



2021

INTEGRATED ANNUAL REPORT



THE SHAPE OF THINGS TO COME

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NAVIGATING THIS REPORT



Forward-looking statements



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

STAKEHOLDERS



National and Provincial Government



Shareholders



Regulatory bodies



Suppliers



Strategic partners



Public sector customers



Employees



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



The environment



Communities



Media

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
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
APP	Annual Performance Plan
APR	Annual Performance Report
AR	Annual Report
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
CAR	Capital Adequacy Ratio
CPA	Consumer Protection Act
CRM	Compliance Risk Management
CTI	Cost to Income
EDTEA	Economic Development, Tourism and Environmental Affairs
ERM	Enterprise-wide Risk Management
ERMF	Enterprise Risk Management Framework
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FMAA	Financial Matters Amendment Act
FY	Financial Year
GDP	Gross Domestic Product
HRCC	Human Resources and Remuneration Committee
IAC	Insurance Advisory Committee
IDFC	Ithala Development Finance Corporation
IFRS	International Financial Reporting Standards
IIP	Investors in People
IIRC	International Integrated Reporting Council



ITGC	Information Technology Governance Committee
King IV	King Code of Governance for South Africa (2016) TM
KYC	Know Your Customer
KZN	KwaZulu-Natal
LRA	Labour Relations Act
MEC	Member of the Executive Council
NCR	National Credit Regulator
NII	Non Interest Income
NIR	Non Interest Revenue
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
PFMA	Public Finance Management Act
POPI	Protection of Personal Information
RBB	Retail and Business Banking
RCMC	Risk and Capital Management Committee
ROA	Return on Assets
ROE	Return on Equity
SARB	South African Reserve Bank
SESC	Social Ethics and Sustainability Committee
SETA	Sector Education and Training Authority
SLA	Service Level Agreement
SOC	State-Owned Company
SOE	State-Owned Entity
SSD	Self-Service Device
TVET	Technical Vocational Education and Training



01



ABOUT OUR REPORT

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ABOUT OUR REPORT

OUR REPORTING PHILOSOPHY

Ithala seeks to provide investors, customers and other stakeholders with the relevant material information they may require about its performance, strategy and future prospects. The company continually seeks to improve on its reporting and has made enhancements to this report with the aim of ensuring it is adapted to International Integrated Reporting Council (IIRC) enhancements.

The integrated annual report sets out Ithala's approach to value creation in the short, medium and long term; governance principles and structures including remuneration; as well as overall performance. It is built on the company's knowledge of the interconnectedness of various internal and external factors and its impact on Ithala's ability to create sustainable value. The report is aligned with relevant standards, frameworks and best practice.


The report is guided by the following frameworks and standards:

- International Integrated Reporting Council's (IIRC) Integrated Reporting Framework
- International Financial Reporting Standards (IFRS)
- King Code of Governance for South Africa (2016) (King IV)
- Public Finance Management Act No. 1 of 1999 (PFMA)
- Companies Act No. 71 of 2008 (Companies Act)
- Banks Act No. 94 of 1990 (Banks Act)

PURPOSE

This FY2020/21 IAR is a report to Ithala's stakeholders, shareholders, regulators, investors and customers.

SCOPE AND BOUNDARY

This report covers Ithala's strategy and business model, value creation and trade-offs, operating context, material risks and opportunities, stakeholders' interests, governance and performance from 1 April 2020 to 31 March 2021. It sets out the company's sustainability outlook, providing insight and assurance to its stakeholders. This report may be read in conjunction with our Annual Financial Statements (see pages 16 to 89)  and its shareholder, the Ithala Development Finance Corporation (IDFC) integrated annual report (IAR) FY2020/21 available at www.ithala.co.za. Events after the reporting period and up to the date of approval of the integrated annual report have been taken into account.

ASSURANCE

Ithala has implemented a combined assurance model to coordinate, optimise and integrate assurance obtained from internal and external assurance providers. Both internal and external assurance resources provide assurance on the effectiveness of its risk management of material issues. A combined financial and non-financial assurance team from Ernst and Young and the AG-SA, supported by Ithala's internal audit, risk management and compliance functions, adopted a combined assurance approach to the information in this report. The combined assurance model is closely aligned with the company's Enterprise Risk Management (ERM) framework. External assurance has been obtained with respect to 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).

MATERIALITY

This integrated annual report focuses on matters that are material in Ithala's value-creation process. Ithala defines a material matter as one that affects its ability to deliver on strategy and to remain both commercially viable and socially relevant to the communities in which it operates. This includes both qualitative and quantitative matters that affect its various stakeholders in their assessment of the value added by the company. Material matters and the process followed to determine these matters are outlined on page 72. [↗](#)

FORWARD-LOOKING STATEMENTS |


This report contains forward-looking statements that relate to Ithala's future plans, objectives, goals, strategies, operations and performance. These are neither guarantees nor predictions of future performance. By their nature, forward-looking statements involve risk and uncertainty as it relates to future events and circumstances that may be beyond the company's control or that may cause the actual results to differ substantially from those implied or expressed in the forward-looking statements. Actual results and performance may differ materially from the Ithala's expectations because of known and unknown risks or uncertainties, or if estimates or assumptions prove inaccurate. Factors that could cause actual results to differ materially from those in these statements include, but are not limited to, regulatory delays or changes, conditions in the operating environment, the COVID-19 pandemic and the unrest in KwaZulu-Natal.

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 statements have not been reviewed or reported on by the company's external auditors. Ithala therefore advises readers to use caution and their own 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, in its advisory capacity to the Board, has applied its collective mind and reviewed the content of the report. 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 FY2020/21 Integrated annual report on 15 October 2021



Inkosi SN Mkhize
Deputy Chairman of the Board



Dr DT Vilakazi
CEO

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ABOUT ITHALA

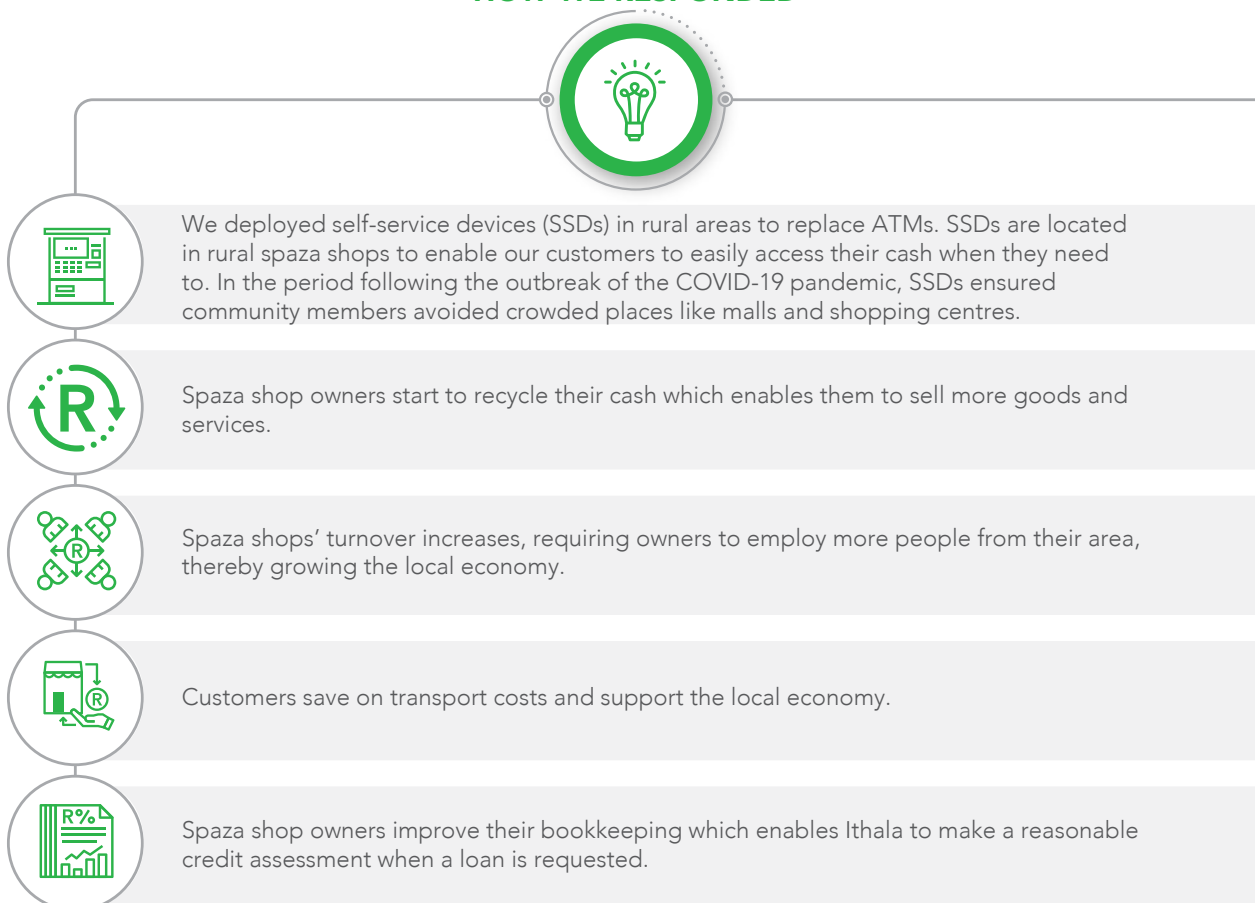
OUR CUSTOMERS

We aim to partner with our customers on their wealth-creation journey. Our mandate is to provide financial services to historically disadvantaged individuals in the KwaZulu-Natal (KZN) province. The delivery of our mandate is effectively described by using an example of a typical customer who banks with us through our township revitalisation programme and by explaining the resultant flow of cash through their economy. Our intervention provides financial services to our customers and changes the financial lives of many people within the rural communities where we operate.

THE PROBLEM



HOW WE RESPONDED



Ithala's key value proposition remains unique and compelling in that the company promotes financial inclusion for previously disadvantaged individuals in rural and remote communities in KZN. The company achieves this in the following ways:

- Ithala is the only provider of housing loans to rural communities on land under tribal tenure. It has 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 that remains in high demand in niche markets.
- In addition to retail banking services, Ithala provides both short-term 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. The current programmes are Ithala MoneyTalks, 4IR Digital Skills Development Programme and Ithala Education Platform.

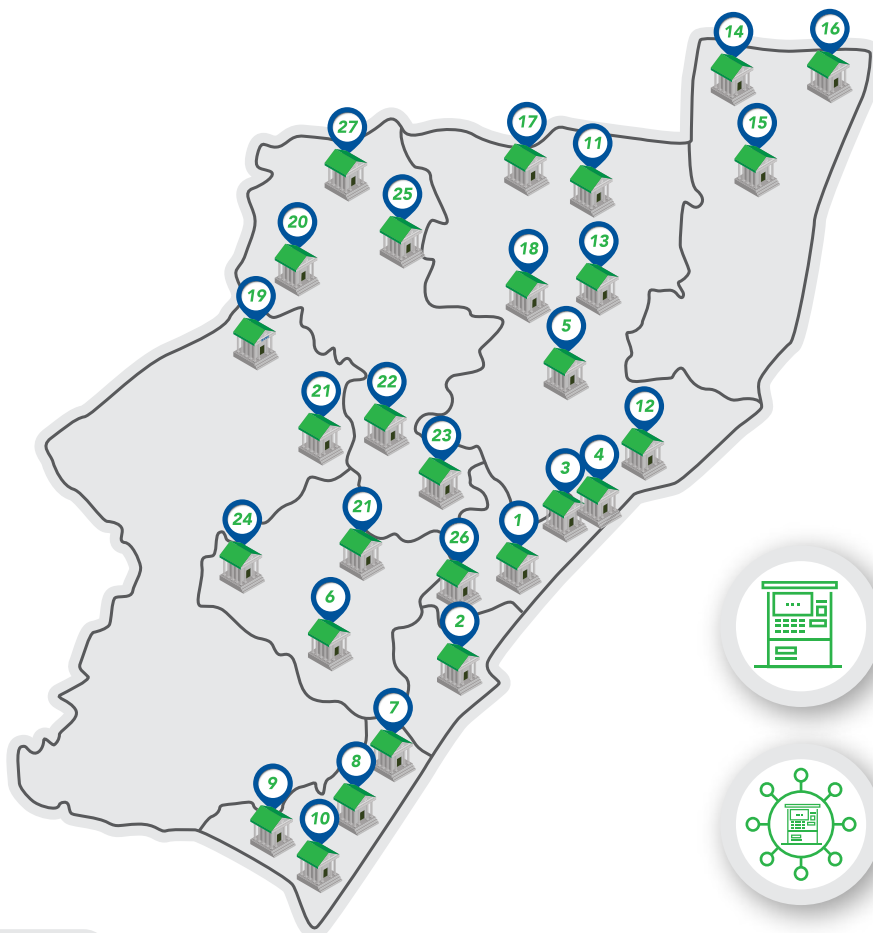
The implementation and support of the Wealth Creation brand positioning will be sustained with the aim of embedding and owning the wealth creation and money management platforms.



ABOUT ITHALA

OUR FOOTPRINT

Ithala has long been the sole provider of financial products and services to KwaZulu-Natal's unbanked and poor. 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 also opened branches in urban areas including Durban.



238
self-service devices (SSDs)

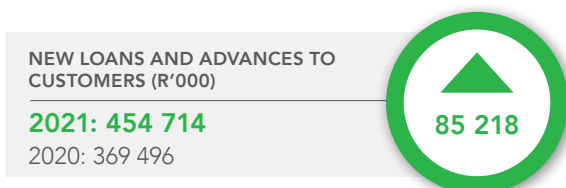
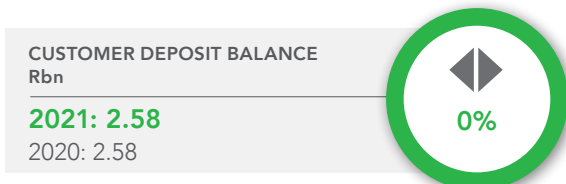
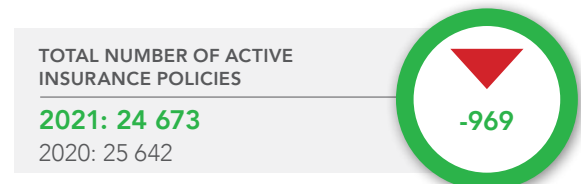
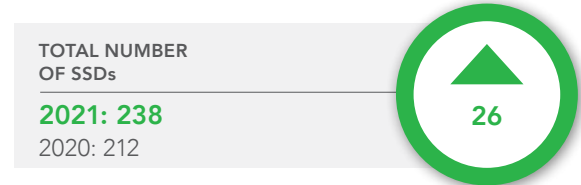
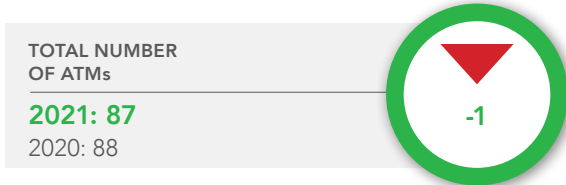
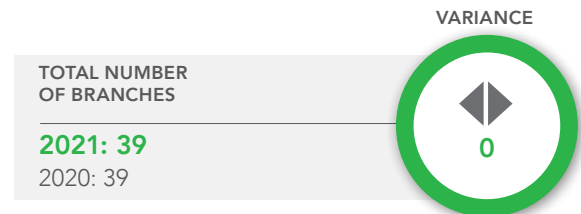
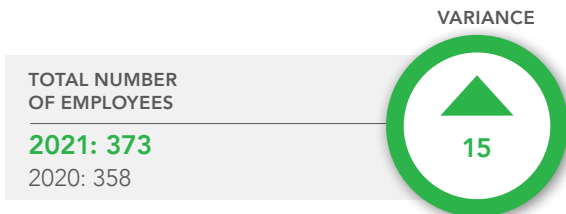
26
new devices deployed
in this reporting period

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

HIGHLIGHTS





LEADERSHIP MESSAGES


Message from Deputy Chairman
Message from CEO

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MESSAGE FROM **DEPUTY CHAIRMAN**

INKOSI SN MKHIZE




More than a year since COVID-19 first arrived on our shores, its impact is still being felt. The pandemic has presented us with significant challenges that have been felt both internally and at a broader societal level. As an organisation whose mandate is tied to the wellbeing and prosperity of the people of KwaZulu-Natal, we focused our efforts on ensuring we continued to fulfil our mandate while protecting the health and wellbeing of our staff and customers. Our effective response and ability to remain in tune with the needs of our stakeholders even during times of crisis was supported by our robust governance principles, agile and committed teams, and anchored in the enduring relationships we have built with our stakeholders over time. The impact of COVID-19 on our operations and strategic plan is detailed in the material matters section on page 72 of this report. 

Subsequent to the 31 March 2021 financial year-end, South Africa experienced devastating riots predominantly in KwaZulu-Natal where Ithala's customers are concentrated. We lost one member of staff in the riots. In addition, four of our branches were looted and completely destroyed while a further 15 branches were looted and vandalised.

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

OBTAINING A BANKING LICENCE

Ithala has not been able to finalise its application for a banking licence and continues to operate under an exemption notice that expires on 31 December 2021. The company was initially scheduled to resubmit its application for a banking licence by no later than 30 June 2021. We submitted a request for an extension of our application for a banking licence. This was influenced by several factors.

The Board of Ithala resolved it would be more prudent for the new Chief Executive Officer (CEO) to acclimatise to the Ithala environment, and work on devising solutions to the challenges that have faced the company. In the meantime, focus would be directed towards Ithala's state of readiness to launch a formal S12 and, thereafter, a S16 application in terms of the Banks Act. The extension was approved in January 2020 and a new deadline for December 2021 has been set. Further details on the banking licence can be found on page 72. 

STABILISING THE LEADERSHIP TEAM

As highlighted in our last integrated annual report, Ithala experienced several resignations in FY2019/20. We immediately embarked on an aggressive recruitment exercise to fill all key vacancies. We are pleased to announce the leadership team has now stabilised and extend a warm welcome to Mpumzi Pupuma and Zamangwane Khanyile who were appointed to the Board of Ithala with effect from 1 August 2020; and Sandile Shabalala and Ngoni Simelane who were appointed on 1 January 2021. We are also pleased to welcome Dr Thulani Vilakazi as CEO, Kabelo Nkambule as Compliance Officer, Sethu Nsele as Chief Audit Executive, Lukas Barnard as Head: IT and Xolani Khumalo as Head: Credit and Collections.

REIMAGING OUR STRATEGY AND REBUILDING FOR THE FUTURE

Following his appointment, the CEO held extensive consultations with key stakeholders within Ithala. The consultations culminated in a repurposed strategic plan that was reviewed and approved by the Board in November 2020. The strategic plan is anchored in our understanding of the complexities of our operating environment. In particular, the fast-paced nature of the financial services industry and constantly evolving banking sector have heightened the need for us to optimise our operating model and refine our value proposition to meet the changing needs of our clients. We embrace this challenge.

The calibre of the executive management team, our dedicated staff and ongoing support from the shareholder will allow us to **Repair** trust with our stakeholders, **Rebuild** as we position ourselves for future growth and **Remodel** our business into a modern and innovative state-owned financial services institution.


LOOKING AHEAD |

Ithala's geographic advantages and cultural accessibility are key value drivers. This allows us to engage with our clients in a cooperative and participatory manner and empower them to make more effective use of our products and services.

We remain committed to contributing to the development of South Africa's wider financial system and our mandate to the people of KwaZulu-Natal. We also remain committed to sound governance and will continue working towards enhancing our governance capabilities and fostering a culture of ethical behaviour across all levels of the organisation.

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.



Inkosi SN Mkhize
Deputy Chairman

MESSAGE FROM CEO

DR DT VILAKAZI



The three leadership questions in the current economic climate and beyond are:


- (a) *What is the environment in which our organisation operates and must compete and win; what are the underlying forces that are driving our industry in the new normal abnormal? It is the task of all business leaders to understand the insight and strategic shifts required to operate in the new normal. Until we have achieved insight into these shifts, we cannot answer the next question.*
- (b) *What are those few things organisations must do outstandingly well to win and continue winning in this environment; what are the key things that leaders must do to drive success in their organisations?*
- (c) *How will we mobilise our organisation to implement these things faster and better than our competitors? Knowing what to do is important but that will never be enough to put us in front.*

To win in this present environment, we must also know how to do it.

The past year has indeed changed the way we work and emphasised the agility required to adapt under these conditions that almost have a discontinuous complexity, inferring that both people's lives and livelihoods are at stake.

The reporting period under review has been shaped by COVID-19 and developments surrounding the pandemic. For months, the world grappled with the severe health and economic consequences of the pandemic and ensuing lockdowns imposed to curb the spread of the coronavirus. The Great Lockdown, as it is now known, has evoked comparisons with other major world crises such as the Great Depression, for good reason. For the first time since the Great Depression, advanced economies, emerging markets and developing economies went into recession and millions of livelihoods were lost overnight. Here at home, the

triple threat of poverty, unemployment and inequality continued unabated and has been worsened by the sharp decline in economic output that accompanied the pandemic.

 Ithala was not spared, COVID-19 put pressure on our clients and on the business and remains a material matter within our business, as detailed on page 72 of this report. The ongoing impact of the pandemic necessitated a revision of our business continuity plans to account for reduced staff headcount and allow for the implementation of safety measures to protect our staff and customers. We also had to adjust our financial and operating model to ensure financial viability through the crisis. As part of this effort, we instituted cost-saving measures with the goal of plugging revenue leaks and enhancing efficiencies within our operating model. This allowed us to reduce our loss by 58% from R75 million in FY2019/20 to R32 million in the reporting period. As part of our crisis management response, measures included supporting our clients with debt relief on loans to the value of R99.7 million. We are grateful to our clients in this present climate; who have continued to entrust us with their savings, which amounted to R2.6 billion at 31 March 2021. Gross loan advances to customers amounted to R2.04 billion during the same period.

We believe there is an opportunity to further enhance these savings by empowering our people to shape our strategy and position themselves as change agents as we embark on an exciting new journey.

Our strategic journey is anchored by three phases of growth during 2022-2024 planning cycle, inter alia:

- Repair** – We will repair trust with our stakeholders amid COVID-19
- Rebuild** – We will invest to rebuild a foundation for the future growth of our franchise
- Remodel** – We will remodel our capabilities for innovation and operational resilience

Our strategy is underpinned by the following strategic objectives:

- Protect the primary health wellbeing of our clients and staff during the COVID-19 crisis and beyond.
- Maintain optimum business and operational resilience through liquidity and capital management.
- Drive revenue-generation initiatives and manage our cost base.
- Maximise NIR transactional business.
- Innovate for client centricity.
- Remodel our IT capabilities for digital transformation.
- Empower our people to lead for innovation and growth.
- Gear our enterprise-wide risk universe for vitality and growth.

In this current climate, building operational resilience within our operations to sustain our business during the Great Lockdown and beyond remains a key focus. We remain committed to driving revenue growth while balancing managing efficiencies within our operations. The cost-to-income (CTI) ratio of 121.8% infers that for every R100 generated, we lose about R22 and the JAWS ratio remains in negative territory, attributed to the current operating model. During FY2020/21, we increased the momentum in repairing, rebuilding and remodeling our franchise for growth. Our proposed strategy is anchored in understanding the complexity of the environment we trade in, the shifting sands in the banking sector and the silver-lined clouds we see amid market despair and gloom worldwide.

Given that the central function of banking is to assume risk – credit, liquidity, interest rate and foreign exchange risk – the Great Lockdown has had a major impact globally. Regulators responded with relief measures. Interest rate cuts of a cumulative total of 300 bps by 31 March 2021 had an adverse endowment effect. Normally in a rising interest environment, if the assets are re-priced slower than the liabilities, any financial institution experiences a reduction in its profit and in extreme cases, suffers pure losses. However, when rates are falling, the ability to re-price liabilities sooner than assets augments profits. In our case, although our financial performance was improving before the Great Lockdown, we were affected by the complexities of a pandemic such as COVID-19.

Despite the above challenges, we remain strengthened by the support we are receiving from both our Board and the Group shareholder. The capital injection of R59 million has gone a long way to stabilise our position, we maintained a capital adequacy ratio (CAR) of >15% during the reporting period. As our credit RWA increases, more capital would be required. The road map towards the acquisition of the banking licence is largely dependent on the evolution of

LEADERSHIP MESSAGES

the shareholder structure at Group level, which the Board is engaging on with our shareholder. Our shareholder has made a commitment of R268.2 million in capital injections over four years and this is critical in protecting customer deposits (CAR) during the rebuild and the remodel phases of our path to profitability. Its continued support is highly appreciated.

The anticipated impact of the Repair, Rebuild and Remodel strategy tilt is earmarked to drive our shift towards profitability by 2024 and will fulfil the requirements for a banking licence. We anticipate a greater focus in the acquisition and retention of our selected client segments. As part of envisioning a future beyond the current iteration of the pandemic, we are rethinking the role technology can play in the business. This will entail developing robust digital infrastructure and rapidly deploying an optimum IT platform geared for innovation. In this way, we hope to resolve the challenges of creating and developing new products, allowing the business to become more competitive, generate additional revenue and attain profitability.

We anticipate a shift from a dependency on net interest income and will invest in our transaction banking activities, to drive non-interest revenue growth. We plan to optimise and sweat our balance sheet assets. We remain vigilant and are applying stress-testing models to manage impaired loans and advances within acceptable risks levels. We aim to empower our people to lead for innovation and growth and inculcate an enterprise-wide risk enabled culture. Our employees have demonstrated they are immensely resilient and committed to realising our strategic mandate, despite the significant challenges we encountered through the disruption of our business operations as a result of the cyberattack incident. Our recovery from this is thanks to the tremendous efforts of our people, who worked tirelessly to ensure speedy business recovery and minimal interruption to the delivery of services and products to our customers.

The deployment of resources will further empower and enable our employees to deliver an exceptional client-centered service. The continued support by the Group shareholder, the Board and leadership team inspires and drives our people towards delivering our vision to be an innovative and responsible financial services institution. I extend my sincere gratitude to each of you and look forward to our continued partnership and engagement as we work towards re-establishing Ithala as a formidable and effective role player in South Africa's development landscape.



Dr DT Vilakazi
CEO





04




GOVERNANCE

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GOVERNANCE

Good governance is imperative given Ithala's responsibilities to the communities it serves. As a public institution operating in a highly dynamic context, the company's ability to preserve and create value, remain relevant in a changing environment, and become sustainable in the long term is predicated on sound governance.

Ithala is committed to maintaining the highest standards of governance. Its governance framework is informed by principles of transparency, integrity and accountability. This allows the company to provide effective and ethical leadership.

We operate in a highly regulated environment. As such, the company views regulatory compliance as a key priority (see page 70) . Ithala aims to not only meet, but also exceed the legal requirements for good governance. Its governance processes are founded on the principles of the King Report on Corporate Governance (King IV) and guided by the Companies Act, No. 71 of 2008.

The Board of Ithala is the custodian of corporate governance. The Chairman and the Board set the tone of the company and collectively ensure the conduct of the Board and the executive management team is aligned with the company's values and ethical standards. The day-to-day management of Ithala 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.

During the second part of the 2020 calendar year, Ithala increased the momentum to **Repair, Rebuild and Remodel** the business for growth. At the highest level, the company has aligned its governance structures through the infusion of new energy at Board level and assembling a formidable management team in the last 18 months. The Board appointed a Chief Executive Officer, who is also an Executive Director effective 1 September 2020 and two new Independent Non-executive Directors effective 1 January 2021. The Board will be proposing to the Prudential Authority, before the end of the year, the appointment of Inkosi SN Mkhize as Chairperson of the Board.

The Board delegates to relevant Board committees and 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. Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas. Each Board committee has a clear mandate and terms of reference that the Board reviews annually.

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

ETHICS

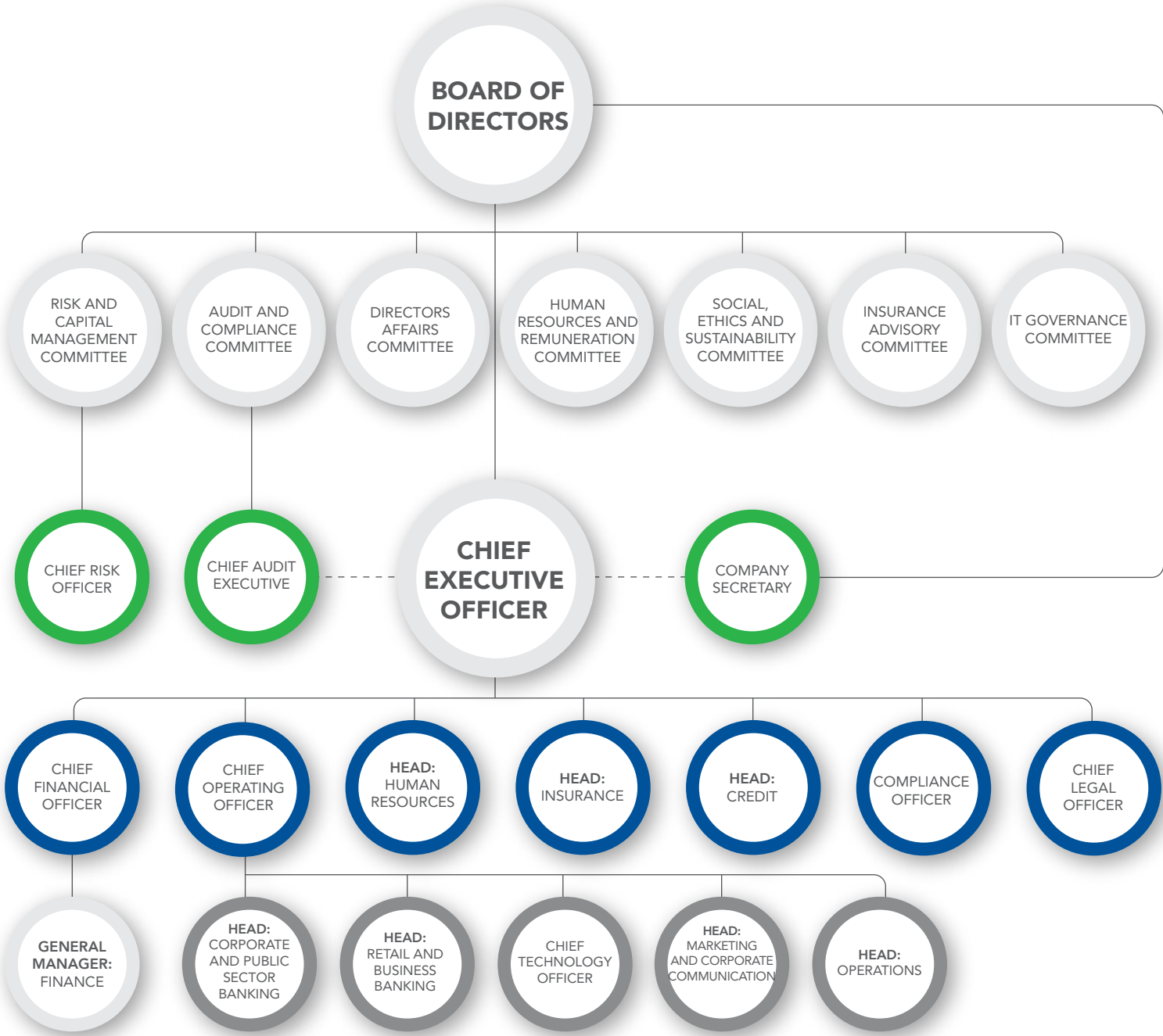
The Board promotes the highest ethical standards. It subscribes to a culture of ethics that is underpinned by individual and collective accountability. It mitigates the risk of fraud and corruption through a Code of Ethics that is reviewed annually. The evaluation of the effectiveness of the Board includes regular monitoring of the ethical behaviour of individual Directors and the Board as a collective.

Ithala's governance framework fosters a relationship of trust between both internal and external stakeholders. The organisation has a zero tolerance for fraud and corruption. It adopts international best practice and embraces rigorous risk frameworks and institutional practices to ensure its operations are secure and stable.

Whistleblowing hotline

In order 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 employees' email signatures as well as on the company's website. During FY2020/21, 39 matters were received. Of these, 10 required an investigation response while one matter required additional investigation and three matters remain under review by the Audit and Compliance Committee (ACC) pending further investigation.

GOVERNANCE STRUCTURE



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

GOVERNANCE

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS



Inkosi SN Mkhize (43)

Deputy Chairman
Appointed March 2018

- BCom in Economics
- Certificate in Public Policy



MM Pupuma (67)

Appointed August 2020

- MBL
- BAccSc



GR Sibiya (53)

Appointed August 2017

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



SB Mnguni (44)

Appointed October 2019

- CA (SA)
- MBA
- BCom Honours in Accounting



SL Shabalala (55)

Appointed January 2021

- MBL
- Diploma: Management Practice
- BBA
- Associate Diploma in Banking



NS Simelane (53)

Appointed January 2021

- MBA
- Postgraduate Certificate in Business Administration

EXECUTIVE DIRECTOR



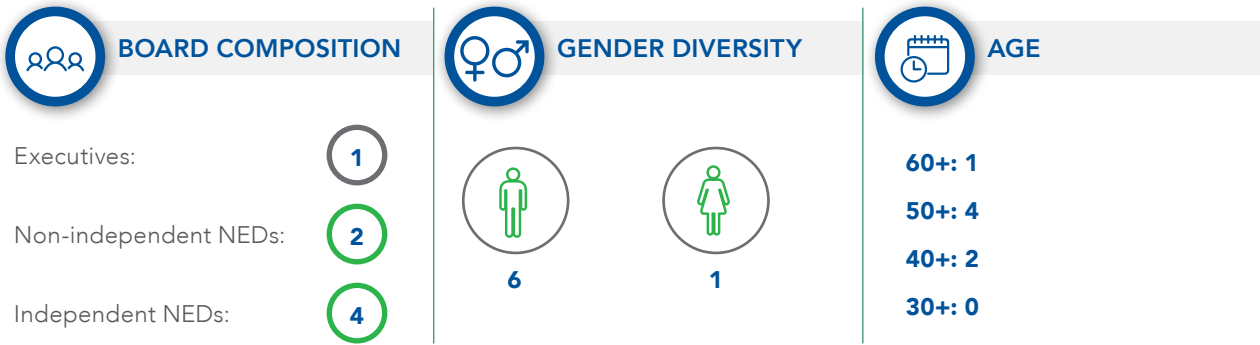
Dr DT Vilakazi (56)

Appointed September 2020

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



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



BOARD EFFECTIVENESS

There has been no evaluation conducted in FY2020/21 as there were only three Board members for the better part of the financial year. A Board evaluation will be conducted in the current financial year – given the enhancement of the Board membership – through the appointment of two new Independent Non-executive Directors and an Executive Director.

DECLARATION OF INTEREST

The Board has adopted a formal approach to addressing conflict of interest. Directors who encounter actual or perceived conflicts of interest are required to formally declare such conflicts for consideration by the appropriate committee. In addition, the declaration of interests is a standing agenda item at all Board meetings. 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.

COMPANY SECRETARY

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 Chairman. All Directors have access to the guidance and services of the Company Secretary. At year-end, the position of Company Secretary was vacant. The role is being fulfilled by the Assistant Company Secretary in the interim. Ithala is currently in the process of appointing a person to fill the role.

GOVERNANCE

BOARD REPORT



Deputy Chairman
Inkosi SN Mkhize

Number of meetings
24

Meeting attendance
23/24



ROLE

Ithala has a fit and proper Board, with functional and properly constituted sub-committees as prescribed by the Companies Act and the Bank's Act. The Board 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 exercises effective control over the company and its management, and is involved in all material decisions to ensure the company remains a going concern.

In line with King IV, the Board comprises a majority of Non-executive Directors, most of whom are independent. It has established statutory and operational committees to assist with effectively fulfilling its responsibilities in accordance with the provisions of the Board Charter. The Board delegates certain responsibilities to these committees without relinquishing accountability. This delegation is formalised through Board-approved terms of reference that are reviewed annually. The composition, mandate and performance of committees are also reviewed annually and contributes to the effective discharge of the Board's duties and responsibilities.

The Board receives reports and minutes of each committee meeting 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.



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: 24	Number of meetings: 4	Number of meetings: 7	Number of meetings: 4	Number of meetings: 6	Number of meetings: 3	Number of meetings: 4	Number of meetings: 4	Number of meetings: 3
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Inkosi SN Mkhize	23	4	6	3	6	3	4	4	3
MM Pupuma ¹	7	2	4	3	3	2	3	2	2
GR Sibiya	24	4	7	4	4	3	4	2	2
ZP Khanyile ²	2	1	1	1	1	1	N/A ⁵	1	N/A
SL Shabalala ³	2	N/A	2	1	2	N/A	N/A	N/A	2
NS Simelane ⁴	2	N/A	1	1	2	N/A	N/A	1	2
SB Mnguni	23	4	6	4	6	3	2	4	3

1) MM Pupuma appointed 1 August 2020

2) ZP Khanyile appointed 1 August 2020

3) SL Shabalala appointed 1 January 2021

4) NS Simelane appointed 1 January 2021

5) N/A - not a Director of Ithala at time of meeting / Not a member of the committee



KEY ACTIVITIES

- Appointment of new CEO effective 1 September 2020.
- Appointment of two new Independent Non-executive Directors effective 1 January 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 organisation.
- 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.
- Approval of integrated annual report and AFS.
- Approval of repurposed strategy.
- Ensuring that the organisation is a going concern and obtains an extension of the Banking Licence Exemption Notice by December 2021.

FUTURE OUTLOOK |

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

- Attaining the extension for the Banking Licence Exemption Notice; the current will expire on 31 December 2021. The extension will provide our CEO, who was appointed in September 2020, an opportunity to address the matters that will see the organisation applying for a banking licence in the near future.
- Implementation of a core banking system that will put Ithala abreast of its competitors in terms of its product suite, more so on the transactional banking perspective.
- Appointment of additional Directors to enhance the capabilities of the Board to provide strategic oversight and steer the organisation towards efficiency and sustainability.
- Assessing the effectiveness of its own governance practices, the appointment of members to Board committees, management of conflicts of interest, determine where weaknesses exist, and make changes as necessary.
- 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.
- Complying with the Guidance Note 5 of 2014 issued by the South African Reserve Bank on 8 July 2014 in terms of section 6(5) of the Banks Act, or such replacement or successor guidance notice, circular or directive.
- 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
7

Meeting attendance
7/7



ROLE

The overall function of the Audit and Compliance Committee (ACC) is to assist the Board in discharging its responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, and the oversight of the external and internal auditors' appointments and functions.

The committee 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 committee, at year-end, was chaired by an Independent Non-executive Director and comprises additional two independent Non-executive Directors. The CEO, CFO and executive management are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, strategy and risk management, taxation the regulatory environment and financial services.



MEETING ATTENDANCE

Board member	Number of meetings attended
GR Sibiya (Chairman)	7/7
Inkosi SN Mkhize	6/7
MM Pupuma ¹	4/7
NS Simelane ²	1/7
SL Shabalala ³	2/7
SB Mnguni	6/7

1) MM Pupuma appointed 1 August 2020

2) NS Simelane appointed 1 January 2021

3) SL Shabalala appointed 1 January 2021



KEY ACTIVITIES

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

The ACC also executed the following:

- Supporting the Board in its evaluation of the integrity of the AFS through evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and internal auditing applied in the day-to-day management of our business.
- Determining the fees to be paid to the external auditor and approving its terms of engagement, including consideration of the external audit plan to be satisfied that it effectively addresses critical risk areas in the business.
- Managing the relationship with the external auditors and assessing their independence and effectiveness.
- Preapproving any proposed contract with the external auditor for the provision of non-audit services to the company.
- Meeting with the auditor at the commencement of the audit to review and approve the audit plan and ensure it is consistent with the scope of the audit engagement.
- Obtaining assurance that the company's processes for identifying, managing and reporting on risk are adequate, in liaison with the Risk and Capital Management Committee.
- Reviewing insurance cover for the business, indemnity for Directors and Executive Officers.
- Reviewing IT report including progress on IT projects.
- Recommending the AFS and the integrated annual reports to the Board of Directors for approval.
- Reviewing the committee's terms of reference and recommending these for Board approval.
- Conducting an assessment of the committee's performance and reporting results to the Board.

FUTURE OUTLOOK

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

- The ACC will focus on implementation of new legislation, the likes of IFRS and other regulations for a 'bank' that requires attention.
- The ACC strives to curb irregular, fruitless and wasteful expenditure. As such, the supply chain management unit is mandated with addressing the pertinent issue of contract management and will focus on this, given the new regulations from the National Treasury on the condonation of irregular expenditure, with strict requirements for consequence management.
- A major focus will be on the resolution of the audit findings, both by internal and external auditors.
- The ACC will review the necessary compliance requirements and any relevant pieces of legislation, including but not limited to, BASEL III.

RISK AND CAPITAL MANAGEMENT COMMITTEE



Chairman
MM Pupuma

Number of meetings
4

Meeting attendance
3/4



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 that 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 an additional two independent Non-executive Directors. The CEO, CFO and executive management are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, risk management, the regulatory environment, financial services and business leadership.



MEETING ATTENDANCE

Board member	Number of meetings attended
MM Pupuma (Chairman) ¹	3/4
Inkosi SN Mkhize	3/4
GR Sibiya	4/4
NS Simelane ²	1/4
SL Shabalala ³	1/4
SB Mnguni	4/4

1) MM Pupuma appointed 1 August 2020

2) NS Simelane appointed 1 January 2021

3) SL Shabalala appointed 1 January 2021



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 and recommending the risk management policy (part of the framework).
- Reviewing and approving the Risk Management Plan.
- Monitoring performance against the Risk Management Plan.
- Reviewing and approving risk management report for disclosure in the annual financial statements.
- Reviewing the risk appetite framework including tolerance levels and recommend 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.
- Reviewing risk mitigation strategies to ensure risk reward trade-off and monitoring effectiveness of the strategy.
- 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.
- Reviewing risk management and related policies, procedures and providing input where required prior to recommendation for Board approval.
- Reviewing the capital management framework and quarterly reporting on capital adequacy.
- Monitoring external developments relating to risk management, including emerging risks and their potential impact.
- Reviewing reports on the Asset and Liability Committee activities.

FUTURE OUTLOOK

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

- Risks facing or affecting the organisation, be it inherent or residual risks.
- Monitoring, managing and providing mitigation strategies against key risks.
- Capital funding and its management.
- Liquidity of the business and the interest rate risks.

IT GOVERNANCE COMMITTEE



Chairman
NS Simelane

Number of meetings
6

Meeting attendance
2/6



ROLE

The overall function of the committee is to assist 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 two Non-executive Directors. The CEO, CFO, and Group Chief Technology Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, IT audit, regulatory universe, financial services and business leadership.



MEETING ATTENDANCE

Board member	Number of meetings attended
NS Simelane (Chairman) ¹	2/6
Inkosi SN Mkhize	6/6
GR Sibiya	4/6
MM Pupuma ²	3/6
SL Shabalala ³	2/6
SB Mnguni	6/6

1) NS Simelane appointed 1 January 2021

2) MM Pupuma appointed 1 August 2020

3) SL Shabalala appointed 1 January 2021



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 six meetings in the period under review.

The IT Governance Committee also executed the following:

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

FUTURE OUTLOOK

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

- Monitoring the implementation of the IT progressive modernisation strategy.
- Ensuring IT governance is in place and always adhered to by the business.

HUMAN RESOURCES AND REMUNERATION COMMITTEE



Chairman
MM Pupuma

Number of meetings
3

Meeting attendance
2/3



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 CEO, CFO and Group Chief Technology Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, IT audit, regulatory universe, financial services, human resources and business leadership.



MEETING ATTENDANCE

Board member	Number of meetings attended
MM Pupuma (Chairman) ¹	2/3
Inkosi SN Mkhize	3/3
GR Sibiya	3/3
NS Simelane ²	N/A ⁴
SL Shabalala ³	3/3
SB Mnguni	3/6

- 1) MM Pupuma appointed 1 August 2020
- 2) NS Simelane appointed 1 January 2021
- 3) SL Shabalala appointed 1 January 2021
- 4) N/A – not a director of Ithala at time of meeting



KEY ACTIVITIES

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

The HRRC also executed the following:

- Standardisation of remuneration practices across the organisation.
- Approved remuneration disclosures for the Integrated Annual Report.

FUTURE OUTLOOK

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

- Alignment of performance targets with strategic objectives and operating model.
- Ensuring the wellbeing of staff, given the COVID-19 pandemic and other related issues.
- Talent management and retention of staff, to address the high turnover, especially at executive level.

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; and consumer relationships, including Ithala's advertising, public relations and compliance with consumer protection laws, labour and employment.



COMPOSITION, SKILLS AND EXPERIENCE

The SESC is chaired by an independent Non-executive Director and comprises one independent Non-executive 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	Number of meetings attended
GR Sibiya (Chairman)	4/4
Inkosi SN Mkhize	4/4
MM Pupuma ¹	3/4
NS Simelane	N/A ²
SL Shabalala	N/A
SB Mnguni	2/4

1) MM Pupuma appointed 1 August 2020

2) N/A – not a director of Ithala at time of meeting



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; and
 - 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 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 ; and
 - 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 Organisation Protocol on decent work and working conditions;
 - Ithala’s employment relationships; and
 - Ithala’s contribution towards the educational development of its employees.

FUTURE OUTLOOK |

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

- Implementation of enhanced Code of Conduct.
- Providing oversight on the implementation of corporate social investment (CSI) initiatives.
- Fraud risk and fraud prevention monitoring and providing mitigating solutions.

INSURANCE ADVISORY COMMITTEE



Chairperson
SL Shabalala

Number of meetings
4

Meeting attendance
N/A



ROLE

The purpose of the Insurance Advisory Committee (IAC) is to help the Insurance Division until such time 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, Head: IT 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	Number of meetings attended
SL Shabalala (Chairman)	N/A ¹
Inkosi SN Mkhize	4/4
GR Sibiya	2/4
MM Pupuma	2/4
NS Simelane	1/4
SB Mnguni	4/4

1) N/A – not a director of Ithala at time of meeting

2) MM Pupuma appointed 1 August 2020

3) NS Simelane appointed 1 January 2021



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 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.



GOVERNANCE

EXECUTIVE COMMITTEE



Dr DT Vilakazi (56)
Chief Executive Officer
Appointed September 2020

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



Lana Meyer (52)
General Manager: Finance
Appointed August 2019

- CA(SA)
- MBA



Sethu Nsele (48)
Chief Audit Executive
Appointed September 2020

- MBL
- Certified Internal Auditor
- Certified Financial Services Auditor



Advocate Kabelo Nkambule (41)
Compliance Officer
Appointed August 2020

- LLB
- Certificate in Marketing
- Certificate in Cooperative Governance



Xolani Khumalo (39)
Head of Credit and Collections
Appointed November 2020

- CA(SA)



Sandile Xolo (43)
Head of Marketing and Communications
Appointed December 2011

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



Shane Moodley (46)
Head of Retail and Business Banking
Appointed July 2015

- BCom (Financial Management)



Aaron Pather (51)
Head of Insurance
Appointed July 2019

- MBA



Sihle Gwala (46)
Head of Human Resources
Appointed August 2011

- BSocSc, SMDP
- BA Honours (Industrial Psychology)



Lukas Barnard
Head: Information Technology
Appointed March 2021

- BSc Hons Comp Sci



KEY SKILLS AND COMPETENCIES



Banking



Financial services



Taxation



Accounting and finance



Strategy



Sustainability



Human resources



Risk management



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. During the year under review, Dr T Vilakazi was appointed Chief Executive Officer with effect from 1 September 2020.



COMPOSITION, SKILLS AND EXPERIENCE

The executive management team is chaired by the Chief Executive Officer and comprises 10 members. Collectively, the members of the committee have the relevant skills and experience in banking, HR, the regulatory environment, financial services, corporate governance, internal audit, IT, insurance, risk and compliance.



MEETING SCHEDULE

Number of meetings: 40

Executive Director	Number of meetings attended
Dr DT Vilakazi ¹	18
Sihle Gwala	40
Shane Moodley	39
Aaron Pather	40
Sandile Xolo	40
Kabelo Nkambule ²	23
Sethu Nsele ³	18
Xolani Khumalo ⁴	11
Lana Meyer	40
Lukas Barnard ⁵	N/A

1) Dr DT Vilakazi appointed 01 September 2020

2) K Nkambule appointed 01 August 2020

3) S Nsele appointed 01 September 2020

4) X Khumalo appointed 16 November 2020

5) L Barnard appointed 01 March 2021 and did not attend any exco meetings during the financial year.

GOVERNANCE



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 roll-out 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 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 integrated 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.
- Ensuring the wellbeing of staff, given the COVID-19 pandemic and other related issues.

KING IV DISCLOSURES



The accounting authority should lead ethically and effectively.



Application

The Ithala Board of Directors acknowledges its individual and collective responsibility for setting the Bank’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.
- Board members that have disclosed possible conflicts are required to recuse themselves from discussions and decision-making in such matters.

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:

- Directors have been appointed to ensure the appropriate mix of skills and independence within the business.
- Newly appointed directors were taken through an intensive induction into the operations and affairs of the business as well as their fiduciary duties.

Status indicator:



Applied



Not applied

	<p>The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	
Application		
<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.</p>		
<ul style="list-style-type: none"> • The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation is delegated to the Human Resources and Remuneration (HRRC) and Social, Ethics and Sustainability (SESC) committees. • A Board-approved Code of Ethics is in place. It is designed for effective management of ethics, fraud corruption. • Ithala complies with all applicable laws and regulations. 		
	<p>The accounting authority should ensure the organisation is and is seen to be a responsible corporate citizen.</p>	
Application		
<ul style="list-style-type: none"> • While 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. • An annual strategy session is held by the Board and management to review and approve the short-, medium- and long-term strategies 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. • The Board has set a balanced scorecard to measure performance and set targets. This is done on an annual basis. • All Ithala policies are approved by the Board. A reporting framework is in place that suitably facilitates continuous monitoring of policies. • Operational plans are reviewed and approved by the Audit and Compliance Committee. • Ithala directs social spend towards corporate social investments with a focus on communities within which it operates. 		
	<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>	
Application		
<ul style="list-style-type: none"> • The Annual Financial Statements and Integrated annual report are reviewed annually by the Audit and Compliance Committee and recommended to Board for approval. • An Integrated annual report is circulated to the relevant stakeholders and published on Ithala's website for access by stakeholders. 		
	<p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	
Application		
<ul style="list-style-type: none"> • 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. 		

Status indicator:

-  Applied
  Not applied

GOVERNANCE



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



Application

- The Board, with the assistance of the Directors' Affairs Committee, annually considers 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.
- 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.
- Board members are required to declare their financial, economic and other interests at the commencement as each Board meeting.
- Conflicts of interests are managed in accordance with the Companies Act and the requirements of King IV.



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



Application

- The composition of the committees of the Board 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.



The governing body should ensure the evaluation of its own performance and that of its committees, its chair and its individual members, supporting continued improvement in its performance and effectiveness.



Application

- There has been no Board evaluation conducted in FY2020/21 as there were only three Board members for the better part of the financial year. An evaluation will be conducted in the 2021/2022 financial year, given the enhancement of the Board membership, through the appointment of two new Independent Non-executive Directors and an Executive Director.



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



Application

- Assessments were conducted on the performance of the Chief Executive as well as the performance of Board committees and their members.
- 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.



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



Application

- 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.

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		
<ul style="list-style-type: none"> 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 approved by the Board. 		
	<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		
<ul style="list-style-type: none"> The Audit and Compliance Committee (ACC) 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>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		
<ul style="list-style-type: none"> The Human Resources and Remuneration Committee assists the Board with the approval and monitoring of the execution of the remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration. 		
	<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		
<ul style="list-style-type: none"> The ACC ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities. The appointment of the Chief Audit Executive (CAE) was approved by ACC. CAE is not a member of the Executive Committee but attends by invitation. 		
	<p>In execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interest of the organisation over time.</p>	
Application		
<ul style="list-style-type: none"> Ithala has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations. 		
	<p>The governing body of an institutional investor organisation should ensure responsible investment is practised by the organisation to promote the good governance and the 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

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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

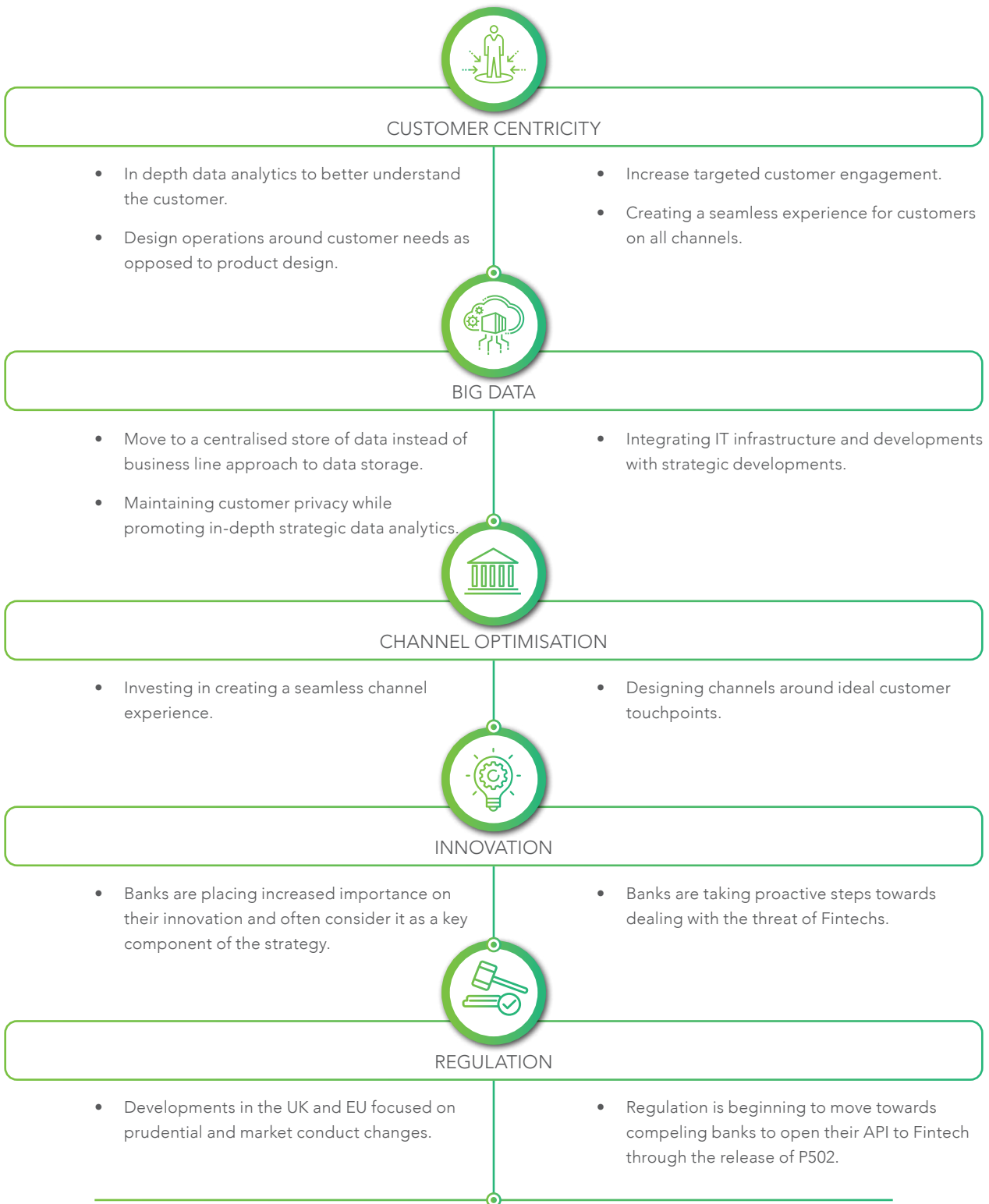
Respect	We treat each and every person in the same way that we expect to be treated.
Innovation	We become part of the solution by coming up with ways to make things happen.
Integrity	We aim to always do what is right, no matter what.
Customer satisfaction	We always put ourselves in the customer's shoes 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

FY2020/21 was a transformative period for the financial services sector. Businesses had to quickly adapt to drastic changes and the ongoing ripple effects of the COVID-19 pandemic. Banking was significantly impacted by the abrupt financial fallout that characterised the period. This has given rise to several important trends in the market, including a heightened focus on the needs and priorities of the customer. Linked to increased customer centricity, channel optimisation and Big Data are additional trends noted in the market. Now more than ever, enterprise-wide technological advancement is a business imperative.

Ithala's repurposed strategy considers these major trends, particularly in the transactional banking space. The repurposed strategy is also informed by the company's internal context, and commitment to meet the expectations of priority stakeholders, achieve a banking licence as well as create and preserve value in the short, medium and long term.

A focus on customer-servicing models with an emphasis on channel optimisation and customer segmentation 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.



It is against this broad context that Ithala’s executive management team, led by the CEO, proposed a repurposing strategy to the Board in November 2020. The strategy takes both internal and external complexities impacting the business into account and is anchored by three phases of growth, with a view to achieving profitability by 2024.

REPAIR



Ithala will repair trust with its stakeholders.

Ithala's repurposed strategy aims to ensure the company creates sustainable value, and delivers on the expectations of its stakeholders. The bank is committed to meeting stakeholder information requirements and will manage stakeholder relationships guided by its objectives and policies. This will entail engaging with stakeholders in varying degrees, based on the level of their interest in the company and the impact of its actions on them. In FY2020/21, Ithala achieved a customer satisfaction level of 91%. This compares favourably with the financial services industry benchmark of 76%. Ithala also enjoys strong loyalty and recommendation from its customers having achieved a Net Promoter Score (NPS) of 85% in the same period. This is a strong indicator of the good reputation Ithala enjoys with its current customers. The company will aim to maintain this.

REBUILD



Ithala will invest to rebuild a foundation for the future growth of the bank.

Ithala turned a profit for five consecutive months in FY2020/21. This was a major performance highlight resulting from the repurposed strategic plan. Revenues were up, but revenue growth alone was not enough to boost profitability. The focus on cost management allowed the company to achieve several quick wins in a short period of time which contributed to profitability. Ithala will continue its focus on operational effectiveness by rebuilding its operating model and implementing processes and systems befitting a modern and innovative bank.

REMODEL



Ithala will remodel its capabilities for innovation and operational resilience.

Technology presents numerous growth opportunities for Ithala. In order to be sustainable in the long term, it is prudent to unbundle the company's technology from its holding company. As such, in the remodelling phase, Ithala will focus on recruiting staff into key roles to capacitate autonomy from the shareholder. Ithala will also prioritise migration from manual systems to automated solutions. The company will further prioritise migration onto a single-core banking platform for all products and channels. This will unlock efficiencies, improve the client experience and contribute to sustained value creation.

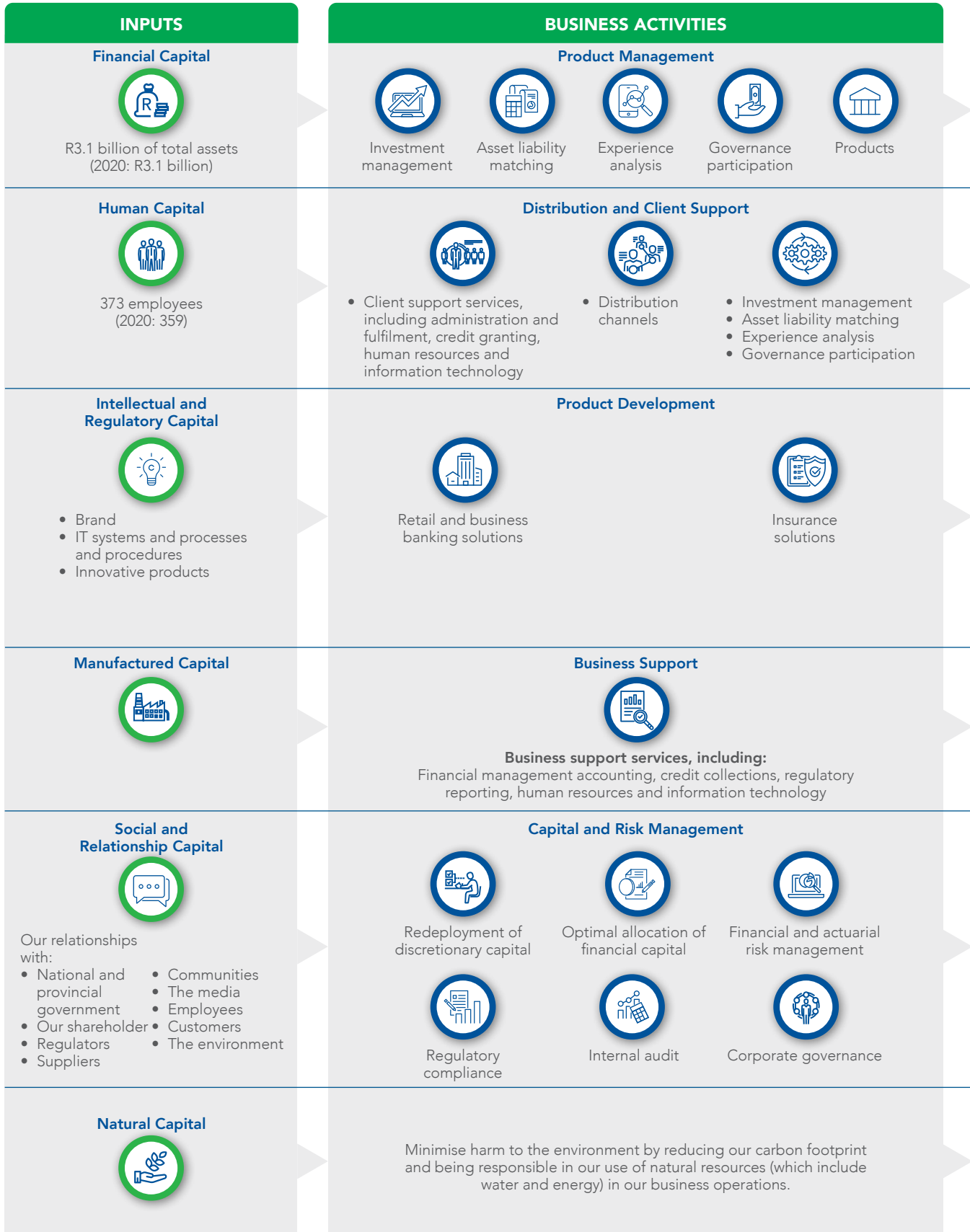


The repurposed strategy is aimed at achieving the following strategic outcomes:

1. Shift dependency on NII to NIR to cover operating expenses through focus on transactional income.
2. Drive business performance towards sustainable profitability by 2024 and continuously demonstrate compliance with the performance standards outlined in the Exemption Notice.
3. Adopt a progressive modernisation approach (managed IT evolution) of the existing banking system to secure and reliable omni-channel platforms geared for digitalisation.
4. Achieve 100% compliance with regulatory requirements including the Banks Act, BASEL III, International Financial Reporting Standard (IFRS), King IV and all other applicable laws; improve internal controls and governance processes.
5. Manage decoupling of critical shared services from IDFC to Ithala with a focus on supply chain management, IT and related infrastructure, credit processes, policies, vertical contracts and any other identified regulated and mission critical activities.
6. Establish a proper Treasury function to optimise the bank's balance sheet and liquidity fulfillment.
7. Achieve segregation of front and back-office operations through the establishment of a fully ledged operations environment.
8. Embed the culture of execution by establishing a Project Management Office reporting to the Office of the CEO and reward and recognise people for performance.
9. Obtain commitments for the recapitalisation of Ithala to the tune of R800 million with the support of Board and the Shareholder as per 30 June 2021 and the expiry of the Exemption Notice on 31 December 2021 requirements.
10. Successful application for and granting of a full banking licence by PA and exemption from operating under the PFMA and PASA designation.

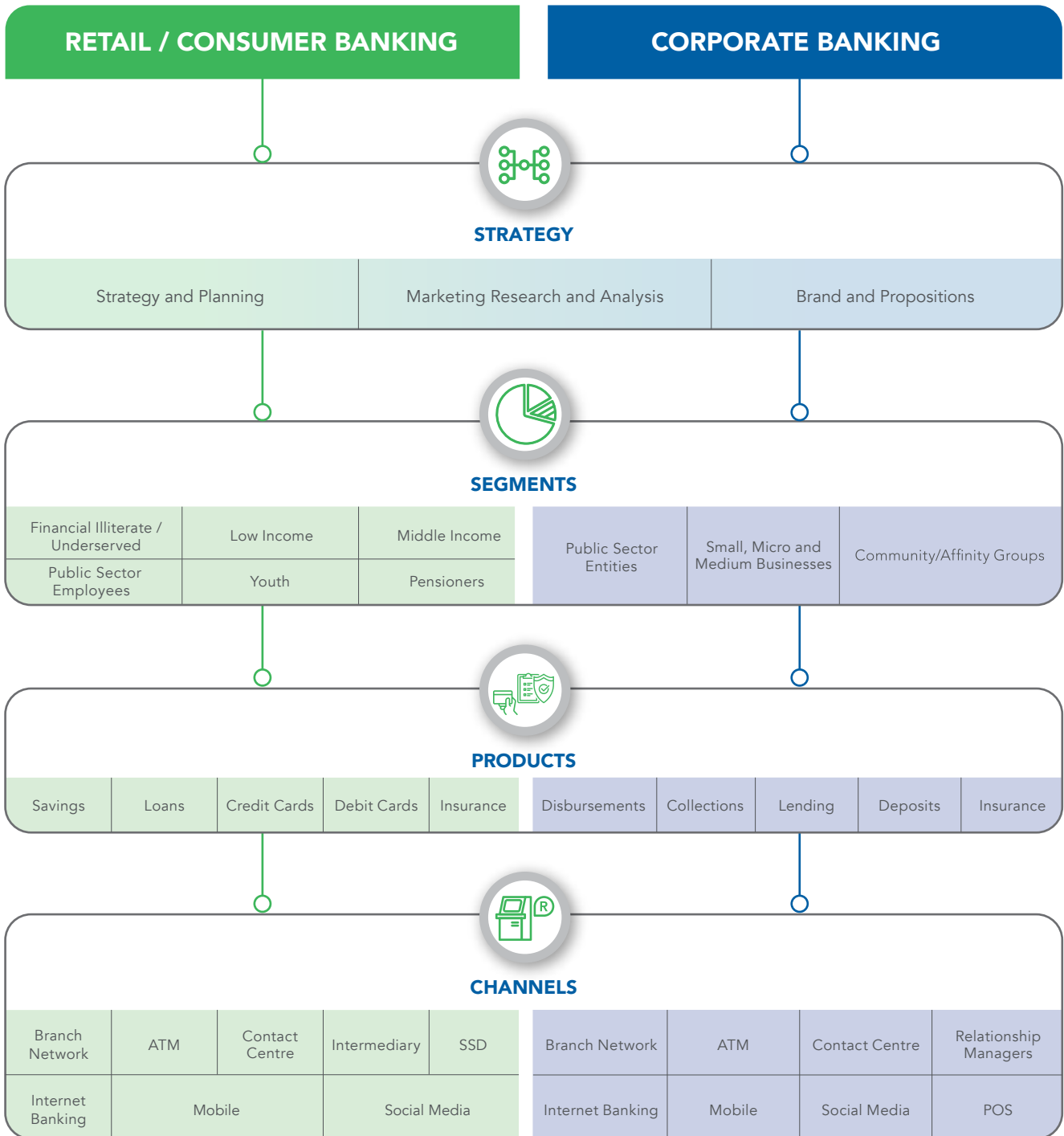
HOW WE CREATE VALUE

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	OUTCOMES
<ul style="list-style-type: none"> CTIR: 121.8% (2020: 98.5%) Jaws: 18.7% (2020: 5.1%) CAR: 17.4% (2020: 18.0%) RoE: -9.23% (2020: -23.4%) RoA: -1.02% (2020: -2.5%) 	<div style="display: flex; justify-content: space-around;"> <div data-bbox="762 510 863 607"> <p>Sustainable profitability</p> </div> <div data-bbox="1107 510 1208 607"> <p>Increased and enhanced capital base and assets</p> </div> </div>
<ul style="list-style-type: none"> Value distributed to employees: R168.6 million (2020: R162.4 million) 	<div style="display: flex; justify-content: space-around;"> <div data-bbox="762 745 863 842"> <p>Organisational excellence through sound performance management</p> </div> <div data-bbox="1107 745 1208 842"> <p>Trust-based relationship with customer</p> </div> </div>
<ul style="list-style-type: none"> Customer deposits: R2.58 billion (2020: R2.57 billion) Loans and advances to customers: R1.95 billion (2020: R1.77 billion) Rural home loans: R24.1 million (2019: R30.5 million) Home improvement loans: R228 million (2020: R93.3 million) Number of debit cards: 93 867 (2020: 101 863) Taxi finance: R121.8 million (2020: R72 million) Interest paid to depositors: R70.3 million (2020: R94.5 million) 	<div style="display: flex; flex-direction: column; justify-content: space-around;"> <div data-bbox="762 987 863 1084"> <p>Increased market share</p> </div> <div data-bbox="1091 987 1192 1084"> <p>Enhanced business effectiveness through technology</p> </div> <div data-bbox="762 1133 863 1229"> <p>Enhanced market positioning and brand identity</p> </div> <div data-bbox="1091 1133 1192 1229"> <p>Established public sector banking services</p> </div> </div>
<ul style="list-style-type: none"> 38 branches, 87 ATMs 238 self-service devices (SSDs) 	<div style="display: flex; flex-direction: column; justify-content: space-around;"> <div data-bbox="762 1308 863 1404"> <p>Increased number of ATMs and SSDs</p> </div> <div data-bbox="762 1413 863 1509"> <p>Increased number of digitally active customers</p> </div> </div>
<ul style="list-style-type: none"> Value distributed to suppliers: R149.9 million (2020: R140.2 million) Value distributed to government: R13.7 million (2020: R13.3 million) Value distributed to the community: R700 000 (2020: R200 000) 	<div data-bbox="762 1659 863 1756"> <p>Mutually beneficial strategic partnerships</p> </div>
<ul style="list-style-type: none"> Reduced printing at head office and across the branch network Reduced travel costs 	<div style="display: flex; flex-direction: column; justify-content: space-around;"> <div data-bbox="762 1906 863 2002"> <p>Increased adoption of digital and paperless solutions</p> </div> <div data-bbox="762 2011 863 2107"> <p>Increased recycling efforts</p> </div> </div>

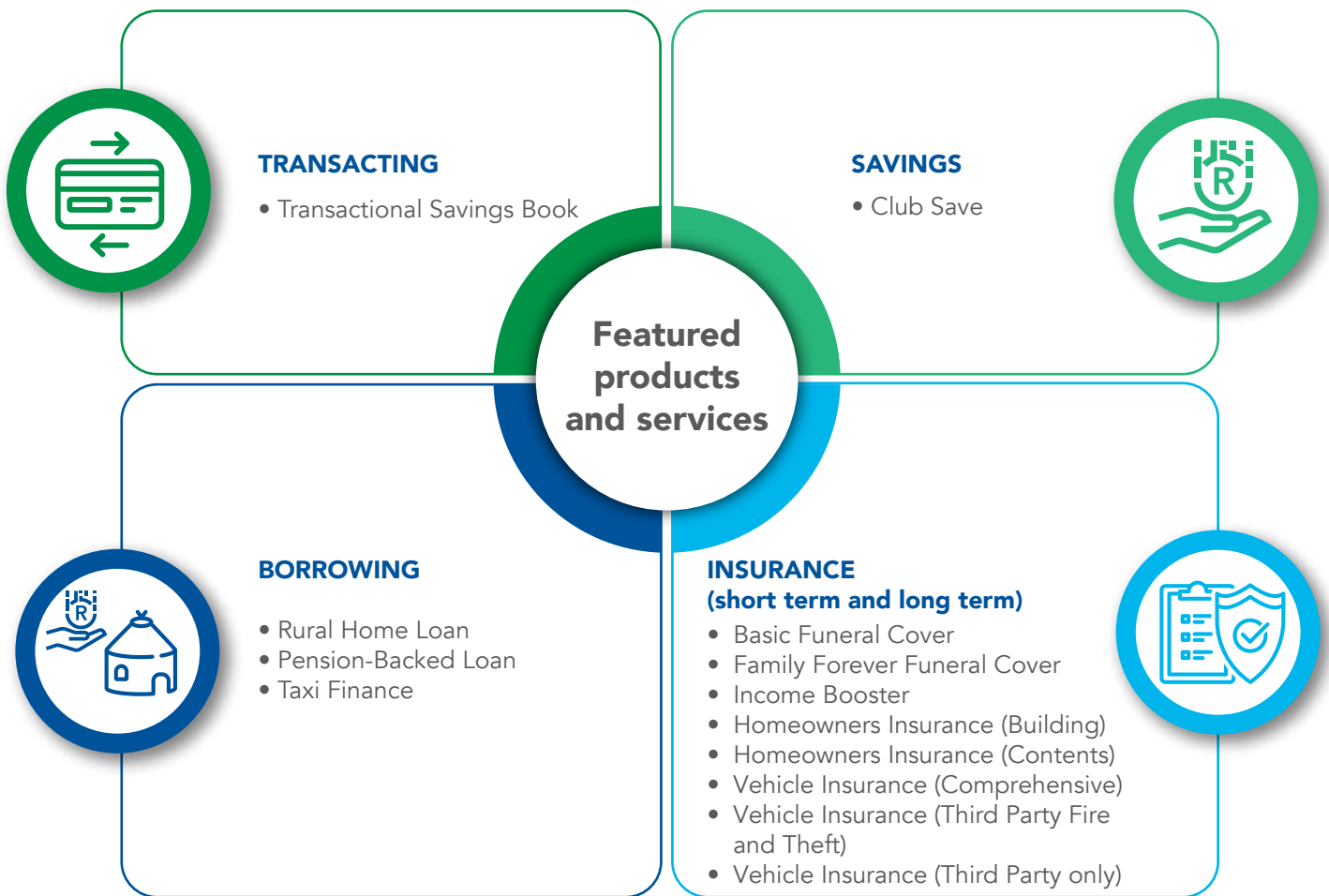
OPERATIONAL STRUCTURE



FEATURED PRODUCTS AND SERVICES

The strategic intent of the business is underpinned by three value drivers: adopting a value-creation philosophy; being exceptional at the delivery of financial services; and a culture of empowered and energised staff. We adopt a relationship-based philosophy underpinned by partnerships.

Ithala is uniquely 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).





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.



RURAL HOME LOAN

Ithala's Rural Home Loan product offers a maximum loan facility of R500 000, with a repayment term of up to 20 years. It is offered to customers who wish to own their own home on tribal authority land. There is no bonded security because the land is owned by the tribal authority, not the occupant.

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 Ithala Funeral Plan pays out a lump sum from a minimum of R5 000 to R15 000. Claims are paid out within 48 hours, as long as all the necessary documents are provided.

FAMILY FOREVER FUNERAL COVER

The Ithala Family Forever Funeral Plan 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 R20 000 to R80 000. 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 accidental). 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 that pays out up to six law instalments if the insured get 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 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

The COVID-19 pandemic continued to disrupt the local economy, compelling stakeholders across the spectrum to act decisively, often with very little time and information. This entailed difficult choices as governments and other role players tried to find balance between saving lives and protecting livelihoods, between agile responses and effectiveness, and between short-term adjustments and lasting systemic change. With economic activity in South Africa already on a weak footing prior to the onset of the pandemic, these well-intended measures gave rise to the Great Lockdown. The crisis has contributed to job losses, further sharpening the divide between the rich and poor. Fewer people working means more households are deprived of income, leading to less spending, with ripple effects throughout the economy.

According to South African Reserve Bank (SARB), domestic economic output fell by almost 8%, in turn contributing to an estimated 6.1% drop in per capita income in 2020. This decline in per capita income is expected to set average living standards back by a decade or more. The World Bank has predicted South Africa's growth will rebound to 3.3% in 2021 (0.7 percentage point below previous forecasts) before softening to a potential pace of 1.7% in 2022.

The relaxation of lockdown regulations saw a 66% rebound in the third quarter of FY2020/21; however, a lot of ground was lost. According to the African Development Bank, real GDP contracted by 8.2% in the 2020 calendar year, the consequence of a decline in construction, transport and communication, manufacturing, and mining. This has resulted in about 2.6 million people losing their jobs. With renewed lockdown measures, the return of loadshedding, mounting debt and shattered confidence, the outlook remains bleak.

In 2020, the SARB slashed the repo rate by 300 basis points to 3.5%, bringing the prime lending rate for consumers to 7%. Inflation remains well contained; the CPI reading for November was 3.2%, near the bottom of the SARB's mandated 3% to 6% target range; and there is little in the way of price or demand pressures. Thus, while the economy's stuttering start to 2021 could give it room to make an additional cut of 25 basis points, the Bureau for Economic Research (BER) is currently forecasting no further cuts with an increase of 25 basis points forecast only for April 2022.

Ithala's branch capacity and ability to serve clients was also impacted during the lockdown. In order to ensure the safety of its client-facing employees, the organisation decreased its branch capacity by temporarily closing certain branches and implementing rotating shifts and a work-from-home policy.

In July 2021, South Africa experienced a wave of protests that resulted in widespread looting and destruction of property. The riots occurred predominantly in KwaZulu-Natal. In a statement published in August 2021, the Premier of KwaZulu-Natal estimated that the preliminary costs of damage following the unrest and looting is R2 billion. The rioting, combined with the ongoing effects of the COVID-19 pandemic, meant the realisation of the worst-case scenario for GDP growth prospects. Taken together, these factors are expected to have a negative impact on the domestic and provincial economy over the short to medium term.

REGULATION

Regulatory compliance is at the heart of Ithala's operations. The company continually monitors developments in the regulatory environment, with a view to ensuring it conforms to best practice and always remains compliant. As part of its efforts to ensure regulatory compliance, Ithala appointed a new head of compliance and an anti-money laundering officer. The company has also insourced the Financial Advisory and Intermediary Services (FAIS) compliance officer role. Further, Ithala prioritised the roll-out of regulatory training, with a focus on anti-money laundering, FAIS and Treating Customers Fairly (TCF).

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

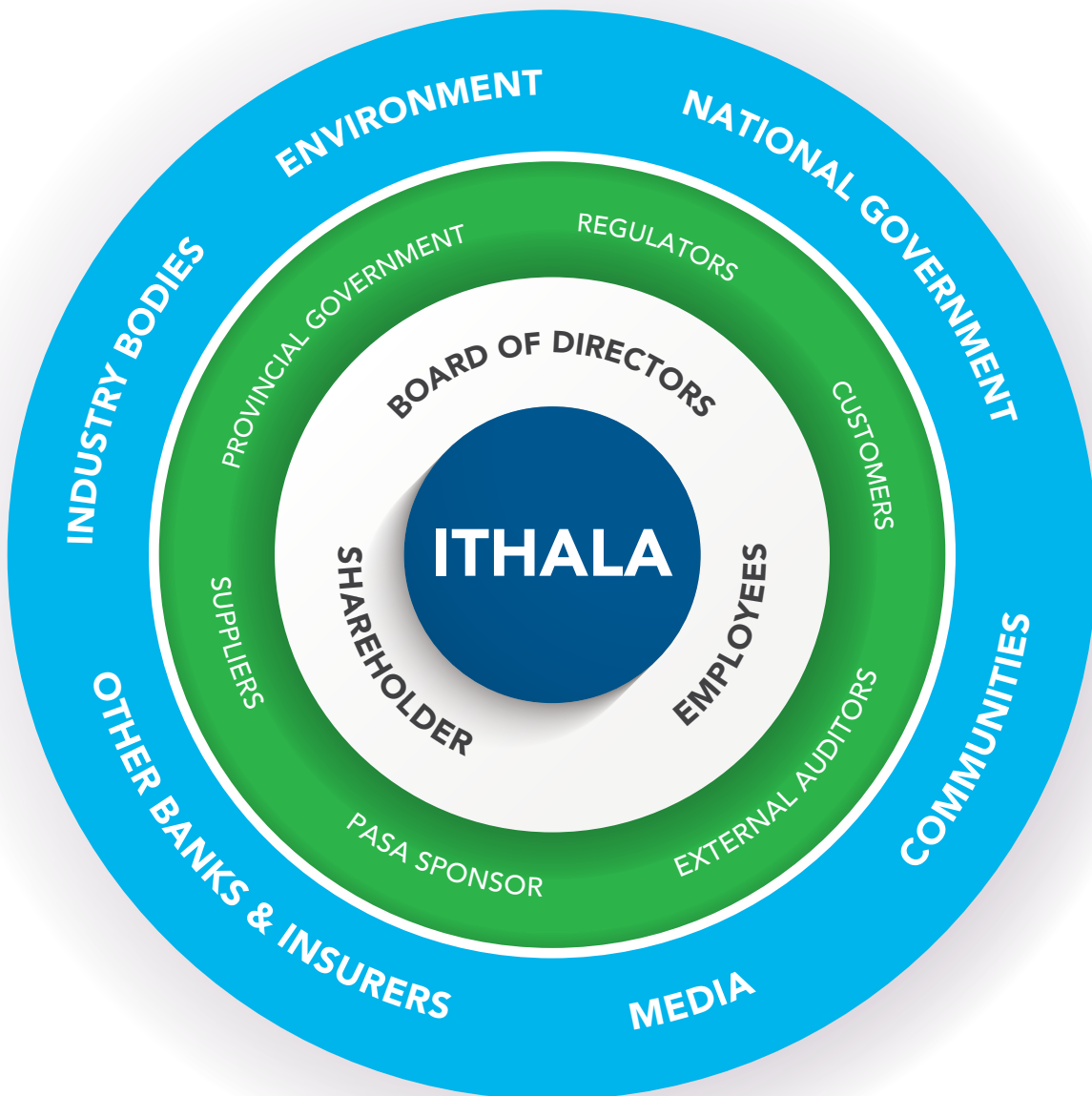
 Regulator	 Directive	 Status
Prudential Authority (South African Reserve Bank) Financial Intelligence Centre	Financial Intelligence Centre Act	The SARB remediation project has been a challenge for the organisation but Ithala continues to roll-out the project with all the obstacles present; in particular, the challenges posed by COVID-19 restrictions on our clients and the limited interaction.
Financial Sector Conduct Authority	Conduct Standards for Banks	In July 2020 the FSCA published the Conduct Standards for Banks, Ithala as an organisation operating under the Banks Act 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 that Ithala has already implemented. The company shall continue to embrace all legislation focused on the needs and wellbeing 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 (POPI Act)	The POPI Act 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 prescriptions of POPI.
Department of Cooperative Governance	Disaster Management Act	COVID-19 has posed several regulatory challenges given that most of Ithala's operating systems, including compliance processes, are manual and require face-to-face interaction. This made it difficult for the company to meet all its objectives in line with the approved annual plan. However, Ithala embraced technology and managed to close some of the gaps presented by remote working. In addition, strict COVID-19 protocols were implemented across all branches and offices to ensure the company operated within government regulations.

STAKEHOLDER REVIEW

Ithala identifies its material stakeholders by assessing its footprint to determine those who have a direct or indirect stake in the company 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 of KZN and South Africa as a whole.

The Board of Ithala is committed to meeting stakeholder information requirements and provides oversight of our stakeholder relationship management. Ithala’s stakeholder engagement strategy is also aimed at allowing the company to position itself to respond to the material needs and concerns of its stakeholders as they arise.

The following table provides an overview of the company’s 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

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

Priority interests and concerns

- Fulfill mandate as a deposit taking, state-owned provincial DFI that targets unbanked historically disadvantaged individuals
- Sustainable profitability
- Sustainable growth strategy
- Achieve a permanent banking licence

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 31 December 2021

Contribution to value creation

National and provincial government contribute to value creation through strategic partnerships and strategic guidance



OUR SHAREHOLDERS

Ithala engages with its shareholders through quarterly shareholder meetings and the submission of an Annual Performance Plan (APP), through integrated annual reporting process and AFS or on ad hoc basis, as required

Priority interests and concerns

- Deliver on 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 2024

Outcomes

- Ithala has been granted an extension of the banking licence exemption until 31 December 2021
- Reduction in loss by 58% from R75 million to R32 million
- Capable leadership team is now in place

Contribution to value creation

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

CUSTOMERS



Ithala engages with its customers on an ongoing or ad hoc basis, as determined by customer requirements, business priorities and regulatory requirements. A customer satisfaction survey is conducted twice per year, reporting results in September and 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 quarterly 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 85%.

Contribution to value creation

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

REGULATORY BODIES



Ithala engages with regulatory bodies on a daily basis or ad hoc as required. The bank also engages through its 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



Ithala engages with its 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 its 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



Ithala engages with 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)
- Roll-out of financial literacy programme

Outcomes

- A total of 206 867 Grade 12 learners benefited from the Ithala Edu Platform and were able to continue learning remotely during the COVID-19 pandemic
- 127 learners from technical vocational education and training (TVET) colleges participated in an experiential training programme

Contribution to value creation

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



SUPPLIERS

Ithala engages suppliers through tender processes, service level agreements 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 B-BBEE suppliers
- Ensure effective management of service level agreements
- 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
- Appointment of supply chain manager

Contribution to value creation

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



MEDIA

Ithala engages 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 company including extent to which it is able to fulfill 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 Ithala's response to the COVID-19 pandemic

Outcomes

- Maintained ongoing positive relationship

Contribution to value creation

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



THE ENVIRONMENT

We engage with environmental issues as dictated by business requirements

Priority interests and concerns

- Ithala aims to cause the least amount of environmental damage possible

Our response

- Reduced subsistence and travel costs by 70% from R4.6 million in FY2020/21
- Reduced printing and stationery costs by 12% from R3.6 million in FY2020/21

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

Risk management lies at the heart of all our operations. We continue to strengthen this capability as a means of ensuring an acceptable balance between pursuing opportunities aligned with our strategy and mitigating any adverse outcomes associated with uncertainty in our operating environment. The Board has ultimate responsibility for risk management in the business and 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.

While Ithala is still at early stages of the risk management process, we conducted a maturity risks assessment and now have a better understanding of our risks and the interventions required to align our risk framework and strategy.

Ithala's risk landscape is managed through continuous improvement of internal controls including risk identification, assessment, mitigation and monitoring. This is achieved through collaborative efforts between the various business units and the assurance functions. The risk appetite statement, the risk management implementation plan for FY2021/22 was revised and approved by the Board to align with the Repair, Rebuild and Remodel strategic repurposing.

The technological and competitive landscape makes it imperative for Ithala to reconsider its current operating model to remain competitive in an already strained business climate. The company's overall risk profile of Ithala takes all the above factors into consideration.

The risk function provides an impartial view of the risks facing the business and assists with coming up with mitigating strategies of the business, conducting scenario analyses and planning for uncertainty.

Whistleblowing is managed externally to the business. Action is then taken in accordance with the fraud response framework.

LOOKING AHEAD |

Ithala's key priorities for the coming year include continued 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. The company also aims to enhance its project management capacity and execution of apex projects, particularly in IT, with a view to reducing risks associated with outsourcing. Further, Ithala will implement proactive fraud detection mechanisms that are automated to reduce reliance on whistleblowing and fraud tip-offs. The company will continue raising awareness on fraud risk among its customers.

MATERIAL RISKS

Risk category	Key areas of concern	Risk response
Capital risk	The continued loss-making position of Ithala erodes capital and may result in the prudential limit of 15% on capital adequacy being breached. Capital limitations may potentially constrain any further growth opportunities in the lending portfolio.	The shareholder has committed an additional R139m capital injection over the next three years; however, the difficulties experienced with the fiscus and looming budget cuts may put additional strain on Ithala's capital adequacy levels.
Strategic risk	Banking licence decline or extension of exemption declined.	<ul style="list-style-type: none"> • An extension request was submitted to the Prudential Authority. The PA responded on 15 December 2020 citing serious concerns around Ithala's sustainability and its going-concern status. • A further engagement held in January 2021 with the Prudential Authority CEO and Ithala SOC's CEO, the triple RRR (Repair, Rebuild and Remodel) strategy was presented and the Prudential Authority maintained the exemption notice requirements remains until December 2021.
Counter party risk	Ithala invested R60m in a debt instrument (FRM) held with the Land Bank during November 2018. The counterparty was placed under review in November 2019 by the ratings agency with a negative outlook and the Land Bank went into default in April 2020.	<ul style="list-style-type: none"> • The investment matures in November 2021 and all interest payments are up to date. • Land Bank raised a provision of 45% of the capital amount in March 2020. • Continuous monitoring and ongoing engagement.
Interest rate risk	Interest rate cuts during the pandemic have had an adverse effect on the net interest margin.	<ul style="list-style-type: none"> • The triple-R strategy (Repair, Rebuild, Remodel) is to focus on non-interest revenue generation.
Regulatory risk	Non-compliance with regulatory requirements and applicable legislation. Specifically, the following: <ul style="list-style-type: none"> • Financial Intelligence Centre Act (CDD, CTR) • Financial Advisory and Intermediary Services Act • Banks Act (Regulatory Reporting) 	<ul style="list-style-type: none"> • Regulatory universe and the compliance programme (including CRMPs) are reviewed annually and approved and currently being implemented.

COMPLIANCE

The Board of Ithala has adopted a zero tolerance to non-compliance and is committed to a culture of compliance which goes beyond a tick-box exercise. This culture of compliance has been embedded into the business. Financial institutions play an important role in the overall stability of the economy. Ithala has to therefore 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.

Ithala operates under an exemption issued by the PA that permits it to conduct certain business activities reserved for registered banks. Accordingly, Ithala is an 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 that is already highly regulated. Regulators are among the critical stakeholders of the business and the company is committed to working closely with them to implement the necessary measures to ensure full compliance with all regulatory obligations.

Compliance with the Banks Act, Financial Intelligence Centre Act and improvement of the compliance culture were top priorities in FY2020/21. Ithala appointed credible leadership in the compliance department to drive this. The company's approach to regulatory compliance was, therefore, proactive and more structured. The following initiatives have been undertaken:

- Ithala has taken a strategic decision to manually remediate its clients' Know Your Client (KYC) information. Know Your Client remediation is currently being delivered on a project basis and the development of a project plan on the steps to be taken to achieve full client remediation is underway. Significant milestones have been achieved in this regard including the approval and implementation of key policies and procedures, and the key controls that are aligned with the Financial Intelligence Centre Act.
- Ithala is currently in the process 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 appointed an anti-money laundering officer. The organisation has also embarked on a process to store its business records – including customer information – on a digital platform. This will soon be accelerated by the appointment of 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 latest King Report on Corporate Governance, providing information 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.

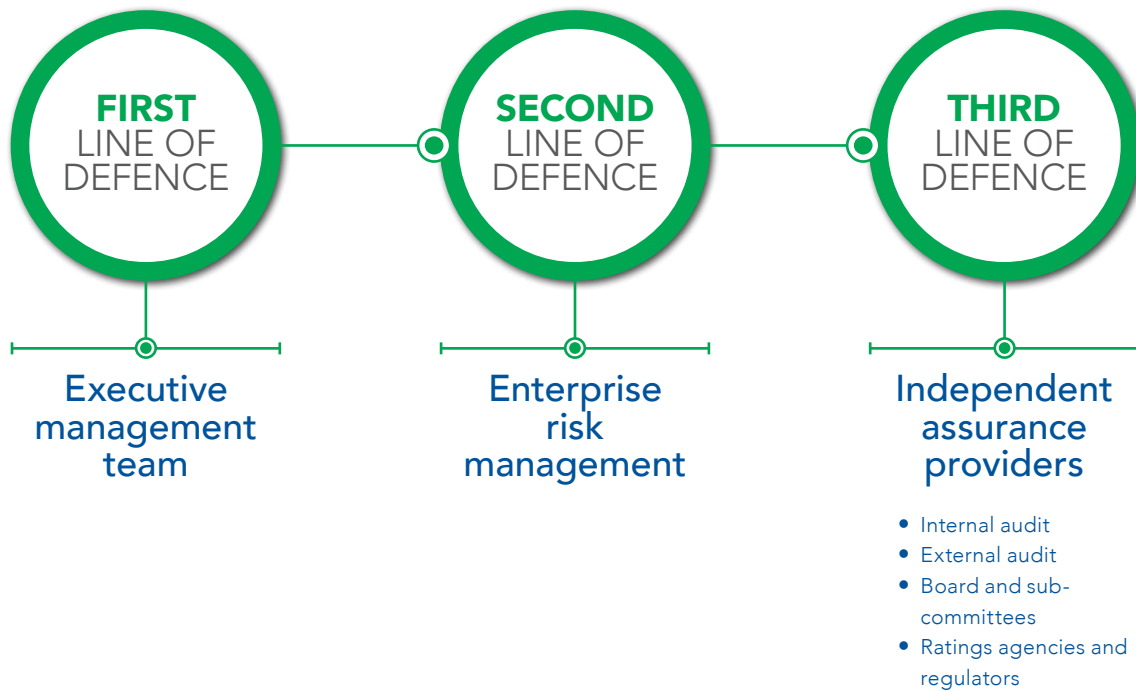
Key priorities in the period under review included increasing the levels of efficiency and effectiveness and minimising revenue leaks within the business. This focus will continue as the executive management team implements a repurposed strategy and new operating model, with a view to steering the bank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

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 integrated annual 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 company.

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. As a state-owned entity, Ithala needs to prioritise the expectations of taxpayers, as well as its contribution to the development agenda of South Africa. Ithala’s material matters are described below and reflected in disclosures throughout this report.

 BANKING LICENCE	Associated capitals		
	 Financial	 Social and relationship	 Human
DESCRIPTION AND DESIRED OUTCOME			

A banking licence is crucial to the sustainability of the company and all its stakeholders. It is required for Ithala 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.

OUR STRATEGIC RESPONSE

Ithala has adopted a repurposed strategy plan that is centred on eight strategic imperatives that are predominantly focused on enabling Ithala to obtain a banking licence. These strategic imperatives and our performance against it are discussed on pages 19, 21 and 82 of this report. [↗](#)

 COMPLIANCE	Associated capitals	
	 Social and relationship	
DESCRIPTION AND DESIRED OUTCOME		

Ithala operates in a highly regulated environment that 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 10 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 the over 76 pieces of legislation applicable to the organisation. Please see page 69 of this report for more information. [↗](#)

 GROWTH AND COMPETITIVENESS	Associated capitals		
	 Financial	 Social and relationship	 Manufactured
DESCRIPTION AND DESIRED OUTCOME			

The current business environment is challenging owing to a stagnant domestic economy and the impact of COVID-19 that continues to add strain to the already slow growth. Increasing food, electricity and fuel prices, growing unemployment figures and retrenchments have a negative impact on the cost of credit for the average South African household. These factors also have a negative impact on acquiring new business and on collection strategies.

OUR STRATEGIC RESPONSE

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 KZN province and contributing to its socio-economic development.

- Repurposing of the company's strategy and operating model with the aim of achieving an optimised and robust business model that supports financial sustainability and increased development impact while placing less reliance on state support.
- Introducing project management as a culture in the organisation. A project management office reporting to the CEO has been formally initiated and rolled out. This will ensure proper project management and governance processes are followed and strictly adhered to.
- Ithala continues to deploy SSDs in rural areas to replace ATMs.

 TECHNOLOGY	Associated capitals		
	 Financial	 Manufactured	 Intellectual and regulatory
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. This leads to inefficiencies and errors and encumbers the management and monitoring of processes. The company's 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 an open 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 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.

 EMPLOYEE VALUE PROPOSITION	Associated capitals	
	 Human	 Financial

DESCRIPTION AND DESIRED OUTCOME

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

Ithala's customised and compelling employee value proposition will propel the organisation into being an employer of choice.

OUR STRATEGIC RESPONSE

Ithala is a learning institution that is committed to attracting and retaining skilled and experienced banking staff. The company has embedded a culture of performance aimed at ensuring excellence across all its functions. The recently launched organisational development, transformation and change programme launched in FY2020/21 has steered the company towards stability. Other initiatives are detailed below:

- Strengthening rewards and recognition offering and the approved performance incentive scheme to ensure the retention of our top talent.
- Realigning existing talent to ensure key strategic areas of the organisation with capabilities to implement the repurposed strategy.
- Driving capacity building initiatives while sustaining the existing development interventions.
- Maintaining the stability of our industrial relations and sustaining the organisational development and sustainability initiatives that shape our organisational culture.
- Implementing a transformation and change management capability that will steer the organisational transition into the future.

 COVID-19	Associated capitals				
	 Social and relationship	 Financial	 Human	 Intellectual and regulatory	 Manufactured

DESCRIPTION AND DESIRED OUTCOME

COVID-19 has impacted our revenue growth. The new regulations, particularly those regarding physical distancing, impact our customers who prefer to visit branches or ATMs, rather than swipe their cards at the point of sale. Therefore, it also impacts our current strategy of driving people to our branches.

OUR STRATEGIC RESPONSE

Ithala continues to implement a three-point plan to address the impact of COVID-19.

- **Health and safety:** Ithala has been proactive in protecting its staff, customers and communities. This included implementing protocols that are in line with best practice.
- **Remote working:** As an essential service provider, Ithala continued to operate throughout various levels of lockdown. The company implemented shift working arrangements for its client-facing staff and remote working was successfully implemented for head office staff. This ensured its branch network remained operational with no unusual downtime experienced. Ithala anticipates that the majority of its support functions will continue to operate remotely for the foreseeable future.
- **Capital:** Ithala has prioritised financial stability at this time. As at 31 March 2021, CAR was 17.4%. Given the expected increase in impairments, the company will continue to prioritise its capital position. The recent capital injection of R59 million has gone a long way to stabilise our position CAR > 15%.



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ANNUAL PERFORMANCE REPORT

FINANCIAL AND SHAREHOLDER PERSPECTIVE (WEIGHTING = 40%)

Objectives	Key performance indicators	Actual 2018/19	Actual 2019/20	Target 2020/21	Actual 2020/21
Drive revenue generation initiatives and manage our cost base	Achieve the targeted maximum cost to income ratio (CTIR) 31 March 2021 Management comment: The higher than planned CTIR is due to the decline in net interest income as a result of the current COVID-19 pandemic and the 275bps reduction in the SARB Repo rate.	103.4%	98.5%	≤120.0%	121%
	Achieve the targeted JAWS ratio by 31 March 2021 Management comment: Revenue decreased year-on-year (by 13.5%), while expenses increased (by 4.9%), resulting in the negative JAWS ratio. The decline in revenue is due to the decline in net interest income as a result of the 275 bps reduction in the SARB repo rate.	New KPI not in 2018/19	New KPI not in 2019/20	Positive	-18.7%
	Achieve the targeted minimum net interest margin by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥65.0%	64.1%
	Achieve the targeted minimum non- interest income to total expenses ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥45.0%	47.1%
	Achieve the targeted minimum non- interest income to total income ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥55.0%	57.4%
	Achieve the targeted maximum staff cost to total expenses ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≤50.0%	48.1%
Maintain optimum business and operational resilience through liquidity and capital management	Achieve the targeted minimum leverage ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥5.0%	10.4%
	Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥7.5%	11.1%
	Achieve the targeted maximum impaired advances ratio by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≤8.0%	7.4%
	Achieve the targeted minimum capital adequacy ratio (CAR) by 31 March 2021*	17,7%	18%	≥15.0%	16.9%

CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key performance indicators	Actual 2018/19	Actual 2019/20	Target 2020/21	Actual 2020/21
Maximise non-interest revenue and transactional business	Achieve the targeted non-interest income from insurance activities by 31 March 2021 (R'000)	13 018	12 980	16 253	12 358
	Management comment: The COVID-19 pandemic, as well as the increased unemployment rate had an adverse effect on the Insurance division's performance. Although the target has not been achieved, the business has shown a positive trajectory, with 76% of the target being achieved despite not having a full sales force.				
	Achieve the targeted non-interest income from banking activities by 31 March 2021 (R'000)	New KPI not in 2018/19	New KPI not in 2019/20	153 942	144 403
	Management comment: The impact of the COVID-19 pandemic and the resultant introduction of lockdown restrictions resulted in a shift in customer behavior, leading to fewer transactions being carried out during the hard lockdown period. The net effect of this is the lower than planned NII generated during the financial year.				
	Achieve the targeted customer deposits balance by 31 March 2021 (R'000)	2 414 079	2 574 363	2 575 000	2 578 551
	Achieve the targeted new advances amount by 31 March 2021 (R'000)	New KPI not in 2018/19	New KPI not in 2019/20	432 446	454 714
Innovate for client centricity	Reach the targeted minimum number of learners through the Ithala Edu Platform by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥15 000	206 867
	Achieve the targeted minimum advertising noting score by 31 March 2021	New KPI not in 2018/19	New KPI not in 2019/20	≥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 2022 financial year.				
	Achieve the targeted minimum net promoter score by 31 March 2021	85%	85%	≥50%	72%
	Achieve the targeted minimum customer satisfaction score by 31 March 2021	90%	91%	≥80%	96%

PERFORMANCE

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

Objectives	Key performance indicators	Actual 2018/19	Actual 2019/20	Target 2020/21	Actual 2020/21
Innovate for client centricity	Install and operationalise the targeted minimum number of new SSDs by 31 March 2021	75	120	≥100	0
	Management comment: Due to the hard lockdown during the year, the business opted not to roll out any additional physical digital infrastructure, as this type of deployment would put our staff at risk of contracting the virus.				
	Install and operationalise the targeted minimum number of new ATMs by 31 March 2021	5	16	≥10	0
	Management comment: Due to the hard lockdown during the year, the business opted not to roll out any additional ATMs, as this type of deployment would put our staff at risk of contracting the virus.				
Remodel our IT capabilities for progressive modernisation and digitalisation	Achieve the digital banking platform implementation milestones by 31 March 2021	63% adherence to the implementation milestones	65% adherence to the implementation milestones	90% adherence to the implementation milestones	< 5%

Management comment:

Less than 5% of project milestones were achieved before the project was suspended in April 2020, pending the SARB review.

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

Objectives	Key performance indicators	Actual 2018/19	Actual 2019/20	Target 2020/21	Actual 2020/21
Empower our people to lead for innovation and growth	Implement the Investors in People (IIP) Standard by 31 March 2021	n/a	Met 2 evidence requirements for the established standard	Meet 13 evidence requirements for the established standard	n/a

Management comment:

We were unable to implement the IIP Standards during the financial year due to Investors in People International (which is based in the United Kingdom) not renewing the licence of Awakening Excellence, the only South African-based entity that was licensed to practice and enroll the IIP Standards in South Africa. This impacted many organisations in South Africa, as the UK-based IIP could not provide the required support remotely.

FINANCIAL OVERVIEW

The devastating impact of the COVID-19 pandemic on personal finances has wrought a heavy blow to Ithala's net interest income and overall operating margins. Nonetheless, while the FY2021/21 results are reflective of a very challenging operating environment, Ithala and its clients have demonstrated strong resilience evidenced by the year-on-year stability of the customer deposit book. In addition, Ithala's liquidity position and capital adequacy measure are currently within predetermined thresholds.

OPERATING PERFORMANCE

Ithala posted a net loss for the year ended 31 March 2021 of R31.6 million (FY2019/20 net loss: R75.4 million), which includes the release of R36.0 million in respect of credit impairments raised at the previous year-end. As at 31 March 2021, Ithala's total assets exceeded total liabilities by R356.5 million (FY2019/20: R329.2 million) and held total surplus funds of R848 million (31 March 2020: R1 067 million). The capital adequacy ratio closed out at 17.4% (FY2019/20: 17.7%), above the minimum South African Reserve Bank requirement of 15%.

The decline in net interest revenue was driven by the cumulative impact of the 300bps reduction in SARB repurchase rate since March 2020 following rate cuts implemented in quick succession that severely impacted Ithala's net interest income, resulting in a 30% year-on-year decline. Ithala continued to focus on growing its non-interest income book to mitigate its dependency on rate-dependent income, growing non-interest income by a modest 5%. The revenue contraction is reflected in the overall net loss and key performance measures. The JAWS ratio as at 31 March 2021 was a negative 18.7% since revenue decreased year on year by 13.6% and expenses increased year on year by 5.1%, resulting in the negative JAWS ratio of 18.7%. Similarly, the cost-to-income ratio for the period ended 31 March 2021 was 121.8% compared to the prior year comparable of 98.5%. Despite constrained performance, the loans and advances book remained stable with the stage 3 loan ratio as at 31 March 2021 closing out at 8.55% in respect of loans more than 90 days overdue or on a status code deemed to be non-performing.

Despite the harsh economic conditions that Ithala and its clients endured over FY2020/21, a net release of R31.4 million arose following the recalibration of the IFRS 9 Model and revision of macroeconomic data. This improvement in the ECL demonstrates the stability of the loan and advances book, and Ithala's client base resilience in the face of personal financial challenges.

New loans advances grew by almost 3% year on year, exceeding expectations, closing at R1.95 billion. In quarter 1 and part of quarter 2, the loans and advances portfolio was significantly impacted by the COVID-19 pandemic, resulting in only R102.3 million being advanced for the first five months of the financial year; however, in the next seven months to financial year-end, business advances grew an impressive R352.1 million.

Cash, deposits with bank and statutory liquid investments amounted to R1.074 billion as at 31 March 2021 compared to R1.222 billion at 31 March 2020. On a monthly basis, Ithala holds an average statutory investment that is not available for use in operating activities no less than 7.5% of its liabilities to the public. Ithala holds a further 20% buffer to ensure minimum thresholds are not breached. At 31 March 2021, the company held R245.0 million (FY2019/20: R183.6 million) in liquid assets, which exceeded the total statutory minimum target. The liquidity gap on a contractual basis remains negative, on a business-as-usual basis; however, Ithala does not reflect a cumulative negative mismatch in any specific BA300 time band. Thus, Ithala has adequate liquid resources to continue operations and to pay creditors as they become due.

PERFORMANCE

BANKING LICENCE EXEMPTION NOTICE CONDITIONS

The terms of the amended Gazette on the new exemption notice requires that Ithala maintain various performance standards in respect of its prudential requirements, profitability and financial sustainability, and corporate governance matters. As at 31 March 2021, Ithala met and exceeded the prudential requirement relative to the capital adequacy ratio, liquidity ratio, leverage ratio and the impaired loans and advances as a percentage of total loans and advances ratio. However, Ithala did not meet three key conditions relating to financial performance: that is, to remain profitable at all times (R31.6 million loss reported for the financial year); operating within a 78% cost-to-income ratio threshold (121.8% cost-to-income ratio reported for the financial year); and maintaining a positive JAWS ratio (negative 18.7% ratio reported for the financial year). Notwithstanding having not upheld these minimum financial performance criteria, Ithala reported a year-on-year reduction of net losses of 58% and achieved a positive JAWS ratio consecutively for the last three months of the financial year.

FUTURE SUSTAINABILITY

A detailed strategy has been prepared to achieve the goal of operating under a banking licence with sustainable financial performance and strong management capability to manage and grow the company. A strategic tilt has been applied to the corporate strategy with a Repair, Rebuild, Remodel focus that will be applied from 2020 to 2024, thereby accelerating operating efficiency improvements. The strategy provides an operating performance turnaround to achieve profitability and the re-capitalisation required for its successful implementation. The plan outlines an operating model, IT and infrastructure investment, capital funding requirements, and the reduction of external consultant and outsourcing dependencies. In the context of achieving financial sustainability, a net loss of R30.0 million is projected for the FY2021/22 financial year, followed by a projected net loss of R18.8 million in FY2022/23 before a net profit of R7.7 million is achieved in FY2023/24.

POST BALANCE-SHEET EVENT SUPPLEMENTARY NOTE

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

Ithala was negatively impacted as a result of four branches having been looted and completely destroyed while a further 15 branches were looted and vandalised. As at the end of July 2021 and the sign-off of the Annual Financial Statements, the total financial cost arising as a result has not been completely assessed. However, the company has insurance cover with the South African Special Risks Insurance Association (SASRIA), a government-run insurance for the purpose of insuring organisations where a loss has been suffered after a politically motivated crime, riot or strike. Consequently, no financial loss is expected in respect of assets that were stolen or damaged as a result.

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

BUSINESS UNIT OVERVIEW

RETAIL AND BUSINESS BANKING

The resultant impact of COVID-19 on the business, for the year under review, was significant. The hard-lockdown levels seen in quarter 1 and quarter 3 as well as the reduction in the prime overdraft rates resulted in the South African economy being adversely impacted, to which Retail and Business Banking (RBB) was not immune. Despite the difficult trading conditions, the business still achieved growth in most of its business activities.

The hard lockdown that impacted our clients being able to access our physical channels, resulted in lower than budgeted income from transactional activities. Fee income generated from our transactional banking activities amounted to R137 million (FY2019/20: R128m). The restriction in movement also impacted the business' ability to increase our physical footprint in the province with the deployment of additional ATMs and SSDs.

The reduction in the prime overdraft rate had a positive and negative impact on the business. The lower interest rates saw an increase in the loans advanced for the year, with R454 million (FY2019/20: R369m) being disbursed. However, the impact on our net interest income (NII) fell significantly short of budget. NII for the period totalled 130 million (FY2019/20: R184m).

With interest rates on savings and investments also being reduced, clients started to access their savings and investments to maintain their living expenses or seek higher yielding investments. This drawdown resulted in a zero percent growth in our savings and investment portfolio, with the business ending the year with R2.578 billion in deposits (FY2019/20: R2.58 bn).

INSURANCE

Our business is all about financial planning, where we form professional relationships with clients, consider their financial and personal situations and 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 services 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 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 that 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. The 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.

PERFORMANCE

PEOPLE

Ithala is committed to building a performance-driven organisational culture underpinned by a motivated, healthy and diverse workforce. The company promotes a healthy work environment in which every employee feels valued and respected. This aligns with the values of the organisation and empowers employees to make better decisions, drive innovation and contribute to sustainable value creation.

Strategic imperatives

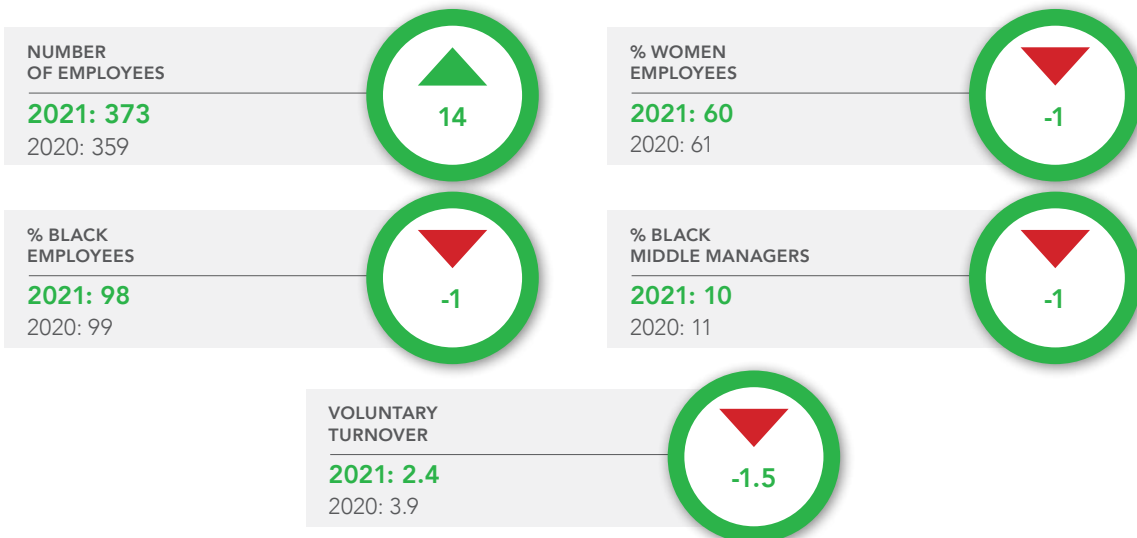
- Realign existing talent and resource key strategic functions of the business for the future.
- Develop a compelling value proposition and position Ithala as an employer of choice.
- Drive capacity-building initiatives while sustaining existing development programmes.

Talent management and succession planning

Ithala aims to recruit, retain, develop and reward talented people to ensure the success of the business. In FY2020/21, the company implemented talent management processes aimed at retaining top performers within the business. The process also facilitated the identification of critical positions culminating in success plans for their incumbents. Further, coaching of top talent was conducted. Key roles filled in the period under review include the appointment of a Chief Audit Executive, head of compliance, anti-money laundering officer and supply chain manager.

Employee wellness

Ithala drives employee wellness through its ICAS offering. In the reporting period under review, the company focused on providing accessible wellness and health services, taking COVID-19 considerations into account.



LOOKING AHEAD | 🔍


Ithala's ability to deliver sustainable value depends on the people who lead the business and direct its underlying operations. The company will therefore continue to adopt a people-first stance aimed at attracting, retaining and developing talent through the provision of appropriate remuneration and personal development programmes.

Key priorities for the year ahead include:

- Implementing a competency framework to support talent management, staff development, as well as the selection process for new appointees.
- Improving staff engagement and performance through effective mentoring and coaching.
- Sustaining the implementation of the organisational development and change management programme.

SYSTEMS

A heightened focus on the customer experience, market segmentation and channel optimisation has increased efficiencies across the business and positioned Ithala to tap into a larger addressable market as it works towards achieving profitability. This has, however, been constrained by Ithala's IT capabilities. The organisation continues to lag behind its peers in the commercial banking sector in terms of technology and workflow automation and therefore needs to invest in additional skills and infrastructure to strengthen its IT capabilities.

In 2018, Ithala initiated a project to migrate from its legacy system to a new core banking system. This migration continues to be 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. The project was a priority in FY2020/21, with the team continuously exploring technology solutions to successfully enable the migration. Please see pages 52 and 73 for additional information. 

STRATEGIC IMPERATIVES

1. Evolve the existing core banking system to an agile digital banking platform.
2. Improve the customer experience across all aspects of the banking value chain.
3. Introduce new technology-based products to our existing customer base and diversify revenue streams with the expansion into market segments.

LOOKING AHEAD |


Ithala has aligned its IT strategy with the repurposed corporate strategy and with the strategic imperatives of attaining a banking licence and remaining sustainable. In the year ahead, the organisation will continue to implement its IT strategy.

Key priorities for the year ahead include:

- Unbundling of key IT services from IDFC.
- Developing an internal corporate data warehouse, as well as data management and analytics capabilities.
- Enhancing Ithala's information and cybersecurity functions.
- Enhancing IT infrastructure across the organisation.

PERFORMANCE


BUSINESS SUSTAINABILITY

The ongoing operational and financial resilience of the business remains a key priority. Following the approval of the repurposed strategy, Ithala focused on re-engineering its operating model with a view to achieving sustainability in the short term while laying the foundation for long-term success. Key activities included the re-engineering of the credit department. The organisation also focused on capital liquidity preservation, while continuing to support its customers in a challenging operating environment. Please see page 54 of this report for more information. 

STRATEGIC IMPERATIVES

1. Evolve the existing core banking system to an agile digital banking platform.
2. Improve the customer experience across all aspects of the banking value chain.
3. Introduce new technology-based products to our existing customer base and diversify revenue streams with the expansion into market segments.

LOOKING AHEAD |

Ithala expects a continued difficult environment for the consumer and heightened uncertainty will dampen business confidence and investment in the next financial year. The organisation's key objective is to drive revenue-generation initiatives and manage the cost base. To achieve this, it is imperative that the company maintain optimum business and operational resilience through liquidity and capital management. From a customer perspective, Ithala will maximise non-interest revenue by ramping up our offering in the transactional banking sphere. Please see page 78 for more information. 

Key priorities for the year ahead include:

- Achieve sustained break-even trend during FY2023/24.
- Successful application for and granting of a full banking licence by SARB and exemption from operating under the PFMA.
- Ensure adequate capital investment to meet the needs of the strategic plan.

SOCIO ECONOMIC TRANSFORMATION REVIEW

Ithala is uniquely positioned in South Africa, in that it is the only state-owned provincial entity that delivers financial services across the four quadrants of banking. Historically, Ithala was initially the only financial institution that provided home loans in the so-called 'red-lined' township areas and continues to do so. Ithala also provided access to basic transactional and savings products to rural, peri-urban and township communities when mainstream banks demonstrated no interest in serving these markets.

While the socio-political and economic environments within which Ithala operates have changed significantly during the past two decades, Ithala remains focused on promoting financial inclusion. Major strides have been made in improving the accessibility of financial services; however, at least 1.5 million people in KZN remain unbanked. Therefore, Ithala makes key contributions to the public good through a proven track record in serving community interests.

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 FY2020/21, the programme targeted 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.

The programme assisted Grade 12 learners with CAPS Curriculum, soft skills and career guidance. Highlights of this programme include:

- Over 144 videos made available to learners
- 18 095 one-on-one tutor engagements
- Lessons ran over 23 weeks
- 13 specialised tutors

A dedicated 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. In order for the programme to reach more learners, Ithala also partnered with SABC radio Ukhozi FM. The lessons were covered on Ukhozi FM on Thursday evenings between 21h00 -22h00. This partnership allowed Ithala to augment the reach of the programme.

Ithala invested over R500 000 in this initiative and reached a total of 206 867 learners in the period.

While the initially targeted beneficiaries were Grade 12 learners in KwaZulu-Natal, participation statistics reveal that learners from the other provinces also accessed the platform: KwaZulu-Natal 88%, Gauteng 9%, Eastern Cape 1%, Mpumalanga 1% and Western Cape 1%. The platform has contributed to opening up opportunities for learners to apply to tertiary institutions and further their education.

As a result of its overwhelming success during the 2020 school year, Ithala has extended the programme to run for the full school calendar in 2021 and made a further investment of R1.2 million.



07



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REMUNERATION

REMUNERATION REPORT

STATEMENT FROM THE CHAIR OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

Our organisational change and development programme yielded positive results. During FY2020/21, we were able to implement several change and transformation pillars via the Ithala competency framework. We began to enjoy some success in our talent acquisition. Our talent pipeline through LinkedIn propelled us into filling most executive and regulatory positions. While one of our key focus areas remained reward and recognition, we managed to consult our employees on the negative impact that the COVID-19 pandemic brought to our business and culminated in the zero salary increments in FY2020/21. Similar to recent years, we did not activate the short- and long-term incentives owing to our loss making. However, we sustained our focus on building the organisation. At the heart of our talent acquisition and retention strategy for FY2020/21, was our unique mandate as a state-owned provincial development financial institution, and the role we can play in South Africa's development agenda.

We managed to devise a resounding talent strategy influenced by our instilled framework. We also introduced some retention measures for key talent including the executive management component. Notwithstanding the COVID-19 challenges that negatively influenced our organisational budget, our employee productivity improved in FY2020/21. Through consultative processes, we were able to foster understanding from all staff on the need to tighten our belts and closely manage expenses.

Despite our financial challenges, we delivered our workplace skills and training plan that incorporated regulatory compliance training. We were able to sustain our comprehensive employee health and wellness offering across the business. Our partnership with the employee wellness and health service provider in ICAS proved beneficial during the height of the pandemic. We provided regular updates on the effects of lockdown including enlightenment of employees on the precautionary measures. While unplanned costs have been incurred during this time, Ithala has remained committed to the health and wellbeing of its staff and broader stakeholders.

Ithala activated its business continuity plans that required the reorganisation of the workforce, with the implementation of rotational plans, which led to some employees providing their service remotely. The company also managed to sustain its focus in responding to the scourge of gender-based violence with the participation of employees across the business.

Strategic objectives for FY2020/21 were as follows:

- Objective 1: Realign existing talent and resource the key strategic areas of the organisation for the future.
- Objective 2: Develop a compelling value proposition for Ithala as the best place to work at.
- Objective 3: Drive capacity-building initiatives while sustaining the existing development interventions.
- Objective 4: Introduce organisational development themes that will shape the organisational culture of Ithala.
- Objective 5: Implement the transformation and change management capability that will steer the organisational transition into the future.

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 even though the company has not been able to activate its short- and long-term incentive scheme owing to continued financial loss. In FY2020/21, Ithala was able to pay guaranteed salaries to employees. However, the business encountered a setback in the form of the COVID-19 pandemic, 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. 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. A moratorium on salary increments in the sector was published in FY2020/21 and all state-owned entities were required to adhere to this. After extensive consultation with employees in line with Labour Relations Act (LRA), Ithala converged and complied with the moratorium. As such, a zero salary increment across all employment bands in FY2020/21 prevailed.

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.

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.

REMUNERATION

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.

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 84 current and retired employees are covered under the scheme (2020: 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 11.90% (2020: 13.00%) and a health care cost inflation rate of 9.00% (2020: 9.10%). The movement in the liability annualised in the statement of financial position is as follows:

Movement in the defined benefit obligation, is as follows:

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

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

Present value of unfunded obligations	37,378	33,163
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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	(4,057)	9,657
Higher than Expected Healthcare Cost Inflation including Changes in Members' Benefit Options	308	(194)
Unexpected Changes in Membership	2,483	(857)
Total	(1,266)	8,606

Actuarial assumptions used and sensitivity analysis

Sensitivity Analysis - unfunded accrued liability

Assumptions	Change	2021	2020
		R '000	R '000
Present value of obligation		37,378	33,163
Health care cost inflation	9.10%	37,402	37,424
	-1%	37,341	29,597
Discount rate	13.00%	33,306	29,741
	-1%	42,323	37,289
Expected retirement age	60 years	35,812	31,831
	+1 year	35,812	31,831
	-1 year	38,983	34,554

REMUNERATION

PENSION AND PROVIDENT FUND SCHEMES

The Company provides retirement benefits to all employees by contributing to pension and provident funds. Membership of either the pension or provident fund is compulsory. The defined benefit pension fund and the defined benefit provident fund are governed by the Pension Funds Act, 1956, with retirement benefits being determined with reference to both pensionable remuneration and years of service. Both funds are closed to new members.

The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956 and are open to new members and members who have elected to transfer from the defined benefit funds. Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2021 showed that in respect of both the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

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

Defined benefit pension fund

Present value of funded obligations

Fair value of plan assets

Surplus

Asset not recognised due to asset ceiling

Net asset balance currently recognised

Amount allowed as a reduction of future contributions

Amount utilised for contributions

Asset as per balance sheet

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

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2021	2020
			R '000	R '000
Present value of obligation			-	305
Discount rate	7.60%	+1%	-	305
		-1%	-	305
Expected salary rate	0.00%	+1%	-	305
		-1%	-	305

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

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

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

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

Balance at beginning of the year	2,371	2,462
Interest cost	239	221
Benefits paid	(2,403)	(13)
Actuarial (loss)/gain	(207)	(299)
Balance at end of the year	-	2,371

Actuarial (loss)/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)	(299)

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

Defined benefit provident fund		
Fair value of plan assets	(3,906)	(3,669)
Surplus	(3,906)	(3,669)
Amount allocated to employer surplus account	3,906	3,669
Asset not recognised due to asset ceiling	-	-

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

Balance at beginning of the year	-	21,456
Interest cost	-	351
Benefits paid	-	(21,807)
Balance	-	-

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

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

REMUNERATION

Actuarial (loss)/gain

The actuarial gains arose as a result of the following:

Actuarial gain arising changes in demographic assumptions	89	523
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Sensitivity Analysis - unfunded accrued liability

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

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

Actuarial gains and losses analysis

Pension and provident fund	251	282
Post retirement medical	(1,266)	8,606
	(1,015)	8,888

Long service obligation

Balance at beginning of the year	12,914	15,384
Expensed during the year	(6,987)	(1,169)
Contributions paid	(831)	(1,301)
Balance at end of the year	5,096	12,914

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

Present value of unfunded obligations	5,096	12,914
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Amounts recognised in the statement of comprehensive income are as follows:

Current service cost	1,343	1,543
Interest cost	1,416	1,348
Net actuarial loss recognised in the year	(9,746)	(4,060)
	(6,987)	(1,169)

Sensitivity analysis

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

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

An actuarial valuation of the provision for long service awards at 31 March 2021 quantified the present value of obligations at R5.1 million (2020: R12.9 million). These actuarial valuations are conducted annually at statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 9.1% (2020: 11.4%) and an average salary inflation of 6.1% (2020: 6.6%).

PRINCIPLES AND APPLICATION OF PAYMENT OF INCENTIVES

To supplement our salary payment, Ithala offers short- and long-term incentives to all its employees to incentivise their exceptional performance. Ithala's performance-based incentive bonus scheme is used to compensate for exceptional work performance, and only those employees who attain a performance rating of 3.1 and above are eligible to participate. This rating considers the combined rating of the actual performance against key performance indicators and the behavioural indicators. Furthermore, all employee performance ratings are moderated per employment level. For executive management, the latter includes the evaluation of key leadership dimensions. The final performance rating is confirmed after the moderation of employee performance scores against business performance.

Ithala endeavours to apply its remuneration principles in a fair and consistent manner, and the executive management team solicits guidance from the Human Resources and Remuneration Committee.

For application purposes, the organisation's incentive trigger is aligned with current banking industry practice and is structured as follows:

Net profit before tax performance (NPBT)	STIP pool %
90% of budgeted NPBT (Should the achieved profit be below 90% of budgeted NPBT, the Board will exercise its discretion to activate the scheme)	0% to 10%
Achieving budgeted NPBT	10% to 14%
110% to 150% of budgeted NPBT	15% to 30%

The organisation's bonus pool will therefore be calculated as follows:

$$\text{BONUS POOL} = \text{ACTUAL NET PROFIT BEFORE TAX} \times \text{STIP POOL PERCENTAGE}$$

REMUNERATION

SHORT-TERM INCENTIVE

The distribution of short-term incentives is allocated in percentage split that is tiered across the grades. This recognises the different levels of responsibility in driving the achievement of the company goals. It is designed to drive executive performance and embed a culture of excellence at all levels of the business.

The allocation will be tiered as follows:

Paterson Grade	On-target STI as a % of TCTC
F	50%–70%
E	25%–35%
D	15%
C	10%
B	8%
A	8%

Ithala encourages performance excellence from its employees. As such, the organisation applies a personal modifier as the employee's personal achievement score coming out of the annual performance appraisal process matched against their right to then participate in the STIP. A performance rating of 3 and below does not warrant participation in the STIP. However, should there be a special reason to consider such an individual for participation in the STIP, a '2' performer in such exceptional circumstances would be permitted to participate only up to a maximum of 30% of what would have been payable to a '3' rated performer.

Performance rating	Personal modifier
1	0%
2	30%
3	100%
4	125%
5	150%

As an organisation in a build phase, the adopted principle is that should Ithala fail to meet the threshold performance which leads to no STIP pool being payable to the employees, a discretionary award of up to 50% of the TCTC of the participant can be distributed as a special retention bonus (SRB) for exceptional performers. The above calculated SRB payable may be distributed at the discretion of the HRRC to qualifying participants.

LONG-TERM INCENTIVE

This type of incentive is intended for the top 10% of qualifying individuals in the business whose retention is vital for the achievement of its goals in the medium to long term. This list of the top 10% of qualifying individuals is deliberated and recommended by HRRC for the approval by the Board of Directors.

At each incentive allocation of the short-term portion, the same amount would be matched by the organisation to create the long-term incentive, without any further performance pre-conditions.

The employee's LTIP amount will be deferred and kept in the individual employee's incentive retention account. The balances held in this account shall be invested in a high interest-bearing account. The employee's LTIP will vest over a period of three years and will be exercised (withdrawn as cash) in the following manner:

- 40% vests immediately (payable in June of the award year)
- 30% vests the first year (payable in June, the first year after the award year)
- 30% vests the second year (payable in June, the second year after the award year)

REMUNERATION FOR NON-EXECUTIVE DIRECTORS IN FY2020/21

	2021	2020
	R '000	R '000
MF Kekana (resigned 04 November 2019)	-	580
M Mia (retired 26 July 2019)	-	220
B Ngonyama (resigned 26 July 2019)	-	304
SC Ngidi (resigned 20 April 2020)	117	819
P Radebe (resigned 31 October 2019)	-	403
G Sibiya	811	696
M Pupuma (appointed 01 August 2020)	461	-
M Madali (resigned on 28 February 2019)	-	8
Inkosi SN Mkhize	1 033	1 020
M Ngcobo (appointed 17 January 2019, resigned 23 June 2019)	-	142
S Mnguni (appointed 04 October 2019)	-	-
Z Khanyile (appointed 01 August 2020, resigned 31 October 2020)	134	-
S Shabalala (appointed 01 January 2021)	150	-
N Simelane (appointed 01 January 2021)	103	-
	2 809	4 192

REMUNERATION FOR EXECUTIVE DIRECTORS IN 2020/2021

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
Dr T Vilakazi – Chief Executive Officer	1 443	197	-	1 640

Appointed prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
S Gwala – Head: HR	1 622	135	-	1 757
S Xolo – Marketing and Sales Manager	1 235	100	-	1 335
T Luthuli – Company Secretary	1 589	130	-	1 719
S Moodley – Head: Retail and Business Banking	1 649	137	-	1 786
LM Barnard – Head: IT	137	13	-	150
GK Nkambule – Head: Compliance	904	83	-	987
XP Khumalo – Head: Credit	609	48	-	657
C Gumede – Chief Risk Officer	1 619	131	-	1 750
A Pather – Head: Insurance	1 432	118	-	1 550
SST Nsele – Head: Internal Audit	750	67	-	817
	11 544	961	-	12 505

REMUNERATION

Acting prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
NJ Naidoo – Acting Head: Credit (01 April 2020 to 12 November 2020)	798	55	-	853
N Harryparshad – Acting Head: IT (resigned 28 October 2020)	748	-	16	764
	1 546	55	16	1 617

Executive Directors' remuneration

	Short-term employee benefits	Post-employment benefits	Total
D Zandamela – Chief Executive Officer (resigned 04 November 2019)	1 963	262	2 225
	1 963	262	2 225

Appointed Prescribed Officers remuneration

	Short-term employee benefits	Post-employment benefits	Total
S Gwala – Head: HR	1 472	135	1 607
S Xolo – Marketing and Sales Manager	952	81	1 033
T Luthuli – Company Secretary	1 227	104	1 331
S Moodley – Head: Segments	1 038	93	1 131
L Keyise – Head: IT (contract terminated 20 Dec 2019)	886	84	970
M Sewchuran – Compliance Officer (resigned 31 Dec 2019)	1 033	94	1 127
D Mti – Head: Credit (resigned 30 September 2019)	787	71	858
C Gumede – Chief Risk Officer	1 471	133	1 604
A Pather – Head: Insurance	961	89	1 050
L Meyer – Acting Chief Financial Officer (appointed 01 August 2019)	631	58	689
	10 458	942	11 400

Acting prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Total
N Harryparshad – Acting Head IT	883	-	883
	1 210	-	1 210

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."



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

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