 248	46	5 258	7 552
Vehicles and taxis	41 733	2 191	3 562	47 486
Receivables	12 935	-		12 935
Total	1 471 844	76 613	97 336	1 645 793

IAS 39 Financial instruments: recognition and measurement

The Company regularly undertakes a back-testing exercise to analyse customer behaviour during a specified period. This information is then collated and used to project the future performance of loans and advances.

The time period selected is based on the following factors:

- The consistency of the base period in relation to the current financial period; and
- Consideration of the prevailing economic conditions.

The data used in the credit impairment model draws from the following factors, determined through backtesting:

- Default rates;
- Ratio of accounts that remained non–performing over the backtesting period;
- Cash flows; and
- Time to realise security.

For the purposes of determining the credit impairment, the security value is reduced by the estimated selling costs and in the event that the net realisable security value is lower than the carrying amount, a further credit impairment based on the difference is raised.

The credit impairment for non-performing loans is determined based on the present value of projected cash flows and net realisable security.

Credit risk measurement

The following tables reflect the total gross and average loans and advances exposed to credit risk.

Total gross exposures

Major types of credit exposures: total gross exposure	Amount outstanding	Impairment	Net carrying amount
	2018	2018	2018
	R'000	R'000	R'000
Commercial loans	135	1	134
Housing loans > R500k	677 966	27 990	649 976
Sub-total	**678 101**	**27 991**	**650 110**
Other loans	954 756	50 199	904 557
Total	**1 632 857**	**78 190**	**1 554 667**

Average gross exposures

Major types of credit exposures: average gross exposure	Amount outstanding	Impairment	Net carrying amount
	2018	2018	2018
	R'000	R'000	R'000
Commercial loans	67	1	66
Housing loans > R500k	731	30	701
Sub-total	798	31	767
Other loans	226	10	216
Total	1 024	41	983

The average amount of gross exposure is determined as the yearend balance over the number of loan exposures outstanding as at the end of the reporting period.

Credit risk concentration - IAS 39

Credit risk concentration occurs when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market conditions.

The company operates solely in the province of KwaZulu-Natal and lends mainly to individuals in the housing mortgage sector. The company set a limit of 10% of the qualifying capital and reserves as the maximum exposure to an individual client or group of related clients. This limit is closely monitored by the RCMC.

The majority of the housing loan customers are employees of KZN Provincial Government.

Funds are placed with banks meeting the criteria set by the RCMC.

Sectoral analysis of loans and advances

Sectoral analysis	2018 R'000	2018 %
Real estate	135	-
Construction	-	-
Retail-mortgage	1 384 072	85
Retail-other	248 650	15
Total	**1 632 857**	**100**

As at 31 March 2018					
Category of assets	Assets that are neither past due nor impaired	Assets that are past due but not yet impaired	Financial assets that are impaired	Total	Credit impairments
	R'000	R'000	R'000	R'000	R'000
Real estate	135	-	-	135	1
Construction	-	-	-	-	-
Retail-mortgage	1 237 957	68 515	77 601	1 384 072	55 005
Retail-other	220 818	8 098	19 735	248 650	23 184
Total	1 458 909	76 613	97 336	1 632 857	78 190

Credit impairment reconciliation

	31 March 2017	Impaired accounts written off	Net impairments raised/ (released)	31 March 2018
Category of assets	R'000	R'000	R'000	R'000
Real estate	11	-	(10)	1
Construction	-	-	-	-
Retail-mortgage	56 358	(8 649)	7 296	55 005
Retail-other	33 389	(16 112)	5 907	23 184
Total	89 758	(24 761)	13 193	78 190

33.2 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 established an appropriate liquidity risk management framework. The ALCO is specifically mandated to ensure appropriate liquid asset and cash reserves in relation to short term funding and stress events are available. The 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 2019						
	Note	On demand R'000	Up to 1 month R'000	1–6 months R'000	6-12 months R'000	More than 1 year R'000	Total R'000
Deposits from customers	16	1 022 525	208 542	754 663	383 213	45 137	2 414 080
Trade creditors and other payables	17.1	47 048	25 021	4 268	-	-	76 337
Loan account with holding company	18	13 291	-	-		-	13 291
Total		1 082 864	233 563	758 931	383 213	45 137	2 503 708
% of weighting		43%	10%	30%	15%	2%	100%

	Contractual maturity analysis of financial liabilities as at 31 March 2018						
	Note	On demand R'000	Up to 1 month R'000	1–6 months R'000	6-12 months R'000	More than 1 year R'000	Total R'000
Deposits from customers	16	1 131 455	123 928	717 057	373 753	40 926	2 387 119
Trade creditors and other payables	17.1	73 229	14 802	3 656	-	-	91 687
Loan account with holding company	18	1 223	-	-	-	-	1 223
Total		1 205 907	138 730	720 713	373 753	40 926	2 480 029
% of weighting		48%	6%	29%	15%	2%	100%

The maturity analysis is based on the contractual amounts payable (including interest) over the remaining periods to contractual maturity from yearend.

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 R290.7 million (2018 – R288.3 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the company's 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 the prudential requirements, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

33.3 Market risk

33.3.1 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 2% (2018: 2%) 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.

The sensitivity analysis below is 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:

	2019 R'000	2018 R'000
Increase:		
Impact of increase in yield on assets on comprehensive income	**52 643**	50 745
Increased net interest income percentage	**(31%)**	(30%)
Impact of increase in cost of funds on comprehensive income	**(43 622)**	(42 799)
Decreased net interest income percentage	**26%**	26%
Decrease:		
Impact of decrease in yield on assets on comprehensive income	**(52 643)**	(50 745)
Decreased net interest income percentage	**31%**	30%
Impact of decrease in cost of funds on comprehensive income	**34 517**	33 725
Increased net interest income percentage	**(20%)**	(20%)

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

34. CREDIT IMPAIRMENT CHARGES/REVERSALS

	2019 R'000	2018 R'000
Net expected credit loss/credit impairments raised and released for loans and advances to customers (Note 10)	17 678	13 193
Net expected credit loss/credit impairments raised and released for receivables	-	-
Net expected credit loss raised and released for statutory investments	-	-
Net expected credit loss raised and released for investments and deposits with banks	-	-
Recoveries on loans and advances previously written off	1 265	2 000
Recoveries on financial investments previously written off	-	-

35. LOAN COMMITMENTS

At 31 March 2019, the company had loan commitments amounting to R4 741 999 (2018: R9 226 000). The loss allowance was estimated using the same impairment modelling methodology as that of loans and advances (refer to Risk Management Note 33). Based on actual credit loss experience from previous years and the quantum of the loan commitments, management concluded that that the loss allowance on loan commitments is immaterial and as such no loss allowances were recognised.

36. SUBSEQUENT EVENTS

No events have occurred between the balance sheet date and the date of this report that materially affect the reported results and financial position of the company.

The Financial Matters Amendment Act, 2019 promulgated on 23 May 2019 amended Section 12 of the Banks Act, 1990, whereby only a nationally state-owned company may apply to establish a bank.

Subsequent changes to the composition of the Board of Directors include the following:

Director Name		Effective Date
M Ngcobo	Resignation	23 June 2019
B Ngonyama	Resignation	26 July 2019
M Mia	Retirement	26 July 2019
L Meyer	Appointment	1 August 2019
S Mnguni	Appointment	4 October 2019
P Radebe	Resignation	31 October 2019
MF Kekana	Resignation	Pending appointment of new Board Chairperson

37. CHANGE IN ESTIMATES

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:

	2019 R'000	2018 R'000
Decrease in depreciation	1 875	1 435
Increase in net book value of fixed assets	1 875	1 435

38. TAXATION

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.

UNAUDITED SCHEDULE

CAPITAL MANAGEMENT

Capital requirements

Tier I and Tier II capital comprise 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 instill market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 17.58% (2018: 15.24%). This level is above the minimum capital adequacy ratio stipulated by the SARB. The capital adequacy ratio is also above the MoA requirement of 15%.

Capital planning is an integral part of capital management. The RCMC was 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	
	2019	2018	2019	2018
Capital adequacy ratio	**≥15.000%**	≥11.625%	**17.67%**	15.24%
Primary share capital and reserve funds adequacy ratio	**≥9.625%**	≥7.625%	**19.87%**	14.41%
Total risk-weighted assets (R'000)			**1 674 528**	1 625 454

Risk-weighted assets

	2019 R'000	2018 R'000
Credit risk-weighted assets	**1 070 171**	1 065 450
Other risk-weighted assets	**71 283**	61 194
Operational risk	**533 074**	498 810
Total	**1 674 528**	1 625 454

Capital structure

	Note	2019 R'000	2018 R'000
Share capital	21	**190**	190
Share premium	21	**509 498**	434 710
Reserves		**(194 882)**	(187 427)
Prescribed deductions against capital and reserve funds		**(13 016)**	(13 692)
Total tier I capital		**301 790**	233 781
General provisions		**13 377**	13 318
Total tier II capital		**13 377**	13 318
Total qualifying capital		**315 167**	247 099

Ithala SOC Limited is an Authorised Financial Services and Credit Provider
FSP License No. 17139 NCRCP No. 1559 Reg No. 2001/007/427/30
Ithala SOC Limited is a wholly-owned subsidiary of Ithala Development Finance Corporation Limited

WWW.MYITHALA.CO.ZA

PO Box 2588
Durban, 4000, South Africa
Tel: (031) 366 2500, Fax: (031) 366 2645