SOC LIMITED

2021

ANNUAL FINANCIAL STATEMENTS


VISA
ELECTRON
4000 1234 5678 9010
CARDHOLDER NAME

FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

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

- The statement of financial position as at 31 March 2021;
- The statement of profit or loss and other 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 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 Audit and Compliance Committee (ACC), appraises, and when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The ACC, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

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

The company consistently adopts appropriate and recognised accounting policies which are supported by reasonable judgements and estimates, and provides additional disclosures when compliance with the specific requirements in accordance with the International Financial Reporting Standards (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 conducted an assessment of the company's ability to continue as a going concern and included appropriate disclosure in the Directors' Report. The basis of accounting was adopted by the Board after enquiring from management and giving due consideration to information presented to the Board, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto. Accordingly, the Directors have no reason to believe that the company will not be able to continue as a going concern in the year ahead.

The Auditor General of South Africa (AG-SA), appointed as independent auditors in terms of the Public Audit Act, Act No. 25 of 2004 and the PFMA, audited the company's AFS. Their audit report is presented on pages 6 to 10.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The AFS of Ithala were approved by the Board on 06 August 2021 and are signed on their behalf by:

Mr Mpumzi Pupuma
Lead Independent Director

Dr Thulani Vilakazi
Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Assistant Company Secretary of Ithala, that for the year that ended 31 March 2021, 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.

Nonhlanhla Dlamini
Assistant 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

I have audited the financial statements of Ithala SOC Limited set out on pages 38 to 89, which comprise the statement of financial position as at 31 March 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended as well as the notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ithala SOC Limited as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for opinion

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.

I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

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

As disclosed in Note 1.2 of the financial statements, the entity incurred a net loss of R31,6 million (2020: R75,4 million) for the year ended 31 March 2021. COVID-19 also impacted negatively on the entity's current and future financial performance and cash flows. A detailed plan has been developed by management and is being implemented to address financial performance and cash flow challenges. These events and conditions, along with other matters as set forth in Note 1.2, indicate that material uncertainties exist which may cast significant doubt on the entity's ability to continue as a going concern. The South African Reserve Bank extended the banking licence exemption to 31 December 2021 subject to the company, together with its stakeholders, fulfilling conditions set out in the exemption notice.

Emphasis of matters

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

Events after the reporting period

I draw attention to Note 33 in the financial statements, which deals with subsequent events and specifically the effects of the riots that occurred in the KwaZulu-Natal Province and its impact on the business. An assessment is currently being performed of the financial impact. My opinion is not modified in respect of this matter.

Material losses and impairments

As disclosed in Note 6 to the financial statements, a material loss of R9,42 million (2020: R5,51 million) was incurred as a result of the write-off of irrecoverable loans and advances.

As disclosed in Note 25 to the financial statements, an impairment loss of R8,70 million (2020: Rnil) was incurred as a result of an impairment to intangible assets relating to development costs on the enterprise banking system.

Responsibilities of the accounting authority for the financial statements

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

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

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

My objectives are to obtain reasonable assurance about whether 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.

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

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 on the usefulness and reliability of the reported performance information against predetermined objectives for the selected programme presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

My procedures address the usefulness and reliability of 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 do not examine whether the actions taken by the entity enabled service delivery. My procedures also do 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.

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 programme 1: financial and shareholder perspective, presented on pages 78 to 80 of the annual performance report of the entity for the year ended 31 March 2021.

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.

I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programme.

Other matters

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

Achievement of planned targets

Refer to the annual performance report on page(s) 78 to 80 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

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

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

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

The material finding on compliance with specific matters in key legislation is as follows:

Annual financial statements

The annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(a) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements on the disclosure of going concern, liquidity risk disclosure and interest paid on the cash flow statement identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

OTHER INFORMATION

The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the 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 the selected programme presented in the annual performance report that has been specifically reported on in the auditor's report.

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

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 programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

INTERNAL CONTROL DEFICIENCIES

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 control deficiencies that resulted in the findings on compliance with legislation included in this report.

Management did not take effective steps to ensure that the amounts included and disclosed on the annual financial statements complied with the requirements of the IFRS financial reporting framework.

OTHER REPORTS

I draw attention to the following engagements conducted by various parties which 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.

Investigation

The entity engaged the services of a forensic specialist at the request of the South African Reserve Bank to conduct an investigation into alleged irregularities in the prior year on the procurement of the online banking solution as well as the lending and governance processes. The outcome of the investigation is complete and had been provided to the accounting authority at the date of this report. The report includes various irregularities into procurement of the online banking solution which requires assessment by the entity. The entity has disclosed the related expenditure as alleged irregular expenditure under assessment in the annual financial statements.

Audit related services

Agreed upon procedure reports were issued to the SARB relating to returns issued and additional scope procedures requested in terms of the Banks Act of South Africa, 1990 (Act No.94 of 1990).

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).

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).

Auditor-General

Pietermaritzburg
5 August 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

Financial statements

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.

Conclude on the appropriateness of 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 relating to events or conditions that may cast significant doubt on the ability of Ithala SOC Limited to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the entity to cease operating as a going concern.

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

Communication with those charged with governance

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

I also 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, actions taken to eliminate threats or safeguards applied.

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee (ACC) presents its report for the financial year that ended 31 March 2021 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [in terms of section 51(1)(a)(ii) and 76(4)(d) of the PFMA, section 94(7)(f) of the Companies Act, the Banks Act, and the Code of Corporate Practices and Conduct set out in the King IV Report on Corporate Governance.]

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

PURPOSE OF THE ACC

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

TERMS OF REFERENCE

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

MEMBERSHIP AND ATTENDANCE

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

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

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

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

STATUTORY DUTIES

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

- Believes that the appointment of the AG-SA as auditor complies with the relevant provisions of the Companies Act and the PFMA;
- Reviewed and approved the fees to be paid to the AG-SA as disclosed in Note 26 of the AFS;
- Reviewed and approved the terms of engagement of the AG-SA;
- Reviewed the quality of financial information;
- Reviewed the integrated AR and AFS;
- Received no complaints relating to:
  - The accounting practices and internal audit of the company;
  - The content or auditing of its financial statements;
  - The internal financial controls of the company; and
  - Any other related matters.
- Made a submission to the Board on matters concerning the company's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

AUDIT AND COMPLIANCE COMMITTEE REPORT

OVERSIGHT OF RISK MANAGEMENT

The ACC:

- Received assurance that the processes and procedures followed by the Risk and Capital Management Committee (RCMC) are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas were appropriately addressed:
  - 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 applied by, and assurances obtained from, the combined assurance providers, the Committee believes that significant internal financial controls are effective. However, control weaknesses have been identified within the IT environment, Supply Chain Management and BA reporting functions; and management is in the process of implementing action plans to improve and enhance controls in these areas.

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 14 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.

AUDIT AND COMPLIANCE COMMITTEE REPORT

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

The position of Chief Financial Officer is currently vacant. 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 caretaking the role.

The Committee believes the filling of the CFO and Treasury Manager positions will enhance the required expertise and skills 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 go to the Board for approval.

On behalf of the ACC:

Mrs Given Sibiya
Chairperson

DIRECTORS' REPORT

The Directors of Ithala take pleasure in presenting their report for the year that ended 31 March 2021.

INTRODUCTION

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

TAXATION

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

CHANGES IN DIRECTORS

A full list of Directors is included in the Corporate Governance Report. The following changes to the Board were made during the period under review.

Appointments:

- Mr SL Shabalala (appointed 1 January 2021)
- Mr NS Simelane (appointed 1 January 2021)
- Mr MM Pupuma (appointed 1 August 2020)
- Ms ZP Khanyile (appointed 1 August 2020)

Resignations:

- Ms ZP Khanyile (resigned 31 October 2020)

The Board would like express its appreciation to the outgoing director for their dedicated service.

GOING CONCERN

The Company posted a net loss for the year ended 31 March 2021 of R31,6 million (2020 net loss: R75,4 million) which includes the release of R36,0 million in respect of credit impairments previously raised. As at 31 March 2021 the Company's total assets exceeded total liabilities by R356,5 million (31 March 2020: R329,2 million) and total surplus funds were R848 million (31 March 2020: R1,067 million). As at statement of financial position date, the capital adequacy ratio of the Company was 17,4% (2020: 17,7%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15%.

The Company has prepared a detailed strategy to achieve the goal of operating under a banking license with sustainable financial performance and strong management capability to manage and grow the bank. A strategic tilt has been applied to the corporate strategy with a Repair-Rebuild-Remodel focus that will be applied from 2020 to 2025, thereby accelerating operating efficiency improvements. The strategy provides an operating performance turnaround to achieve profitability and the re-capitalisation required for successful implementation thereof. The plan outlines an operating model, IT and infrastructure investment, capital funding requirements, and the reduction of external consultant and outsourcing dependencies. In the context of achieving financial sustainability, a net loss of R30,0 million is projected for the 2022 financial year followed by a projected net loss of R18,8 million in 2023 before a net profit of R7,7 million is achieved in 2024.

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 Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

DIRECTORS' REPORT

The banking license exemption that Ithala operates under expires on 31 December 2021. Engagements with the SARB suggest that the Regulator is favourably pre-disposed to supporting Ithala's banking license application in light of progressive improvements in line with its exemption notice conditions, notwithstanding the economic performance challenges arising because of the COVID-19 pandemic and the severe operational disruptions endured during 2020. Based on previous exemption notice extensions issued to the Company following expiry thereof, Ithala is confident that an extension will be granted to provide the entity with the opportunity to meet the exemption notice regulatory conditions.

FINANCIAL RESULTS

The results of Ithala for the year that ended 31 March 2021 are disclosed in the AFS, as set out on pages 38 to 89.

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 28 to 29. Information relating to the Company Secretary is included on page 29 of the integrated annual report. The Directors' interest in contracts, and Directors' remuneration are disclosed in the notes to the AFS.

MATERIAL EVENTS AFTER REPORTING PERIOD

Material events after the reporting date have been disclosed under Note 33 of the AFS.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Note(s)	2021 R '000	2020 *Restated R '000
ASSETS			
Cash and cash equivalents	3	536,972	784,261
Statutory investments and reserves	4	244,990	183,565
Investments and deposits with banks	5	292,367	254,243
Inventory	23	2,734	1,114
Receivables	22	13,965	11,617
Loans and advances to customers	6	1,951,729	1,772,114
Properties in possession	7	570	2,454
Tangible assets and right-of-use assets	24	70,569	52,161
Intangible assets	25	3,780	12,383
Total Assets		**3,117,676**	**3,073,912**
LIABILITIES			
Trade and other payables	26	136,754	110,720
Provisions	27	450	450
Loan account with holding company	30	2,901	13,110
Customer deposits	8	2,578,551	2,574,363
Long service obligation	9	5,096	12,914
Retirement benefit obligation	9	37,378	33,163
Total Liabilities		**2,761,130**	**2,744,720**
EQUITY			
Share capital	28	190	190
Share premium	28	658,258	599,258
Actuarial reserve		14,564	15,579
Accumulated loss		(316,466)	(285,835)
Total Equity		**356,546**	**329,192**
Total Equity and Liabilities		**3,117,676**	**3,073,912**

* Refer to Note 36.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2021 R '000	2020 R '000
Interest income	10	200,403	278,990
Interest expenditure	11	(70,287)	(94,544)
Net interest income		**130,116**	**184,446**
Non-interest revenue	12	156,761	151,154
Credit impairments reversed / (raised)	21	36,015	(80,743)
Other income	13	12,186	10,232
Operating income		**335,078**	**265,089**
Interest expense on non-trading activities	11	(10,308)	(9,687)
Operating expenses	14	(355,401)	(339,672)
Loss for the year		**(30,631)**	**(84,270)**
Other comprehensive income:			
Items that may not be reclassified to profit or loss:			
Actuarial gains / (losses)	9	(1,015)	8,888
Total comprehensive loss for the year		**(31,646)**	**(75,382)**
Attributable to:			
Equity holders of the Company		(31,646)	(75,382)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Total share capital	Actuarial reserve	Accumulated loss	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
Balance at April 1, 2019	**190**	**509,498**	**509,688**	**6,691**	**(201,565)**	**314,814**
Loss for the year	-	-	-	-	(84,270)	(84,270)
Other comprehensive income	-	-	-	8,888	-	8,888
Issue of shares	-	89,760	89,760	-	-	89,760
Balance at April 1, 2020	**190**	**599,258**	**599,448**	**15,579**	**(285,835)**	**329,192**
Loss for the year	-	-	-	-	(30,631)	(30,631)
Other comprehensive income	-	-	-	(1,015)	-	(1,015)
Total comprehensive loss for the year	**-**	**-**	**-**	**(1,015)**	**(30,631)**	**(31,646)**
Issue of shares	-	59,000	59,000	-	-	59,000
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**59,000**	**59,000**	**-**	**-**	**59,000**
Balance at March 31, 2021	**190**	**658,258**	**658,448**	**14,564**	**(316,466)**	**356,546**
Note(s)	28	28	28			

STATEMENT OF CASH FLOWS

	Note(s)	2021 R '000	2020 R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(30,631)	(84,270)
ADJUSTMENTS FOR:			
Non-cash items included in loss for the year	15	(1,233)	107,953
Increase in operating liabilities	16	(7,525)	159,259
Decrease in operating assets	16	(155,116)	(87,335)
Cash / (used in) generated from operating activities		**(194,505)**	**95,607**
INVESTING ACTIVITIES			
Acquisition and additions of tangible assets	24	(5,419)	(3,908)
Proceeds from sale of tangible assets	24	-	4
Acquisition and additions of intangible assets	25	(1,283)	(3,201)
(Increase) / Decrease in investments and deposits with banks		(27,789)	23,490
(Increase) / Decrease in statutory investments and reserves		(61,502)	4,824
Net cash (utilised) / generated by investing activities		**(95,993)**	**21,209**
FINANCING ACTIVITIES			
Proceeds from shares issued	28	59,000	89,760
Payment of capital portion of lease liability	29	(15,790)	(14,919)
Net cash generated by financing activities		**43,210**	**74,841**
Net movement in cash for the year		**(247,288)**	**191,657**
Cash and cash equivalents at the beginning of the year		784,261	592,604
Cash and cash equivalents at end of year		**536,973**	**784,261**
Additional information on the operational cash flows from interest			
Interest received		200,403	278,990
Interest paid**		(74,976)	(98,572)

**The prior years interest paid has been restated to include the interest paid on leases in terms of IFRS 16.

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 the Ithala Development Finance Corporation Limited, a finance development agency which is in turn wholly-owned by the KwaZulu-Natal Provincial Government.

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

The financial statements for the year ended 31 March, 2021 were authorised for issue in accordance with a resolution of the Directors on 6 August 2021.

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

1.1 BASIS OF PREPARATION

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

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

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

Functional and Presentation Currency

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

1.2 FINANCIAL SUSTAINABILITY

The Company posted a net loss for the year ended 31 March 2021 of R31,6 million (2020 net loss: R75,4 million) which includes the release of R36,0 million in respect of credit impairments previously raised. As at 31 March 2021 the Company's total assets exceeded total liabilities by R356,5 million (31 March 2020: R329,2 million) and total surplus funds were R848 million (31 March 2020: R1,067 million) . As at statement of financial position date the capital adequacy ratio of the Company was 17,4% (2020: 17,7%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15%.

Turnaround Strategy

A detailed strategy has been prepared to achieve the goal of operating under a banking license with sustainable financial performance and strong management capability to manage and grow the bank. A strategic tilt has been applied to the corporate strategy with a Repair-Rebuild-Remodel focus that will be applied from 2020 to 2025, thereby accelerating operating efficiency improvements. The strategy provides an operating performance turnaround to achieve profitability and the re-capitalisation required for successful implementation thereof. The plan outlines an operating model, IT and infrastructure investment, capital funding requirements, and the reduction of external consultant and outsourcing dependencies. In the context of achieving financial sustainability, a Net Loss of R30,0 million is projected for the 2022 financial year followed by a projected Net Loss of R18,8 million in 2023 before a Net Profit of R7,7 million is achieved in 2024.

COVID-19

The devastating impact of the COVID-19 pandemic on personal finances has wrought a heavy blow to the Company's net interest income and overall operating margins. Nonetheless, while the 2021 year-end results are reflective of a very challenging operating environment, the Company and its clients have demonstrated strong resilience evidenced by the year-on-year stability of the customer deposit book. In addition, the Company's liquidity and capital positions are currently within predetermined thresholds while the client loans and advances book has increased by 10% from R1,77 billion to R1,95 billion as at 31 March 2021.

Liquidity and Standby Lines of Credit

Cash, deposits with bank and statutory liquid investments amount to R1,074 billion as at 31 March 2021 compared to R1,222 billion at 31 March 2020. On a monthly basis the Company is obliged to hold an average amount of statutory investments which are not available for use in operating activities that shall not be less than 7,5% of its liabilities to the public. Ithala SOC holds a further 20% buffer to ensure minimum thresholds are not breached. At 31 March 2021, the Company held R245,0 million (2020: R183,6 million) in liquid assets which exceeded the total statutory minimum target. 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 BA300. Thus, overall, the Company has adequate liquid resources to continue operations and to pay creditors as they become due.

Regulatory Compliance

The Financial Sector Conduct Authority (FSCA) issues a notice to suspend operations following non-compliance issues raised. The Company has responded to the letter, the response thereto from FSCA is currently pending.

Banking License Exemption Notice

The Financial Matters Amendment Act 2019 was assented to by the President and gazetted on 23 May 2019, and provides for National State-Owned companies to be eligible to apply for authorisation to establish a bank and thus provincial entities which are listed in schedule 3C and 3D of the PFMA are not eligible for such authorisation, hence Ithala is operating under a banking license exemption expiring in December 2021. Further to the Banking License Exemption Notice deadline of 30 June 2021, an extension application has been submitted to the Prudential Authority. Prior to 30 June 2021, a substantive supplementary note will be submitted to the Prudential Authority demonstrating progress made in respect of the Exemption Notice conditions not met (financial profitability and key executive positions) as well as the supervisory concerns including formation of committees, the shareholding structure and IT issues.

Banking License Exemption Notice Conditions

The terms of the amended Gazette on the new exemption notice requires that the Company maintain various performance standards in respect of its prudential requirements, profitability and financial sustainability, and corporate governance matters. As at 31 March 2021 the Company has met and exceeded the prudential requirement relative to the capital adequacy ratio, liquidity ratio, leverage ratio, and the impaired loans and advances as a percentage of total loans and advances ratio. Nonetheless, the Company did not meet three key conditions relating to financial performance: i.e. to remain profitable at all times (R31,6 million loss reported for the financial year), operating within a 78% cost-to -income ratio threshold (121,8% cost-to-income ratio reported for the financial year) and maintaining a positive JAWS ratio (negative 18,7% ratio reported for the financial year). Notwithstanding having not upheld the minimum required financial performance criteria, the Company reported a year-on-year improvement reduction of Net Losses of 58% whilst achieving a positive JAWS ratio consecutively for the last three months of the financial year. As at 31 March 2021, various key management positions prescribed as conditional criteria remain vacant including the Chief Financial Officer, Treasurer, and Chief Operating Officer.

Banking License Exemption Notice Extension

Engagements with the SARB suggest that the Regulator is favourably pre-disposed to supporting Ithala's banking license application in light of progressive improvements in line with its exemption notice conditions, notwithstanding the economic performance challenges arising as a result of the COVID-19 pandemic and the severe operational disruptions endured during 2020. Management is relatively confident, based on previous exemption notice extensions having been issued to the Company following expiry thereof, that the SARB will grant an extension to provide the entity with the opportunity to meet the exemption notice regulatory conditions.

Going Concern Conclusion

Despite posting a net loss of R31,6 million, the Company has budgeted to reduce operating losses progressively over the next three years to report a net profit in 2024 following the implementation of its strategic recovery program. While the current operating performance has resulted in negative operating cash flow results, liquidity ratios continue to remain well within prudential requirements and are budgeted to return to a positive inflow from 2022 onwards. These operating improvements are strengthened by EDTEA's capital funding commitments and support for the establishment of new shareholding structures to avail further capital funding opportunities. Consequently, 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, it is expected that all obligations will be settled in the normal course of business, and accordingly the going concern basis of accounting has been adopted in the preparation of the Annual Financial Statements for the foreseeable future.

1.3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The Company makes estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

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

Going Concern

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

Measurement of the expected credit loss allowance – IFRS 9

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 20, which also sets out key sensitivities of the ECL and to changes in these elements.

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

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

Measurement of post-retirement obligations and long service awards

The cost of the defined benefit pension plan and long service awards are determined using an actuarial valuation. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer to Note 9 for the assumptions used.

Measurement of leased asset and leased liability - IFRS 16 (Note 29)

Extension and termination options

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

1.4 TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

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

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

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
- Motor vehicles: 4 years
- Leased asset: 1-10 years

Retirement and disposals of tangible assets

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

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

1.5 INTANGIBLE ASSETS

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

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

Computer software and licences

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

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

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

Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the company and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as work-in-progress up to the date of project completion 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 shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

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

Impairment of tangible, intangible and right of use assets

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

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

A reversal of an impairment loss of assets carried at cost or cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. The increased carrying amount of an asset or CGU 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.

1.6 FINANCIAL INSTRUMENTS

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

Initial recognition and measurement

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the financial instrument except for loans and advances which is recognised when the funds are transferred. All financial instruments are measured initially at fair value 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

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

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

Fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVOCI)

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

Business Model

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

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

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

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 fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate any equity investments as 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 not subsequently 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 where those cash flows represented SPPI and that are not designated at FVTPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured in terms of the Company's expected credit loss policy. A gain or loss from a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income in profit or loss using the effective interest rate method.

Effective interest rate method

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

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

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

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 borrowers' financial difficulty, granting the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over indebted; and
- Observable data 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.

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 happens, the Company assesses whether the new terms are substantially different to the original term.

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, 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 will write-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

(i) Ceasing enforcement activity; and
(ii) Where the company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Loan commitments

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities

Classification and measurement

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

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

Receivables

Classification

Other receivables are deferred assets which arise as a result of the Company having paid an amount in advance, for which the benefit of the corresponding goods and/or services will only be received within the course of the next 12 months from reporting date.

Trade and other payables

Classification

Trade and other payables (Note 26), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

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

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in interest expenditure (Note 11).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to Note 20 for details of risk exposure and management thereof.

Cash and cash equivalents

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

1.7 TAX

Taxation

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

1.8 LEASES

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

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

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

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

1.9 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.

1.10 SHARE CAPITAL

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

1.11 EMPLOYEE BENEFITS

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Post-retirement medical aid benefits

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

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

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

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

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

Pension fund and provident fund

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

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

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

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

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

Long service award

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

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

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

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

Termination benefits

If the termination benefits include post-employment benefits, these shall be accounted for as detailed above under 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.

1.12 PROVISIONS AND CONTINGENCIES

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provision is measured as the best estimate of the expenditure expected to be required to settle the obligation at the end of the reporting period.

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

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

1.13 GOVERNMENT GRANTS

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

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

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

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

1.14 INTEREST INCOME

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

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

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.

1.15 INTEREST EXPENSE

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

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

1.16 NON-INTEREST REVENUE

Fee and commission income

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

Other Income

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

1.17 PROPERTIES IN POSSESSION

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

The Company's properties in possession includes properties registered and available for sale and properties sold for which transfer to a purchaser is in progress. Properties in possession are classified as other assets upon foreclosure of the loan and they have met the reclassification criteria.

The properties are initially recognised at cost. 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.

2. NEW STANDARDS AND INTERPRETATIONS

The following standards and interpretations, have been published, however are not yet effective. These standards will be assessed and adopted by the company where applicable, beginning on or after 01 April 2021 or later periods:

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective 01 January 2023): The amendments aim to help companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective 01 January 2022): The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Improvements to International Financial Reporting Standards – IFRS 9 Financial Instruments: Fees in the '10 per cent' test for de-recognition of financial liabilities (effective 01 January 2022): The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Onerous Contracts: Costs of Fulfilling a Contract – Amendments to IAS 37 (effective 01 January 2022): The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Disclosure of Accounting Policies - Amendments to IAS 1 – (effective 01 January 2023): The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Definition of Accounting Estimates - Amendments to IAS 8 – (effective 01 January 2023) - The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged. The impact of this amendment on Ithala's AFS has not yet been assessed.
- Insurance Contracts – IFRS 17 (effective 01 January 2023): IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. The impact on Ithala's AFS has not yet been assessed.
- COVID-19-Related Rent Concessions – IFRS 16 (effective 01 April 2021) - Amendment providing lessees with an exemption from assessing whether a COVID-19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2022) is a lease modification. The impact on Ithala's AFS has not yet been assessed.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2021 R '000	2020 R '000
Cash on hand	79,157	64,031
Bank balances	89,277	114,281
Call and money market funds	344,813	480,005
Short term investments and deposits with bank	23,725	125,944
	536,972	**784,261**

Included in cash is an amount of R19,8 million (2020: R16,3 million) relating to cash in transit at year-end.
The ECL on cash and cash equivalents have not been raised as it was considered immaterial.

4. STATUTORY INVESTMENTS AND RESERVES

	2021 R '000	2020 R '000
Treasury bills	194,210	183,565
Balances with Central Bank	50,860	-
Impairment of treasury bills	(80)	-
Total	**244,990**	**183,565**

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 2021 exceed the minimum reserve requirements by R40,1 million (2020: R38,9 million), and are invested in terms of the Company's capital management policy.

5. INVESTMENTS AND DEPOSITS WITH BANKS

Investments and deposits with banks are analysed, as follows:

	2021 R '000	2020 R '000
Fixed term funds	257,716	131,928
Investments in State Owned Companies	53,246	110,811
Other investments in banks	-	40,435
	310,962	283,174
Impairment of investments	(18,595)	(28,931)
	292,367	**254,243**
Maturity analysis of investments and deposits with banks		
Maturing up to 1 month	76,940	23,763
Maturing after 1 month but within 3 months	111,308	36,807
Maturing after 3 months but within 6 months	62,371	116,137
Maturing after 6 months but not exceeding 1 year	60,343	45,759
Maturing after 1 year	-	60,708
Total	**310,962**	**283,174**

	2021	2020
Credit impairments for investments and deposits	R '000	R '000
Balance at the beginning of the year	28,931	-
Impairments (reversed) / raised	(10,336)	28,931
Balance at the end of the year	18,595	28,931
Comprising:		
Impairments for performing investments (stage 1 and stage 2)	18,595	1,248
Impairments for non-performing investments (stage 3)	-	27,683
Total credit impairments for loans and advances	**18,595**	**28,931**

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

Funds on fixed deposits at ABSA Bank Limited are subject to a general cession in its favour up to an amount of R60 million (2020: 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 year-end, funds on fixed deposit with ABSA Bank Limited totaled R 65,4 million (2020: R34,4 million).

At March 2021 the gross carrying value of investments was R311,0 million (March 2020: R283,2 million) against which ECL of R18,6 million (March 2020: R28,9 million) was held. Of the ECL, R18,0 million (March 2020: R27,7 million) is from a single investment in Land Bank. The gross carrying value of this investment at 31 March 2021 was R53,2 million (March 2020: R60,7 million). The reduction in the gross carrying value was due to an early capital settlement of R7,2 million. The capital reduction and improved prospects of recovering the investment has reduced the ECL from R27,7 million to R18,0 million. Refer to Note 21 for further details.

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

Investments - 2021	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Credit Risk Rating Grades	R'000	R'000	R'000	R'000
Investment Grade	-	-	-	-
Standard Grade	257,716	-	-	257,716
Low Grade	-	53,246	-	53,246
Default	-	-	-	-
Gross carrying amount	**257,716**	**53,246**	**-**	**310,962**
Loss allowance	(550)	(18,045)	-	(18,595)
Carrying amount	**257,166**	**35,201**	**-**	**292,367**

Investments - 2020	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Credit Risk Grades	R'000	R'000	R'000	R'000
Investment Grade	-	-	-	-
Standard Grade	222,466	-	-	222,466
Low Grade	-	-	-	-
Default	-	-	60,708	60,708
Gross carrying amount	**222,466**	**-**	**60,708**	**283,174**
Loss allowance	(1,248)	-	(27,683)	(28,931)
Carrying amount	**221,218**	**-**	**33,025**	**254,243**

6. LOANS AND ADVANCES

	2021	2020
	R '000	R '000
Mortgage loans	1,611,594	1,526,729
Housing loans	24,142	30,484
Micro finance - secured loans	405,835	331,615
Micro finance - unsecured loans	537	2,746
Gross carrying amount	**2,042,108**	**1,891,574**
Initiation fees EIR adjustment and stage 3 EIR adjustment	(9,059)	(11,557)
Credit impairments for loans and advances	(81,320)	(107,903)
Net loans and advances	**1,951,729**	**1,772,114**

Day one losses

Maturity analysis

Maturing:	2021 R '000	2020 R '000
Up to 1 month	108,301	63,878
From 1 month to 6 months	68,152	65,798
From 6 months to 1 year	70,978	69,241
From 1 year to 5 years	513,794	506,177
After 5 years	1,280,883	1,186,480
	2,042,108	**1,891,574**

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

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

Expected credit loss for loans and advances

	2021 R '000	2020 R '000
Balance at beginning of the year	107,903	62,053
Charge to income statement		
Amounts written off against specific credit impairment	(9,418)	(5,514)
Impairments raised / (reversed)	(17,165)	51,364
Balance at end of the year	**81,320**	**107,903**
Comprising:		
Impairment for performing loans	33,579	67,206
Impairment for non-performing loans	47,741	40,697
Impairment for loans and advances	**81,320**	**107,903**
Credit impairment analysis of non performing loans		
Balance at beginning of the year	40,697	27,154
Impairment accounts written off	(9,418)	(5,514)
Net impairments (reversed) / raised	16,462	19,057
	47,741	**40,697**
Credit impairments analysis of performing loans		
Balance at beginning of the year	67,206	34,899
Net impairments raised	(33,627)	32,307
	33,579	**67,206**
Segmental analysis of impairments in respect of non-performing loans		
Retail - Mortgage	37,655	31,508
Retail - Other	10,086	9,189
	47,741	**40,697**

Non-performing loans and advances - IFRS9

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

Impaired loans and advances, and specific credit impairments

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

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

Portfolio credit impairment

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

At March 2021 the value of non-performing loans was R175 million (March 2020: R133 million) against which credit impairments of R47 million (March 2020: R41 million) were held. There was no individual loan or advance included above that exceeds 10% of the Company's qualifying capital reserves as at 31 March 2021.

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

Qualitative criteria

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

Impact of COVID-19

The COVID-19 pandemic had a significant impact on the macroeconomic environment, and therefore, the ability of borrowers to meet their obligations. The Prudential Authority supported COVID-19 related relief initiatives, such as payment holidays offered by banks, to support the local economy. Consequently, the Prudential Authority issued D3/2020 published 06 April 2020 to enable banks to continue to extend credit to the real economy during the period of financial stress without the need for inappropriate higher capital requirements. The intention of PA is to reinstate the requirements of D7/2015 in full after the impact of COVID-19 has subsided.

Ithala subsequently adopted D3/2020. For any loan restructured after 06 April 2020 where the below conditions were met, the loan was classified as a 'COVID-19 loan restructure' or 'D3/2020 restructure'. The D3/2020 restructures remained in their respective stage classification (stage 1 or stage 2), instead of being identified as a distressed restructure, in accordance with D7/2015, and consequently classified as credit-impaired (in default). The following conditions were applied:

- The loan was up-to-date (with zero arrears) in the previous month or at the time of application;
- The restructure was due to COVID-19 related factors, based on all reasonable and verifiable information available at the date of restructuring the loan; and
- The loan is expected to remain in an up-to-date status subsequent to the relief period, all other factors remaining constant. If an account was unlikely to stay up-to-date once the restructure period ended, the account was not considered a D3/2020 restructure and treated as a distressed restructure, ie classified as credit-impaired (in default).

The expected impact of the COVID-19 lockdowns on the ECL as at 31 March 2020 turned out to be overly conservative and actual credit risk experience was better than expected. This resulted in a net release in ECL over the year ending 31 March 2021.

Expected credit loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impacts 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.

Mortgage loans and Housing loans

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

	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Mortgage loans and Housing loans 2021	**R'000**	**R'000**	**R'000**	**R'000**
Loss allowance as at 31 March 2020	14,568	41,182	35,830	91,580
Recalibration of model	(9,807)	(9,956)	1,193	(18,570)
Movements with P&L impact	4,761	31,226	37,023	73,010
Excluding manual overrides as at 31 March 2020	-	-	879	879
Transfers:				
Transfer from Stage 1 to Stage 2	(762)	3,034	-	2,272
Transfer from Stage 1 to Stage 3	(88)	-	2,123	2,035
Transfer from Stage 2 to Stage 3	-	(4,074)	8,804	4,730
Transfer from Stage 2 to Stage 1	2,609	(6,643)	-	(4,034)
Transfer form Stage 3 to Stage 1	24	-	(1,267)	(1,243)
Transfer from Stage 3 to Stage 2	-	204	(972)	(768)
New financial assets originated or purchased	1,430	2,586	-	4,016
Change in PDs/LGDs/EADs	(8,002)	4,125	753	(3,124)
Changes to model assumptions	5,277	(1,504)	(6,765)	(2,992)
Macroeconomic forecasts	(2,414)	(5,706)	-	(8,120)
Financial assets derecognised during the period	(155)	(499)	(370)	(1,024)
Total net P&L charge during the period	(2,081)	(8,477)	3,185	(7,373)
Loss allowance as at 31 March 2021	**2,680**	**22,749**	**40,208**	**65,637**
Write-offs	-	-	2,922	2,922

Mortgage loans and Housing loans 2020	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Loss allowance as at 31 March 2019	3,671	29,061	21,977	54,709
Recalibration of model	540	5,067	6,697	12,304
Loss allowance as at 31 March 2019	4,211	34,128	28,674	67,013
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(823)	4,849	-	4,026
Transfer from Stage 1 to Stage 3	(57)	-	2,412	2,355
Transfer from Stage 2 to Stage 3	-	(4,395)	8,058	3,663
Transfer from Stage 2 to Stage 1	1,804	(7,221)	-	(5,417)
Transfer from Stage 3 to Stage 1	3	-	(203)	(200)
Transfer from Stage 3 to Stage 2	-	413	(1,080)	(667)
New financial assets originated or purchased	655	1,871	-	2,526
Change in PDs/LGDs/EADs	(2,197)	(669)	725	(2,141)
Macroeconomic forecasts	11,160	13,550	-	24,710
Applying overrides as at 31 March 2020	-	53	(861)	(808)
Financial assets derecognised during the period	(171)	(1,396)	(2,010)	(3,577)
Total net P&L charge during the period	**10,375**	**7,054**	**7,041**	**24,470**
Loss allowance as at March 31, 2020	**14,586**	**41,182**	**35,812**	**91,580**
Write-offs	-	-	2,086	2,086

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:

Mortgage loans and Housing loans - 2021	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Gross carrying amount as at 31 March 2020	963,866	467,896	125,451	1,557,213
Recalibration of the model	(33,717)	33,717	-	-
Gross carrying amount as at 31 March 2020	930,149	501,613	125,451	1,557,213
Transfers:				
Transfer from Stage 1 to Stage 2	(107,771)	107,771	-	-
Transfer from Stage 1 to Stage 3	(9,279)	-	9,279	-
Transfer from Stage 2 to Stage 3	-	(37,137)	37,137	-
Transfer from Stage 3 to Stage 2	-	6,951	(6,951)	-
Transfer from Stage 2 to Stage 1	110,290	(110,290)	-	-
Transfer from Stage 3 to Stage 1	2,602	-	(2,602)	-
Financial assets derecognised during the period other than write-offs	(33,719)	(12,418)	(2,374)	(48,511)
New financial assets originated or purchased	203,087	24,183	-	227,270
Interest accruals and payments received	(64,362)	(31,204)	(4,672)	(100,238)
Gross carrying amount as at 31 March 2021	**1,030,997**	**449,469**	**155,268**	**1,635,734**
Write-offs	-	-	4,255	4,255

Mortgage loans and Housing loans - 2020	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Gross carrying amount as at 31 March 2019	**947,322**	**514,867**	**91,272**	**1,553,461**
Recalibration of model	31,013	(47,665)	16,652	-
Gross carrying amount as at 31 March 2019	978,335	467,202	107,924	1,553,461
Transfers:				
Transfer from Stage 1 to Stage 2	(133,825)	133,825	-	-
Transfer from Stage 1 to Stage 3	(10,902)	-	10,902	-
Transfer from Stage 2 to Stage 3	-	(31,657)	31,657	-
Transfer from Stage 3 to Stage 2	-	11,846	(11,846)	-
Transfer from Stage 3 to Stage 1	3,224	-	(3,224)	-
Financial assets derecognised during the period other than write-offs	(42,676)	(17,944)	(7,089)	(67,709)
New financial assets originated or purchased	112,224	18,879	-	131,103
Interest accruals and payments received	(37,588)	(21,593)	(14)	(59,195)
Applying overrides as at 31 March 2020	-	2,412	(2,412)	-
Gross carrying amount as at 31 March 2020	**963,866**	**467,896**	**125,451**	**1,557,213**
Write-offs	-	-	3,646	3,646

Micro finance - Secured

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

Micro financed - Secured 2021	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Loss allowance as at 31 March 2020	1,572	9,616	2,573	13,761
Recalibration of the model	(933)	(3,314)	(107)	(4,354)
Loss allowance as at 31 March 2020	639	6,302	2,466	9,407
Movements with P&L impact				
Excluding manual overrides as at 31 March 2020	1,370	(2,871)	-	(1,501)
Transfers:				
Transfer from Stage 1 to Stage 2	(512)	1,026	-	514
Transfer from Stage 1 to Stage 3	(247)	-	2,038	1,791
Transfer from Stage 2 to Stage 3	-	(1,124)	2,275	1,151
Transfer from Stage 2 to Stage 1	259	(455)	-	(196)
Transfer from Stage 3 to Stage 1	-	-	(9)	(9)
Transfer from Stage 3 to Stage 2	-	-	(1)	(1)
New financial assets originated or purchased	1,049	4,778	708	6,535
Change in PDs/LGDs/EADs	(840)	1,769	2,606	3,535
Macroeconomic forecasts	(891)	(1,667)	-	(2,558)
Changes to model assumptions and methodologies	205	(513)	(2,941)	(3,249)
Financial assets derecognised during the period	(43)	(220)	(18)	(281)
Total P&L charge during the period	350	723	4,658	5,731
Loss allowance as at 31 March 2021	**989**	**7,025**	**7,124**	**15,138**
Write-offs	-	-	2,068	2,068

	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Micro finance - Secured 2020	**R'000**	**R'000**	**R'000**	**R'000**
Loss allowance as at 31 March 2019	759	1,012	2,591	4,362
Recalibration of model	176	958	1,304	2,438
Loss allowance as at 31 March 2019	934	1,971	3,895	6,800
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(461)	1,184	-	723
Transfer from Stage 1 to Stage 3	-	-	25	25
Transfer from Stage 2 to Stage 3	-	(110)	428	318
Transfer from Stage 2 to Stage 1	137	(390)	-	(253)
Transfer from Stage 3 to Stage 1	1	-	(23)	(22)
Transfer from Stage 3 to Stage 2	-	3	(24)	(21)
New financial assets originated or purchased	175	3,528	708	4,411
Change in PDs/LGDs/EADs	(308)	(998)	(1,537)	(2,843)
Changes to model assumptions and methodologies	1,162	4,606	-	5,768
Financial assets derecognised during the period	(67)	(177)	(898)	(1,142)
Total net P&L charge during the period	**637**	**7,646**	**(1,322)**	**6,961**
Loss allowance as at 31 March 2020	**1,572**	**9,616**	**2,573**	**13,761**
Write-offs	-	-	202	202

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

	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Micro financed - Secured Loans 2021	**R'000**	**R'000**	**R'000**	**R'000**
Gross carrying amount as at 31 March 2020	239,217	86,731	5,668	331,616
Recalibration of model	(307)	307	-	-
Gross carrying amount as at 31 March 2020	238,910	87,038	5,668	331,616
Transfers:				
Transfer from Stage 1 to Stage 2	(6,127)	6,127	-	-
Transfer from Stage 1 to Stage 3	(2,457)	-	2,457	-
Transfer from Stage 2 to Stage 3	-	(14,414)	14,414	-
Transfer from Stage 3 to Stage 1	421	-	(421)	-
Transfer from Stage 3 to Stage 2	-	74	(74)	-
Transfer from Stage 2 to Stage 1	34,454	(34,454)	-	-
Financial assets derecognised during the period other than write-offs	(34,410)	(4,597)	(227)	(39,234)
New financial assets originated or purchased	107,362	34,545	2,029	143,936
Interest accruals and payments received	(20,172)	(5,951)	(4,359)	(30,482)
Gross carrying amount as at 31 March 2021	**317,981**	**68,368**	**19,487**	**405,835**
Write-offs	-	-	2,958	2,958

Micro finance - Secured 2020	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Gross carrying amount as at 31 March 2019	195,653	40,417	4,243	240,313
Recalibration of model	18,909	(19,620)	712	1
Gross carrying amount as at 31 March 2019	214,562	20,796	4,954	240,312
Transfers:				
Transfer from Stage 1 to Stage 2	(24,363)	24,363	-	-
Transfer from Stage 1 to Stage 3	(638)	-	638	-
Transfer from Stage 2 to Stage 3	-	(1,163)	1,163	-
Transfer from Stage 3 to Stage 1	689	-	(689)	-
Transfer from Stage 3 to Stage 2	-	76	(76)	-
Transfer from Stage 2 to Stage 1	5,354	(5,354)	-	-
Financial assets derecognised during the period other than write-offs	(30,910)	(1,983)	(1,185)	(34,078)
New financial assets originated or purchased	77,020	58,074	1,470	136,564
Interest accruals and payments received	(2,498)	(8,078)	(607)	(11,183)
Gross carrying amount as at 31 March 2020	**239,217**	**86,731**	**5,668**	**331,615**
Write-offs	-	-	783	783

Micro finance - Unsecured

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 2021	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Loss allowance as at 31 March 2020	2	248	2,312	2,562
Recalibration of model	(1)	(52)	(1)	(54)
Loss allowance as at 31 March 2020	1	196	2,311	2,508
Transfers:				
Transfer from Stage 2 to Stage 3	-	(34)	85	51
Change in PDs/LGDs/EADs	-	(2)	(2,026)	(2,028)
Changes to model assumptions	-	-	(50)	(50)
Macroeconomic forecasts	-	(20)	-	(20)
Financial assets derecognised during the period	(1)	(2)	(19)	(22)
Total net P&L charge during the period	-	(58)	(2,010)	(2,068)
Loss allowance as at 31 March 2021	**-**	**138**	**301**	**439**
Write-offs	-	-	2,164	2,164

Micro finance - Unsecured 2020	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Loss allowance as at 31 March 2019	73	326	2,583	2,982
Recalibration of model	(73)	273	732	932
Loss allowance as at 31 March 2019	1	600	3,316	3,917
Movements with P&L impact				
Transfers:				
Transfer from Stage 2 to Stage 1	32	(48)	-	(16)
Transfer from Stage 2 to Stage 3	-	(117)	110	(7)
Transfer from Stage 3 to Stage 2	-	19	(58)	(39)
Excluding manual overrides as at 31 March 2019	-	-	(1)	(1)
Change in PDs/LGDs/EADs	(32)	(73)	(224)	(329)
Macroeconomic forecasts	1	58	-	59
Financial assets derecognised during the period	-	(190)	(840)	(1,030)
Applying overrides as at 31 March 2020	-	-	9	9
Total net P&L charge during the period	**1**	**(351)**	**(1,003)**	**(1,353)**
Loss allowance as at 31 March 2020	**2**	**248**	**2,312**	**2,563**
Write-offs	-	-	916	916

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

Micro Financed - Unsecured Loans - 2021	Stage 1: 12 month ECL R'000	Stage 2: Lifetime ECL R'000	Stage 3: Lifetime ECL R'000	Total R'000
Gross carrying amount as at 31 March 2020	25	350	2,371	2,746
Transfers:				
Transfer from Stage 2 to Stage 3	-	(91)	91	-
Financial assets derecognised during the period other than write-offs	(25)	(19)	(25)	(69)
Interest accruals and payments received	-	(13)	(2,128)	(2,141)
Gross carrying amount as at 31 March 2021	**-**	**227**	**309**	**536**
Write-offs	-	-	2,204	2,204

	Stage 1: 12 month ECL	Stage 2: Lifetime ECL	Stage 3: Lifetime ECL	Total
Micro finance - Unsecured - 2020	R'000	R'000	R'000	R'000
Gross carrying amount as at 31 March 2019	388	681	3,320	4,389
Recalibration of model	(368)	230	138	-
Gross carrying amount as at 31 March 2019	20	910	3,458	4,388
Transfers:				
Transfer from Stage 3 to Stage 1	1	-	(1)	-
Transfer from Stage 2 to Stage 3	-	(128)	128	-
Transfer from Stage 3 to Stage 2	-	66	(66)	-
Transfer from Stage 2 to Stage 1	90	(90)	-	-
Financial assets derecognised during the period other than write-offs	(8)	(295)	(875)	(1,178)
New financial assets originated or purchased	3	16	-	19
Applying overrides as at 31 March 2020	(1)	(10)	11	-
Interest accruals and payments received	(80)	(120)	(284)	(484)
Gross carrying amount as at 31 March 2020	**25**	**350**	**2,371**	**2,746**
Write-offs	-	-	1,085	1,085

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

	2021			
	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	7,412	-	5,189	-
Micro finance - secured	4,066	-	2,985	-
Total	**11,478**	**-**	**8,174**	**-**

	2020			
	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	9,512	-	2,634	-
Micro finance - secured loans	410	-	11	-
Total	**9,922**	**-**	**2,645**	**-**

Mortgage and Housing Loans

The table below shows the credit quality and the maximum exposure to credit risk based on Empirical scores used by the Bank, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 20 and the entity's impairment assessment and measurement approach is also set out in Note 20.

31 March 2021	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	485,010	16,703	-	501,713
0.51%-11.70%	545,987	382,927	-	928,914
11.71%-29.50%	-	26,358	-	26,358
29.51%-100%	-	23,482	33,026	56,508
Non-performing				
100%	-	-	122,243	122,243
Gross Carrying amount	**1,030,997**	**449,470**	**155,269**	**1,635,736**

31 March 2020	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	10	8	-	18
0.51%-11.70%	778,248	88,173	-	866,421
11.71%-29.50%	185,608	321,254	-	506,862
29.51%-100%	-	58,462	13,552	72,014
Non-performing				
100%	-	-	111,900	111,900
Gross carrying amount	**963,866**	**467,897**	**125,452**	**1,557,215**

Secured Loans

The table below shows the credit quality and the maximum exposure to credit risk based on Empirical scores used by the Bank, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 20 and the entity's impairment assessment and measurement approach is also set out in Note 20.

31 March 2021	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	22,580	-	-	22,580
0.51%-11.70%	295,399	44,660	-	340,059
11.71%-29.50%	-	5,022	-	5,022
29.51%-100%	-	18,686	5,058	23,744
Non-performing				
100%	-	-	14,429	14,429
Gross carrying amount	**317,979**	**68,368**	**19,487**	**405,834**

31 March 2020	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	30,234	-	-	30,234
0.51%-11.70%	175,373	13,139	-	188,512
11.71%-29.50%	29,516	38,010	-	67,526
29.51%-100%	4,094	35,582	234	39,910
Non-performing				
100%	-	-	5,433	5,433
Gross carrying amount	**239,217**	**86,731**	**5,667**	**331,615**

Unsecured Loans

The table below shows the credit quality and the maximum exposure to credit risk based on Empirical scores used by the Bank, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 20 and the entity's impairment assessment and measurement approach is also set out in Note 20.

31 March 2021	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	-	-	-	-
0.51%-11.70%	-	-	-	-
11.71%-29.50%	-	228	-	228
29.51%-100%	-	-	-	-
Non-performing				
100%	-	-	309	309
Gross carrying amount	**-**	**228**	**309**	**537**

31 March 2020	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range	R'000	R'000	R'000	R'000
Performing				
0.00%-0.50%	-	-	-	-
0.51%-11.70%	11	8	-	19
11.71%-29.50%	-	-	-	-
29.51%-100%	14	342	-	356
Non-performing				
100%	-	-	2,371	2,371
Gross carrying amount	**25**	**350**	**2,371**	**2,746**

7. PROPERTIES IN POSSESSION

	2021 R '000	2020 R '000
Properties in possession	570	2,454

Properties in possession to the value of R1,9 million have been expensed during the current year (2020: R1,1 million).

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

8. CUSTOMER DEPOSITS

	2021 R '000	2020 R '000
Call deposit accounts	65,245	68,265
Savings accounts	1,200,983	1,105,638
Term deposits	1,312,323	1,400,460
	2,578,551	**2,574,363**
Maturity analysis:		
On demand	1,269,146	1,176,294
Up to 1 month	160,046	207,707
From 1 month to 6 months	796,570	786,698
From 6 months to 1 year	321,039	359,568
From 1 year to 5 years	31,750	44,096
	2,578,551	**2,574,363**
Savings accounts are further analysed as follows:		
Savings	783,753	699,257
Trust accounts	54,776	55,906
Debit Card	337,944	326,772
Corporate	24,510	23,703
Total Savings	**1,200,983**	**1,105,638**
Term deposits are further analysed as follows:		
Retail accounts	879,208	899,713
Corporate accounts	433,115	500,747
Total Term deposits	**1,312,323**	**1,400,460**

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.

9. RETIREMENT BENEFIT OBLIGATIONS

Post-retirement medical obligations

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date. There are 85 current and retired employees (2020: 86) currently covered under the scheme.

The most recent actuarial valuation of the present value of defined benefit obligations were carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 11,9% (2020: 13,0%) and a health care cost inflation rate of 9,0% (2020: 9,10%). The movement in the liability annualised in the statement of financial position is as follows:

Movement in the defined benefit obligation, is as follows :

	2021	2020
	R '000	R '000
Balance at beginning of the year	33,163	38,614
Current service costs	562	752
Interest costs	4,189	3,933
Net actuarial (gain) / loss recognised during the year	1,266	(8,606)
Benefit payment	(1,802)	(1,530)
Balance at end of the year	**37,378**	**33,163**

	2021	2020
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	37,378	33,163
Post retirement medical benefits		
Actuarial (loss) / gain		
The actuarial gains arose as a result of the following :		
Change in Real Discount Rate	(4,057)	9,657
Higher than Expected Healthcare Cost Inflation including Changes in Members' Benefit Options	308	(194)
Unexpected Changes in Membership	2,483	(857)
Total	**(1,266)**	**8,606**

Actuarial assumptions used and sensitivity analysis

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2021	2020
			R '000	R '000
Present value of obligation			37,378	33,163
Health care cost inflation	9,1%	+1%	37,402	37,424
		-1%	37,341	29,597
Discount rate	13,0%	+1%	33,306	29,741
		-1%	42,323	37,289
Expected retirement age	60 years	+1 year	35,812	31,831
		-1 year	38,983	34,554

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 2021 showed that in respect of both the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

The most recent actuarial valuation of plan assets and present value of defined benefits obligations were carried out for the current and prior annual financial years by Old Mutual Actuarial Consultants, fellow of the Institute of Actuaries of South Africa. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

Defined benefit pension fund	2021 R '000	2020 R '000
Present value of funded obligations	-	305
Fair value of plan assets	-	(2,370)
Surplus	-	(2,065)
Asset not recognised due to asset ceiling	**-**	**(2,065)**
Net asset balance currently recognised		
Amount allowed as a reduction of future contributions	3,892	3,655
Amount utilized for contributions	(3,892)	(3,655)
Asset as per balance sheet	**-**	**-**

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2021 R '000	2020 R '000
Present value of obligation			-	305
Discount rate	7,6%	+1%	-	305
		-1%	-	305
Expected salary rate	0,0%	+1%	-	305
		-1%	-	305

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

The movement in the defined benefit obligation over the year is as follows:

	2021 R '000	2020 R '000
Balance at beginning of the year	305	291
Interest cost	14	27
Actuarial (loss) / gain	2,084	-
Benefits paid	(2,403)	(13)
Balance	**-**	**305**

The movement in the fair value of plan assets over the year, is as follows:

	2021 R '000	2020 R '000
Balance at beginning of the year	2,371	2,462
Interest cost	239	221
Benefits paid	(2,403)	(13)
Actuarial (loss) / gain	(207)	(299)
Balance at end of the year	**-**	**2,371**
Actuarial loss / (gains)		
The actuarial gains arose as a result of the following:		
Actuarial gains / (losses) arising changes in demographic assumptions	-	-
Actuarial gains / (losses) arising from changes in financial assumptions	(207)	(299)

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

	2021 R '000	2020 R '000
Defined benefit provident fund		
Fair value of plan assets	(3,906)	(3,669)
Surplus	(3,906)	(3,669)
Amount allocated to employer surplus account	3,906	3,669
Asset not recognized due to asset ceiling	**-**	**-**

The movement in the defined benefit obligation over the year is as follows :

	2021 R '000	2020 R '000
Balance at beginning of the year	-	21,456
Interest cost	-	351
Benefits paid	-	(21,807)
Balance	**-**	**-**

The movement in the fair value of plan assets over the year, is as follows:

	2021 R '000	2020 R '000
Balance at beginning of the year	3,668	25,220
Interest income	327	778
Benefits paid	-	(21,807)
Actuarial loss	(89)	(523)
Balance at end of the year	**3,906**	**3,668**

Actuarial (loss) / gain		
The actuarial gains arose as a result of the following:		
Actuarial gain arising changes in demographic assumptions	89	523

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2021	2020
			R '000	R '000
Discount rate	7.6%	+1%	-	-
		-1%	-	-
Expected salary rate		+1%	-	-
	0.0%	-1%	-	-

The Company expects to make no contribution (2020: Nil) to the company defined benefit provident fund and no contribution (2020: R0) to the Old Mutual Superfund defined benefit provident fund during the next financial year due to payment holiday.

Actuarial gains and losses analysis		
Pension and provident fund	251	282
Post retirement medical	(1,266)	8,606
	(1,015)	**8,888**
Long service obligation		
Balance at beginning of the year	12,914	15,384
Expensed during the year	(6,987)	(1,169)
Contributions paid	(831)	(1,301)
Balance at end of the year	**5,096**	**12,914**
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	5,096	12,914
Amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	1,343	1,543
Interest cost	1,416	1,348
Net actuarial loss recognised in the year	(9,746)	(4,060)
	(6,987)	**(1,169)**

Sensitivity analysis

	Assumptions	Change	2021	2020
			R '000	R '000
Present value obligations			5,096	12,914
Average salary inflation		+1%	5,112	13,765
		-1%	5,080	12,140
Average retirement age		-2 years	4,941	14,379
		+2 years	5,242	11,660

Prior to the new policy, the Company provided long service awards to permanent employees in the form of cash at ten years of continuous service and every five years thereafter. The long service award granted was calculated as a percentage of the total cost to company. From 1 April 2021 the calculation will be based on a cash reward for every 5 years of continuous service up to 25 years of service, based on the new approved policy.

An actuarial valuation of the provision for long service awards at 31 March 2021 quantified the present value of obligations at R5,1 million (2020: R12,9 million). These actuarial valuations are conducted annually at statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, 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 9,1% (2020: 11,4%) and an average salary inflation of 6,1% (2020: 6,6%).

10. INTEREST INCOME

	2021 R '000	2020 R '000
Interest received on call accounts	20,114	29,628
Interest received on fixed deposit accounts	23,052	39,876
Interest income on treasury bills	8,325	13,423
Interest earned on loans and advances to customers	144,623	193,843
Loan origination fees	4,289	2,220
Total interest on loans and advances and surplus funds	**200,403**	**278,990**

11. INTEREST EXPENDITURE

	2021 R '000	2020 R '000
Interest paid on customer deposits	70,287	94,544
Interest arising from post-employment benefits	5,619	5,659
Interest arising from leased liabilities	4,689	4,028
Total	**80,595**	**104,231**

12. NON-INTEREST REVENUE

Revenue from contracts with customers	2021	2020
Revenue generated by the Insurance Division	R '000	R '000
Commission income	10,641	11,194
Administration fee	1,035	1,032
Funeral cover commission and other fees	682	754
Commission and fee income from banking activities		
Fee income from loans and advances	6,323	4,748
Service fees from customer deposits	137,594	132,903
Other fee income	486	523
	156,761	**151,154**

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.

13. OTHER INCOME

	2021 R '000	2020 R '000
Dormant account balances recognised in income	8,259	7,782
Bad debts recovered	863	1,124
Recovery of operating expenses from holding company	431	408
Sundry income	2,633	918
	12,186	**10,232**

14. OPERATING EXPENSES

Operating expenditure is stated after the following items:

	2021 R '000	2020 R '000
Auditors remuneration		
Audit fees	5,950	5,198
Adjustment for previous year(s)	(223)	2,041
	5,727	**7,239**
Amortisation and impairment of intangible assets	9,504	1,250
Depreciation and impairment of tangible assets and right of use asset	24,364	31,914
Professional fees	15,538	9,163
Short term leases and other cost	2,727	3,114
Personnel costs (excluding Director's and key management remuneration)	152,788	145,862
Included in personnel costs above are contributions to retirement benefit schemes:		
Defined benefit plans	3,639	3,609
Defined contribution plans	8,496	8,471
	12,135	**12,080**
Directors' emoluments		
MF Kekana (resigned 04 November 2019)	-	580
M Mia (retired 26 July 2019)	-	220
B Ngonyama (resigned 26 July 2019)	-	304
SC Ngidi (resigned 20 April 2020)	117	819
P Radebe (resigned 31 October 2019)	-	403
G Sibiya	811	696
M Pupuma (appointed 01 August 2020)	461	-
M Madali (resigned 28 February 2019)	-	8
Inkosi SN Mkhize	1,033	1,020
M Ngcobo (appointed 17 January 2019, resigned 23 June 2019)	-	142
S Mnguni (appointed 04 October 2019)	-	-
Z Khanyile (appointed 01 August 2020, resigned 31 October 2020)	134	-
S Shabalala (appointed 01 January 2021)	150	-
N Simelane (appointed 01 January 2021)	103	-
	2,809	**4,192**

2021

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Total
	R '000	R '000	R '000
T Vilakazi (appointed 01 September 2020)	1,443	197	1,640

Appointed Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Total
	R '000	R '000	R '000
S Gwala - Head: HR	1,622	135	1,757
S Xolo - Head Marketing and Communication	1,235	99	1,334
T Luthuli - Company Secretary	1,588	130	1,718
S Moodley - Head Retail and Business Banking	1,648	137	1,785
C Gumede - Chief Risk Officer	1,619	131	1,750
A Pather - Head Insurance	1,432	118	1,550
L Barnard - Head IT (appointed 01 March 2021)	137	13	150
S Nsele - Chief Audit Executive (appointed 01 September 2020)	750	67	817
K Nkambule - Compliance Officer (appointed 01 August 2020)	904	83	987
X Khumalo - Head Credit (appointed 16 Nov 2020)	609	48	657
	11,544	**961**	**12,505**

Acting Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
	R '000	R '000	R '000	R '000
N Naidoo - Acting Head Credit (April 2020 to Nov 2020)	798	55	-	853
N Harryparshad - Acting Head IT (resigned 28 October 2020)	748	-	16	764
	1,547	**55**	**16**	**1,617**

2020

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
	R '000	R '000	R '000	R '000
D Zandamela - Chief Executive Officer (resigned 04 November 2019)	1,963	262	1,251	3,476

Appointed Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
	R '000	R '000	R '000	R '000
S Gwala - Head: HR	1,472	135	-	1,607
S Xolo - Marketing and Sales Manager	952	81	-	1,033
T Luthuli - Company Secretary	1,227	104	-	1,331
S Moodley - Head Retail and Business Banking	1,038	93	-	1,131
L Keyise - Head: IT (contract terminated on 20 December 2019)	886	84	138	1,108
M Sewchuran - Compliance Officer (resigned 31 December 2019)	1,033	94	47	1,174
D Mti - Head: Credit (resigned 30 September 2019)	787	71	84	942
C Gumede - Chief Risk Officer (appointed 01 April 2019)	1,471	133	-	1,604
A Pather - Head Insurance (appointed 01 July 2019)	961	89	-	1,050
L Meyer - Acting Chief Financial Officer (appointed 01 August 2019, expiry of BA020 12 January 2020)	631	58	-	689
	10,458	**942**	**269**	**11,669**

Acting Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
	R '000	R '000	R '000	R '000
N Ndlovu - Acting Head Insurance (resigned 30 June 2019)	181	18	-	199
M Madali - Acting Head: Information Technology (resigned 28 June 2019)	327	-	20	347
N Harryparshad: Acting Head IT (appointed 08 July 2019)	883	-	-	883
	1,391	**18**	**20**	**1,429**

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.

15. OPERATING ACTIVITIES

	2021	2020
Non-cash items included in loss for the year	**R '000**	**R '000**
Depreciation and impairment of tangible assets	24,364	31,914
Amortisation of intangible assets	9,504	1,250
Loss on disposal of equipment	1,356	8
Credit impairment in loans and advances	(26,583)	45,850
Credit impairments on investments and statutory investments	(10,256)	28,931
Disposal of intangible asset	382	-
	(1,233)	**107,953**

16. CHANGES IN OPERATING FUNDS

	2021	2020
Increase in operating liabilities	**R '000**	**R '000**
Increase in deposits	4,188	160,284
Increase / (Decrease) in trade and other payables	3,114	(1,812)
Decrease in long service obligation	(7,818)	(2,470)
Increase in retirement benefit obligations	3,200	3,437
Decrease in loan account with holding company	(10,209)	(180)
	(7,525)	**159,259**
Decrease in operating assets		
Increase in loans and advances	(153,032)	(90,222)
Decrease in properties in possession	1,884	1,156
(Increase) / Decrease in receivables	(2,348)	1,528
(Increase) / Decrease in inventory	(1,620)	203
	(155,116)	**(87,335)**

17. COMMITMENTS

	2021	2020
Capital commitment	**R '000**	**R '000**
Acquisition of equipment	508	-
Intangible assets	55,028	56,009
	55,536	**56,009**

Capital expenditure will be financed from internal resources.

Unutilised facilities on advances at statement of financial position date were R28,0 million (2020: R10,6 million).

All commitment figures are VAT inclusive.

Intangible assets includes R52,1 million development costs in respect of a new banking system application project which is currently on hold pending the outcome of investigators regarding the development of the system as well as legal counsel, as raised in the contingencies note (Note 32).

18. RELATED PARTIES

The holding company is Ithala Development Finance Corporation Limited and the ultimate controlling shareholder is the KwaZulu-Natal Provincial Government through the MEC of the Department of Economic Development, Tourism and Environmental Affairs.

The following are identified as related parties of the company:

Ithala Development Finance Corporation Limited

The nature of the relationship between Ithala Development Finance Corporation Limited and the Company is that of holding company and subsidiary.

The outstanding balance of the current loan accounts is disclosed in Note 30.

	2021	2020
Outstanding balances with the holding company	R '000	R '000
Outstanding balance on savings and fixed deposits	14,836	85,771
Loan account with holding company	(2,901)	(13,110)

Savings and fixed deposit agreements entered into with the holding company are done so in the ordinary course of business and under terms no more favourable to those entered into with third parties at arm's length.

The transactions with the holding company during the financial year have been analysed below:

	2021	2020
	R '000	R '000
Transactions with the holding company		**Restated**
Interest paid on customer deposits	2,004	2,766
Shared services	6,780	7,631
Rental paid	5,571	5,421
Recovery of operating expenses	(431)	(408)
Deposits due to property tenants**	50,421	48,266
Other costs	8,227	9,405
Total	**72,572**	**73,081**

**Deposits due to to property tenants were not disclosed in the prior year.

KwaZulu-Natal Provincial Government

The Department of Economic Development, Tourism and Environmental Affairs is the ultimate shareholder of the Company.

The Company received deposit funds from various entities within The Department of Economic Development, Tourism and Environmental Affairs' group of companies.

	2021		2020	
	Deposits due	Interest expense	Deposits due	Interest expense
	R '000	R '000	R '000	R '000
KwaZulu-Natal Growth Fund Trust	85,412	5,104	75,846	5,656

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 14.

	Outstanding balance	Net realized amount of security	Interest received
Loans granted to executive management of the holding company	R '000	R '000	R '000
2021	-	-	-
2020	4,149	6,554	346

	Outstanding balance	Net realized amount of security	Interest received
	R '000	R '000	R '000
Loans granted to executive management of the Company			
2021	4,306	5,261	244
2020	4,491	5,492	380

Impairment and terms of business relating to related party loans

Loans to Executive Management are secured by mortgage bonds over properties for housing loans and the market value of the asset for vehicle and asset finance. The Company, in the ordinary course of business, entered into various transactions with related parties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length except for housing loans where all full time employees qualify for the prime overdraft rate less 1,75% and vehicle and asset finance where all full time employees qualify for the prime overdraft rate less 1,0% .

No amount has been expensed during this financial year in respect of bad or doubtful debts due from these related parties.

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

Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred in the current year (2020: Nil). Fruitless and wasteful expenditure of R2,0 million was identified in the current year which relates to the 2017/2018 financial year.

	2021 R '000	2020 R '000
Opening balance	2,000	-
Add: Fruitless and wasteful expenditure - current year	-	-
Add: Prior years' amounts identified in the current year	600	2,000
	2,600	**2,000**

A R2,0 million sign-on bonus was paid in respect of an executive appointment made in 2017 in recompense for the forfeiture of benefits on resignation from his previous employer to join Ithala SOC. An investigation revealed that the executive should have not received a sign-on bonus, rendering the payment of the sign-on bonus of R2,0 million fruitless and wasteful expenditure. The Board has resolved to recover the R2,0 million sign-on bonus from the ex-employee through legal process. The Company paid a recruitment fee for the placement of the executive. Therefore the recruitment fees of R0,6 million paid on the sign-on bonus is also regarded as fruitless and wasteful expenditure.

Material losses / Impairments

As disclosed in Note 6, loans and advances to the amount of R9,4 million (2020: R5,5 million) were written-off during the financial year. The Company suffered a R3,6 million loss as a result of a branch robbery in the current year (2020: Nil). Insurance proceeds of R1,4 million were received. Staff and other fraud amounted to R0,2 million in the current year (2020: R0,1 million). There was no loss suffered as a result of cash being short delivered in the current financial year (2020: nil).

Note 25 includes impairments of intangible assets to the value of R8,7 million (2020: nil) relating to development cost incurred on the Enterprise Banking System. These developments can no longer be utilised and have been impaired.

Irregular expenditure

An amount of R20,9 million (2020: R22,4 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 Supply Chain Management Policy. The table below reflects a summary of expenditure incurred and condoned by the Accounting Authority:

	2021 R '000	2020 R '000
Opening balance	46,059	23,628
Add: Irregular Expenditure - current year	20,862	22,431
Add: Prior year amounts identified in current year	12	-
Irregular Expenditure awaiting condonation	**66,933**	**46,059**
Analysis of expenditure awaiting condonation per age classification		
Current year	20,874	22,431
Prior years	46,059	23,628
Total	**66,933**	**46,059**

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	2021 R '000	2020 R '000
Services not included in the SLA	Matters under investigation	-	366
Expired SLA	Matters under investigation	11,199	20,612
Invoice(s) above SLA amount	Matters under investigation	371	136
Not approve by Board	Matters under investigation	-	1,100
No requisition or quotation	Matters under investigation	9,284	9
Quotation process	Matters under investigation	-	208
Variation limit exceeded	Matters under investigation	20	-
Total		**20,874**	**22,431**

The R9,3 million cost incurred without a requisition or quotation, relates to professional fees charged to the Company for an investigation initiated by the SARB in its supervisory capacity. The appointment of the service provider was made at the discretion of the SARB under the terms of the Banks Act contrary to the prescripts of the PFMA governing the Company's procurement processes.

Alleged Irregular Expenditure

Alleged irregular expenditure of R35,0 million was identified in the current year which relates to the 2018/2019 financial year (2020: Nil):

	2021 R '000	2020 R '000
Opening balance	-	-
Add: Amounts arising in the current year	-	-
Add: Prior year amounts identified in the current year	34,974	-
	34,974	**-**

The above expenditure of R35,0 million relates to systems development and hardware costs paid to Tech Mahindra. This alleged irregular expenditure under assessment arose following external investigation into the awarding of the contract from a supply chain management forensic perspective relative to possible non-compliance around supply chain management and information technology due diligence. The potential that irregular expenditure has occurred is to be further investigated and a conclusion reached during the course of the 2022 financial year. In line with amended National Treasury Note 2 of 2019/2020, confirmation of the determination of irregular expenditure is required to be conducted within 30 days of it having been reported to the accounting officer and/or accounting authority. If there are any disputes, the assessment process is to be within completed 3 months thereof. Consequently, the costs paid to Tech Mahindra have not been disclosed as irregular expenditure as at 31 March 2021.

20. FINANCIAL RISK MANAGEMENT

The core function of the Company's risk management department is to identify all key risks impacting the Company, measure these risks, manage the risk positions and determine capital allocations. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

The Company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Company's primary financial risks are:

- Credit risk
- Liquidity risk
- Market risk

The Board takes overall responsibility for risk management and approves risk management strategies and policies. Senior management is responsible for its implementation and creating a risk management culture within the Company through communication, education and training. The risk management policies are designed to set appropriate limits and controls. These are reviewed at least annually.

The table below displays an explanation of the classes of financial instruments held and their related measurement categories.

2021

	Note(s)	Financial assets and liabilities at amortised cost	Non-financial instruments	Total
		R '000	R '000	R '000
Cash and cash equivalents	3	536,972	-	536,972
Statutory investments	4	245,070	-	245,070
Investments and deposits with banks	5	310,962	-	310,962
Loans and advances to customers	6	2,042,108	-	2,042,108
Receivables	22	5,926	8,039	13,965
Customer deposits	8	(2,578,551)	-	(2,578,551)
Trade and other payables	26	(74,684)	(62,070)	(136,754)
Loan account with holding company		(2,901)	-	(2,901)
		484,902	**(54,031)**	**430,871**

2020

	Note(s)	Financial assets and liabilities at amortised cost	Non-financial instruments	Total
		R '000	R '000	R '000
Cash and cash equivalents	3	784,261	-	784,261
Statutory investments	4	183,565	-	183,565
Investments and deposits with banks	5	283,174	-	283,174
Loans and advances to customers	6	1,891,574	-	1,891,574
Receivables	22	5,635	5,982	11,617
Customer deposits	8	(2,574,363)	-	(2,574,363)
Trade and other payables	26	(75,396)	(37,906)	(113,302)
Loan account with holding company	30	(13,110)	-	(13,110)
		485,340	**(31,924)**	**453,416**

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

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 requiring management to carefully manage its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

Maximum exposure to credit risk

The maximum exposure is the full amount exposed to credit risk without taking into account any form of security. The table below shows the maximum exposure to credit risk for the relevant component, as disclosed in the statement of financial position.

Credit risk exposures relating to statement of financial position assets:	Note(s)	2021	2020
		R '000	R '000
Cash and cash equivalents	3	457,815	720,230
Statutory investments	4	245,070	183,565
Investments and deposits with banks	5	310,962	283,174
Loans and advances to customers	6	2,042,108	1,891,574
Receivables	22	13,965	11,617
Total assets subject to credit risk		**3,069,920**	**3,090,160**
Letters of undertaking issued		28,006	10,594

Maturity analysis of credit risk exposures

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

March 31, 2021

Credit risk exposure relating to statement of financial position assets:	Note(s)	Up to 1 month R '000	From 1 to 6 months R '000	From 6 months to 1 year R '000	From 1 year to 5 years R '000	After 5 years R '000	Total R '000
Cash and cash equivalents	3	434,090	23,725	-	-	-	457,815
Statutory investments	4	80,781	164,289	-	-	-	245,070
Investments and deposits with banks	5	76,941	173,679	60,342	-	-	310,962
Loans and advances to customers	6	108,302	68,151	70,978	513,794	1,280,883	2,042,108
Receivables	22	-	13,956	-	-	-	13,956
Total assets subject to credit risk		**700,114**	**443,800**	**131,320**	**513,794**	**1,280,883**	**3,069,911**
Letters of undertaking issued		28,006	-	-	-	-	28,006

March 31, 2020

Credit risk exposure relating to statement of financial position assets:	Note(s)	Up to 1 month R '000	From 1 to 6 months R '000	From 6 months to 1 year R '000	From 1 year to 5 years R '000	After 5 years R '000	Total R '000
Cash and cash equivalents	3	639,854	80,376	-	-	-	720,230
Statutory investments	4	24,933	158,632	-	-	-	183,565
Investments and deposits with banks	5	23,763	152,944	45,759	60,708	-	283,174
Loans and advances to customers	6	63,878	65,798	69,241	506,177	1,186,480	1,891,574
Receivables	22	-	11,617	-	-	-	11,617
Total assets subject to credit risk		**752,428**	**469,367**	**115,000**	**566,885**	**1,186,480**	**3,090,160**
Letters of undertaking issued		10,594	-	-	-	-	10,594

Individually assessed exposures:

The Company considers certain exposures to be individually significant, warranting an assessment of impairment individually. Large exposures are housing loans exceeding R500 000.

Management of credit risk

Loans and advances

Credit risk

The company uses external Credit Risk Scoring provided by the Credit Bureau; TransUnion's Empirica Score is used in the assessment of the probability of default of individual counterparts arising from loans and advances. The borrower's income, expenses, collateral for retail secured exposure is taken in to account and fed in to the Credit Risk Assessment/Affordability Model (CCAM).

Bank and investment balances

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

Credit risk measurement

Loans and advances to customers (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposures varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations of the likelihood of defaults occurring, of the associated loss ratios and of the default correlations between counterparties.

The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is 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.
- If the financial instrument is credit-impaired, the financial instrument in then moved to 'stage 3'.

Stage 1
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months.

Stage 2 and 3
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information on initial recognition. The ECL is always measured on a lifetime basis (Stage 2 and 3).

A further explanation is provided on how the Company determines appropriate grouping when ECL is measured on a collective basis. Refer to the information below:

The following diagram summarises the impairment requirements under IFRS 9:

31 March 2021

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
3,668	29,911	47,741

31 March 2020

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
16,160	51,046	40,697

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

Significant increase in credit risk (SICR)

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

Probability of Default

From origination of the facility and as at the impairment date, an assessment of the credit risk of the facility is performed and compared to the expectation of the credit risk as at origination of the loan. Historical data was used to estimate the 12-month PD per credit score. For each origination credit score a threshold credit score that would result in 150% increase in the PD was then determined, if the current score of an account falls below the threshold credit score linked to the origination credit score the account is moved to Stage 2. Additionally, all accounts with credit scores below 580 are moved into Stage 2, in line with the Ithala SOC credit policy. For this reason the increase in risk required to be moved to Stage 2 decreases as the origination scores approach this point.

31 March 2021	PD	SICR PD threshold	Absolute increase	Relative increase
Credit Score SICR				
580-600	5,5%	6,2%	0,7%	12,9%
600-625	3,8%	6,2%	2,4%	62,8%
625-650	2,1%	5,3%	3,2%	150,0%
650-675	0,9%	2,2%	1,3%	150,0%
675-700	0,4%	1,0%	0,6%	150,0%
700+	0,4%	0,9%	0,6%	150,0%

31 March 2021	Performing PD	Arrears PD	Absolute increase	Relative increase
Arrears SICR				
Home loans	2,1%	22,8%	20,7%	1,011,0%
Pension_b	1,2%	6,4%	5,2%	415,6%
Unsecured	12,6%	46,6%	34,0%	269,3%
VAF	5,4%	26,4%	21,0%	390,9%

31 March 2020	PD	SICR PD threshold	Absolute increase	Relative increase
Credit Score SICR				
580-600	5,3%	6,0%	0,7%	13,4%
600-625	3,8%	6,0%	2,2%	58,9%
625-650	2,4%	6,0%	3,6%	150,0%
650-675	1,3%	3,3%	2,0%	150,0%
675-700	0,6%	1,4%	0,8%	150,0%
700+	0,2%	0,5%	0,3%	150,0%

31 March 2020	Performing PD	Arrears PD	Absolute increase	Relative increase
Arrears SICR				
Home loans	2,0%	21,2%	19,2%	945,9%
Pension_b	1,3%	7,0%	5,6%	421,0%
Unsecured	12,6%	52,8%	40,2%	319,8%
VAF	3,9%	22,0%	18,1%	465,0%

Credit Score SICR table above: The individual credit scores were grouped into bands and the average PD per band is shown, as well as the average PD of the credit scores below the threshold which the accounts would be moved into Stage 2.

Arrears SICR table above: Analysis of historical experience showed that accounts in arrears less than the 30 day backstop also showed an increase in credit risk relative to up to date accounts. For this reason accounts are also moved into Stage 2. The second table shows the increase in credit risk of accounts in arrears less than 30 days compared to up to date accounts.

Days past due

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

The Company has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2021. The following table shows the impact on the 31 March 2021 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised as follows:

Lifetime PD band at initial recognition	Actual threshold applied	Change in threshold	Lower threshold	Higher threshold
Housing loans		R '000	R '000	R '000
31 March 2021				
<=545	<=545		6,288	6,288
545-570	545-570		8,872	8,872
570-605	570-605		22,430	22,430
605-625	605-625	(70)	13,814	13,743
625-650	625-650	(47)	7,271	7,224
650-675	650-675	(74)	4,971	4,897
675-999	675-999	(9)	2,191	2,182
31 March 2020				
<=545	<=545		8,139	8,139
545-570	545-570		11,524	11,524
570-605	570-605	926	29,792	30,718
605-625	605-625	1,979	17,956	19,936
625-650	625-650	2,826	13,145	15,971
650-675	650-675	1,298	7,760	9,058
675-999	675-999	527	3,163	3,690

Lifetime PD band at initial recognition	Actual threshold applied	Change in threshold	Lower threshold	Higher threshold
Micro-finance unsecured loans		R '000	R '000	R '000
31 March 2021				
<=550	<=550		93	93
550-590	550-590		193	193
590-625	590-625		64	64
625-999	625-999		89	89
31 March 2020				
<=550	<=550		660	660
550-590	550-590		1,145	1,145
590-625	590-625	3	412	412
625-999	625-999	103	346	246
Micro-finance secured loans				
31 March 2021				
<=600	<=600	7	7,983	7,976
600-699	600-699	470	7,631	7,161
31 March 2020				
<=600	<=600	197	7,204	7,401
600-699	600-699	553	6,557	7,110

Definition of default and credit-impaired assets

The Company considers a financial instrument to be in default when one or more of the following criteria are met:

Days past due

The IFRS 9 standard incorporates a further rebuttable assumption requiring that delinquency beyond 90 days result in transition of the exposure into Stage 3. This assumption has not been rebutted in the model, and all such exposures are automatically transferred into Stage 3 in the staging module of the model.

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 have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management processes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's expected loss calculation. A backstop is applied and the financial instruments are considered to have met the definition of default if the borrower is more than 90 days past due on its contractual payments.

Transition due to manual override

Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the model incorporates the use of manual overrides in order to allow management to transfer exposures to Stage 2 and Stage 3 of the impairment model. This can be done on the basis of an individual assessment that indicates a change from management as an active client to a legal collections and rundown process.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (lifetime EAD).
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12M or lifetime basis, where 12M LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Forecasts of these economic variables (the "Base, Optimistic and Downturn economic scenario") are provided by the Bureau of Economic Research "BER" on a regular basis and provide the best estimate view of the economy.

The economic variables are reassessed at each reporting date. At 1 April 2020 and 31 March 2021 the Company concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 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 likelihood of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linarite and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 March 2021 are set out below. The scenario 'Base', 'Optimistic' and 'Downturn' were used for all portfolios.

		2021	2022	2023
March 2021		R '000	R '000	R '000
Household income to disposable income	Base	76,04	75,68	75,48
	Optimistic	76,22	75,98	76,57
	Downturn	78,76	79,30	76,73
Unemployment	Base	31,60	32,37	32,35
	Optimistic	31,02	31,18	31,05
	Downturn	31,62	32,85	32,90
Gross Domestic Product (GDP)	Base	3027,15	3103,63	3153,85
	Optimistic	3042,44	3152,05	3215,67
	Downturn	3024,85	3054,89	3103,56

		2020	2021	2022
March 2020		R '000	R '000	R '000
Household income to disposable income	Base	73,22	77,50	77,52
	Optimistic	73,22	77,52	78,86
	Downturn	73,22	86,82	84,57
Real extensions to firms	Base	-0,40	2,94	1,51
	Optimistic	-0,40	5,84	4,13
	Downturn	-0,43	-1,59	-0,41

The weightings assigned to each economic scenario at 31 March 2021 were as follows:

	Base	Optimistic	Downturn
31 March 2021			
All portfolios	54%	27%	19%
31 March 2020			
All portfolios	55%	23%	22%

Scenario Sensitivity

The most significant assumptions affecting the ECL are as follows - 31 March 2021:

- Household Disposable to Disposable Income
- Gross Domestic Product (GDP)
- Unemployment

The most significant assumptions affecting the ECL allowance are as follows - 31 March 2020:

1. Household Debt to nett Disposable Income
2. Real Credit Extensions to Firms

Set out below are the changes to the ECL as at 31 March 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the company's economic variable assumptions (for example, Household Disposable to Disposable Income ECL of increasing estimate by in each of the Base, Optimistic, Downturn scenarios).

		Unemployment	Household Debt to nett Disposable Income	Gross Domestic Products (GDP)
31 March 2021		R '000	R '000	R '000
Domestic GDP				
	[-0,50%]	81,311	81,319	81,317
	No change	81,320	81,320	81,320
	[+0,50%]	81,329	81,321	81,322

		Household income to disposable income	Retail credit extensions to firms
		R '000	R '000
31 March 2020		-	-
Impact analysis	[-0,50%]	180,529	107,912
	No change	107,903	107,903
	[+0,50%]	108,337	107,983

Impact of COVID-19

The COVID-19 pandemic has had a severe impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. This in turn has had a significant impact on the risks that the Company is exposed to and the output of financial models, most specifically those used to determine credit risk exposures. This high degree of uncertainty required that the Company reassess assumptions and existing methods of estimation and judgements used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models are not calibrated for events such as the COVID-19 crisis. Given the deteriorating macroeconomic environment, specific increases in PDs and LGDs were made to appropriately capture the impact of COVID-19.

As the pandemic continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management adjustments were therefore required, in addition to the model outputs, to provide a more appropriate assessment of risk. These additional management adjustments require greater governance across the Company and have been robustly challenged and reviewed by the Credit Impairment Committee. A revised approach to the estimation of PDs, identification of significant increase in credit risk (Stage 2 impairment), forward looking scenarios and the impact on estimated ECL allowances was employed.

Estimation of PD, LGD, and SICR

Since the Company's ECL modelling methodology does not automatically consider the typical complexity of the current economic environment, management applied the above macroeconomic scenarios in conjunction with the following considerations, to determine the appropriate management adjustment when recognising ECL losses for the reporting period:

PDs and LGDs

PDs and LGDs were adjusted for forward-looking information, on a portfolio basis.

The management adjustment was further updated by applying a scaling factor to security values, where applicable, to the modelled PDs and LGDs.

The above was, in turn, tested against various qualitative factors including industry forecasts and impacted industry exposures. Appropriate sense checks were performed on the quantitative outcomes.

These PD and LGD adjustments will be reassessed as the impacts of the COVID-19 pandemic become known and the level of customer distress becomes evident within the models.

SICR events

All available information was considered, including, whether a client or a portfolio is experiencing a short-term liquidity constraint, the respective industry and the anticipated arrears in the COVID-19 environment, to determine whether a SICR event, which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses), has taken place.

Impairment losses pre- and post-management adjustments

The table below provides a breakdown of the total ECL recognised at 31 March 2021 to reflect the impairment charge calculated using the Company's approved model together with the management adjustments raised to incorporate the effects of COVID-19.

31 March 2021	Impairment losses pre-management adjustments	Management adjustments	Impairment losses
	R '000	R '000	R '000
Home loans	61,933	3,704	65,637
Micro finance - secured	15,136	-	15,137
Micro finance - unsecured	441	-	441
	77,510	**3,704**	**81,215**

31 March 2020	Impairment losses pre-management adjustments	Management adjustments	Impairment losses
	R '000	R '000	R '000
Home loans	76,444	15,136	91,580
Micro finance - secured	8,113	5,648	13,761
Micro finance - unsecured	2,545	18	2,563
	87,102	**20,802**	**107,904**

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the portfolio to be statistically credible.

Where sufficient information is not available internally, industry prctice has been that a proxy is considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Credit rating band
- Product type
- Month of book
- Arrears status

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

Maximum exposure to credit - financial instruments subject to impairment

The company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the company since the prior period.

The company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the company will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit impaired assets - 31 March 2021	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
	R '000	R '000	R '000	R '000
Housing loans	1,611,594	61,697	1,549,897	2,707,321
Micro finance - secured	405,835	15,137	390,698	670,235
	2,017,429	**76,834**	**1,940,595**	**3,377,556**

Credit impaired assets - 31 March 2020	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
	R '000	R '000	R '000	R '000
Housing Loans	1,526,729	84,158	1,442,571	3,031,057
Micro finance - secured	331,615	13,761	317,854	588,728
	1,858,344	**97,919**	**1,760,425**	**3,619,785**

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

Valuation of security

The amount of the loan is dependent on the value of the security. Therefore prior to a mortgage agreement being concluded, a valuation is done to ascertain the appropriateness of the security. The valuation is done according to the guidelines of the Valuers' Institute of South Africa. The value of the security is updated for the non-performing loans or alternatively, the value at origination remains constant. The value of the security is updated every 3 years for the performing loans using a desktop valuation.

In respect of home improvement loans granted to customers, the pension/provident proceeds are ceded to the company and the loan amount is dependent on the pension/provident amount accumulated at origination of the loan.

In respect of vehicle and taxi finance granted to customers, the amount of the loan is dependent on the market value of the asset financed which has been ceded to the company.

Enforcement of security

In the event of a defaulter failing to rehabilitate an overdue loan, the company will follow due legal process to attach and perfect the security. The properties will first be put on auction by the sheriff of the court and failure to receive an offer equal to or greater than the reserve price at the auction will result in the properties being repossessed and made available for sale.

Write-off policy

The company writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation include (i) ceasing enforcement activity and (ii) where the company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 March 2021 was R 9,4 million (2020: 5,5 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

	2021	2020
Concentration of credit risk	R '000	R '000
Loans granted within the boundaries of KwaZulu-Natal	2,021,670	1,878,700
Loans granted outside the boundaries of KwaZulu-Natal	20,438	12,874
Total	**2,042,108**	**1,891,574**

Liquidity risk

Liquidity risk relates to exposure to funding mismatches due to contractual differences in maturity dates and repayment structures of assets and liabilities resulting in the Company not being able to meet its financial obligations.

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework. The Asset and Liability Committee (ALCO) is specifically mandated to ensure appropriate liquid asset and cash reserves in relation to short term funding and stress events are available. ALCO monitors and controls adherence to the risk appetite and regulatory requirements, and ensures that adequate reserves are maintained by continuously monitoring forecasts and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. The tables below represent the contractual and expected maturities of financial liabilities as at the reporting date:

Contractual maturity analysis of financial liabilities as at 31 March 2021

		On demand	Up to one month	1 - 6 months	6 - 12 months	More than one year	Total
	Note(s)	R '000	R '000	R '000	R '000	R '000	R '000
Customer deposits	8	1,269,146	160,046	796,570	321,039	31,750	2,578,551
Trade creditors and other payables	26	20,833	37,371	4,332	2,844	9,304	74,684
Loan account with holding company	30	2,901	-	-	-	-	2,901
Total		**1,292,880**	**197,417**	**800,902**	**323,883**	**41,054**	**2,656,136**
% of weighting		49%	7%	30%	12%	2%	100%

Contractual maturity analysis of financial liabilities as at 31 March 2020

	Note(s)	On demand R '000	Up to one month R '000	1 - 6 months R '000	6 - 12 months R '000	More than one year R '000	Total R '000
Deposits due to customers	8	1,176,294	207,707	786,698	359,568	44,096	2,574,363
Trade creditors and other payables	26	32,834	38,313	4,249	-	-	75,396
Loan account with holding company	30	13,110	-	-	-	-	13,110
Total		**1,222,238**	**246,020**	**790,947**	**359,568**	**44,096**	**2,662,869**
% of weighting		**46%**	**10%**	**30%**	**14%**	**2%**	**100%**

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

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the company held deposits at call of R345 million (2020: R480 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Market risk

Interest rate risk

The company is exposed to interest rate risk on loans and advances to customers, deposits with banks and customer deposits (savings and term).

Key assumptions applied in projections and forecast cash flows are that:

- Levels of repayments (including prepayments) from existing clients will continue at a similar rate; and
- As a result of clients regularly depositing their incomes and renewing investments, net deposits (based on historical behaviour) continue growing except over the annual festive season during which higher than usual withdrawals are made. Provision for this reduction is made.

The table below demonstrates the re-pricing gap between the Company's assets and liabilities upon the application of a change in market interest rates. The table shows the impact of a 2% (2020: 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 has been presented on a net interest income basis to reflect the operations of the Company. The projected impact on the statement of comprehensive income for 12 months due to a 200 basis points increase/ (decrease) in interest rates is as follows:

	2021 R '000	2020 R '000
Increase:		
Impact of increase in yield on assets on comprehensive income	59,369	58,448
Increased net interest income percentage	-47%	-32%
Impact of increase in cost of funds on comprehensive income	(47,279)	(46,951)
Increased net interest income percentage	38%	25%
Decrease:		
Impact of decrease in yield on assets on comprehensive income	(59,369)	(58,448)
Increased net interest income percentage	47%	32%
Impact of decrease in cost of funds on comprehensive income	31,985	36,339
Increased net interest income percentage	-25%	-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

21. CREDIT IMPAIRMENT CHARGES/(REVERSALS)

	2021 R '000	2020 R '000
Net expected credit loss/credit impairments raised and released for loans and advances to customers	(25,759)	51,812
Net expected credit loss raised and released for statutory investments	80	-
Net expected credit loss raised and released for investments and deposits with banks	(10,336)	28,931
Total	**(36,015)**	**80,743**

Included in the release of credit losses for investments and deposits with banks is the release of ECL of R9,6 million on the Land Bank investment. In the prior year, the Company followed a conservative approach raising 45% ECL on the investment when Land Bank was experiencing liquidity constraints and defaulted on interest and capital obligations. Since then, Land Bank has honoured all interest payments, including arrear interest due. Land Bank has also early settled R7,2 million of the capital balance that was due in September 2021 in February 2021. The above together with the proposed settlement solution being drafted by the Land Bank has contributed to the release of R9,6 million.

22. RECEIVABLES

	2021 R '000	2020 R '000
Receivables	5,926	5,635
Non-financial instruments:		
Prepayments	8,039	5,982
Total trade and other receivables	**13,965**	**11,617**

23. INVENTORY

	2021 R '000	2020 R '000
Debit cards on hand	2,734	1,114

Inventories to the value of R1,6 million have been expensed during the current year (2020: R1,6 million)

24. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	2021			2020		
	Cost	Accumulated depreciation / impairment	Carrying value	Cost	Accumulated depreciation / impairment	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Furniture and fixtures	24,132	(20,862)	3,270	23,686	(20,088)	3,598
Motor vehicles	313	(149)	164	478	(248)	230
Office equipment	33,286	(22,361)	10,925	29,248	(19,876)	9,372
Computer equipment	62,322	(53,301)	9,021	63,558	(51,289)	12,269
Leasehold improvements	50,403	(45,890)	4,513	50,403	(44,754)	5,649
Leased property (Note 29)	64,724	(22,048)	42,676	34,371	(13,328)	21,043
Total	**235,180**	**(164,611)**	**70,569**	**201,744**	**(149,583)**	**52,161**

Reconciliation of tangible assets and right-of-use assets - 2021

	Opening balance	Additions / Modification	Disposals	Depreciation / impairment	Total
	R '000	R '000	R '000	R '000	R '000
Furniture and fixtures	3,598	484	(2)	(810)	3,270
Motor vehicles	230	-	-	(66)	164
Office equipment	9,372	4,810	(118)	(3,139)	10,925
Computer equipment	12,269	125	(1,236)	(2,137)	9,021
Leasehold improvements	5,649	-	-	(1,136)	4,513
Leased property	21,043	38,709	-	(17,076)	42,676
	52,161	**44,128**	**(1,356)**	**(24,364)**	**70,569**

Reconciliation of tangible assets and right of use asset ** - 2020

	Opening balance	IFRS transition adjustment	Additions / modifications	Disposals	Other changes, movements	Depreciation / impairment	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Furniture and fixtures	4,433	-	49	13	-	(897)	3,598
Motor vehicles	297	-	-	-	-	(67)	230
Office equipment	10,334	-	2,446	(8)	(424)	(2,976)	9,372
Computer equipment	19,437	-	1,413	(9)	424	(8,996)	12,269
Leasehold improvements	7,218	-	-	-	-	(1,569)	5,649
Leased property	-	30,916	3,704	-	-	(13,577)	21,043
	41,719	**30,916**	**7,612**	**(4)**	**-**	**(28,082)**	**52,161**

Depreciation of R24,4 million (2020: R21,6 million) and impairments of R0 (2020: R6,5 million) is included in the Statement of Comprehensive Income.

Tangible assets to the value of R6,5 million relating to three items of computer equipment housed at the Dube Trade Port data centre which were impaired due to water damage in the prior year. An insurance claim recovery of R2,0 million was received in the current financial year.

25. INTANGIBLE ASSETS

	2021			2020		
	Cost	Accumulated amortisation / impairment	Carrying value	Cost	Accumulated amortisation / impairment	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	17,550	(16,048)	1,502	17,382	(15,707)	1,675
Software work in progress	43,361	(41,083)	2,278	43,112	(32,404)	10,708
Total	**60,911**	**(57,131)**	**3,780**	**60,494**	**(48,111)**	**12,383**

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Transfers	Amortisation / Impairment	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	1,675	-	-	652	(825)	1,502
Software work in progress	10,708	1,283	(382)	(652)	(8,679)	2,278
	12,383	**1,283**	**(382)**	**-**	**(9,504)**	**3,780**

Reconciliation of intangible assets 2020 - Restated

	Opening balance	Additions	Transfers	Other changes, movements**	Amortisation	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	2,724	-	201	-	(1,250)	1,675
Software work in progress	10,291	3,201	(201)	(2,583)	-	10,708
	13,015	**3,201**	**-**	**(2,583)**	**(1,250)**	**12,383**

Amortisation of R0,8 million (2020: R1,3 million) and impairment of R8,7 million (2020: Nil) is included in the Statement of Comprehensive Income.

An amount of R32,4 million was recognised as an intangible asset impairment provision during the 2011 financial year. This impaired asset relates to the banking system project (Temenos MCB) which was scheduled to be commissioned in June 2010.

Intrinsic value may exist within the capitalised amount from the Temenos MCB project which may be realised on the implementation of a new system.

In 2018 the Company initiated new banking system project for implementation of an integrated enterprise-wide core banking platform with a digital customer centric paradigm expected to modernise the Company's technology as well as close various risk and compliance exceptions. Work-in-progress incurred to the value of R26 million is funded by a R40 million grant received from the KZN government for the purpose of funding the project. System development has been halted and an investigation is in progress to determine the recoverability of the costs incurred. In the 2020 financial year the server that housed the core banking application was damaged and there is uncertainty on the recoverability of this work-in-progress application. Engagement with the service provider is underway to try restore the application. As the carrying value of R26 million has been reduced by the grant funding received, no impairment is required.

An amount of R8,7 million has been recognised as an intangible asset impairment provision during the 2021 financial year. This impaired asset relates to development costs incurred on the first phase of a banking system project initiated in 2014 to allow the migration of products from the legacy banking system to a platform provided by an external service provider. This project was subsequently placed on hold. The development costs which were expected to be interfaced with the new enterprise platform have been impaired until the project reaches the integration stage.

**This relates to the grant funding set off against the development of the banking system. Refer to Note 36.

26. TRADE AND OTHER PAYABLES

	2021	2020
Financial instruments:	R '000	R '000
Trade payables	6,642	8,513
Accruals	26,665	27,959
Accrued audit fees	5,819	6,964
Accrued leave pay	14,985	13,740
Accrued 13th cheques	1,978	1,773
Loans and advances reflecting credit balances	4,039	3,738
Deferred Income-Government income	9,304	9,304
Lease liability	47,085	24,166
Sundry Payables	6,878	7,174
Dormant deposits	2,948	4,188
Unidentified credits	2,125	1,321
Outstanding debit cards settlements	8,286	1,880
	136,754	**110,720**

Grant deferred income relates to a government grant received by the Company for the purposes of assisting it in developing its new banking system. The new banking system has not been fully developed as at year-end, therefore only a portion of the grant has been utilised.

	2021	2020
Lease liability reconciliation	R '000	R '000
Opening balance	24,166	31,908
Additions	38,709	3,704
Interest	4,689	4,028
Repayments and other movements	(20,479)	(15,474)
	47,085	**24,166**

27. PROVISIONS

Reconciliation of provisions - 2021

	Opening balance	Additions	Utilised during the year	Total
	R '000	R '000	R '000	R '000
Provision	450	-	-	450

Reconciliation of provisions - 2020

	Opening balance	Additions	Utilised during the year	Total
	R '000	R '000	R '000	R '000
Provision	450	-	-	450

A legal dispute arose in the early 2000's between Mr Mthembu and the Company. The matter of contention is that Mr Mthembu purchased a property through the Ithala bulk PIP scheme but has been unable to take occupation of the property as it is currently occupied by a third party. A settlement offer was proposed by the Company to Mr Mthembu to cover the following: The purchase price, interest of his loan, and legal cost which was limited to a specific amount.

28. SHARE CAPITAL

	2021	2020
Authorised	R '000	R '000
191,000,000 Ordinary shares of 0,1 cent each	191	191
Reconciliation of number of shares issued:		
Reported as at 01 April	599,448	509,688
Issue of shares – 5,900 ordinary shares (2020: 8,976 ordinary shares)	59,000	89,760
	658,448	**599,448**
Issued		
Ordinary	190	190
190,046,844 (2020: 190,040,944) ordinary shares of 0,1 cent each issued and fully paid for		
Share premium	658,258	599,258
	658,448	**599,448**

29. LEASES (COMPANY AS LESSEE)

The Company's lease portfolio primarily consist of property which included branch and ATM space. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are renegotiated on expiry of the lease to reflect market rentals. The branch and ATM space leases were entered into many years ago.

Extension options

Some property leases contain extension options exercisable by the Company before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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

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

Short-term leases and leases of low-value assets

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

Details pertaining to leasing arrangements, where the company is lessee are presented below:

Net carrying amounts of right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 24).

The carrying amounts of right-of-use assets are included in the following line items:

	2021 R '000	2020 R '000
Leased property	42,676	21,043
Additions to right-of-use assets		
Leased property	38,709	3,704

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.

	2021 R '000	2020 R '000
Leased property	17,076	13,328
Other disclosures		
Interest expense on lease liabilities	4,689	4,028
Total cash outflow from leases	15,790	14,919
Lease liabilities		

Lease liabilities have been included in the trade and other payables line item on the statement of financial position. Refer to Note 26 trade and other payables.

Maturity Analysis - contractual undiscounted cash flows are as follows:

Within one year	17,607	13,929
Two to five years	18,400	7,084

30. LOAN ACCOUNT WITH HOLDING COMPANY

Holding company		
Loan account with holding company	2,901	13,110

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

Maturity analysis		
Within 1 year	2,901	13,110

31. CURRENT TAX PAYABLE (RECEIVABLE)

There is no provision for normal taxation as the Company was granted an income tax exemption in accordance with Section 10(1) (CA) (ii) of the Income Tax Act.

32. CONTINGENCIES

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

	2021 R '000	2020 R '000
Mr. PR Bele	325	325
South African Insurance Association	3,000	3,000
Tech Mahindra	21,27	21,276
	24,601	**24,601**

Mr. PR Bele

A claim was instituted against the Company by Mr. PR Bele. The claim is for damages allegedly resulting from incorrect investment advice given by a branch manager. The claim has been quantified by the applicant at an amount of R0,3 million. The claim is disputed and defended by the Company, on the basis that no such advice was provided. At year end there are good prospects of success.

Tech Mahindra

In the financial year 2020 Tech Mahindra submitted invoices for R2,7 million in respect of Licence Fees and R18,6 million in respect of system implementation. These invoices have not been settled as there is a dispute regarding the work completed. Following the inclusive findings of a review initiated by the Prudential Authority, the Company is in the process of obtaining independent legal counsel as well as conducting an investigation into the application development and result thereof.

33. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the 31 March 2021 financial year-end, South Africa experienced devastating riots predominantly in KwaZulu-Natal where the Company is exposed to virtually a 100% customer concentration risk. While South Africa had not been expected to return to pre-pandemic levels of economic output before 2023, the civil protests moved forecasts in respect of economic growth back even further.

Ithala was negatively impacted as a result of four branches having been looted and completely destroyed while a further fifteen branches were looted and vandalised. As at the end of July 2021 and the sign-off of these Annual

Financial Statements, the total financial cost arising as a result thereof has not been completely assessed. However, the Company has insurance cover with the South African Special Risks Insurance Association ("SASRIA"), a government run insurance for the purpose of insuring organisations where a loss has been suffered after a politically motivated crime, riot or strike. Consequently, no financial loss is expected in respect of assets that were stolen or damaged as a result of the rioting and looting that occurred.

The widespread economic destruction remaining in the wake of the July 2021 social unrest and rioting combined with the once-in-a-century pandemic that is not yet over has resulted in the realisation of the worst-case scenario for GDP growth prospects which is expected to have a negative impact on the Company's forecast profit trajectory over the short to medium term. Nonetheless, management remains confident that the Company will achieve its financial sustainability targets as set for the three-year period ended 31 March 2024.

34. CHANGE IN ESTIMATE

Asset Lives

Tangible assets are depreciated over its estimated useful lives taking into account residual values, where appropriate. The remaining useful lives of assets were reassessed during the current year. The effect of the change in estimate during the current year is as follows:

	2021	2020
	R '000	R '000
Decrease in depreciation	1,583	763
Increase in net book value	1,583	763
	-	-

The future impact of the change in estimate will result in depreciation of R1,6 million being recognised over the remaining life of the asset.

35. LOAN COMMITMENT

At 31 March 2021, the company had loan commitments amounting to R28,0 million (2020: R10,6 million). The loss allowance was estimated using the same impairment modelling methodology as that of loans and advances (refer Risk Management Note 20). 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 have been recognised.

36. COMPARATIVES

Intangible assets and trade and other payables have been restated. The Company incurred development cost for its new banking system in the prior year. The government grant funding received for these development cost were not utilised against these development cost in the prior year.

	2021 Restated	2020 Previously reported
	R '000	R '000
Trade and other payables		
Deferred Income-Government Grant	9,304	11,888
Intangible assets		
Net carrying value	12,383	14,966

37. CAPITAL MANAGEMENT - UNAUDITED SCHEDULE

Capital requirements

Tier I and Tier II capital is comprised of issued ordinary shares, share premium, (accumulated loss)/retained income and other regulatory adjustments such as deduction of intangible assets. (Accumulated loss)/retained income is appropriated to reserves in July annually, and as such the amounts disclosed exclude profits not approved by the Board.

The capital adequacy assessment process includes identifying the risks that the Company is exposed to, measuring capital requirements for each stand-alone risk and taking into account growth targets. The required capital level is calculated by aggregating the various stand-alone risks and adding a buffer for unforeseen losses.

The primary objective of the Company's capital management strategy is to ensure compliance with the Regulator's requirements as well as the maintenance of a healthy capital adequacy ratio required in order to support its business, maximise shareholder value and instill market and creditor confidence.

As at statement of financial position date the capital adequacy ratio was 17,44% (2020: 17,96%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank. The capital adequacy ratio is also above the Memorandum of Agreement requirement of 15%.

Capital planning is an integral part of capital management. The Risk and Capital Management Committee has been tasked with assisting the Board in discharging its capital management responsibility, and as such, should there be a need for additional capital, this Committee will drive the necessary processes in line with contingency capital planning.

Capital adequacy

	Regulatory limit		Actual	
	2021	2020	2021	2020
Capital adequacy ratio	> = 15,00%	> = 15,000%	17,44%	17,96%
Primary share capital and reserve funds adequacy ratio	> = 9,625%	> = 9,625%	16,60%	17,16%
Total risk weighted assets (R'000)			2,052,402	1,796,199

Risk weighted assets

	2021 R '000	2020 R '000
Credit risk weighted assets	1,369,625	1,145,998
Other risk weighted assets	79,150	83,499
Operational risk	603,627	566,702
Total	**2,052,402**	**1,796,19**

Capital structure

	Note(s)	2021 R '000	2020 R '000
Share capital	28	190	190
Share premium	28	658,258	599,258
Reserves		(313,828)	(277,535)
Prescribed deductions against capital and reserve funds		(3,780)	(13,641)
Total tier I capital		**340,840**	**308,272**
General provisions		17,120	14,324
Total tier II capital		**17,120**	**14,324**
Total qualifying capital		**357,960**	**322,596**

NOTES

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