



S O C L I M I T E D



REDEFINE WEALTH



2022

INTEGRATED
ANNUAL
REPORT







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National and Provincial Government



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Regulatory bodies



Suppliers



Strategic partners



Public sector customers



Employees



Customers, individuals, youth and entrepreneurs, community-based businesses (taxi associations, cooperatives and stokvels)



The environment



Communities



Media

MATERIAL MATTERS



Achieving a permanent banking licence



Compliance with applicable legislation



Growth and competitiveness



Technology



Impact of COVID-19



Employee value proposition

OUR CAPITALS



Financial capital



Human capital



Intellectual capital



Manufactured capital



Social and relationship capital



Natural capital

ACRONYMS

ACC	Audit and Compliance Committee
AFS	Annual Financial Statements
AGM	Annual General Meeting
AG-SA	Auditor-General of South Africa
AML	Anti-Money Laundering
APP	Annual Performance Plan
APR	Annual Performance Report
AR	Annual Report
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
B-BBEE	Broad-based Black Economic Empowerment
CAR	Capital Adequacy Ratio
CFT	Combating the Financing of Terrorism
CGU	Cash Generating Unit
CRMP	Compliance Risk Management Plan
COB	Class of Business
CONFEF	Consumer Financial Education Foundation
CPA	Consumer Protection Act
CPD	Continuous Professional Development
CPI	Consumer Price Index
CTIR	Cost to Income Ratio
CVP	Customer Value Proposition
EAD	Exposure at Default
ECL	Expected Credit Loss
EDTEA	Economic Development, Tourism and Environmental Affairs
ERM	Enterprise-wide Risk Management
ERMF	Enterprise Risk Management Framework
EXCO	Executive Committee
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FMAA	Financial Matter Amendment Act
FSB	Financial Services Board
FSR	Financial Sector Regulation
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FY	Financial Year
GDP	Gross Domestic Product
HLAMDA	Home Loan and Mortgage Disclosure Act
HQLA	High Quality Liquid Asset
HRCC	Human Resources and Remuneration Committee
IAC	Insurance Advisory Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IDFC	Ithala Development Finance Corporation
IFRS	International Financial Reporting Standards
IIP	Investors in people
IIRC	International Integrated Reporting Council

IMF	International Monetary Fund
IMS	Insurance Management System
ITGC	Information Technology Governance Committee
JIBAR	Johannesburg Interbank Agreed Rate
King IV	King Code of Governance for South Africa (2016)
KYC	Know Your Customer
KZN	KwaZulu-Natal
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MCC	Management Credit Committee
MEX	Member of Executive Council
MOI	Memorandum of Incorporation
MPC	Monetary Policy Committee
NCR	National Credit Regulator
NSFR	Net Stable Funding Ratio
NII	Net Interest Income
NPL	Non-Performing Loans
NPS	Net Promoter Score
NPSA	National Payment Systems Act
OBS	Off-balance sheet
OCI	Other Comprehensive Income
PA	Prudential Authority
PASA	Payments Association of South Africa
PD	Probability of Default
PEP	Politically Exposed Person
PFMA	Public Finance Management Act
PIP	Properties in Possession
PMI	Purchasing Managers' Indices
POPI	Protection of Personal Information
PPR	Policyholder Protection Rules
QPM	Quarterly Projection Model
RCMC	Risk and Capital Management Committee
RDARR	Risk Data Aggregation and Risk Reporting
ROA	Return On Assets
ROE	Return On Equity
SA GAAP	South African Generally Accepted Accounting Principles
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SB	Supervisory Body
SDL	Skills Development Levy
SESC	Social Ethics and Sustainability Committee
SICR	Significant Increase in Credit Risk
SLA	Service Level Agreement
SOC	State-owned Company
SOE	State-owned Entity
SSD	Self-service device
USSD	Unstructured Supplementary Service Data
VAT	Value Added Taxation



01

ABOUT OUR INTEGRATED ANNUAL REPORT



ABOUT OUR INTEGRATED ANNUAL REPORT

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ABOUT OUR INTEGRATED ANNUAL REPORT

OUR REPORTING PHILOSOPHY

Ithala SOC is an authentically South African financial services organisation. The well-being and success of our customers and stakeholders are integral to our commercial sustainability and our ability to create and preserve value in the short, medium and long term. This understanding informs our approach to integrated reporting.

Our 2022 Integrated Annual Report (the report or IAR) is intended to enable stakeholders to make informed assessments of our ability to create, preserve or erode value in the short term (less than 12 months) and medium term (one to three years) as well as our efforts to secure long-term value beyond these horizons through our purpose-driven strategy and business model. The report provides context to our material matters, governance principles and structures, including remuneration and overall performance. It is built on our knowledge of the interconnectedness of various internal and external factors and its impact on Ithala's ability to create sustainable value.

SCOPE AND BOUNDARY

This integrated report covers Ithala's strategy, material issues and performance from 1 April 2021 to 31 March 2022 and outlines our sustainability outlook, providing insight and assurance to our stakeholders. This includes our shareowner, Ithala Development Finance Corporation (IDFC); our ultimate shareholder, the KwaZulu-Natal (KZN) Provincial Government; National Treasury; the South African Reserve Bank (SARB); Financial Sector Conduct Authority (FSCA); our regulators and large investors. To be concise, we refer to Ithala SOC as the business. This report may be read in conjunction with the IDFC's Integrated Annual Report 2021/22, which is available at www.ithala.co.za.

REPORTING FRAMEWORKS

Our suite of reports is guided by various reporting frameworks, codes and legislation, as depicted below. Ithala takes direction on reporting from the Integrated Reporting Framework, as updated in January 2021.

Report	International <IR> Framework (2021)	South African Companies Act No. 71 of 2008	International Financial Reporting Standards (IFRS)	King IV Report on Corporate Governance for South Africa 2016 (King IVTM)	Public Finance Management Act (PFMA)
IAR	X	X		X	X
Annual Financial Statements		X	X	X	X


ASSURANCE

Ithala SOC has optimised the assurance coverage obtained from management, and internal and external assurance providers. Both internal and external assurance resources provide assurance on the effectiveness of our risk management of material issues. The combined assurance model is closely aligned with our Enterprise Risk Management (ERM) framework. External assurance has been obtained concerning the following aspects of this report:

- The Annual Financial Statements were audited by the Auditor-General (South Africa)
- In addition to the AFS and opinion included here, the external auditors provided assurance on selected information contained within the annual performance report (APR)
- A combined financial and non-financial assurance team from EY and the AG-SA, supported by Ithala's internal audit team, adopted a combined assurance approach to the information in this report

ABOUT OUR INTEGRATED ANNUAL REPORT


MATERIALITY

This integrated report focuses on matters that are material in our value-creation process. We define a material matter as one that affects our ability to deliver on strategy and remain commercially viable and socially relevant to the communities in which it operates. This includes qualitative and quantitative matters that affect our various stakeholders in their assessment of the value added by the business. Material matters and the process followed to determine these matters are outlined on page 69 of this report. 

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that relate to Ithala's future plans, objectives, goals, strategies, operations and performance. These statements and forecasts involve risk and uncertainty, given they relate to events and depend on circumstances that occur in the future; they are neither guarantees nor predictions of future performance. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, regulatory delays or changes, conditions in the operating environment, pandemics, civil unrest and natural disasters. Ithala does not undertake to update or otherwise revise any of these forward-looking statements publicly, whether reflecting on new information or future events or otherwise. The forward-looking statements have not been reviewed or reported on by our external auditors. Ithala, therefore, advises readers to use caution and their judgement in their interpretation.

APPROVAL

The Board of Ithala acknowledges its responsibility to ensure the integrity and completeness of this report. The Board and the Audit and Compliance Committee (ACC), in their advisory capacity to the Board, have applied their collective mind and reviewed the report's content. The Board is satisfied this report was prepared in accordance with the appropriate frameworks and standards listed on page 8 , addresses all material issues and presents a fair and balanced account of the performance of Ithala.

The Board of Directors approved the FY2021/22 IAR on 22 February 2023.



INkosi S Mkhize
Deputy Chairman of the Board



Dr T Vilakazi
Chief Executive Officer



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ABOUT ITHALA



ABOUT ITHALA

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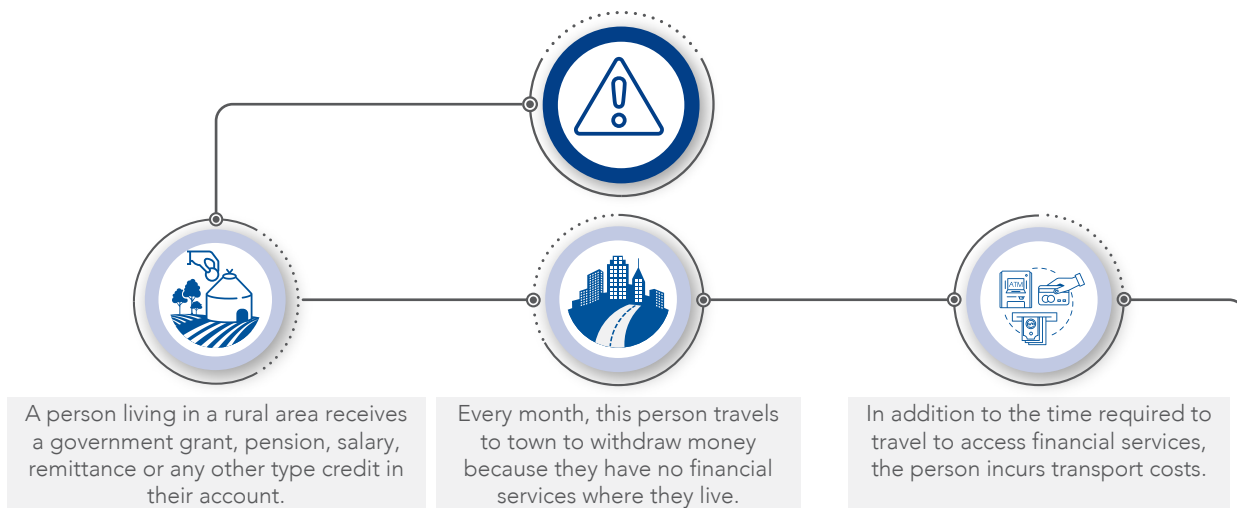


ABOUT ITHALA

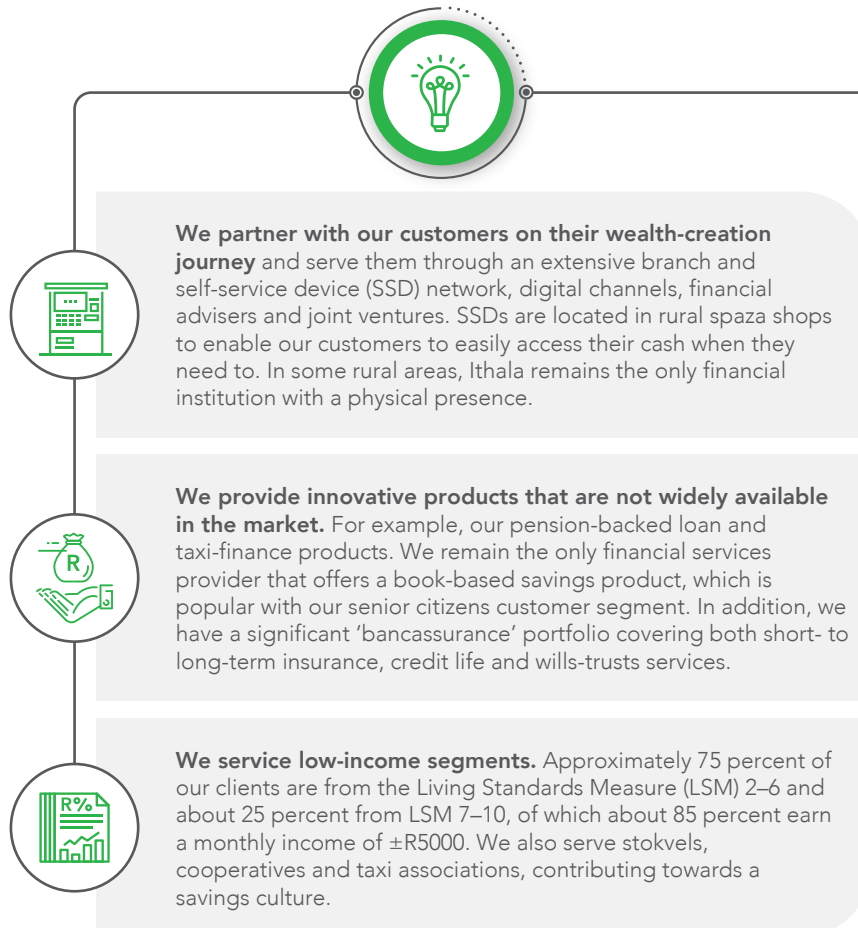
ITHALA AT A GLANCE

Ithala is a wholly-owned subsidiary of the Ithala Development Finance Corporation (IDFC). Ithala was formally established in 2001 to enhance the IDFC's financial services portfolio by providing deposit-taking capabilities. Since then, the business has grown to provide savings, lending products, transactional banking and insurance services to the people of KZN, especially those residing in rural and peri-urban areas where such services were lacking in the past. The delivery of our mandate is effectively described by using an example of a typical customer who banks with us as outlined in the diagram below.

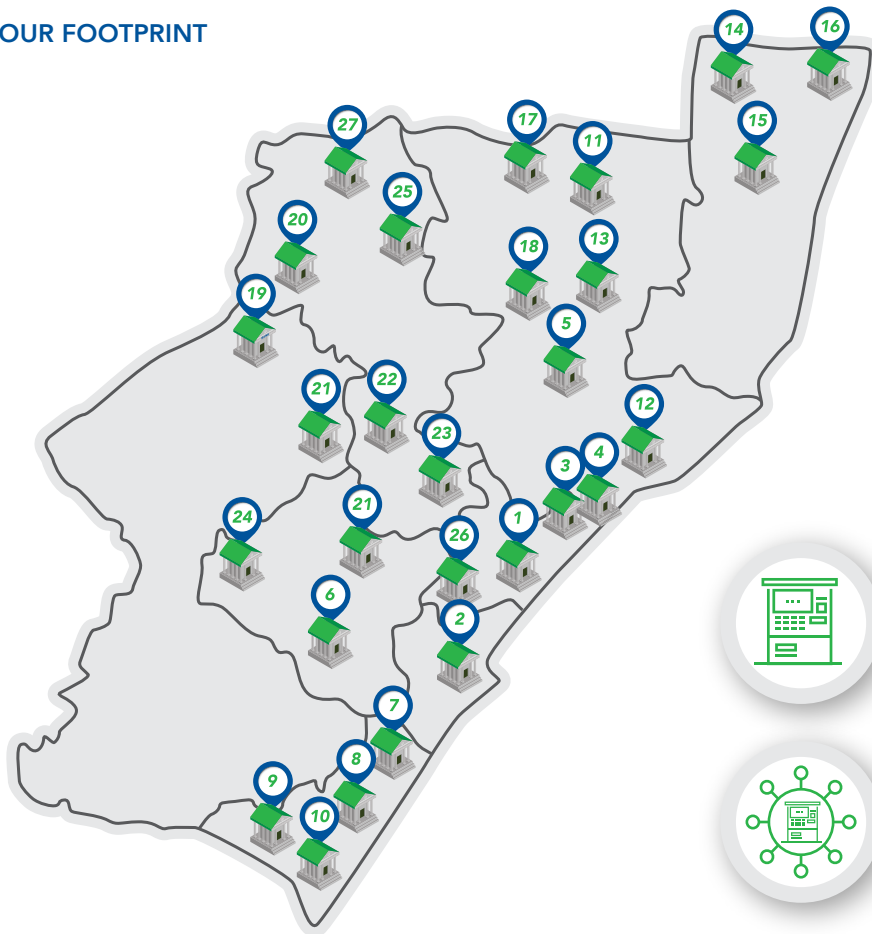
THE PROBLEM



HOW WE RESPONDED



OUR FOOTPRINT



248

self-service devices (SSDs)



10

new devices deployed in this reporting period

Branches

- | | | | | | |
|---|----------------------------------|--|-------------------------------|--------------------|---|
| 1 Gardiner Street
Umgeni Road
KwaMashu | 2 Mega City
Umlazi | 3 Stanger
Tongaat | 4 Mandini | 5 Eshowe | 6 Ixopo |
| 7 Umzinto | 8 Port
Shepstone | 9 Harding | 10 Izingolweni | 11 Nongoma | 12 Maxwell Street
Richards Bay
Mtubatuba |
| 13 Ulundi | 14 Ndumo | 15 Jozini
Ingwavuma
Mkhuze | 16 Mbazwana
Manguzi | 17 Pongola | 18 Nkandla |
| 19 Ladysmith | 20 Newcastle | 21 Estcourt
Long Market
Church Street | 22 Tugela Ferry | 23 Greytown | 24 Bulwer |
| 25 Nquthu | 26 Pinetown /
Pinewalk | 27 Vryheid | | | |

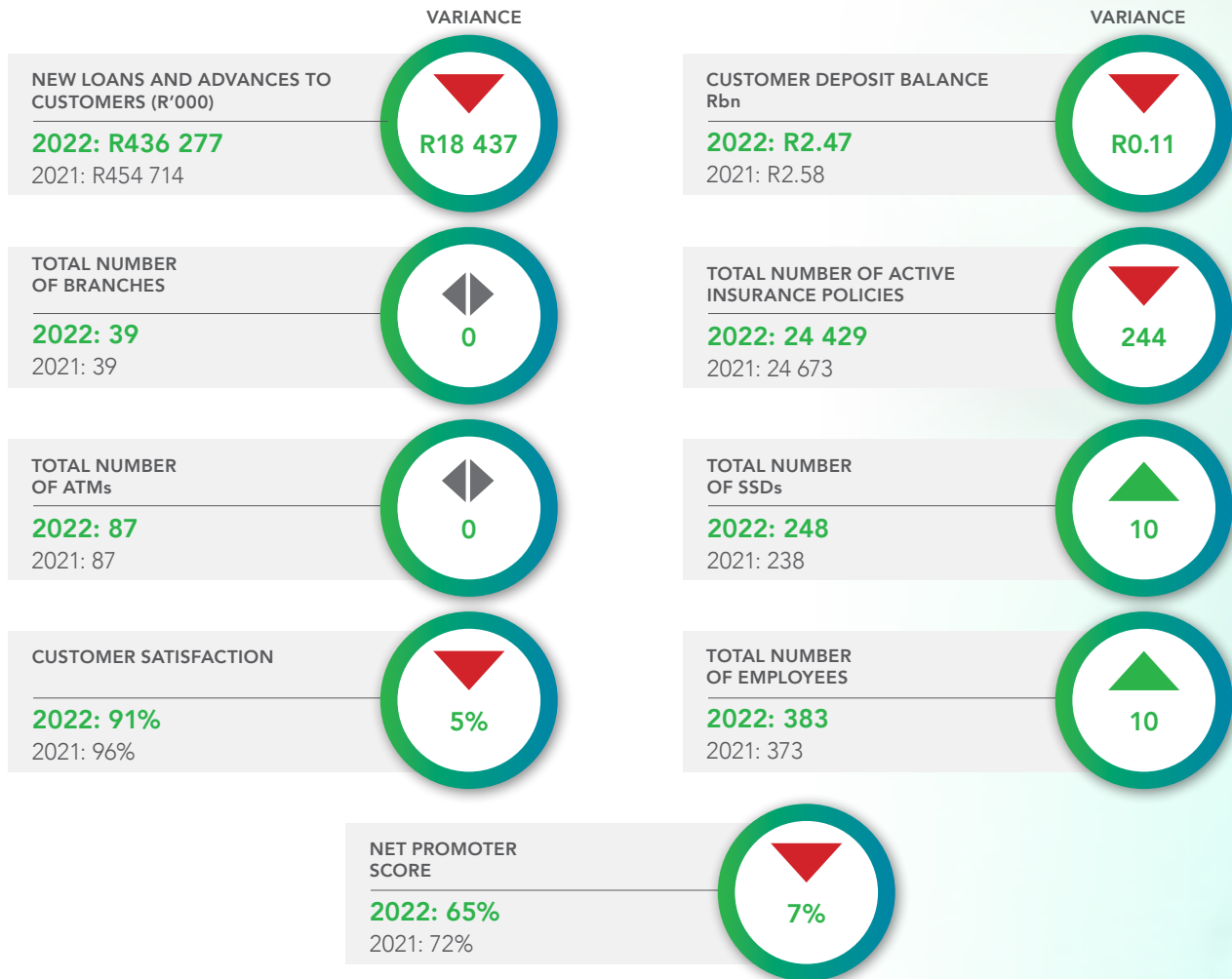
*ATMs ARE PROVIDED AT EACH BRANCH

Ithala's branch network and geographic footprint remains the same as in the last reporting period. However, following the July 2021 civil unrest, four branches were burned down. These are **Bulwer**, **Umngeni**, **KwaMashu** and **Eshowe**. Temporary branches were made available to clients in all affected areas, allowing them to continue to access our services. The refurbishment of these branches is currently underway with Eshowe scheduled to be fully operational in Q2 of FY2022/23. The Gardiner Street branch in Durban CBD has been moved to a bigger and more prominent space on Anton Lembede Street and adopted a more modern aesthetic. This is in line with our goal of becoming a future-fit business that is able to compete on an equal footing with other financial services providers.

ABOUT ITHALA

HIGHLIGHTS

Ithala has long been the sole provider of financial products and services to KZN's unbanked and poor. Our value proposition remains unique and compelling in that the business promotes financial inclusion for previously disadvantaged individuals in rural and remote communities in KZN.



Presence

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

Areas of differentiation

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





03

LEADERSHIP MESSAGES



LEADERSHIP MESSAGES

Message from Deputy Chairman
Message from CEO

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MESSAGE FROM **DEPUTY CHAIRMAN**

INkosi SN MKHIZE



Ithala is a widely recognised provider of financial services in KZN. We deliver a range of financial products and services to meet the needs of our customers. This aligns with our mandate and vision to be an innovative and responsive state-owned banking and insurance institution. We are committed to the prosperity of the province and its people.

OUR OPERATING CONTEXT

The year under review has been exceptionally challenging. Persistent economic hardships, civil unrest – including incidents of looting and rioting in parts KZN and Gauteng – and natural disasters had a negative impact on our business. Our customers and other stakeholders were also affected. The SARB estimates that looting during the July unrest resulted in damages to 1 200 automated teller machines (ATM) and 270 bank branches, which restricted access to financial services in several areas across KZN and Gauteng. The civil unrest also contributed to job losses due to the business closures that occurred after the unrest.

The period was marked by an increase in the unemployment rate. The continued shedding of jobs by the South African economy implies that although moderate growth of 1.7 percent is predicted for 2022, not enough jobs will be generated to absorb job seekers.

Despite the challenges in our operating environment, there are many great possibilities to be unlocked within the business, KZN and South Africa at large. We believe part of the sustainable and long-term solution to the high unemployment challenge is to improve access to financial services for the unbanked and for small, micro and medium enterprises (SMME), which are major job creators and account for nearly half (47 percent) the country's workforce and contribute about 20 percent towards GDP. We have an essential role to play in this and will continue to contribute to the effort by serving our customers as well as stokvels, cooperatives and taxi associations.

BOARD MATTERS

The alignment between the executive management team and the Board is key to the effective functioning of the business and the attainment of key objectives. We must have the right skills to navigate the evolving context and effectively deliver on our mandate. We were pleased to welcome Nomusa Mzimela as Company Secretary in November 2021. We were also delighted to welcome Mbali Mjiako to the Board as an independent Non-executive Director on 1 September 2022. Ms Mjiako brings extensive experience in the financial services industry, with a proven track record as a business leader and board member at companies across several sectors. I wish to acknowledge and thank Sandile Shabalala, who stepped down from the Board on in October 2021. He contributed to the Board by chairing the Insurance Advisory Committee and providing insight into significant strategic decisions during his tenure. We wish him all the best in his future endeavours.

LOOKING AHEAD |

Ithala has been operating under exemption from the Banks Act since 1 July 1998. The ultimate goal of Ithala is to be a licensed bank in the foreseeable future. Looking ahead, the Board has a clear strategic direction for the company. This strategic direction is underpinned by three value drivers: becoming more customer-centric, being exceptional in the delivery of our strategic objectives, and fostering a culture of empowered and energised staff. We also want to foster closer engagement with our stakeholders and ensure they understand our value proposition and offering. Finally, we will ensure the company attracts and retains the right calibre of talent across all levels of the business. As part of this effort, we are currently recruiting for the roles of Board Chairperson and CFO. We are also recruiting for Head: Human Resources and Head: Treasury.

ACKNOWLEDGEMENTS

We are grateful for the unwavering support of our shareholder, the IDFC and the MEC for the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA), Ravi Pillay. I would also like to thank our management, staff and our entities for their dedication and hard work. I look forward to our continued partnership.



INkosi Sbonelo Mkhize
Deputy Chairman

MESSAGE FROM CEO

DR DT VILAKAZI



FY2021/22 is a period in which the business was challenged from several directions. The year was marked by a stagnant domestic economy, civil unrest and natural disasters resulting in an abnormal external operating environment.

As we were emerging from the February 2021 cyber incident and restabilising operations, the business was impacted by the riots and looting during the civil unrest in July 2021. Four of our branches were burnt to the ground (Bulwer, Eshowe, Umngeni and KwaMashu), and we suffered physical damage to some of our branches and several ATMs. The financial cost incurred to restore our affected branches and ATMs amounts to R5.7 million, while the value of fixed assets written off is R1.8 million.

The unprecedented events of the period of unrest resulted in a R9.4 million loss as a direct result of the abrupt disruption to our business operations. We have submitted SASRIA claims and expect to cover most of the damage suffered from the unforeseeable event.

To minimise the impact of the disruption to our business operations on the delivery of services to our customers, we ensured the call centre remained open and kept our customers informed of developments via SMS. We are proud to report that we have successfully restored all our damaged branches and are building new branches for the four that were destroyed.

BANKING LICENCE AND EXEMPTION NOTICE

A banking licence is crucial to the sustainability of Ithala and all its stakeholders. It is a prerequisite for the company to expand into other market segments with new products that it is currently unable to offer. It is, therefore, not only the company's primary material matter. It is closely tied to all other material issues. Ithala could not finalise its application for a banking licence in FY2021/22. Subsequently, the Prudential Authority, with the approval of the Minister of Finance, agreed to extend the banking licence exemption until 15 December 2023, subject to the company fulfilling certain conditions.

The terms of the new exemption notice require us to maintain various performance standards in respect of its prudential requirements, profitability and financial sustainability, and corporate governance matters. As at 31 March 2022, the company had met and exceeded most of these performance standards.

A Chief Executive Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Credit, and an Anti-Money Laundering Officer were appointed during FY2020/21. Following these appointments, a Chief Risk Officer, Company Secretary and Chief Information Officer were appointed in FY2021/22. The recruitment process to fill the Chief Financial Officer is underway. We have also met our targets on minimum required capital, leverage ratio, JAWS ratio and liquid assets against liabilities. Further, we met the required targets on impaired loans and advances as a percentage of total loans and advances.

Nonetheless, the company did not meet two key conditions relating to financial performance: (1) to always remain profitable (R52.0 million loss reported for the financial year); and (2) to operate within a 78 percent cost-to-income ratio threshold (117.9 percent cost-to-income ratio reported for the financial year).

To address the stubbornly high cost-to-income ratio, we reviewed and redesigned the organisation's current operating model. This exercise is expected to eliminate revenue and operational leakages, deliver efficiencies and reorganise Ithala to make customer interactions with the business smoother and more efficient. In addition, we have increased our focus on increasing sales revenue and customer deposits. We expect these efforts to bear fruit in the coming financial year.

To be granted a banking licence, Ithala must meet the conditions of the exemption notice. We are required to procure an irrevocable and unconditional commitment and guarantee to protect depositors' interest from the Provisional Government of KwaZulu-Natal or National Government. Further, the company is required to maintain the performance standards in respect of its prudential requirements, as detailed in our AFS. Lastly, the company shall maintain a fit and proper Board of Directors and governance arrangements as required in terms of the Banks Act and Directive 4/2018.

STRATEGIC OUTLOOK

We undertook a strategic recovery programme (SRP) to achieve the goal of operating under a banking licence and attaining financial sustainability. As part of this process, we have repurposed our Rebuild-Remodel-Reimagine (RRR) strategy to accelerate improvements to our operational efficiency. For the objectives of the next phase (Rebuild) of Ithala's SRP to be executed successfully, we reviewed our short-, medium- and long-term goals. Our major focus in the short term is to increase sales revenue and reduce costs. In this context, and continuing on the journey to financial sustainability, a loss is budgeted for the 2023 and 2024 financial year of R59.8 million and R13.5 million respectively. After that a projected profit of R52.4 million is budgeted for the 2025 financial year.

OUR PEOPLE

Despite the challenges faced in the period, the business continued to meet several of the targets set as part of its RRR strategy. Notably, there were only two COVID-19-related branch closures, meaning we fulfilled our objective of ensuring the well-being of our staff and clients. We are proud of this achievement, given our people and stakeholders form the cornerstone of all our endeavours and are vital to the success and sustainability of the business.

In line with our planned evolution as an organisation, a revised organisational development and change management plan has been devised to support the implementation of the RRR strategy. Underpinning the change management support is our people agenda that focuses on the empowering our human capital. Our people agenda seeks to inculcate a culture of learning and development as we position the business for innovation and future growth.

LEADERSHIP MESSAGES

LOOKING AHEAD |

An analysis of trading results in previous years, excluding the extraordinary events of the civil unrest and the significant release of impairments in the prior year, reflects the company is on a growth trajectory. Despite posting a net loss, we have budgeted to turn around the business over the next three years to report a net profit in the 2025 financial year following the implementation of our SRP.

Our repurposed strategy envisages a fit for purpose operating model, IT and infrastructure investments, capital funding requirements, and the reduction of an external consultant and outsourcing dependencies.

We will also focus on our customer-servicing models with an emphasis on channel optimisation and customer segmentation. We believe this will position Ithala to tap into a larger addressable market. The positioning is purposed to contribute to a reduction in attrition while growing the quality of the book and optimising operations to contain excess cost drivers.

ACKNOWLEDGEMENTS

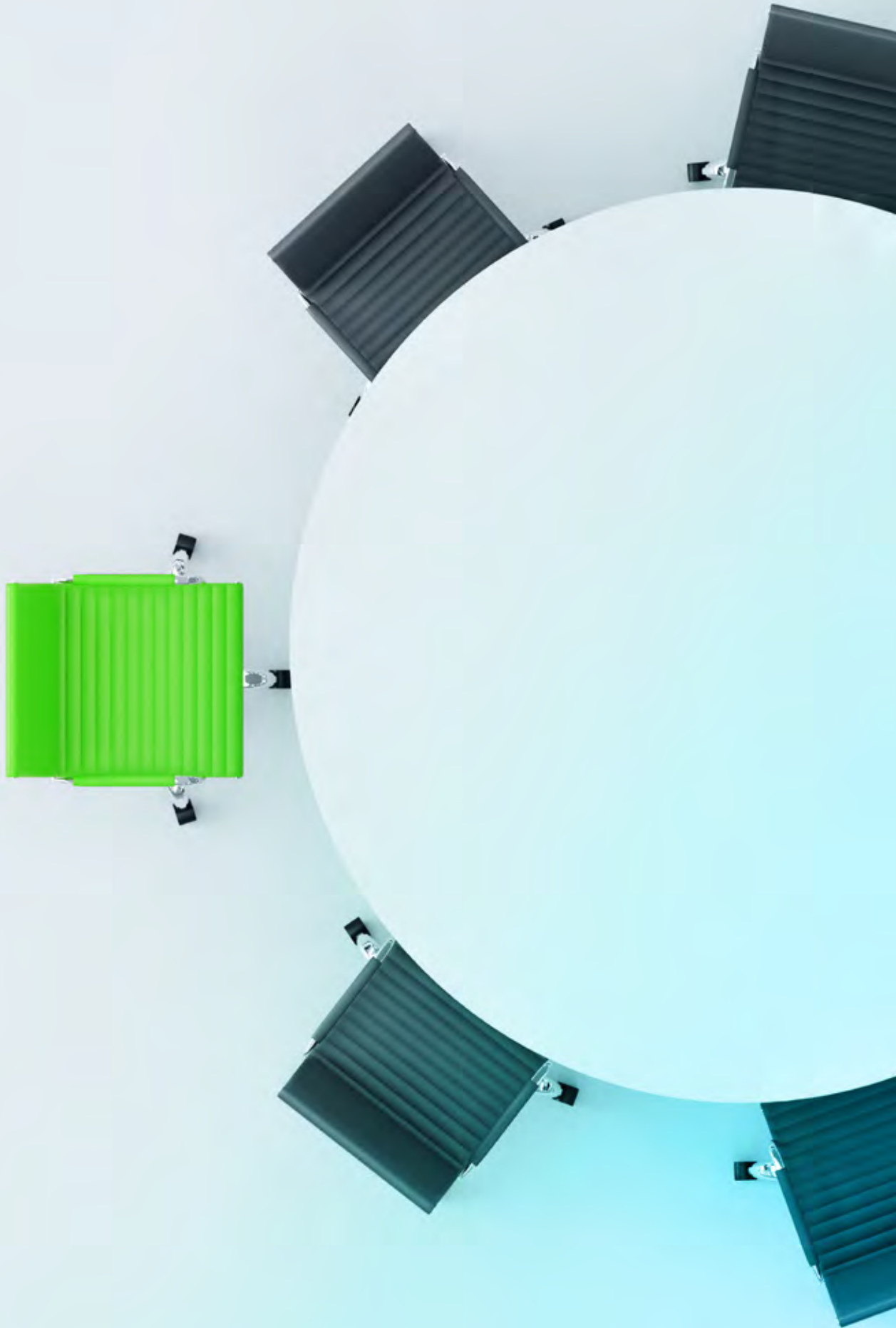
I want to thank the Board and our employees for their efforts during the year. We have emerged more resilient and determined to face the future with confidence and optimism. I also thank all our stakeholders and our customers for your continued trust.

I look forward to continuing our partnership in the coming years as we seek to broadly build sustainable wealth for individuals and the KZN province.



Dr Thulani Vilakazi
CEO

LEADERSHIP MESSAGES





04

GOVERNANCE



GOVERNANCE

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GOVERNANCE

OUR APPROACH TO GOVERNANCE

Ithala is committed to maintaining the highest standards of governance. Our governance framework is informed by principles of transparency, integrity and accountability as espoused in King IV. We are also guided by the Companies Act, No. 71 of 2008. We aim not only to meet, but exceed the legal requirements for good governance.

The Board of Ithala is the custodian of corporate governance. The Board sets the tone of the business and collectively ensures the conduct of the Board and the executive management team is aligned with Ithala's values and ethical standards. The day-to-day management of the business is vested in the executive management team, subject to the delegated powers of authority approved by the Board. The executive management team leads the implementation of Ithala's strategy, policies and operations. This allows the Board to allocate sufficient time and attention to matters reserved for strategic oversight and decision-making. Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a clear mandate and terms of reference, which the Board reviews annually.

The Board possesses a diverse set of skills, including taxation, accounting and finance, sustainability, human resources, business leadership, banking, strategy and risk management, legal and compliance. Additional skills that will be added to further strengthen the Board are banking and labour law. To this end, the Board is in the process of recruiting additional members. The recruitment process for the Board Chairperson and CFO is also underway.

The Board is satisfied it has adequately fulfilled its role in providing governance oversight for Ithala during FY2021/22.

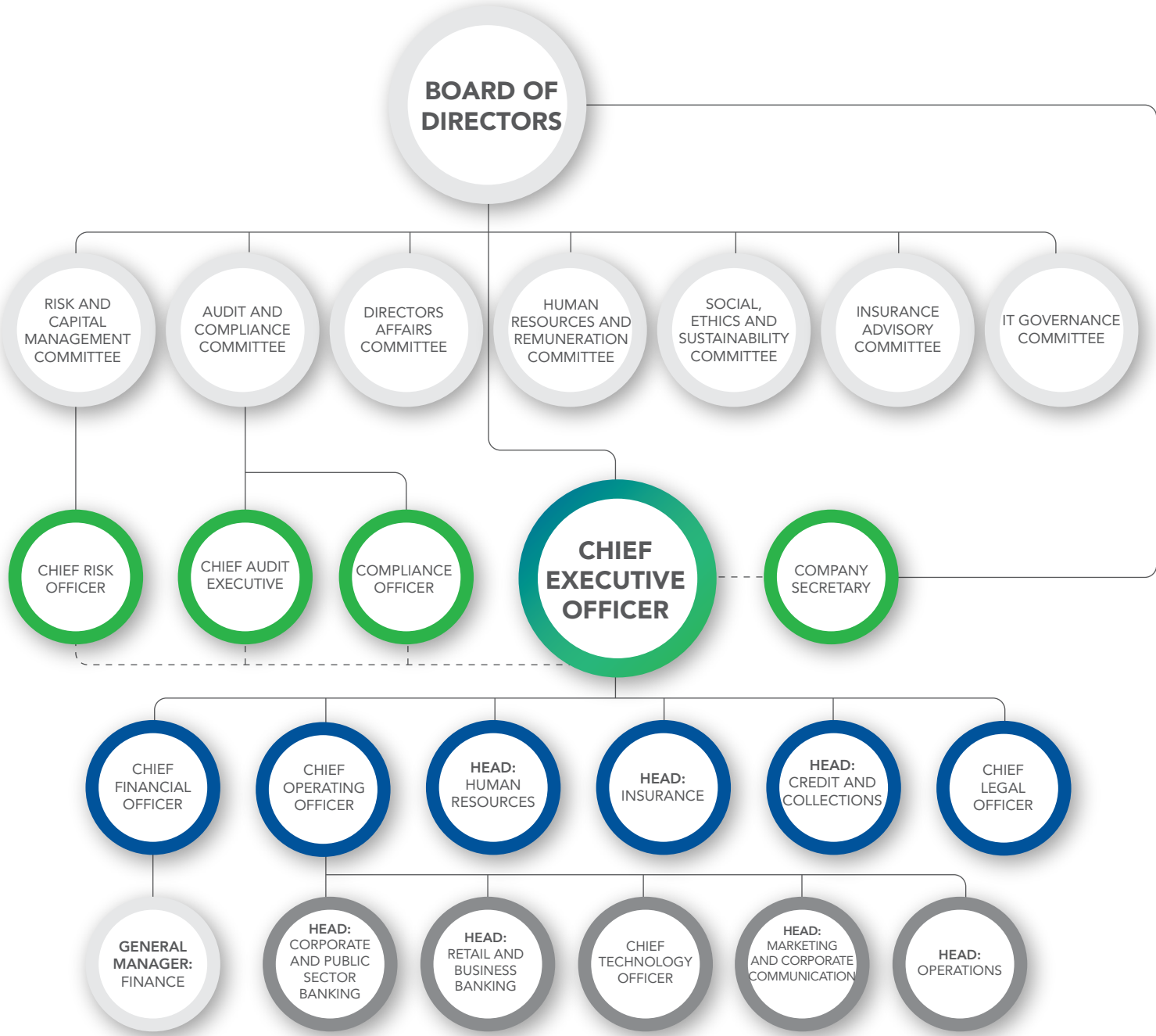
ETHICS

Ithala's governance framework envisages a relationship of trust between both internal and external stakeholders. We adopt a zero tolerance to fraud and corruption. We also adopt international best practice and embrace rigorous risk frameworks and institutional practices to ensure operations are secure and stable. This is underpinned by an internal control environment designed to safeguard the business from unethical conduct. The Board mitigates the risk of fraud and corruption through a code of ethics, which is reviewed annually. The evaluation of the effectiveness of the Board includes regular monitoring of the ethical behaviour of individual Directors and the Board as a collective.

Whistle-blowing hotline

To achieve our goal of an ethically compliant business environment, Ithala utilises the private and confidential services of an accredited external service provider. The hotline information is available in employee e-mail signatures as well as on the company's website. The hotline was continuously monitored by Risk function and necessary investigations were performed by Special Forensic Investigation team. Social and Ethics Committee provided necessary oversight over the process.

GOVERNANCE STRUCTURE



- DIRECT REPORTS TO COMMITTEES
- DIRECT REPORTS TO CEO
- DIRECT REPORTS TO COO

GOVERNANCE

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS



INkosi SN Mkhize (44)

Deputy Chairman
Appointed March 2018

- BCom in Economics
- Certificate in Public Policy



MM Pupuma (68)

Appointed August 2020

- Master of Business Leadership
- Bachelor of Accounting Sciences



GR Sibiya (54)

Appointed August 2017

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



NS Simelane (53)

Appointed January 2021

- Master of Business Administration
- Postgraduate Certificate in Business Administration



Dr SB Mnguni (45)

Appointed October 2019

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

EXECUTIVE DIRECTOR



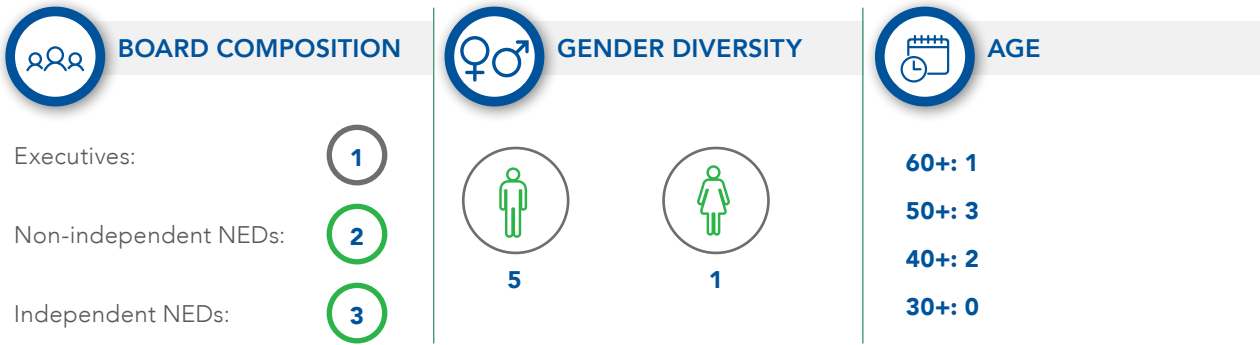
Dr DT Vilakazi (57)

Appointed September 2020

- Doctor of Business Leadership (DBL) – PhD
- Postgraduate Diploma in Company Directorship
- Master of Business Administration



Detailed Board CVs can be found on Ithala's website (<https://www.myithala.co.za/our-leadership>).



BOARD EFFECTIVENESS

The Board and its committees undergo effectiveness evaluations every two years on an alternating schedule. An independent Board evaluation was conducted in FY2021/22. The evaluation was done by the Institute of Directors Southern Africa (IoDSA). The Board was found to be well functioning and cohesive. The required structures and processes remain in place to ensure the Board has adequate oversight and that the core governance processes are well taken care of. The following focus areas were identified:

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

The recommendations and key focus areas for the next two years have been included in the Board's annual workplans. In addition, the Board and executive management team will attend a Board Leadership Training at the end of October 2022, that will be delivered by the Gordon Institute of Business Science (GIBS).

DECLARATION OF INTEREST

The Board has adopted a formal approach to addressing conflict of interest, and the declaration of interests is a standing agenda item at all Board meetings. Directors who encounter actual or perceived conflicts of interest are required to formally declare such conflicts for consideration by the appropriate committee. In instances where there may be such a conflict of interest, Directors recuse themselves from the meeting. A declaration process is in place whereby both employees and Directors submit annual declarations. The compliance officer manages the process. There were no matters of conflict in the reporting period.

GOVERNANCE

COMPANY SECRETARY

Nomusa Mzimela was appointed Company Secretary on 1 November 2021. The Company Secretary is responsible for the overall functioning of the Board in terms of the Companies Act. As the custodian of good governance and statutory compliance, the Company Secretary plays a central role in providing advice and guidance on ethics and statutory compliance. The Company Secretary also maintains and regularly updates a corporate governance manual and conducts an induction programme to familiarise new Directors with Ithala’s operations, their fiduciary duties and responsibilities. The Company Secretary attends all Board and Board Committee meetings and has unrestricted access to the Chairperson. The responsibilities of the Chairperson, CEO and Company Secretary are clearly defined in our Board charter. This ensures a separation of responsibilities and that no single individual or group of individuals have unrestricted powers. The separation of responsibilities also ensures the appropriate balance of power and authority exists on the Board. All Directors have access to the guidance and services of the Company Secretary.

BOARD REPORT



Deputy Chairman
INkosi SN Mkhize

Number of meetings
3

Meeting attendance
3/3



ROLE

The Board of Ithala exercises leadership, integrity and judgment in directing the company to ensure its strategic plan, goals and objectives are achieved in an accountable manner. The Board also exercises effective control over the company and its management, and is involved in all decisions that are material to the short-, medium- and long-term sustainability of the business.

The Board has established seven committees, which assist the Board in the discharge of its duties and responsibilities. Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each committee has a clear mandate and formal terms of reference that are reviewed annually. In addition, the Board delegates certain responsibilities to the CEO according to clearly defined terms of reference and delegated powers of authority. This allows the Board to allocate sufficient time and attention to matters reserved for decision-making.

The Board is appraised by each committee and applies its mind to all information, opinions and recommendations presented by committees or their members. In addition, the activities of the committees are periodically reported to the Board in line with annual work plans. The Board is satisfied with the performance of its committees in the year under review.

Board member	Directors Affairs Committee
	Number of meetings: 3
	Attended:
INkosi S Mkhize (Chairman)	3
Sandile Mnguni	3
Ngoni Simelane	3
Given Sibiyi	3
Mpumzi Pupuma	3
Sandile Shabalala	1



MEETING ATTENDANCE

Board Member	Board of Directors	Directors' Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committee	Human Resource and Remuneration Committee	Social, Ethics and Sustainability Committee	Insurance Advisory Committee	Annual General Meeting and Shareholder Meetings
	Number of meetings: 19	Number of meetings: 3	Number of meetings: 11	Number of meetings: 4	Number of meetings: 5	Number of meetings: 5	Number of meetings: 4	Number of meetings: 4	Number of meetings: 0
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
INKosi SN Mkhize	18	3	n/a	n/a	4	3	4	4	n/a
MM Pupuma	19	3	11	4	3	5	4	n/a	n/a
GR Sibiya	19	3	11	4	n/a	5	4	n/a	n/a
NS Simelane	18	3	4	3	5	n/a	n/a	3	n/a
SB Mnguni	16	3	1	n/a	4	n/a	1	3	n/a
SL Shabalala	6	1	7	2	2	3	n/a	2	n/a

- Mr SL Shabalala resigned as a Non-Executive Director on 27 October 2021
- Mr NS Simelane appointed to the Audit and Compliance Committee on 1 November 2021



KEY ACTIVITIES

- Appointment of Chief Risk Officer and Company Secretary effective 1 November 2021
- Assigning key performance targets to the executive management team taking into account the immediate priorities to improve the financial performance, value creation and sustainability of the business
- Ensuring the financial systems, processes and internal controls are operating effectively
- Reviewing the organisation's solvency, liquidity and going concern status in line with the Companies Act, and obtaining quarterly feedback from the Chairs of the Board committees
- Maintaining zero tolerance to unethical and fraudulent conduct in its engagements with its stakeholders in line with its code of conduct and ethics and various internal control processes
- Ensuring the organisation is a going concern and obtains a banking licence by end of December 2023

FUTURE OUTLOOK



The Board has identified the following as its key priorities in the next financial year:

- Attaining the extension for the Banking Licence Exemption Notice, the current is due to expire in December 2023
- Providing oversight of the implementation of the SRP with a focus on increased revenue and a reduction in operating costs
- Appointment of CFO, Head: HR and Head: Treasury
- Assessing the effectiveness of the Board's own governance practices, including the appointment of new Directors and implementation of recommendations of Board evaluation conducted by IoDSA
- Ensuring Ithala has an appropriate plan for executive succession by identifying successor(s) who are qualified, fit and proper in the event that the executive position becomes vacant
- Monitoring the improvements in maintaining sound internal control functions, including an effective compliance function that, among other things, routinely monitors compliance with corporate governance rules, regulations, codes and policies to which Ithala is subject and ensures deviations are reported to an appropriate level of management governance structure

AUDIT AND COMPLIANCE COMMITTEE



Chairman
GR Sibiya

Number of meetings
11

Meeting attendance
11/11



ROLE

The Audit and Compliance Committee (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. It is an advisory committee and not an executive committee. As such, it does not perform any management functions or assume any management responsibilities and shall have an objective, independent role.



COMPOSITION, SKILLS AND EXPERIENCE

The ACC consists of three members, all of whom are independent Non-executive Directors. Collectively, the members of the committee have the relevant skills and experience in corporate governance, strategy and risk management, taxation, the regulatory environment and financial services. The committee meets at least four times per year. The CEO, CFO, senior executives of the company and representatives from the external and internal auditors attend committee meetings by invitation only. Internal and external auditors have unrestricted access to the ACC.



MEETING ATTENDANCE

Board member	Audit and Compliance Committee
	Number of meetings: 11
	Attended:
Given Sibiya (Chairman)	11
Mpumzi Pupuma	11
Ngoni Simelane	4
Sandile Shabalala	7



KEY ACTIVITIES

The ACC is satisfied it has fulfilled its obligations in terms of its mandate, for the year under review. The ACC convened 11 meetings in the period under review.

The ACC also executed the following:

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

FUTURE OUTLOOK

The ACC has identified the following as its key priorities in the next financial year:

- The augmentation and the enhancement of the combined assurance model for the company
- Compliance requirements to be adhered to and any relevant pieces of legislation, including but not limited to, BASEL III
- Filling of critical vacancies
- Monitoring of key projects relating to mediation of customers in line with regulatory requirement

RISK AND CAPITAL MANAGEMENT COMMITTEE



Chairman
MM Pupuma

Number of meetings
4

Meeting attendance
4/4



ROLE

The Risk and Capital Management Committee (RCMC) assists the Board in the discharge of its duties relating to risk and capital management and provides an independent and objective view of information presented by management on capital and risk management. It monitors external developments relating to risk management, including emerging risks and their potential impact. The committee is responsible for setting measures as may be necessary to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within Ithala. It provides oversight of the governance of risk and capital management by directing the way risk and capital management should be approached and addressed and ensures risk and capital management standards and policies support the strategy and are well documented.



COMPOSITION, SKILLS AND EXPERIENCE

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



MEETING ATTENDANCE

Board member	Risk and Capital Management Committee
	Number of meetings: 4
	Attended:
Mpumzi Pupuma (Chairman)	4
Given Sibiya	4
Ngoni Simelane	3
Sandile Shabalala	2



KEY ACTIVITIES

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

The RCMC also executed the following:

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

FUTURE OUTLOOK

The RCMC has identified the following as its key priorities in the next financial year:

- Supervision of the financial soundness and sustainability of the business
- Internal capital adequacy assessment process
- Monitoring regulatory compliance and associated risks
- Providing oversight of implementation of risk management plan

IT GOVERNANCE COMMITTEE



Chairman
NS Simelane

Number of meetings
5

Meeting attendance
5/5



ROLE

The IT Governance Committee assists the Board in discharging its responsibilities relating to ensuring IT governance, as part of enterprise governance, is adequately addressed. The committee advises the Board on IT strategic direction, reviews major IT investments and exercises oversight over project implementation. It identifies and monitors risks associated with IT outsourcing, ensuring SLAs are appropriately managed.



COMPOSITION, SKILLS AND EXPERIENCE

At year-end, the committee was chaired by a Non-executive Director and comprises four Non-executive Directors. The CFO, and Chief Information Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, IT audit, regulatory universe, financial services and business leadership.



COMPOSITION AND MEETING SCHEDULE

Board member	Information Technology Governance Committee Number of meetings: 5 Attended:
Ngoni Simelane (Chairman)	5
INkosi S Mkhize	4
Mpumzi Pupuma	3
Sandile Mnguni	4



KEY ACTIVITIES

The IT Governance Committee is satisfied it has fulfilled its obligations in terms of its mandate, for the year under review. The IT Governance Committee convened 5 meetings in the period under review.

The IT Governance Committee also executed the following:

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

FUTURE OUTLOOK

The IT Governance Committee has identified the following as its key priorities in the next financial year:

- Implementation of a core banking platform
- Ensuring IT governance is in place and always adhered to by the business
- Oversight of IT capital projects

HUMAN RESOURCES AND REMUNERATION COMMITTEE



Chairman
MM Pupuma

Number of meetings
5

Meeting attendance
5/5



ROLE

The Human Resources and Remuneration Committee (HRRC) acts on behalf of the Board on matters relating to human resources and remuneration. It has been mandated by the Board to ensure Ithala has the right remuneration policies and practices to attract, motivate and retain the best talent. The committee is also responsible for ensuring those policies and practices are underpinned by good governance, accountability and fairness.



COMPOSITION, SKILLS AND EXPERIENCE

The HRRC is chaired by a Non-executive Director and comprises two Non-executive Directors. The HRRC is chaired by a Non-executive Director and comprises two other Non-executive Directors. The CEO, CFO and Head: Human Resources are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, human resources, diversity and business leadership.



MEETING ATTENDANCE

Board member	Human Resource and Remuneration Committee Number of meetings: 5 Attended:
Mpumzi Pupuma (Chairman)	5
INkosi S Mkhize	3
Given Sibiya	5
Sandile Shabalala	3



KEY ACTIVITIES

The HRRC is satisfied it has fulfilled its obligations in terms of its mandate for the year under review. The HRRC convened 5 meetings in the period under review.

The HRRC also executed the following:

- Standardisation of remuneration practices across the organisation
- Approved remuneration disclosures for the Integrated Annual Report
- Reviewing and approving HR business plan
- Reviewing and approving executive succession plan

FUTURE OUTLOOK



The HRRC has identified the following as its key priorities in the next financial year:

- Recruitment of additional Board members and executives
- Alignment of performance targets with strategic objectives and operating model
- Ensuring the well-being of staff
- Talent management and retention of staff

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE



Chairman
GR Sibiya

Number of meetings
4

Meeting attendance
4/4



ROLE

The Social, Ethics and Sustainability Committee (SESC) is responsible for reporting and making recommendations to the Board on matters relating to sustainability, ethics, social and economic development; good corporate citizenship; the environment, health and public safety; consumer relationships, including Ithala's advertising, public relations and compliance with consumer protection laws; and labour and employment.



COMPOSITION, SKILLS AND EXPERIENCE

The Social, Ethics and Sustainability Committee is chaired by an independent Non-executive Director and comprises one independent Non-executive Director and one Non-executive Director. The CEO, CFO, Chief Risk Officer, Compliance Officer and Head: HR are standing invitees. Collectively, the committee members have the relevant skills and experience in corporate governance, human resources, the regulatory environment, financial services, transformation, organisational development and ethical leadership.



MEETING ATTENDANCE

Board member	Social, Ethics and Sustainability Committee
	Number of meetings: 4
	Attended:
Given Sibiya (Chairman)	4
INKosi S Mkhize	4
Mpumzi Pupuma	4
Sandile Mnguni	1



KEY ACTIVITIES

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

The SESC also executed the following:

- Monitoring Ithala’s standing in terms of the goals and purposes of:
 - The 10 principles set out in the United Nations Global Compact Principles
 - OECD recommendations regarding corruption
 - Employment Equity Act
 - Broad-Based Black Economic Empowerment Act
- Monitoring the implementation of procedures to deal with the Supply Chain Management Policy and Procurement Plan
- Determining, for annual approval by the Board, targets for expenditure supporting existing and new B-BBEE companies and previously disadvantaged individuals (PDI) and the implementation of measures to give effect to the SCM Policy with regard to existing contracts
- Recommending for approval by the Board, the expenditure supporting BEE or BEE empowering suppliers and SMMEs for each capital and/or refurbishment project in Ithala’s portfolio
- Monitoring Ithala’s activities regarding good corporate citizenship:
 - Promotion of equality, prevention of unfair discrimination, and reduction of corruption
 - Contribution to the development of the communities in which our activities are predominantly conducted or within which our products or services are predominantly marketed
 - Keeping record of sponsorship, donations and charitable giving and to report progress to the Board
 - Monitoring the activities of Ithala in respect of the environment, health and public safety, including the impact of Ithala’s activities and of its products or services
- Developing, for annual approval by the Board, ESG targets and implementing measures to give effect to meeting (or exceeding) such ESG targets
- Monitoring and keeping the Board informed of new developments/requirements within the ESG field
- Monitoring consumer relationships, including Ithala’s advertising, public relations and compliance with consumer protection laws
- Monitoring labour and employment activities in respect of the following:
 - Ithala’s standing in terms of the International Labour Organization Protocol on decent work and working conditions
 - Employment relationships
 - Contribution towards the educational development of its employees

FUTURE OUTLOOK

The SESC has identified the following as its key priorities in the next financial year:

- Implementation of enhanced code of conduct
- Providing oversight on the implementation of CSI initiatives
- Fraud risk and fraud prevention monitoring and providing mitigating solutions

INSURANCE ADVISORY COMMITTEE



Deputy Chairman
INkosi SN Mkhize

Number of meetings
4

Meeting attendance
4/4



ROLE

The purpose of the Insurance Advisory Committee (IAC) is to lead and direct the Insurance Division until such time that a decision is made to establish a separate company for the insurance business.



COMPOSITION, SKILLS AND EXPERIENCE

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



MEETING ATTENDANCE

Board member	Insurance Advisory Committee
	Number of meetings: 4
	Attended:
INkosi S Mkhize (Chairman)	4
Sandile Mnguni	3
Ngoni Simelane	3
Sandile Shabalala	2



KEY ACTIVITIES

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

The IAC also executed the following:

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

FUTURE OUTLOOK

The IAC has identified the following as its key priorities in the next financial year:

- Developing new products for offering to existing and newly targeted customers
- Ensuring the business generates sustainable revenue
- Key insurance projects and delivery of Insurance Management System

EXECUTIVE MANAGEMENT



Dr Thulani Vilakazi (57)
Chief Executive Officer
Appointed September 2020

- Doctor of Business Leadership (DBL) - PhD
- Postgraduate Diploma in Company Directorship
- Master of Business Administration



Mr Shane Moodley (47)
Head of Retail and Business Banking
Appointed July 2015

- BCom (Financial Management)
- PASA Certificate (Payments)



Mr Aaron Pather (52)
Head of Insurance
Appointed July 2019

- MBA
- Certification of FAIS CPD Hours – Long Term Insurance
- Certification of FAIS CPD Hours – Short Term Insurance
- Certification of FAIS CPD Hours – Investments
- RE 1 – Key Individual
- Executive Leadership Development Program - ELDP
- Advanced Certificate of Management – ACM
- Senior Management Program –SMDP
- National Certificate of Wealth Management – Wealth Management



Mohamed Gafoor (43)
General Manager: Finance
Appointed April 2022

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



Mr Sethu Nsele (49)
Chief Audit Executive
Appointed September 2020

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



Advocate Kabelo Nkambule (42)
Compliance Officer
Appointed August 2020

- Admitted Advocate of the High Court
- LLB Degree
- Certificate in local and provincial Government law
- Certificate in Marketing Management
- Certificate in Management Assistant
- RE Exam (Key Individual)



Mr Sandile Xolo (44)
Head of Marketing and Communications
Appointed August 2016

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



Sibongiseni Phakathi (43)
Chief Information Officer
Appointed January 2022

- MSc Eng. (Computer Engineering)
- BSc Hons (Applied Physics)
- BSc Computer Science and Physics

GOVERNANCE



Brenda van der Lingen (54)

Chief Risk Officer
Appointed November 2021

- MBA
- Diploma in Business Management



Mr Xolani Khumalo (40)

Head of Credit and Collections
Appointed November 2020

- Bcom (Honours) – Accounting
- CA(SA)
- CFA, (passed Level 2)
- Business Risk Management Certificate



Sihle Gwala (46)

Head of Human Resources
Appointed August 2011

- BSocSc, SMDP
- BA Honours (Industrial Psychology)



Ms Nomusa Mzimela (45)

Company Secretary
Appointed November 2021

- LLB
- BAdmin (HR & Public Admin)
- Post/Graduate Certificate (Compliance Management)



KEY SKILLS AND COMPETENCIES



Banking



Financial services



Risk management



Taxation



Accounting and finance



Sustainability



Human resources



Strategy



Business leadership



Corporate governance



ROLE

While retaining overall accountability and subject to matters reserved for it, the Board has delegated authority to the executive management team to run the day-to-day affairs of the company. The executive management team is held accountable through agreed KPIs as set out in the company's corporate plan.

Ithala's executive management team is a diverse and experienced group of individuals that comprises a full-time Chief Executive Officer, Chief Audit Executive, Compliance Officer, Head of Human Resources, Head of Credit and Collections, Head of Marketing and Communications, Head of Insurance and Head of Retail and Business Banking. Recent additions to the executive team are the Chief Risk Officer and Company Secretary, who were both appointed in November 2021. The Chief Information Officer was appointed in January 2022.



CHANGES TO THE EXECUTIVE MANAGEMENT TEAM DURING THE YEAR

Lana Meyer resigned as General Manager: Finance and Acting Chief Financial Officer on 31 August 2021. Sihle Gwala resigned as Head: HR on 24 June 2022. The recruitment process is currently underway for the Chief Financial Officer, Head: HR, and Head: Treasury.



MEETING SCHEDULE

Executive Members	Designation	Number of meetings: 23 Attended:
Dr T Vilakazi	Chief Executive Officer	23
Mr S Moodley	Head: Retail Business and Banking	22
Mr A Pather	Head: Insurance	23
Mr X Khumalo	Head: Credit and Collections	23
Mr S Xolo	Head: Marketing and Communications	20
Mr K Nkambule	Compliance Officer	23
Mr S Gwala	Head: Human and Resources	22
Mr S Phakathi	Chief Information Officer	8
Ms C Gumede	Chief Risk Officer (Resigned)	1
Mr L Barnard	Chief Information Officer (Resigned)	4
Ms B van der Lingen	Chief Risk Officer	10
Executive Members INVITEES	Designation	Number of meetings: 23 Attended:
Mr S Nsele	Chief Audit Executive	23
Mr M Gafoor	General Manager: Finance	22
Ms N Mzimela	Company Secretary	10
Ms L Meyer	General Manager: Finance (Resigned)	7
Ms T Luthuli	Company Secretary (Resigned)	2

- Ms C Gumede resigned effective from 30 April 2021
- Ms T Luthuli resigned effective from 30 April 2021
- Ms L Meyer resigned effective from 31 August 2021
- Mr L Barnard resigned effective from 31 July 2021
- Appointment of Ms Mzimela effective from 15 November 2021
- Appointment of Ms B van der Lingen effective from 15 November 2021
- Appointment Mr S Phakathi effective from 06 January 2022



KEY ACTIVITIES

- Implementation of strategies and key policies approved by the Board
- Managing and monitoring the affairs of the company in accordance with approved business plans and budgets
- Monitoring the implementation of procedures to deal with the Supply Chain Management Policy and Procurement Plan
- Managing consumer relationships, including Ithala's advertising, public relations and compliance with consumer protection laws
- Implementation of CSI initiatives including the rollout of the Ithala Edu Platform and financial literacy initiatives
- Developing new products for offering to existing and newly targeted customers
- Fraud risk and fraud prevention monitoring and providing mitigating solutions

FUTURE OUTLOOK |

The executive management team has identified the following as its key priorities in the next financial year:

- Implementation of repurposed strategy with a view to obtaining a banking licence
- Implementation of the new enterprise-wide digital core banking platform
- Developing new products for offering to existing and newly targeted customers
- Fraud risk and fraud prevention monitoring and providing mitigating solutions
- Alignment of performance targets with strategic objectives and operating model

KING IV DISCLOSURES

	<p>The accounting authority should lead ethically and effectively.</p>	
<p>Application</p>		
<p>The Board of Ithala acknowledges its individual and collective responsibility for setting the company’s ethical organisational culture and commits to the highest standards of governance and ethical practice. Board members have a legal obligation to avoid conflicts of interest and make full and timely disclosure of potential conflicts.</p> <p>All Board, committee and executive management appointments are made with the sole aim of harnessing the skills, knowledge and expertise of directors to best serve the needs of the business.</p>		
	<p>The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	
<p>Application</p>		
<p>The Board is committed to the Constitution of the Republic of South Africa (including the Bill of Rights) and advances the principles of fairness, accountability and integrity in creating an ethical business culture. The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation is delegated to the Human Resources and Remuneration Committee (HRRC) and Social, Ethics and Sustainability Committee (SESC).</p>		
	<p>The accounting authority should ensure the organisation is and is seen to be a responsible corporate citizen.</p>	
<p>Application</p>		
<p>The Board retains overall responsibility for ensuring Ithala is, and is seen to be, a responsible corporate citizen. It is assisted in this regard by the SESC. A strategy session is held annually by the Board and management to review and approve the short-, medium- and long-term strategy and purpose of Ithala, with a view to ensuring the company remains aligned with its mandate and responsibilities as a state-owned development finance institution.</p>		
	<p>The accounting authority should ensure reports issued by the organisation enable stakeholders to make informed assessment of the organisation’s performance, and its short-, medium- and long-term prospects.</p>	
<p>Application</p>		
<p>The Annual Financial Statements and integrated report are reviewed by the Audit and Compliance Committee and recommended to Board for approval annually. The integrated report is distributed to relevant stakeholders and published on Ithala’s website for access by stakeholders.</p>		
	<p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	
<p>Application</p>		
<p>The role, responsibilities, membership requirements, meeting attendance and procedural conduct for the Board and its committee are documented in the terms of reference, which are reviewed annually and approved by Board.</p>		

Status indicator:

-  Applied
-  Not applied

GOVERNANCE

	<p>The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	
Application		
<p>The Board, with the assistance of the Directors Affairs Committee, considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its role and responsibilities.</p>		
<p>The process for the nomination, election and appointment of Board members is formal and transparent. The majority of the Board members are independent Non-executive Directors. The Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance.</p>		
	<p>The governing body should ensure its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p>	
Application		
<p>The composition of Board committees and the authority between the Chairman and other Directors is balanced and does not lead to instances where individuals dominate decision-making within governance structures or where undue dependency is caused. Membership of the committees is as recommended in King IV and other applicable legislation.</p>		
	<p>The governing body should ensure the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p>	
Application		
<p>An independent Board evaluation was conducted by the Institute of Directors (IoDSA) with the aim of ensuring continued improvement in its performance and effectiveness.</p>		
	<p>The governing body should ensure the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.</p>	
Application		
<p>Assessments of the performance of the Chief Executive as well as the performance of Board committees and their members were conducted. The details of such evaluations were presented to the Board and follow-up actions have been taken in respect of any areas identified for improvement.</p>		
	<p>The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	
Application		
<p>The Risk and Capital Management Committee delegates to management to continuously identify, assess, mitigate and manage risks within the existing and ever-changing risk profile of Ithala's operating environment. Mitigating controls were formulated to address the risks and the Board kept up to date on progress on the risk management plan.</p>		

Status indicator:

- Applied
- Not applied

	<p>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p>	
Application		
<p>The IT Governance Committee assists the Board with the governance of information technology. The Board is aware of the importance of technology and information as it is closely linked to the strategy, performance and sustainability of Ithala. IT policies were reviewed and approved by the Board.</p>		
	<p>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	
Application		
<p>The Audit and Compliance Committee assists the Board with reviewing the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.</p>		
	<p>The governing body should ensure the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>	
Application		
<p>The Human Resources and Remuneration Committee assists the Board with the approval of and monitoring the execution of the remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.</p>		
	<p>The governing body should ensure assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and of the organisation's external reports.</p>	
Application		
<p>The Audit and Compliance Committee ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities.</p>		
	<p>In execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach, which balances the needs, interests and expectations of material stakeholders in the best interest of the organisation over time.</p>	
Application		
<p>Ithala has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations.</p>		
	<p>The governing body of an institutional investor organisation should ensure responsible investment is practised by the organisation to promote the good governance and creation of values by the companies in which it invests.</p>	<p>This principle is not applicable to SOEs.</p>

Status indicator:

 Applied
  Not applied



05

STRATEGY



STRATEGY

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WHAT DRIVES US



OUR VISION

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



OUR MISSION

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



OUR VALUES

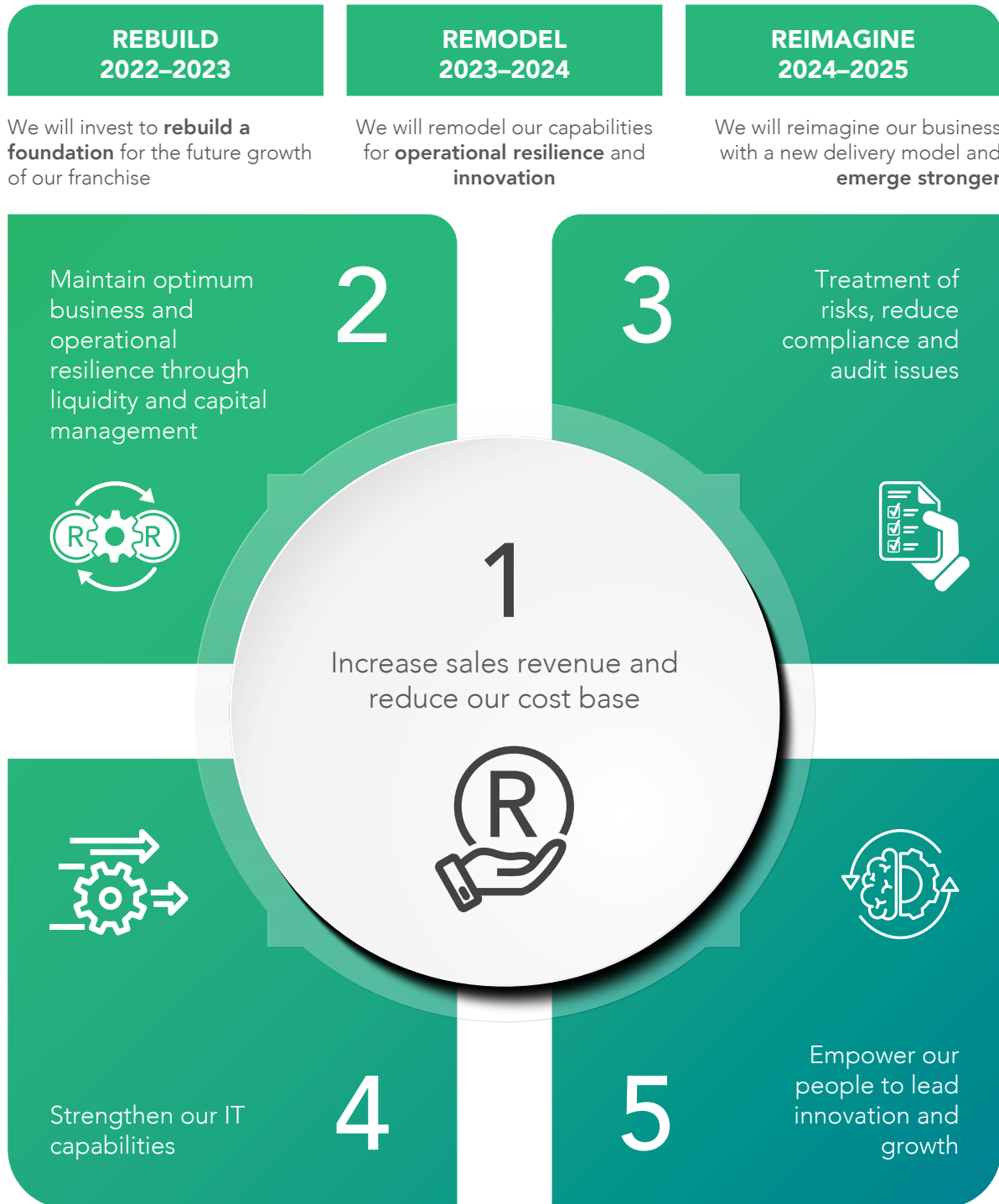
Respect	We treat each and every person in the same way that we expect to be treated.
Innovation	We become part of the solution by coming up with ways to make things happen.
Integrity	We aim to always do what is right, no matter what.
Customer satisfaction	We always put ourselves in the customer's shoes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

STRATEGIC REVIEW

During FY2021/22, Ithala's executive management team conducted a review of our internal and external operating environment. The review process also reflected on the budget implications of the PA's proposal in extending our banking licence exemption to December 2023, and assessed the proposal against our own strategic plans. As a result of the review of the SRP, a revised strategy for the short to medium term (2023–2025) was defined. Key strategic imperatives are detailed below:

- Close out compliance, risk and audit issues
- Fill key executive vacancies, specifically the Chief Financial Officer and Board Chairperson
- Develop an IT road map and modernise key IT infrastructure
- Develop plans for the restructuring of Ithala SOC Limited; this includes securing a sponsor/alliance banking partner

The refined RRR strategy is now termed: 'Rebuild, Remodel, Reimagine'. The key objectives that underpin the RRR strategy have been refined to just five, from the eight defined in the previous reporting period. These strategic objectives represent the key areas of focus that management will drive during the 2023–2025 period. The revised RRR strategy is outlined below.

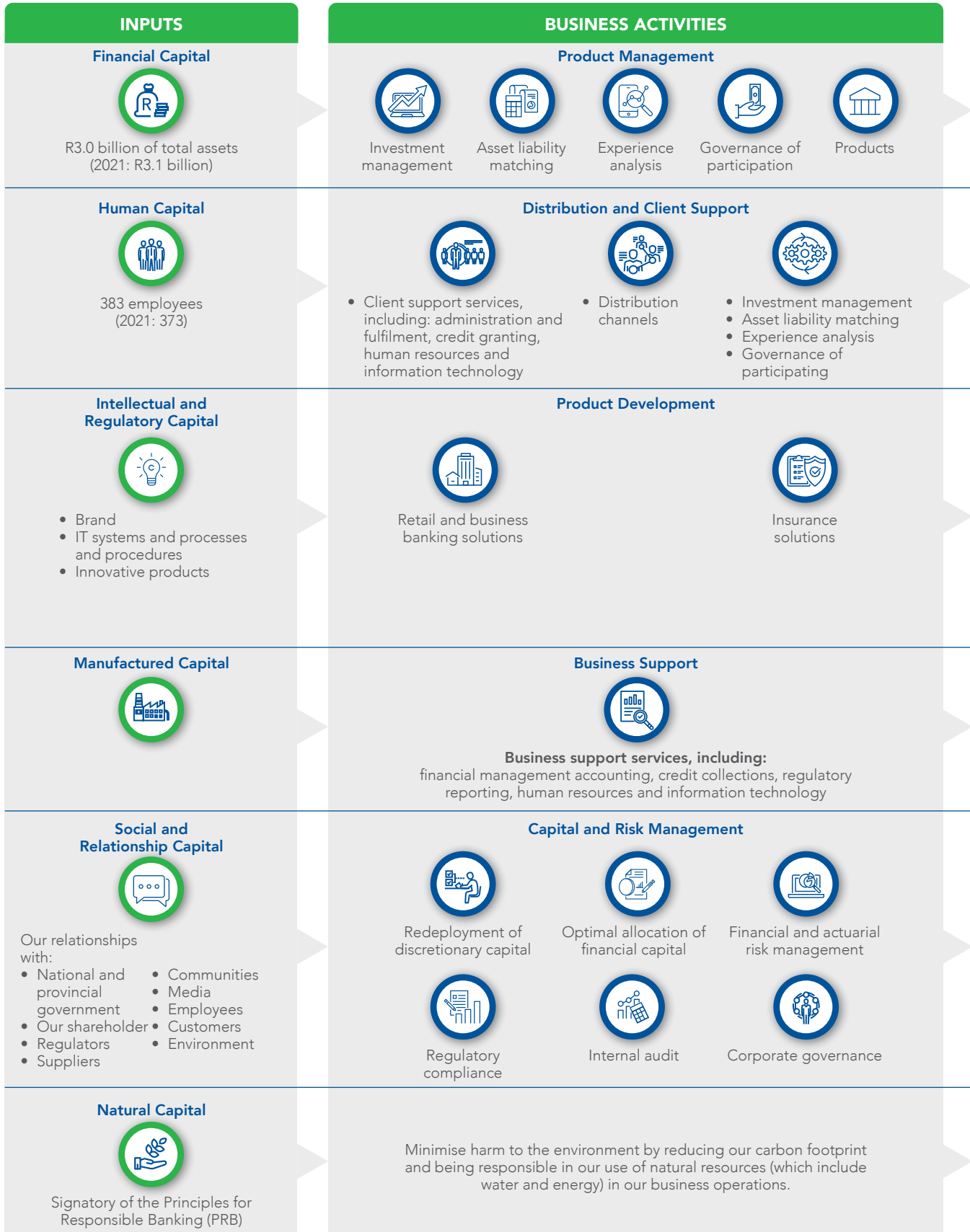


The following strategic outcomes are anticipated in the short term (FY2022/23):

1. Increasing sales revenue by 30 percent
2. Reducing costs by between 10–20 percent
3. Corporate asset restructuring
4. Rectifying compliance, audit and risk issues
5. Successful implementation of the IT road map towards progressing modernisation
6. Deliver a new customer-centric, low-cost operating model

HOW WE CREATE VALUE

Value creation is the consequence of how Ithala applies and leverages its capitals, strategy and business model to preserve and create value over the short, medium and long term. Ithala's value-creation strategy is linked to its mandate as a provincial DFI and associated legal mandate.



OUTPUTS

- CTIR: 117.9% (2021: 121.8%)
- Jaws: 3.7% (2021: 17.4%)
- CAR: 18.3% (2021: 17.4%)
- RoE: -14.31% (2021: -9.23%)
- RoA: -1.68% (2021: -1.02%)

- Value distributed to employees: R181 million (2021: R168.6 million)

- Customer deposits: R2.47 billion (2021: R2.58 billion)
- Loans and advances to customers: R2.05 billion (2021: R1.95 billion)
- Rural home loans: R19.5 million (2021: R24.1 million)
- Home improvement loans: R311 million (2021: R228 million)
- Number of debit cards: 88 986 (2021: 93 867)
- Taxi finance: R172 million (2021: R121.8 million)
- Interest paid to depositors: R57.6 million (2021: R70.3 million)

38 branches (2021: 38)

87 ATMs (2021: 87)

248 SSDs (2021: 238)

- Value distributed to suppliers: R164.4 million (2021: R140.2 million)
- Value distributed to government: R11.8 million (2021: R13.3 million)
- Value distributed to the community: R640 178 (2021: R200 000)

OUTCOMES



Going concern basis adopted in preparation of AFS



Company incurred loss



Company is reliant on continued support of shareholder



Organisational excellence through sound performance management



Trust-based relationship with customer



Rewards policy in line with strategic imperatives of the business



Enhanced business effectiveness through technology



Enhanced positioning and brand identity



Trust-based relationship with customers



Contribution to wealth creation



Contribution to economic development in KZN



Enhanced market positioning and brand identity



Established public sector banking services



Contribution to financial inclusion and economic development



Enhanced effectiveness through technology



Enhanced proximity to customers



Mutually beneficial strategic partnerships

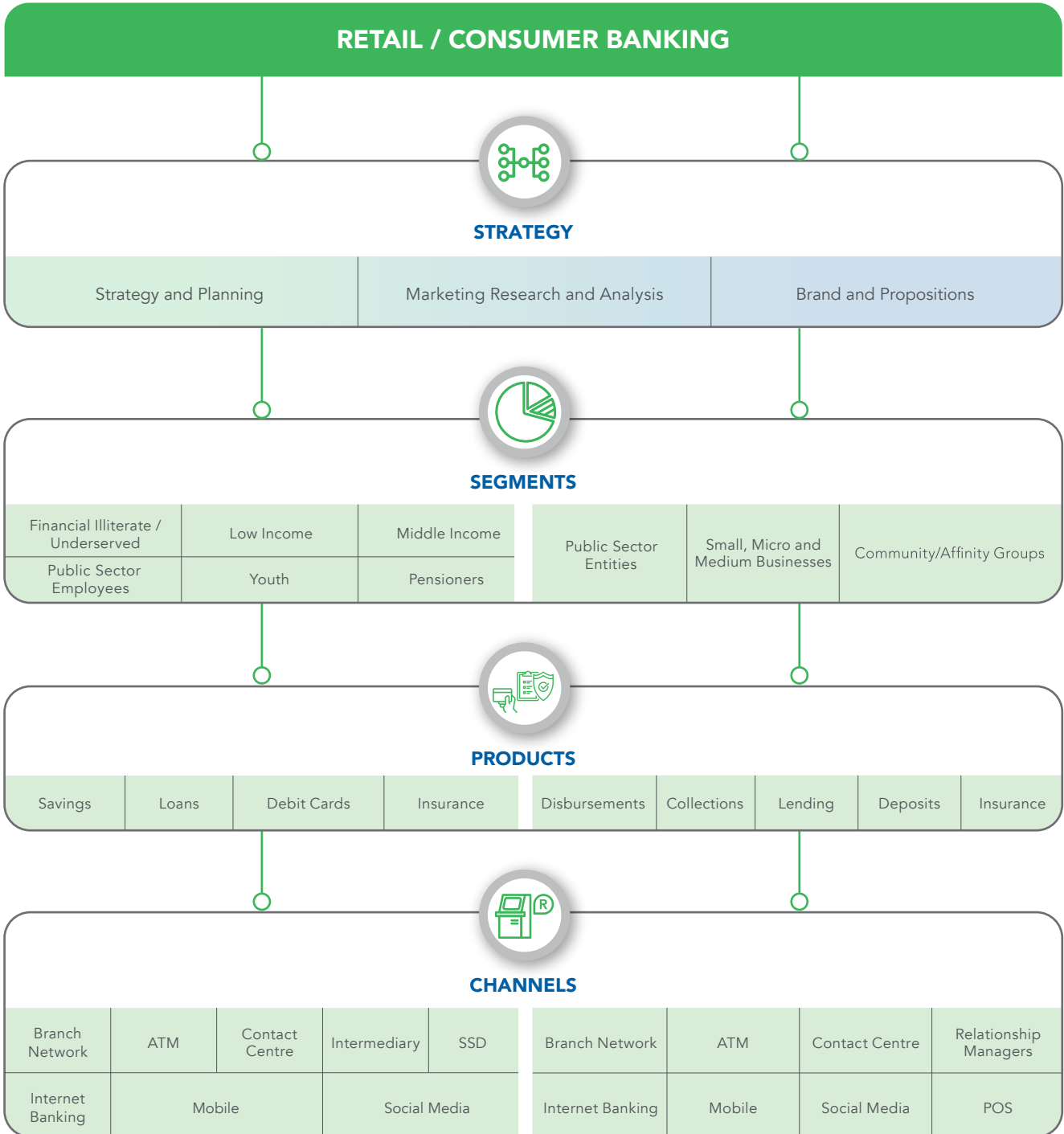


Increased recycling efforts



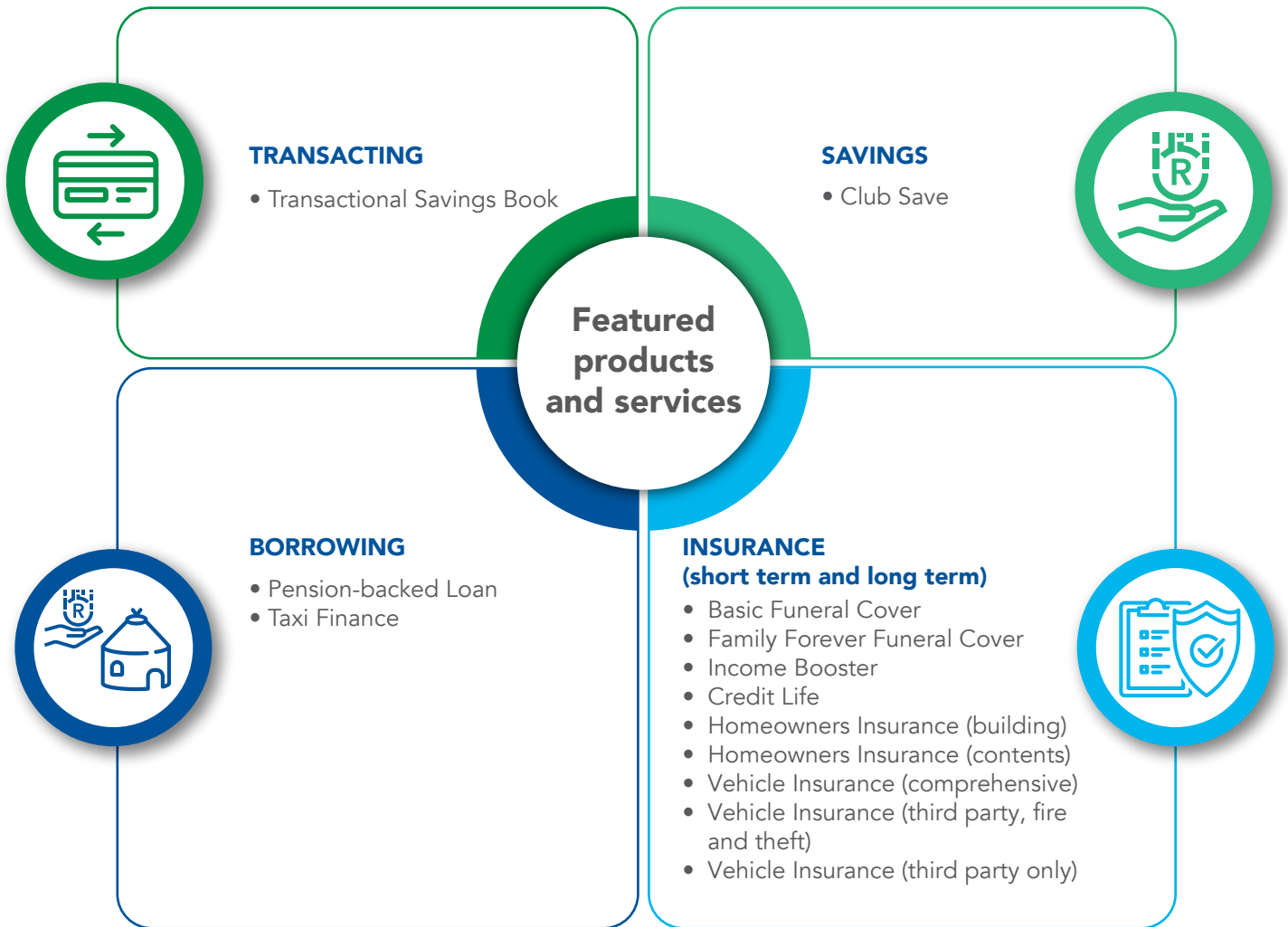
Increased adoption of digital and paperless solutions

OPERATIONAL STRUCTURE



FEATURED PRODUCTS AND SERVICES

Ithala is the only state-owned company that offers services that cover all four quadrants of banking and financial services. These include transacting, savings, borrowing and insurance (both short term and long term). We adopt a relationships-based philosophy underpinned by a commitment to creating shared value through sustainable wealth creation.



TRANSACTIONAL SAVINGS BOOK



Ithala customers expect personalised service, where staff interact with them in their mother tongue (IsiZulu) and explain transactions relating to their book accounts in a way that promotes greater understanding and informed decision-making. Customers visit their branch at least once a month to either deposit or withdraw money from their book accounts and to have their books updated with their latest transactions and balances. Such personalised service ensures this important group of customers remains loyal to the financial institution.



CLUB SAVE

Customers belonging to stokvels and other affinity clubs remain a key part of Ithala's customer base. Ithala makes meeting rooms available, enabling members to meet at year-end when their savings mature.



PENSION-BACKED LOAN

The pension-backed loan caters to customers who want to build or renovate their home, without using their home as collateral. The product is designed to provide an affordable way to improve the asset and offers excellent interest rates and repayment periods.

TAXI FINANCE

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

BASIC FUNERAL COVER

The Ithala Funeral Plan allows customers to bury loved ones with the dignity they deserve and without the financial burden that comes with planning a funeral. This affordable cover helps customers save so that they can afford to pay for the unexpected costs of a funeral, giving them the freedom to grieve and support their family in their time of need. The funeral plan pays out a lump sum from a minimum of R5k to R15k. Claims are paid out within 48 hours, as long as all the necessary documents are provided.

FAMILY FOREVER FUNERAL COVER

The Ithala Family Forever Funeral Plan covers an entire family under one premium (up to two spouses and eight children). For added benefit, premiums stop when the main member passes on but the rest of the family will still be covered for a lifetime. This affordable cover ensures customers can afford to pay for the unexpected costs of a funeral, giving them the freedom to grieve and support their family in their time of need. The Family Forever Funeral Plan pays out a lump sum from a minimum of R20k to R80k. Claims are paid out within 48 hours, as long as all the necessary documents are provided.



INCOME BOOSTER

The Ithala Income Booster covers the risk of the main insured in the event of death (both natural and accident). It pays out monthly cash benefit from a minimum of R300 to R1 000 per month for a period of 12 months.

CREDIT LIFE

This product covers the risk of the insured in the event of death or permanent disability. The full account balance gets settled in the event of death or disability. This cover may be taken with an optional retrenchment benefit, which pays out up to six law instalments if the insured is retrenched.

HOMEOWNERS' INSURANCE (BUILDING)

An Ithala buildings policy covers residential homes and outbuildings against fire, natural disasters, theft, vandalism, accidents and more. If disaster strikes, leaving the home uninhabitable, the policy also includes a temporary accommodation benefit.

HOMEOWNERS' INSURANCE (CONTENTS)

Ithala's Household Goods Cover allows clients to insure household contents against theft, fire, natural disasters and vandalism. The linked additional benefits package covers customers for many smaller risks and costs, such as loss of guest/staff property, fridge contents, replacement of keys/locks, temporary security guarding and trauma counselling.

**VEHICLE INSURANCE – COMPREHENSIVE**

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

VEHICLE INSURANCE THIRD PARTY, FIRE AND THEFT

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

VEHICLE INSURANCE – THIRD PARTY ONLY

Ithala's third party-only vehicle insurance product covers third party claims where the customer is liable for the cost of damage or injury. The linked additional benefits package includes cover for limited medical expenses for passengers, trauma counselling, emergency hotel expenses and key/remote replacement costs.

EXTERNAL ENVIRONMENT

MACRO-ECONOMIC ENVIRONMENT

In July 2021, South Africa experienced devastating riots predominantly in KZN where we are exposed to virtually a 100 percent customer concentration risk. The company was negatively impacted when four branches were looted and completely destroyed while a further 15 branches were looted and vandalised. The situation was exacerbated by the flooding experienced in KZN, which resulted in loss of life and livelihoods, destroyed infrastructure and left thousands of people displaced or homeless.

The widespread economic destruction in the wake of the July 2021 civil unrest combined with natural disasters as well as the once-in-a-century COVID-19 pandemic, whose effects continue to be felt, resulted in the realisation of the worst-case scenario for GDP growth prospects. While South Africa had not been expected to return to pre-pandemic levels of economic output before 2023, this combination of factors has moved back economic growth forecasts even further.

Data published by Statistics South Africa show real GDP recovered by 4.9 percent in 2021 following a 6.4 percent contraction in 2020. However, during 2021, the national population increased by 2.5 percent, resulting in a net decline of 4.2 percent in real GDP per capita. This is a reflection of the continued rise in poverty and inequality.

In January 2022, the SARB's Monetary Policy Committee (MPC) announced a 25 basis-point increase in the repo rate, in line with market predictions. This increase comes on top of a similar increase in November 2021, making this only the second interest rate hike in more than three years. Consequently, the prime interest rate increased from 7.25 to 7.5 percent. The MPC motivated its decision with a list of concerns, especially the faster normalisation of global policy rates and upside risks to inflation. The MPC warned on 24 March 2022 that the cost of living is expected to rise by 8.0 percent during 2022. The upward pressure on food, fuel and electricity prices will adversely impact consumer spending.

In addition, some of the major constraints that have bedevilled the domestic economy growth for many years are likely to remain. These include load shedding, weak employment outcomes and low levels of consumer and business confidence. Furthermore, the war in Eastern Europe has disrupted global supply chains, triggering a spike in global inflation and contributed to an energy crisis.


In summary, a more challenging global environment, lingering domestic constraints and a fading rebound from the 2020 crash forestall a slowdown in real GDP growth towards 2.0 percent in 2022, from a projected 4.8 percent in 2021. These factors in the external operating environment are expected to have a negative impact on the company's forecast profit trajectory over the short to medium term.

REGULATION

Financial institutions play an important role in the overall stability of the economy. Therefore, Ithala has to adopt the highest standards of regulatory compliance and adapt to the changing regulatory landscape. This entails entrenching good governance practices while retaining the flexibility to respond proactively to the fast-changing regulatory environment.

The table below provides a summary of regulatory developments in the period.

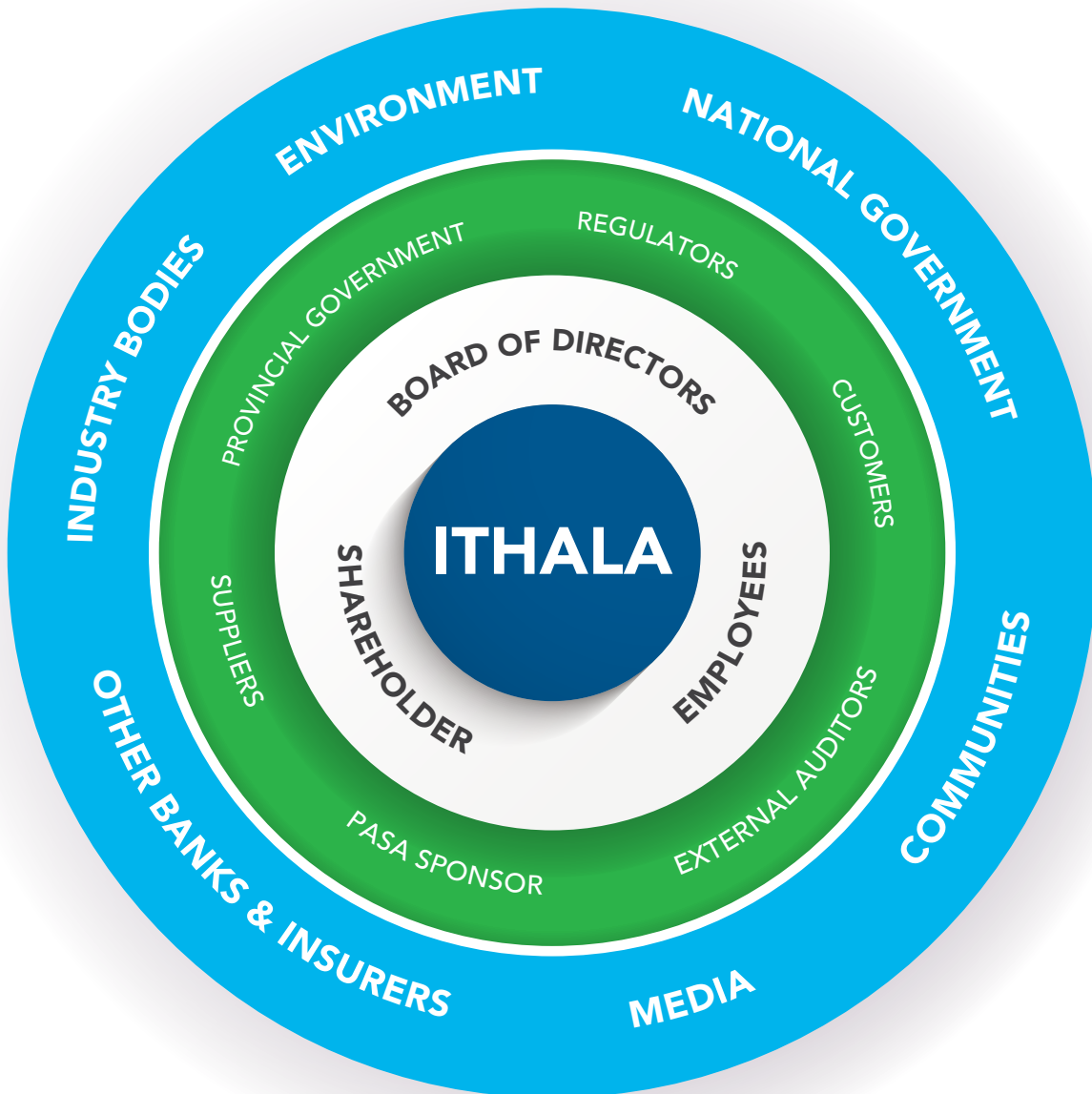
Ithala operates under an exemption issued by the PA that permits it to conduct certain business activities reserved for registered banks. Accordingly, Ithala is a SARB-regulated entity that operates under the Banks Act. For Ithala to operate competitively, the organisation must seek exemption from operating under the PFMA, as this places a burden of over-regulation on the organisation in an industry already highly regulated. Regulators are among the critical stakeholders of the business. We are committed to working closely with them to implement the necessary measures to ensure full compliance with all regulatory obligations

 Regulator	 Directive	 Status
Prudential Authority	Financial Intelligence Centre Act	The SARB remediation project has been a challenge for the organisation but Ithala continues to roll-out the project with all the obstacles present.
Financial Sector Conduct Authority	Conduct Standards for Banks	In July 2020, the FSCA published the Conduct Standards for Banks. As an organisation operating under the Banks Act, Ithala is required to comply with the published standards and has to that effect developed a plan to ensure compliance.
South African Reserve Bank	Financial Matters Amendment Act	Ithala is at an advanced stage to ensure it obtains a banking licence and finds a workable solution against the limitations posed by the Financial Matters Amendment Act in relation to Banks Act requirements for banking licences and state-owned companies.
National Credit Regulator (NCR)	National Credit Act	Ithala's approach to credit granting and relief has always been customer driven, the amendments to the National Credit Act therefore strengthen the practices Ithala has already implemented. The business shall continue to embrace all legislation focused on the needs and well-being of its customers.
National Treasury	Public Finance Management Act (PFMA)	Ithala's procurement activities are guided by the requirements of the PFMA.
The Information Regulator	Protection of Personal Information Act (POPIA)	POPIA promotes the protection of personal information processed by public and private bodies and seeks to balance the right to privacy against other rights such as access to information. Ithala shall continue to ensure the confidentiality of our clients' information is maintained and that its business practices are aligned with the prescripts of POPIA.

STAKEHOLDER REVIEW

Our ability to create value is inextricably linked to the value we create for our stakeholders and broader society. Understanding and being responsive to the interests of our stakeholders through effective dialogue and engagement is therefore a strategic imperative. We identify our material stakeholders by assessing our footprint to determine those who have a direct or indirect stake in the business and who are affected or can be affected by its actions, objectives and policies. These stakeholders include the KZN Provincial Government, the Minister of Finance, regulatory authorities, customers and communities. Ithala aims to understand their concerns, interests and expectations as they relate to its mandate and role in the development agenda and KZN and South Africa as a whole.

We recognise there may be significant diversity of interests and priorities within each stakeholder group, with individual stakeholders often having very different interests. The priority interests presented throughout this report are broadly indicative of each stakeholder group’s priorities assessed by the management team based on our ongoing engagements. The diagram below provides an overview of our key stakeholders along with their priority interests and concerns, the means through which Ithala has engaged them and the value created for them.



■ PRIMARY STAKEHOLDERS
 ■ SECONDARY STAKEHOLDERS
 □ KEY INTERNAL STAKEHOLDERS

NATIONAL AND PROVINCIAL GOVERNMENT



How we engage

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

Priority interests and concerns

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

Our response

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

Outcomes

- Ithala has been granted an extension of the banking licence exemption until December 2023.

Contribution to value creation

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

OUR SHAREHOLDERS



How we engage

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

Priority interests and concerns

- Deliver on the objectives set out in our corporate plan and targets outlined in our APP
- Sustainable financial returns
- Sustainable growth strategy
- Strong balance sheet
- Achieve a permanent banking licence
- Maintain good corporate governance

Our response

- Ithala promotes financial inclusion and supports the IDFC in the delivery of its developmental mandate
- Appointment of new Directors
- Repurposing of strategy with a view towards profitability by 2025

Outcomes

- Ithala has been granted an extension of the banking licence exemption until December 2023
- Capable leadership team is now in place

Contribution to value creation

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

CUSTOMERS



How we engage

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

Priority interests and concerns

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

Our response

- Conduct annual customer satisfaction surveys
- Roll out a relevant financial literacy programme aligned with the wealth-creation journey
- Develop and launch new products and services
- Develop strategic associations and collaborations with fintech and insurtech companies
- Develop a holistic view of our customers
- Implement structured CSI programmes

Outcomes

- Overall, Ithala customers are satisfied with the service they are receiving from Ithala and remain very loyal; 91% of customers are satisfied with the service they receive from Ithala and 80% are brand promoters. The Net Promoter Score (NPS) achieved for the year is 65%.

Contribution to value creation

Customers include individuals, youth and entrepreneurs, community-based businesses, taxi associations, co-operatives and stokvels.

REGULATORY BODIES



How we engage

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

Priority interests and concerns

- Compliance with all legal and regulatory requirements
- Active participation and contribution to industry regulatory initiatives

Our response

- Regulatory compliance
- Embracing sustainable and ethical business practices to enable a stable banking system
- Treating our customers fairly

Outcomes

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

Contribution to value creation

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

EMPLOYEES



How we engage

We engage with our employees in multiple ways including meetings with the executive management team, performance appraisals and a monthly internal newsletter. An annual culture survey is conducted by Awakening Excellence through our Investors in People (IIP) project. Ithala's HR function supports employees and line managers daily. Ad hoc engagements are conducted as required by the business and our employees.

Priority interests and concerns

- A safe and healthy work environment
- Competitive remuneration
- Fair recognition
- Opportunities for career development and growth

Our response

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

Outcomes

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

Contribution to value creation

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

COMMUNITIES



How we engage

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

Priority interests and concerns

- Responsible corporate behaviour
- Socio-economic transformation through job creation
- Investment in community initiatives

Our response

- CSI focusing on education programmes
- Internship programme in partnership with various tertiary institutions and sector education and training authorities (SETA)

Outcomes

- A total of 491 466 Grade 12 learners benefited from the Ithala Edu Platform
- 18 youth completed the internship programme
- 1 827 learners were interacted with across the WhatsApp groups created for various subjects

Contribution to value creation

Communities contribute to a conducive operating environment which in turn allows Ithala to execute its mandate.



SUPPLIERS

How we engage

We engage our suppliers through tender processes, service level agreements (SLA) and performance evaluations.

Priority interests and concerns

- Fairness and transparency in procurement processes
- Localisation and transformation of the supply chain
- Payment of invoices on time

Our response

- Prioritise Broad-Based Black Economic Empowerment (B-BBEE) suppliers
- Ensure effective management of service level agreements (SLA)
- Adhere to supply chain policies, procedures, legislation and regulations
- Utilise an anti-fraud hotline

Outcomes

- The supply chain management function, which was previously largely facilitated by the IDFC, is being developed internally

Contribution to value creation

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



MEDIA

How we engage

We engage with media on an ongoing basis or on an ad hoc basis as determined by media queries and developments in the operating environment.

Priority interests and concerns

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

Our response

- Regular updates to media on material matters, in particular, progress with obtaining banking licence and our response to the COVID-19 pandemic, July 2021 civil unrest, executive appointments and CSI initiatives

Outcomes

- Maintained ongoing positive relationship with the media
- Free positive media publicity generated during the financial year is PR Value R18.8million and the number of media articles is 177

Contribution to value creation

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



THE ENVIRONMENT

How we engage

We engage with environmental issues as dictated by business requirements.

Priority interests and concerns

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

Our response

- Reduced printing and stationery costs by 48% from R3.2 million in 2021

Outcomes

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

Contribution to value creation

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



ENTERPRISE RISK MANAGEMENT

Delivering on our mandate requires that we proactively manage both risks and opportunities and ensure we do so in a sustainable manner. Ultimate accountability for the effective management of risks and opportunities lies with the Board. The Board has delegated risk management to its sub-committees with the Risk and Capital Management Committee holding specific responsibilities in line with the committee's terms of reference. Senior management is responsible for creating a risk management culture within the business through communication, education and training. Our risk management policies are designed to set appropriate limits and controls. We regularly review our risk management policies and systems to reflect changes in markets, products and industry best practice. Our aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on our financial performance.

In executing risk oversight, the Board has adopted an Enterprise Risk Management (ERM) framework, an approach that ensures we take a holistic view of the risks inherent to our strategy, business and operations. Consequently, the management of risk and opportunity is entrenched in all facets of our planning and decision-making processes. Ethical behaviour, legislative compliance and sound accounting practices lay the foundation for internal control processes and ensure effective governance of risk.

During the year under review, a Chief Risk Officer was appointed. In addition, we reviewed our ERM practices, which incorporated changes to the company's number of principal risks, including the elevation of reputation, technology, financial crime and sustainability risk.

LOOKING AHEAD |



Ithala will continue to prioritise the monitoring and improvement of internal controls, particularly as they relate to governance and business continuity. Another area of focus will be the alignment of the repurposed strategy with the Enterprise Risk Management Framework. We will enhance our project management capacity and execution of apex projects, particularly in IT, with a view to reducing risks associated with outsourcing. Further, we will implement proactive fraud detection mechanisms that are automated to reduce reliance on whistle-blowing and fraud tip-offs.

MATERIAL RISKS

Risk type	Concerns	Response
1 STRATEGIC RISK (Including Business and Execution Risk)	<ul style="list-style-type: none"> • Potential global systemic risk which may have a knock-on effect on our book. • Operating model misalignment. • ABSA has noticed its relationship with Ithala as its payment sponsor. • Rapid disruptive innovation may outpace our ability to compete. • The continued loss-making position of Ithala cannibalises capital and may result in the prudential limit of 15% on capital adequacy being breached. • Banking License 	<ul style="list-style-type: none"> • We are closely monitoring our book and are in process to put various tactical solutions in place. • A project is underway with the advice of external consultants to address with the operating model misalignment to execute and deliver strategy. • There is a banking platform renewal project with finalisation end of 2022, which will enable us to launch product innovation and automation. • A further capital injection is expected, but there is also a realisation that Ithala must raise capital to enable it to fulfill its strategy. • Fulfillment of the current Exemption Notice.
2 CAPITAL RISK	<ul style="list-style-type: none"> • Losses are incurred due to capital and operational expenditure on various projects. • The capital buffer does not counter for any adverse market changes. • The adverse effect of possible risk premiums i.e. operational risk events, that might have an impact on the sufficiency, specifically once-off events i.e. climate change, that might erode the capital base. 	<ul style="list-style-type: none"> • Ithala is in a position to raise capital in the markets via e.g. debt instruments, however, macro-economic factors might not be favourable in terms of this decision at this stage.
3 LIQUIDITY AND FUNDING RISK	<ul style="list-style-type: none"> • A negative contractual mismatch with long term assets funded by short term deposits. 	<ul style="list-style-type: none"> • Ithala as SOC, might find it difficult to raise funds with a short-term notice. However, the possibility of a negotiation of a grant from our shareholder can be taken into consideration.
4 OPERATIONAL RISK	<ul style="list-style-type: none"> • The implication of a business disruption via a biological / natural disaster, including 'man-made' disasters which include load shedding, possible looting on the organisation. • Full implementation of Operational Risk policies and practices. 	<ul style="list-style-type: none"> • Ithala SOC Ltd put the safety of their staff and customers first. We will continue to try to keep our workplace safe. • The Risk unit is under resourced and work relentlessly to achieve compliance status.
5 INFORMATION AND TECHNOLOGY RISK	<ul style="list-style-type: none"> • Old AS-400 technology that may transverse into other risks. • Cyber threats may disrupt our core business without us having direct control. Due to recent events, we need to review our Insider Threat profile i.e. Access management, background checks, etc. 	<ul style="list-style-type: none"> • There is a banking platform technology renewal project with finalisation end of 2022. • An IT Security contractor has been appointed to address the various gaps.
6 THIRD PARTY RISK (Including Outsourcing Risk)	<ul style="list-style-type: none"> • PFMA Act sections. 	<ul style="list-style-type: none"> • Ithala SOC Ltd is unable to compare and compete with the industry due to the time-consuming processes by the restrictive nature of the PFMA. Discussions were held with Treasury to see where Ithala can obtain an exemption.

STRATEGY

Risk type	Concerns	Response
7 FINANCIAL CRIME RISK (Including fraud, bribery, corruption, cybercrime)	<ul style="list-style-type: none"> • Due to current economic conditions (unemployment, etc), we expect an increase in internal and external financial crime activities. • No Fraud Prevention Specialist and a Fraud Monitoring Tool. 	<ul style="list-style-type: none"> • Various measures have been put in place to prevent these actions in terms of the fraud triangle (motivation, rationalisation and opportunity). • We have advertised for the position to be filled. A budget was approved to obtain a Fraud Monitoring Tool.
8 COMPLIANCE RISK (Including Regulatory Risk)	<ul style="list-style-type: none"> • Non-compliance with regulatory requirements and applicable legislation. Specifically, the <ul style="list-style-type: none"> • Financial Intelligence Centre Act (CDD, CTR) • Financial Advisory and Intermediary Services Act • Banks Act 94 of 1990 • National Credit Act • Regulations and other legislation 	<ul style="list-style-type: none"> • Regulatory universe and the compliance programme (including CRMPs) are reviewed annually and approved and is currently being implemented.
9 CREDIT RISK (Incl. Concentration Risk, Counterparty Risk)	<ul style="list-style-type: none"> • Economic conditions e.g. may put pressure on the repayment of loans and / or deterioration in property market values, therefore a potential impact on the Capital Adequacy ratio. • More than 75% of the total loan book consists of Home Loans (geographically based in KZN). 	<ul style="list-style-type: none"> • Continuous focus mechanisms are in place to address potential defaults. • A product diversification strategy has been put in place to minimise the risks associated with this portfolio.
10 PEOPLE RISK	<ul style="list-style-type: none"> • High risk of possible biological diseases, new Covid-strain, Monkeypox, etc. that might influence the health of our workforce. • Future adoption of digital technologies may require significant efforts to upskill existing employees and attract new talent. 	<ul style="list-style-type: none"> • Various technical training interventions have been set up to address this matter.
11 CONDUCT RISK	<ul style="list-style-type: none"> • The Market Conduct Principles states 'All associated regulatory requirements that impact our relationship with clients is complied with at all times.' 	<ul style="list-style-type: none"> • These principles are an integral and integrated part of our mission to support our market.
12 ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK (ESG)	<ul style="list-style-type: none"> • ESG risks include environmental risk, social risk and governance risk and the resulting impact on the organisation's P&L and liquidity. Climate change risks can affect the organisation directly (e.g. storm damage to buildings), but also affect customers (change in sales opportunities, production disruptions, etc.) leading to, for example, higher loan defaults. 	<ul style="list-style-type: none"> • The resilience of our business is a key focus area via the Business Continuity Disaster Recovery (BCDR) from a Climate Change perspective.
13 REPUTATIONAL RISK	<ul style="list-style-type: none"> • Negative perceptions may arise on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect an organisation's ability to maintain existing or establish new business relationships. A 'noble' strategic intention can be destroyed overnight due to the aforementioned. 	<ul style="list-style-type: none"> • Many tactical plans have been implemented to minimise any potential negative views.

COMPLIANCE

The Board of Ithala has adopted a zero-tolerance attitude towards regulatory misconduct and unethical practice. It is committed to a culture of compliance, which goes beyond a tick-box exercise. This culture of compliance is embedded throughout the business. Compliance with the Banks Act, Financial Intelligence Centre Act and improvement of the compliance culture were top priorities in FY2021/22. The following initiatives were undertaken:

- Ithala undertook to manually remediate its clients' Know Your Client (KYC) information. KYC remediation was delivered on a project basis and over 45% of the clients have been remediated
- Ithala is in a final stage of procuring a customer on-boarding partner that will ensure all the regulatory concerns raised by the PA and the Financial Intelligence Centre are promptly resolved
- Ithala has embarked on a process to store its business records – including customer information – on a digital platform
- Ithala is in a final stage of appointing a document management service provider

All the above initiatives will ensure Ithala is fully compliant with the Financial Intelligence Centre Act and other legislative requirements.

INTERNAL AUDIT

Internal audit has been established in accordance with regulation 38 of the Banks Act and King IV. It provides the information needed to assist in the establishment and maintenance of an effective system of internal controls to manage the risks and opportunities associated with the business and form a third line of defence. Internal audit activities are conducted in accordance with International Standards for the Professional Practice of Internal Auditing. The Chief Audit Executive is an independent member of the Executive Committee and functionally reports directly to the Audit and Compliance Committee (ACC). The Chief Audit Executive (CAE) tables an internal audit charter, a three-year rolling audit plan and an annual audit plan at ACC meeting for reviews and approval. On a quarterly basis, a report is presented to the ACC by CAE on the status of risk and control environment based on audit work done.

Key priorities in the period under review included increasing the levels of efficiency and effectiveness and minimising revenue leaks within the business. This focus will continue as the executive management team implements the SRP and new operating model, with a view to steering the business towards profitability.

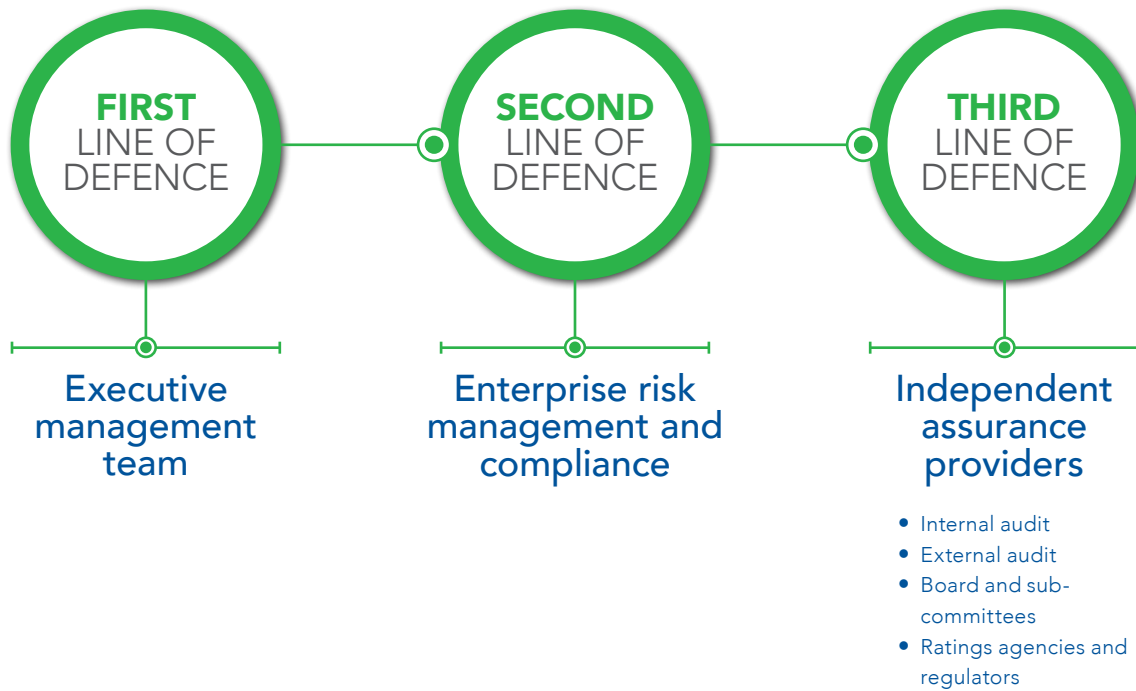
COMBINED ASSURANCE MODEL

Ithala's combined assurance framework encompasses all assurance functions and activities, including from both internal assurance functions and external assurance service. The organisation's implementation of combined assurance is currently being reviewed to achieve better alignment with the King IV recommended practices on combined assurance.

STRATEGY

THREE LINES OF DEFENCE

The first line of defence includes the executive team along with managers of various business units and employees. Collectively, they are responsible for building the risk-aware culture and implementing risk monitoring and prevention procedures. Each employee has a responsibility in this regard. The second line of defence comprises the fraud and risk function. Guided by Ithala's ERM framework, the function is responsible for developing and documenting risk policies, coordinating risk management and fraud detection, and reporting to the executive team and Board. The internal audit function is the third line of defence. It independently audits risk processes throughout the organisation. It receives and provides assurance on the management of risk and drives combined assurance.







MATERIAL MATTERS

MATERIALITY DETERMINATION PROCESS

This report focuses on matters that are material in Ithala’s value-creation process. We define a material matter as one that affects our ability to deliver on our strategy and to remain commercially viable and socially relevant to the communities in which we operate. This includes both qualitative and quantitative matters that affect our various stakeholders in their assessment of the value added by the business.

While Ithala did not conduct a formal materiality assessment, the material matters presented in this report are those that regularly arise in the majority of forums around the business, including Board and committee meetings, executive meetings and risk reports. The processes with input into these various forums include wide-ranging stakeholder engagements conducted in the reporting period under review, periodic assessments of the business environment and strategy, material stakeholders’ expectations, as well as issues emanating from the risk management process.


For Ithala, materiality is also determined by broader societal expectations. The business has therefore considered its mandate and commitment to the people of KZN. This means Ithala needs to prioritise the expectations the tax base has for Ithala, as well as its potential impact on broader society. The material matters are described below and reflected in the disclosures throughout the report.

 <p>BANKING LICENCE</p> <p>Please see page 59 for more information on this material matter.</p>	Associated capitals		
	 <p>Financial</p>	 <p>Social and relationship</p>	 <p>Human</p>

DESCRIPTION AND DESIRED OUTCOME

A banking licence is crucial to the sustainability of the business and all its stakeholders. It is required for Ithala to expand into other market segments with new products it is currently unable to offer. It is therefore not only our primary material matter, it is closely tied to all other material issues.

OUR STRATEGIC RESPONSE


Ithala has adopted a repurposed strategic plan focused on enabling Ithala to obtain a banking licence. These strategic imperatives are discussed on page 59 of this report. 


 <p>COMPLIANCE</p> <p>Please see page 69 for more information on this material matter.</p>	Associated capitals	
	 <p>Social and relationship</p>	

DESCRIPTION AND DESIRED OUTCOME

Ithala operates in a highly regulated environment, which exposes it to compliance. The company strives for compliance with all relevant legislation and regulations, as well as generally accepted governance principles and practice, in particular, King IV and the Code of Banking Practice.

OUR STRATEGIC RESPONSE

The Board has approved our top high-risk legislation, which we shall continue to manage and monitor through the improvement and development of compliance risk management plans. In addition, we endeavour to ensure we are complying with the overall regulatory requirements contained in our over 76 pieces of legislation applicable to the organisation. Please see page 59 of this report for more information. 

 <p>GROWTH AND COMPETITIVENESS</p> <p>Please see page 72 for more information on this material matter.</p>	Associated capitals		
	 <p>Financial</p>	 <p>Social and relationship</p>	 <p>Manufactured</p>
DESCRIPTION AND DESIRED OUTCOME			

Entering new market segments, retaining existing customers and remaining competitive in the banking industry are imperative for Ithala. We need to grow to achieve our purpose of serving the financial needs of the people of KZN and contributing to its socio-economic development.

OUR STRATEGIC RESPONSE

Repurposing our strategy and operating model with the aim of achieving an optimised and robust business model that supports financial sustainability and increased development impact whilst placing less reliance on state support.

 <p>TECHNOLOGY</p> <p>Please see page 67 for more information on this material matter.</p>	Associated capitals		
	 <p>Financial</p>	 <p>Manufactured</p>	 <p>Intellectual</p>
DESCRIPTION AND DESIRED OUTCOME			

Technology is a key driver of innovation and growth in the financial services sector. It is critical to our ability to create and sustain value in the short, medium and long term.

Ithala's IT systems are characterised by a lack of process automation that results in a significant proportion of manual workflows and leads to inefficiencies and errors and encumbers the management and monitoring of processes. The lagging technology diminishes its appeal to customers who reside far from branches. Ithala's appeal is also limited for higher-income and digitally sophisticated customers who prefer digital interaction. Ithala's failure to keep pace with these developments has resulted in loss of competitiveness and market share and has been a significant contributor towards Ithala's financial challenges. The lack of investment in technology and technical skills has also contributed to the company's inability to finalise an application for authorisation to establish as a bank.

OUR STRATEGIC RESPONSE

- Unbundling Ithala's technology from our holding company. This will entail recruitment of staff into key roles to capacitate autonomy from the shareholder
- Migration onto a single-core banking platform for all products and channels. This will unlock efficiencies and increase the client experience at our distribution points
- Establishment of an enterprise data warehouse within which all data will be managed and the establishment of a business intelligence (BI) competency to support the organisation
- Migration from manual processing and capturing to automated solutions. This will enhance efficiency and accuracy, reduce costs and facilitate measurement of a variety of important organisational metrics, allowing for consistency and improvements in regulatory compliance

 <p>EMPLOYEE VALUE PROPOSITION</p> <p>Please see page 73 for more information on this material matter.</p>	Associated capitals	
	 <p>Human</p>	 <p>Financial</p>
DESCRIPTION AND DESIRED OUTCOME		

Ithala’s ability to deliver value, and our future sustainability, depends on the people who lead the business and direct our underlying investments and operations. We adopt a ‘people first’ stance aimed at attracting, retaining and developing talent through the provision of appropriate remuneration and personal development programmes.

Our compelling employee value proposition will propel the organisation into being an employer of choice.

OUR STRATEGIC RESPONSE

Ithala is a learning institution committed to attracting and retaining skilled and experienced banking staff. We embed a culture of performance aimed at ensuring excellence across all our functions.





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PERFORMANCE





PERFORMANCE

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ANNUAL PERFORMANCE REPORT

FINANCIAL AND SHAREHOLDER PERSPECTIVE (WEIGHTING = 40%)

Strategic objective	Key performance indicators	Actual 2019/20	Actual 2020/21	Target 2021/22	Actual results 2021/22
Drive revenue-generation initiatives and manage our cost base	Achieve the targeted minimum/(maximum) net profit by financial year end (R'000)	New KPI not in 2019/20	New KPI not in 2020/21	≤(29 984)	-51 973
	Management comment: Ithala posted a loss of R51.97 million (2021: R31.6 million) for the year ended 31 March 2022. Included in the net loss are losses recognised as a result of the July 2021 civil unrest (R9.4 million) and COVID- 19 related cost (R1.8 million).				
	Achieve the targeted maximum cost to income ratio (CTIR) by financial year end	98.5%	121%	≤117%	117.9%
	Management comment: Management is currently conducting a review and redesign of the organisation's current operating model. This exercise is expected to eliminate revenue and operational leakages, deliver efficiencies and re- organise Ithala in a way that makes customer interactions with the business smoother and more efficient.				
	Achieve the targeted JAWS ratio by financial year end	New KPI not in 2019/20	-18.7%	Positive	3.7%
	Achieve the targeted minimum net interest margin by financial year end	New KPI not in 2019/20	64.1%	≥68.0%	71.1%
Maintain optimum business and operational resilience through liquidity and capital management	Achieve the targeted minimum non-interest income to total income ratio by financial year end	New KPI not in 2019/20	57.4%	≥56.0%	56.0%
	Achieve the targeted minimum non-interest income to total expenses ratio by financial year end	New KPI not in 2019/20	47.1%	≥49%	47.7%
	Management comment: Management is currently conducting a review and redesign of the organisation's current operating model. This exercise is expected to eliminate revenue and operational leakages, deliver efficiencies and enable Ithala to achieve the targeted non-interest income to total expenses ratio.				
	Achieve the targeted minimum leverage ratio by financial year-end	New KPI not in 2019/20	10.4%	≥10.2%	11.8%
	Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by financial year-end	New KPI not in 2019/20	11.1%	≤9.3%	11.7%
	Achieve the targeted maximum impaired advances ratio by financial year-end	New KPI not in 2019/20	7.4%	≤8.0%	7.1%
	Achieve the targeted minimum capital adequacy ratio (CAR) by financial year-end	18%	17.4%	≥16.2%	18.3%

CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

Strategic objective	Key performance indicators	Actual 2019/20	Actual 2020/21	Target 2021/22	Actual results 2021/22
Maximise non-interest revenue and transactional business	Achieve the targeted minimum non-interest income from insurance activities by financial year-end (R'000)	12 980	12,358	≥18 095	12 986
	Achieve the targeted minimum non-interest income from banking activities by financial year-end (R'000)	New KPI not in 2019/20	144 403	≥169 515	167 272
	Achieve the targeted minimum customer deposits balance by financial year-end (R'000)	2 574 363	2 578 551	≥2 710 279	2 467 105
	Achieve the targeted minimum new advances amount by financial year end (R'000)	New KPI not in 2019/20	454 714	≥490 400	436 277

Management comment:

With the domestic economy remaining constrained and impacting consumer spending, clients started to access their savings and investments to maintain their living expenses. This drawdown resulted in a zero percent growth in non-interest revenue and transactional business. The July 2021 civil unrest also had a negative impact on the ability of customers to transact.

Innovate for client centricity	Achieve the targeted minimum advertising noting score by financial year end	New KPI not in 2019/20	45%	≥50%	45%
	Management comment: Target not achieved owing to limited marketing investment. Advertising platforms that will create greater above the line awareness have been secured for the next financial year.				
	Achieve the targeted minimum advertising net promoter score (NPS) by financial year end	85%	72%	≥50%	65%
	Achieve the targeted minimum customer satisfaction score by financial year end	91%	96%	≥80%	91%

PERFORMANCE

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

Strategic objective	Key performance indicators	Actual 2019/20	Actual 2020/21	Target 2021/22	Actual results 2021/22
Innovate for client centricity	Install and operationalise the targeted minimum number of new self-service devices (SSD) by financial year end Management comment: The installation of SSDs was negatively impacted by the ongoing effects of COVID-19, the July 2021 civil unrest and natural disasters. The business opted not to roll out any additional physical digital infrastructure, as this type of deployment would put our staff at risk.	120	0	≥215	10
	Install and operationalise the targeted minimum number of new automatic teller machines (ATM) by financial year end Management comment: The installation of ATMs was negatively impacted by the ongoing effects of COVID-19, the July 2021 civil unrest and natural disasters. The business opted not to roll out any additional physical digital infrastructure, as this type of deployment would put our staff at risk.	16	0	≥35	0
Remodel our IT capabilities for progressive modernisation and digitalisation	Achieve the hosted banking platform implementation milestones by financial year end Management comment: Migration of AS400 platform to a DT enterprise platform via Project Evolution was put on hold	65% adherence to implementation milestones	<5% of project milestones were achieved	90% adherence to the implementation milestones	Implementation of the Product Evolution & Migration by Direct Transact
Gear our enterprise-wide risk universe for vitality and growth	Achieve an unqualified audit opinion (clean audit) with no material findings on compliance or pre-determined objectives for the financial year end	New KPI not in 2019/20	New KPI not in 2020/21	Unqualified audit opinion with no material findings on compliance or pre-determined objectives for the financial year end	Unqualified audit opinion with findings

PEOPLE, LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 10%)

Strategic objective	Key performance indicators	Actual 2019/20	Actual 2020/21	Target 2021/22	Actual results 2021/22
Protect our staff and clients' primary health and wellbeing during Covid-19 and beyond	Prevent the targeted maximum number of temporary branch closures due to Covid-19 by financial year end	N/A	N/A	Two	Two

Management comment:

There were two COVID-19-related branch closures following a resurgence of the pandemic during FY2021/22. We will continue to follow health guidelines and protocols to ensure the safety and well-being of all our stakeholders.

Empower our people to lead for innovation and growth	Implement the Investors in People (IIP) Standard by financial year end	Met 2 evidence requirements for the established standard	N/A	Meet all evidence requirements for the established standard	Met 19 of 27 requirements for the established standard
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FINANCIAL OVERVIEW

The stagnant domestic economy and ongoing effects of COVID-19 have had a negative impact on consumer spending. This has, in turn, constrained the growth of our deposit book. This together with the decline in the SARB repurchase rate in the prior financial year, which carried over into the current year, has affected planned growth of most revenue lines.

In addition, Ithala suffered further losses as a result of the civil unrest experienced in July 2021. While our FY2021/22 results are reflective of a challenging operating environment, the Company's liquidity and capital positions remain above the predetermined thresholds. Furthermore, our client loans and advances book increased from R1.95 billion in FY2020/21 to R2.05 billion as at 31 March 2022.

OPERATING PERFORMANCE

Ithala posted a loss of R51.97 million (2021: R31.6 million) for the year ended 31 March 2022. Included in the net loss are losses recognised as a result of the July 2021 civil unrest (R9.4 million) and COVID-19-related costs (R1.8 million). Ithala submitted SASRIA claims of R13.7 million and expects to cover most of the damage suffered as a result of the unforeseeable event. However, only R1.8 million in claims was received during the financial year.

Included in the prior year's loss is the release of Expected Credit Losses (ECL) of R36.0 million. Excluding the civil unrest losses and the ECL released in the prior year, Ithala's trading performance is showing improvements year-on-year.

Net Interest income has grown year-on-year by 9.3% from R130.1 million to R142.2 million. The growth is mainly driven by the increase in loans and advances book and the loan product mix.

Non-interest income has also grown year-on-year. Non-interest income has grown by 8.1% from R156.8 million to R169.5 million. This growth in non-interest revenue is primarily attributable to fees earned from debit cards. Fees earned from debit card grew 8.3% year-on-year from R137.6 million to R149.0 million.

PERFORMANCE

Operating expenses has increased year-on-year by 4.4% from R355.4 million to R371.4 million. However, included in operating expenses is R9.4 million losses suffered due to the civil unrest. Excluding this, expenses has only grown year-on-year by 1.9%.

Despite the increase in the loss year-on-year, the JAWS ratio for the year end 31 March 2022 was a positive 3,68%, meeting the exemption notice requirement of maintaining a positive JAWS ratio.

As at 31 March 2022, the Company's total assets exceeded total liabilities by R369.7 million (31 March 2021: R356.5 million) and total surplus funds were R635 million (31 March 2021: R848 million). As at statement of financial position date, the capital adequacy ratio of the Company was 18.3% (March 2021: 17.4%). This level is above the 15% minimum CAR prescribed by the SARB.

New loans advances for year amounted to R436.3 million slightly down on the prior years new advances of R454.7 million. However, gross loans balance increased year-on-year on by by 4.6% closing the year at R2.1 billion, (2021: R2.0 billion).

Cash, deposits with bank and statutory investments amount to R893 million (2021: R1,074.0 million) as at 31 March 2022. This represents a decrease of R181 million (17%) compared to 31 March 2021. The year-on-year decline is due to the decline in customer deposit held and the increase in the loans and advances book. At 31 March 2022, Ithala held R272.6 million (F2021: R245.0 million) in liquid assets, which exceeded the total statutory minimum target of 7.5%.

BUSINESS UNIT OVERVIEW

RETAIL AND BUSINESS BANKING

During FY2021/22, the business experienced the ongoing effects of Covid-19 and a stagnant domestic economy. This was exacerbated by the July 2021 civil unrest, which resulted in widespread destruction of property and livelihoods. In the same period, severe weather patterns resulting from climate change contributed to flooding in the KZN region, adding to an already harsh operating environment. The effects of the harsh operating environment were felt in our Retail and Business Banking (RBB) portfolio. Most notably, the business was negatively impacted when four branches were looted and completely destroyed while a further 15 branches were looted and vandalised. This resulted in business closures, affecting many of our valued of clients.

With the domestic economy remaining constrained and negatively impacting consumer spending, customers started to access their savings and investments to maintain their living expenses. This drawdown resulted in weakened growth in our savings and investment portfolio, with the business ending the year with R2.47 billion in customer deposits (2021: R2.58 billion).

While we did not achieve our targets on maximising non-interest revenue, largely owing to the harsh operating environment, we achieved an NPS of 65% (2021: 72%) and customer satisfaction score of 91% (2021: 96%). Our NPS is testament to our commitment to delivering quality services to our customers.

INSURANCE

Our business is all about financial planning where we form professional relationships with clients; consider their financial and personal situations to construct a financial plan and to manage the plan in partnership with our clients.

Our commitment to serving the state and the people of South Africa, has fuelled our drive to diversify our current models. We have developed the Ithala SOC Corporate Brokerage, which now provides our clients with products and service that were unattainable previously.


For the year under review, we implemented a fourfold strategy in accordance with our distribution channels. The first part of our strategy focuses on cell captives for both long- and short-term Insurance which allows the business to enjoy both binder and commission income.

The second part of our strategy focuses on a brokerage arrangement which allows for distribution of external insurance products and the earning of a commission revenue.

The third part of our strategy focuses on key account arrangements with all entities in the province which allows for customised solutions for the entities and its value chain utilising both cell captive and external insurance products.

The Fourth part is our Digital platform. Mylthala website currently houses all the products we market. Insurance is now engaging with different service providers to ascertain a platform that will cater a Digital end to end process for Individuals and B2B.

LOOKING AHEAD |

Despite the challenges faced in the period under review, an analysis against trading results in previous years shows the business is on a growth trajectory. We have budgeted to turn around the business over the next three years to report a net profit in the 2025 financial year following the implementation of our SRP.  See page 21 for further details. This will be made possible through our RRR strategy, which targets investments in our digital capabilities and customer centricity as the strategic drivers that will position us for growth and sustainability.

PEOPLE

We believe people are essential to the sustainability of the business. We aim to maintain a high-performing, diverse and healthy workforce by strengthening our leadership capacity, and enhancing employee performance and engagement. We focus on attracting, developing and retaining high-performing and talented people with skills critical to the success of the business in the short, medium and long term.

We are confident we have the right organisational structure and culture we need to safeguard the future of the business. This aligns with the strategic priorities of the business and empowers employees to make better decisions, drive innovation and contribute to sustainable value creation.

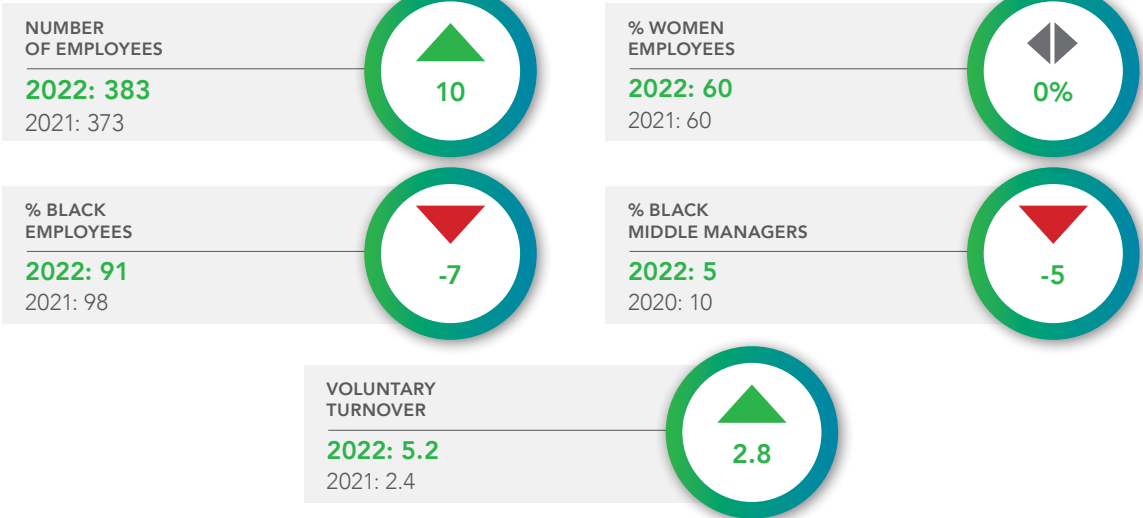
STRATEGIC IMPERATIVES

- Realign existing talent and resource key strategic functions of the business for the future
- Develop a compelling value proposition and position Ithala as an employer of choice
- Drive capacity-building initiatives while sustaining existing development programmes

KEY INITIATIVES DURING THE YEAR UNDER REVIEW

- A comprehensive review of the Remuneration Policy. The policy forms the basis of how we remunerate our employees and is aligned with the strategic direction and value drivers of the business
- Improving staff engagement and performance through effective mentoring and coaching
- Review of Talent Management Framework
- Alignment of individual performance contracts to the revised Talent Management Framework
- Employee wellness with specific focus on the ongoing effects of COVID-19

PERFORMANCE



LOOKING AHEAD | 🔍

In line with our growth ambitions and commitment to create sustainable value for all our stakeholders, a revised organisational development and change management plan has been devised. The plan is also aimed at supporting the implementation of our SRP. Underpinning the plan is our people strategy that focuses on the empowering our employees and stakeholders. Our people strategy seeks to inculcate a culture of learning and development as we position the business for innovation and future growth. Our priority in the coming financial is therefore to turn our culture into a competitive advantage, attract top talent and support and enable our people.

SYSTEMS

In 2018, Ithala initiated a project to migrate from its legacy system to a new core banking system. This migration was delayed as a result of the complexity of integrating with the various interfaces and payment streams, as well as aligning the system with the highly regulated banking environment in South Africa. As a result, the business continues to lag behind its peers in the commercial banking sector in terms of technology and workflow automation. We urgently need to invest in additional skills and infrastructure to strengthen our IT capabilities.

In FY2021/22, we adopted a heightened focus on increasing revenue while reducing operational costs. Our IT capabilities will play a major role in enabling us to achieve these goals. The team continuously explored technology solutions to facilitate this. Several IT capital projects are planned for the next financial year.

LOOKING AHEAD

We believe we can achieve significant cost savings through a review of our operating model. This will allow us to have a better view of where we can achieve operational efficiencies. Capital investments will enhance client centricity through market understanding, product development and improved shared services (technology, processes and skills). In turn, this will enable us realise economies of scale, an advantage that is presently not being leveraged owing to misaligned resource utilisation.

No.	System	Background	Challenge	Commitment
1	Enterprise data warehouse	Ithala runs two banking platforms. The first one is an in-house application that is deployed on a distributed network topology and replicated across all branches. The second platform is a centralised solution hosted, serviced and supported by a third-party supplier as a managed service.	The use of two platforms does not allow for a single client view. This places the business at risk of data breaches. It also does not provide for readily available and accurate reporting, compromising our regulatory compliance.	Ithala will invest in enterprise data warehouse systems. This will enable more accurate and effective reporting.
2	Enterprise integration platform	Ithala runs two banking platforms. The first one is an in-house application that is deployed on a distributed network topology and replicated across all branches. The second platform is a centralised solution hosted, serviced and supported by a third-party supplier as a managed service.	Banking is reliant on technology that is current and relevant to the landscape and the sustainability of the business. This is not supported in the current environment.	Implementing a modernised solution will facilitate the integration of services to support key business operations and initiatives.

BUSINESS SUSTAINABILITY

The ongoing operational and financial resilience of the business remains a key priority. Following the extension of the exemption notice, we reviewed our strategic plan with a view to achieving sustainability in the short term while laying the foundation for long-term success. Consequently, we have prepared a detailed SRP. The SRP is aimed at enabling us to attain a banking licence and achieve sustainable financial value creation by maintaining profitability. The plan outlines an operating model, IT and infrastructure investments, capital funding requirements, and the reduction of external consultant and outsourcing dependencies as key imperatives.

LOOKING AHEAD | 🔍

To achieve the objectives of our SRP, we have prioritised the following short-term goals:

Increasing sales revenue	We will focus on growing non-interest revenue over the next three years. This will be by transactional banking fees including a targeted increase in the number of active debit cards, increase in transaction volumes, and implementation of uniform pricing.
Reducing costs	As part of efforts to reduce the high cost-to-income ratio, the executive management team will undertake a review and redesign of the organisation's operating model. This exercise is expected to eliminate revenue and operational leakages, deliver efficiencies and reorganise Ithala in a way that makes customer interactions with the business more efficient.

SOCIO ECONOMIC TRANSFORMATION REVIEW

The sustainability of our business depends on the well-being of the communities in which we operate. As such, mutually beneficial relationships with our stakeholders and sustainable socio-economic development are key objectives. It is for this reason that in 2019, we launched the Ithala Edu Platform. The platform provides curriculum content and learner support to assist Grade 12 learners, helping prepare them for their final exams. The platform focuses on subjects such as IsiZulu, English, Accounting, Mathematics, Geography, Physical Science and Applied Computer Technologies.

ITHALA EDUCATION PLATFORM

The Ithala Education Platform is an initiative established in response to the COVID-19 crisis and its impact on Grade 12 learners in KwaZulu-Natal. The programme was implemented in partnership with non-profit organisation, GoDigitalSA Foundation. In FY2021/22, the programme continued to target learners from rural areas who could not participate in remote schooling during the national lockdown as a result of limited resources and lack of access to technology. This was done with the goal of allowing learners to recover lost schooling time and prepare for their exams. Ithala invested R1 300 100 in the initiative.

The programme assisted Grade 12 learners with CAPS Curriculum, soft skills and career guidance. Programme highlights include:

- Over 170 videos made available to learners
- 14 858 one-on-one tutor engagements
- Lessons ran over 23 weeks with a total 1 095 hours spent on preparing, recording, filming lessons, teaching and learning recorded
- 13 specialised tutors

A dedicated and highly skilled team of subject tutors selected from the best performing schools in each subject delivered the lessons via an online platform accessed by learners through various social media platforms.





07



REMUNERATION



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REMUNERATION

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REMUNERATION

REMUNERATION REPORT

STATEMENT FROM THE CHAIR OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

A key focus of our strategy for FY 2021/22 was to drive change within the organisation. Our organisational change and development programme yielded positive results. We continued the implementation of several change and transformation pillars via the Ithala competency framework. Based on the framework, a Leadership Development Course was designed and implemented at all levels of the organisation. The programme had a positive effect on our leadership skills, and this has been reflected in the positive changes in our annual climate survey.

Our talent pipeline through LinkedIn supported us to fill most executive and regulatory positions. We also exceeded our employee equity targets set for the year. In addition, we continued to develop our internal pipeline to ensure growth opportunities for our staff, especially for our senior leaders and executive positions.

Despite the financial impact of external factors like the looting which occurred in our province, as well as Covid-19 effect on our business, we implemented salary increases for our staff. Similar to recent years, we did not activate the short- and long-term incentives owing to our loss-making position. However, we sustained our focus on building the organisation. At the heart of our talent acquisition and retention strategy for FY2021/22, was our unique mandate as a state-owned provincial development financial institution, and the role we can play in South Africa's development agenda.

Despite our financial challenges, we delivered our workplace skills and training plan that incorporated regulatory compliance training. We were also able to develop the young people in our province through a SETA-sponsored learnership program.

We sustained our comprehensive employee health and wellness offering across the business. In partnership with ICAS, the employee wellness and health service provider, we were able to provide the necessary psychological support to our staff. We also implemented a rotational working plan to limit the number of people working from the office. While unplanned costs have been incurred during this time, Ithala has remained committed to the health and wellbeing of its staff and broader stakeholders.

The Company remains committed to responding to the scourge of gender-based violence with the participation of employees across the business.

Strategic objectives for FY2021/22 were as follows:

- Objective 1: Protect our staff primary health well-being during COVID 19 crisis and beyond
- Objective 2: Empower our people to lead for innovation and growth
- Objective 3: Innovate for internal client centricity
- Objective 4: Gear our Enterprise- Wide Risk Universe for Vitality and Growth
- Objective 5: Manage our Cost Base

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

OUR REMUNERATION PHILOSOPHY

Ithala's remuneration philosophy has remained similar to the previous financial years despite the Company not being able to activate its short- and long-term incentive scheme owing to continued financial loss. In FY2021/22, Ithala paid guaranteed salaries to employees. However, the business encountered a setback in the form of the COVID-19 pandemic and the looting in our province, which had a negative impact on revenue generation. Despite this, the Company managed to sustain the payment of salaries to employees with minimal TERS claims from UIF.

Ithala has a distinct payment structure for junior employment levels (A to C levels) compared to management levels (D to F levels). For junior employees, the Company pays a 13th cheque and they are categorised as non-packaged employees, whereas management levels receive a total cost to company remuneration package. Both categories of remuneration are subject to annual remuneration benchmarks within the banking and financial sector for comparison purpose with our competitors. Ithala also conducts salary benchmarks for alignment with the industry.

SHORT-TERM EMPLOYEE BENEFITS

Our short-term employee benefits include guaranteed salaries, annual leave, sick leave, study leave, 13th cheque for A–C band employment categories, contributions to retirement funds, car allowance, housing subsidy, cellphone allowance and medical aid.

DEFINED CONTRIBUTION PLANS

When employees render services to the Company over a period, the Company recognises the contribution payable to a defined contribution plan in exchange for that service:

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

POST-RETIREMENT MEDICAL AID BENEFIT

Ithala operates a post-retirement medical aid benefit. The scheme is unfunded. For defined benefit plans, the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted separately for the post-retirement medical aid fund and, on an annual basis, the independent actuaries also advise.

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 usually 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 as a result of contributions and benefit payments made. Interest expense is recognised in profit or loss.

REMUNERATION

PENSION AND PROVIDENT FUND

The Company previously had a defined benefit provident fund and a defined benefit pension fund that were 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 awaiting approval from the trustees and the FSB. Fund 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 usually 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 for the liability that is outstanding as at year-end for the pensioners, as well as the plan assets, are conducted separately by independent actuaries, on an annual basis.

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

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise in OCI. 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 as a result of contributions and benefit payments made. The net interest expense is recognised in profit or loss.

LONG SERVICE AWARD

For the long service award paid by the Company, the employee receives a certain percentage of the total cost to company in the year that the payment is made, based on the number of years the employee has rendered services to the Company, which should be a minimum of 10 years. The payment of the award is the cost of providing the benefits, which is determined using the projected unit credit method. On an annual basis, independent actuaries conduct actuarial valuations for the long service award benefit.

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 usually 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 as a result of contributions and benefit payments made. Interest expense is recognisable in profit or loss.

TERMINATION BENEFITS

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

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

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

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



REMUNERATION

RETIREMENT BENEFIT OBLIGATIONS

POST-RETIREMENT MEDICAL BENEFITS

Ithala 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. A total of 85 current and retired employees are covered under the scheme (2021: 85).

The most recent actuarial valuation of the present value of defined benefit obligations were executed in the current financial year by Alexander Forbes, a 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 11.10% (2021: 11.90%) and a health care cost inflation rate of 8.20% (2021: 9.00%). The movement in the liability annualised in the statement of financial position is as follows:

Movement in the defined benefit obligation, is as follows:

	2022	2021
	R '000	R '000
Balance at beginning of the year	37 378	33 163
Current service costs	655	562
Interest costs	4 448	4 189
Net actuarial (gain)/loss recognised during the year	1 717	1 266
Benefit payment	(1 770)	(1 802)
Balance at end of the year	42 428	33 163

Amounts recognised in the statement of financial position are as follows:

Present value of unfunded obligations	42 428	37 378
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Post retirement medical benefits

Actuarial (loss)/gain

The actuarial gains arose as a result of the following:

Change in Real Discount Rate	117	(4 057)
Higher than Expected Healthcare Cost Inflation including Changes in Members' Benefit Options	776	308
Unexpected Changes in Membership	(2 610)	2 483
Total	(1 717)	(1 266)

Actuarial assumptions used and sensitivity analysis

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2022	2021
			R '000	R '000
Present value of obligation			42 428	37 378
Health care cost inflation	8.20%	+1%	48 053	37 402
		-1%	37 738	37 341
Discount rate	11.10%	+1%	37 895	33 306
		-1%	47 924	42 323
Expected retirement age	60 years	+1 year	43 173	35 812
		-1 year	40 800	38 983

PENSION AND PROVIDENT FUND SCHEMES

Ithala 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 2022 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

Net asset balance currently recognised

	2022	2021
	R '000	R '000
Amount allowed as a reduction of future contributions	-	3 892
Amount utilised for contributions	-	(3 892)
Asset as per balance sheet	-	-

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2022	2021
			R '000	R '000
Present value of obligation			-	-
Discount rate	0.00%	+1%	-	-
		-1%	-	-
Expected salary rate	0.00%	+1%	-	-
		-1%	-	-

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.

REMUNERATION

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

	2022	2021
	R '000	R '000
Balance at beginning of the year	-	305
Interest cost	-	14
Actuarial (loss)/gain	-	2 084
Benefits paid	-	(2 403)
Balance	-	-

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

Balance at beginning of the year	-	2 371
Interest cost	-	239
Benefits paid	-	(2 403)
Actuarial (loss)/gain	-	(207)
Balance at end of the year	-	-

Actuarial (loss)/gain

The actuarial gains arose as a result of the following:

Actuarial gains/(loss) arising changes in demographic assumptions	-	-
Actuarial gain/(loss) arising from changes in financial assumptions	-	(207)

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

Defined benefit provident fund		
Fair value of plan assets	(4 406)	(3 906)
Surplus	(4 406)	(3 906)
Amount allocated to employer surplus account	4 406	3 906
Asset not recognised due to asset ceiling	-	-

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

Balance at beginning of the year	3 906	3 668
Interest income	-	327
Actuarial loss	500	(89)
Balance at end of the year	4 406	3 906

Actuarial (loss)/gain

The actuarial gains arose as a result of the following:

Actuarial gain arising changes in demographic assumptions	(153)	89
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REMUNERATION

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2022	2021
			R '000	R '000
Discount rate	0%	+1%	-	-
		-1%	-	-
Expected salary rate	0%	+1%	-	-
		-1%	-	-

The Company expects to make no contribution (2021: Nil) to the Company defined benefit provident fund and no contribution (2021: R0) to the Old Mutual Superfund defined benefit provident fund during the next financial year due to payment holiday.

	2022	2021
	R '000	R '000
Actuarial gains and losses analysis		
Pension and provident fund	500	251
Post retirement medical	(1 716)	(1 266)
	(1 216)	(1 015)

Actuarial reserve movement

Opening balance	14 564	15 579
Actuarial movement	(1 216)	(1 015)
	13 348	14 564

Long service obligation

Balance at beginning of the year	5 096	12 914
Expensed during the year	899	(6,987)
Contributions paid	(1 841)	(831)
Balance at end of the year	4 154	5 096

Amounts recognised in the statement of financial position are as follows:

Present value of unfunded obligations	4 154	5 096
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Amounts recognised in the statement of comprehensive income are as follows:

Current service cost	473	1 343
Interest cost	380	1 416
Net actuarial loss recognised in the year	46	(9 746)
	899	(6 987)

Sensitivity analysis

	Change	2022	2021
		R '000	R '000
Present value obligations		4 154	5 096
Average salary inflation	+1%	4 154	5 112
	-1%	4 154	5 080
Average retirement age	-2 years	3 959	4 941
	+2 years	4 292	5 242

REMUNERATION

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 2022 quantified the present value of obligations at R4.2 million (2021: R5.1 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 9.3% (2021: 9.1%) and an average salary inflation of 6.8% (2021: 6.1%).

REMUNERATION FOR NON-EXECUTIVE DIRECTORS IN FY2021/22

	2022	2021
	R '000	R '000
SC Ngidi (resigned 20 April 2020)	-	117
G Sibiya	775	811
M Pupuma (appointed 1 August 2020)	765	461
INkosi SN Mkhize	875	1 033
S Mnguni (appointed 4 October 2019)	-	-
Z Khanyile (appointed 1 August 2020, resigned 31 October 2020)	-	134
Shabalala (appointed 1 January 2021, resigned 27 October 2021)	382	150
N Simelane (appointed 1 January 2021)	589	103
	3 386	2 809

REMUNERATION FOR EXECUTIVE DIRECTORS IN 2021/2022

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
T Vilakazi – Chief Executive Officer	2 588	349		2 937

Appointed prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
S Gwala – Head: HR (resigned 24 June 2022)	1 623	139	-	1 762
S Xolo – Head Marketing and Communication	1 340	110	-	1 450
T Luthuli – Company Secretary (resigned 30 April 2021)	124	11	278	413
S Moodley – Head: Retail and Business Banking	1 542	141	-	1 683
C Gumede - Chief Risk Officer (resigned 30 April 2021)	128	11	49	188
A Pather – Head Insurance	1 380	124	-	1 504
L Barnard – Head IT (appointed 01 March 2021, resigned 06 July 2021)	550	50	56	656
S Nsele – Chief Audit Executive	1 382	121	-	1 503
N Nkambule – Compliance Officer	1 423	129	-	1 552
X Khumalo – Head Credit	1 607	143	-	1 750
B van der Lingen – Chief Risk Officer (appointed 15 November 2021)	422	34	-	456
N Mzimela – Company Secretary (appointed 15 November 2021)	351	28	-	379
S Phakathi – Chief Information Officer (appointed 06 January 2022)	413	40	-	453
S Dlamini – Executive Assistant (appointed 01 July 2021)	672	60	-	732
	12 957	1 141	383	14 481

Acting prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
M Gafoor – Acting Chief Financial Officer (appointed 01 September 2021)	669	57	-	726
N Dlamini – Acting Company Secretary (May 2021 to November 2021)	380	29	-	409
N Shewdin – Acting Chief Risk Officer (May 2021 to November 2021)	580	45	-	625
	1 629	131	-	1 760

While the positions of Chief Financial Officer and Chief Risk Officer were vacant, the positions vested with the Chief Executive Officer who delegated authority to the above individuals. The position of Company Secretary vested with the Board who delegated authority to the above individual.

REMUNERATION

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Total
T Vilakazi (appointed 01 September 2020)	1 443	197	1 640

Appointed Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Total
S Gwala – Head: HR (resigned 24 June 2022)	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
N Nkambule – Compliance Officer (appointed 01 August 2020)	904	83	987
X Khumalo – Head Credit (appointed 16 November 2020)	609	48	657
	11 544	961	12 505

Acting prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
NN Naidoo - Acting Head Credit (April 2020 to November 2020)	798	55	-	853
N Harryparshad – Acting Head IT (resigned 28 October 2020)	748	-	16	764
	1 546	55	16	1 617

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."





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