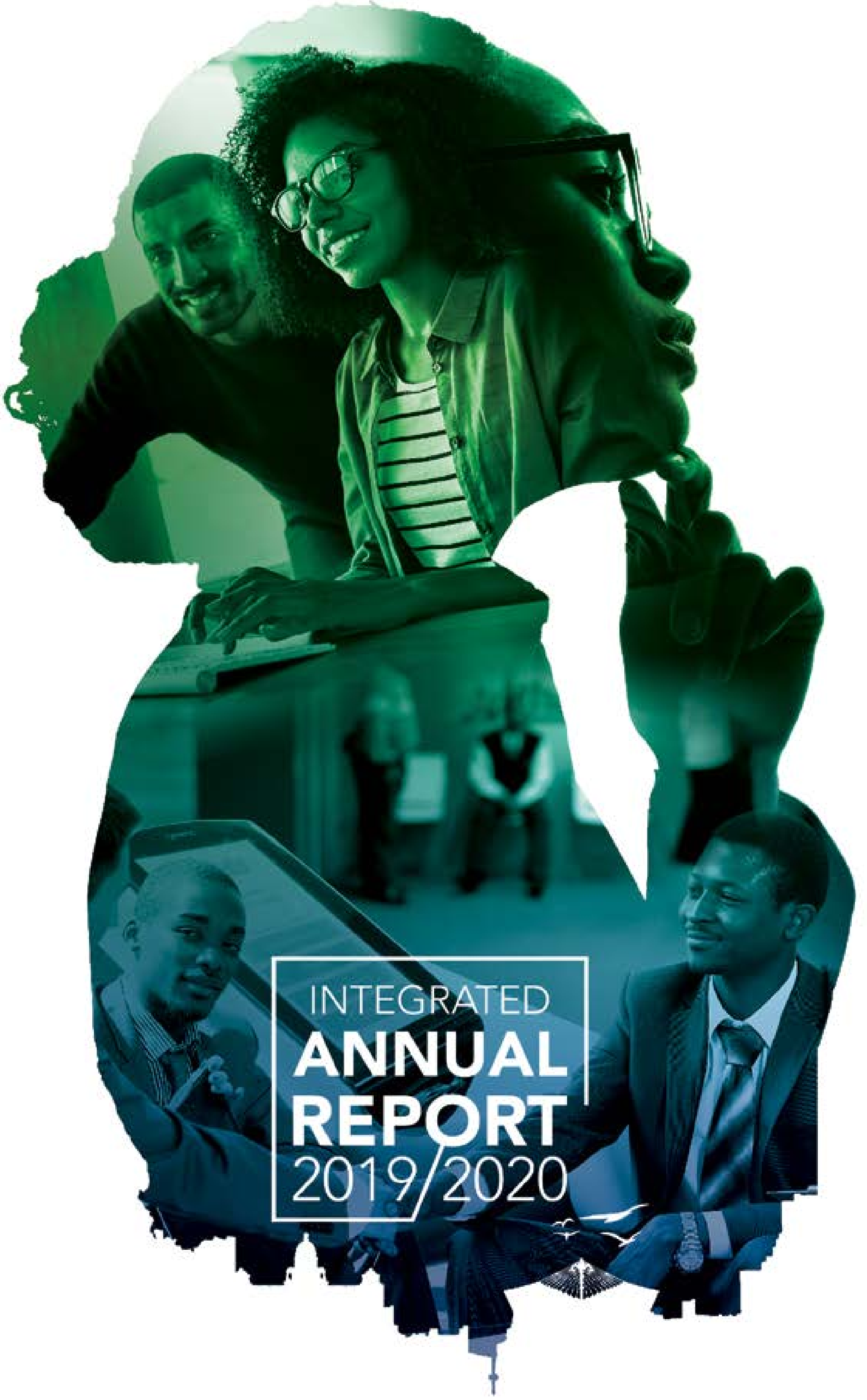

INTEGRATED ANNUAL REPORT 2019/2020

ithala

SOC LIMITED

THE SHAPE OF THINGS TO COME

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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
CFT	Combating the Financing of Terrorism
CGU	Cash Generating Unit
CRMP	Compliance Risk Management Plan
COB	Class of Business
CONFEF	Consumer Financial Education Foundation
CPA	Consumer Protection Act
CPD	Continuous Professional Development
CPI	Consumer Price Index
CTIR	Cost to Income Ratio
CRM	Compliance Risk Management Plan
CVP	Customer Value Proposition
EAD	Exposure at Default
ECL	Expected Credit Loss
EDTEA	Economic Development, Tourism and Environmental Affairs
ERM	Enterprise-wide Risk Management
ERMF	Enterprise Risk Management Framework
EXCO	Executive Committee
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FMAA	Financial Matter Amendment Act
FSB	Financial Services Board
FSR	Financial Sector Regulation
FVOCI	Fair Value Through other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FY	Financial Year
GDP	Gross Domestic Product
HLAMDA	Home Loan and Mortgage Disclosure Act
HQLA	High Quality Liquid Asset
HRCC	Human Resources and Remuneration Committee
IAC	Insurance Advisory Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IDFC	Ithala Development Finance Corporation
IFRS	International Financial Reporting Standards
IIP	Investors in People
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IMS	Insurance Management System
ITGC	Information Technology Governance Committee
JIBAR	Johannesburg Interbank Agreed Rate
KI	Key Individuals
King IV	King Code of Governance for South Africa (2016)
KYC	Know Your Customer
KZN	KwaZulu-Natal
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MCC	Management Credit Committee
MEX	Member of Executive Council
MOI	Memorandum of Incorporation
MPC	Monetary Policy Committee
NCR	National Credit Regulator
NFSR	Net Stable Funding Ratio
NII	Net Interest Income
NPL	Non-Performing Loans
NPS	Net Promoter Score
NPSA	National Payment Systems Act
OBS	Off-balance Sheet
OCI	Other Comprehensive Income
PA	Prudential Authority
PASA	Payments Association of South Africa
PD	Probability of Default
PEP	Politically Exposed Person
PFMA	Public Finance Management Act
PIP	Properties in Possession
PMI	Purchasing Managers' Indices
POPI	Protection of Personal Information
PPR	Policyholder Protection Rules
QPM	Quarterly Projection Model
RCMC	Risk and Capital Management Committee
RDARR	Risk Data Aggregation and Risk Reporting
RoA	Return on assets
RoE	Return on equity
SA GAAP	South African Generally Accepted Accounting Principles
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SB	Supervisory Body
SDL	Skills Development Levy
SESC	Social Ethics and Sustainability Committee
SETA	Sector Education and Training Authority
SICR	Significant Increase in Credit Risk
SLA	Service Level Agreement
SOC	State-owned Company
SOE	State-owned Entity
SOP	Standard Operating Procedure
SSD	Self-service Device
TVET	Technical Vocational Education and Training
USSD	Unstructured Supplementary Service Data
VAT	Value Added Taxation
YALI	Young African Leaders Academy

"THIS REPORT COVERS **ITHALA'S STRATEGY**, MATERIAL ISSUES AND PERFORMANCE FROM 1 APRIL 2019 TO 31 MARCH 2020 AND OUTLINES **OUR SUSTAINABILITY OUTLOOK**, PROVIDING **INSIGHTS** AND **ASSURANCE** TO OUR STAKEHOLDERS."

SECTION 01:

REPORT INTRODUCTION

ABOUT OUR INTEGRATED ANNUAL REPORT

OVERVIEW

Ithala plays a fundamental role in the development of the societies in which we operate. We are an authentically South African financial services organisation and we know the success of our customers and stakeholders underpins our commercial sustainability and our ability to deliver returns to our stakeholders over the long term. This approach dictates how we apply integrated thinking internally and inform our stakeholders through integrated reporting.

This report covers Ithala's strategy, material issues and performance from 1 April 2019 to 31 March 2020 and outlines our sustainability outlook, providing insights and assurance to our stakeholders. This includes our shareowner, Ithala Development Finance Corporation (IDFC); our ultimate shareholder, the KwaZulu-Natal (KZN) Provincial Government; National Treasury; the South African Reserve Bank (SARB); Financial Sector Conduct Authority (FSCA); our regulators and large investors. This report may be read in conjunction with the IDFC's integrated annual report (AR) 2019/20 which is available at www.ithala.co.za.

The development of this report is guided by the reporting requirements set by the Auditor-General of South Africa (AG-SA); accordingly, our performance must be demonstrated against the objectives of our annual performance plan (APP) (see page 84). Materiality is determined by the Board, in line with Ithala's mandate and the information requirements of its shareowners and regulators, as well as other key stakeholder groups.

In addition, we are guided by the International Integrated Reporting Council's (IIRC) Integrated Reporting Framework, as well as the King Code of Governance for South Africa (2016) (King IV). Other standards applied include the International Financial Reporting Standards (IFRS), the Companies Act No. 71 of 2008 (Companies Act), the Banks Act No. 94 of 1990 (Banks Act), and the Public Finance Management Act No.1 of 1999 (PFMA).

FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking. These relate to Ithala's future plans, objectives, goals, strategies, operations and performance. These statements are not guarantees of Ithala's future operational, financial or other results and involve certain risks, uncertainties and assumptions. Accordingly, actual results and outcomes may differ materially from those expressed or implied by such statements.

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

APPROVAL

The approval and assurance of our reporting processes are as follows: the Audit and Compliance Committee (ACC) is responsible for reviewing and recommending the integrated AR and the annual financial statements (AFS) to the Board for approval. Both the internal and external audit resources provided additional assurance on the effectiveness of our risk management of material issues.

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

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the APR relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives.

The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant, as required by the National Treasury framework for managing programme performance information. The reliability of the information with respect to the selected objectives was assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete). There were no material findings concerning the usefulness and reliability of the information.

The Board acknowledges its responsibility to ensure the integrity of the integrated AR. The Board reviewed its content and believes it addresses all material issues and fairly presents our performance. This report was approved on [date] 2020.

INKOSI SBONELO MKHIZE
Deputy Chairman

"ITHALA PLAYS A KEY SOCIO-ECONOMIC **DEVELOPMENTAL ROLE** IN THE KWAZULU-NATAL PROVINCE THROUGH THE PROVISION OF BASIC **FINANCIAL SERVICES**, PARTICULARLY TO **UNDER-SERVED COMMUNITIES** IN **RURAL AREAS.**"

SECTION

02: ABOUT ITHALA

HIGHLIGHTS

	2020	2019	
TOTAL NUMBER OF EMPLOYEES	2020: 358	2019: 358	0.00%
TOTAL NUMBER OF BRANCHES	2020: 39	2019: 39	0.00%
TOTAL NUMBER OF ATMs	2020: 88	2019: 74	18.92%
TOTAL NUMBER OF SSDs	2020: 212	2019: 90	135.56%
TOTAL NUMBER OF RETAIL BANKING ACCOUNTS	2020: 672 356	2019: 675 526	-0.47%
TOTAL NUMBER OF ACTIVE INSURANCE POLICIES	2020: 25 642	2019: 28 018	-8.48%
CUSTOMER DEPOSIT BALANCE Rbn	2020: 2,6	2019: 2,4	6.64%
CUSTOMER SATISFACTION	2020: 91.0%	2019: 91.0%	0.00%
NEW LOANS AND ADVANCES TO CUSTOMERS (R'000)	2020: 369 496	2019: 433 394	-14.74%
NET PROMOTER SCORE	2020: 85.0%	2019: 85.0%	0.00%

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.

OUR PURPOSE

Ithala's purpose is unequivocally clear: to serve the banking needs of South African citizens and significantly uplift the lives of ordinary citizens. Ithala hopes to achieve this by providing more than the average lending, saving and transacting capabilities. Ithala provides financial services in areas where such services have not been readily available in the past.

Ithala plays a key socio-economic developmental role in the KwaZulu-Natal province through the provision of basic financial services, particularly to under-served communities in rural areas.

OUR VALUE PROPOSITION

Ithala is uniquely positioned in South Africa, in that it is the only State-owned, provincial entity that delivers an extensive range of retail banking and insurance products. In addition to financial services, Ithala adds value by providing a range of development solutions. 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 no doubt been made in progressing 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's key value proposition remains unique and compelling in that it promotes financial inclusion in a number of ways:

- Ithala remains 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;
- Ithala promotes a savings culture through products aimed at stokvels and savings clubs. Ithala is the only institution (other than Postbank) that provides a book-based savings account which remains in high demand by niche markets; and
- In addition to retail banking services, Ithala provides both short and long-term insurance products through two cell captives, each in partnership with well-established insurance companies.

OPERATIONAL STRUCTURE

RETAIL / CONSUMER BANKING	CORPORATE BANKING

STRATEGY

Strategy and Planning	Marketing Research and Analysis	Brand and Propositions

SEGMENTS

Retail / Consumer Banking

Financial Illiterate / Underserved	Low Income	Middle Income
Public Sector Employees	Youth	Pensioners

Corporate Banking

Public Sector Entities	Small, Micro and Medium Businesses	Community/Affinity Groups

PRODUCTS

Retail / Consumer Banking

Savings	Loans	Credit Cards	Debit Cards	Insurance

Corporate Banking

Disbursements	Collections	Lending	Deposits	Insurance

CHANNELS

Retail / Consumer Banking

Branch Network	ATM	Contact Centre	Intermediary	SSD
Internet Banking	Mobile		Social Media	

Corporate Banking

Branch Network	ATM	Contact Centre	Relationship Managers
Internet Banking	Mobile	Social Media	POS

FEATURED PRODUCTS AND SERVICES

In an effort to drive the development of people and their empowerment through financial inclusion, Ithala offers a range of banking products and services.

The organisation is currently increasing its focus on these products, revitalising them, without changing the core of what made them popular with customers.

Ithala's flagship products include the Transactional Savings Book, Target Save Book, Club Save (Stokvel) Book and Rural Home Loan.

TRANSACTIONAL SAVINGS BOOK

Ithala customers demand personalised service, where staff converse with them in their mother tongue (IsiZulu) and explain transactions relating to their book accounts in a way that promotes greater understanding. 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 (STOKVEL) BOOK

Customers belonging to club/stokvel groups remain a key part of Ithala's customer base. The organisation makes stokvel meeting rooms available, enabling members to meet at year end when their savings mature.

RURAL HOME LOAN

This product offers a maximum loan facility of R500 000, with a repayment term of up to 20 years. This loan is offered to clients 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

This product is offered to applicants who want to build or renovate their home, without using their home as security. Ithala has contracts in place with major pension fund companies which allows Ithala to hold a portion of their client's pension as security. The product offers excellent interest rates and repayment periods, designed to offer an affordable way to improve the asset.

TAXI FINANCE

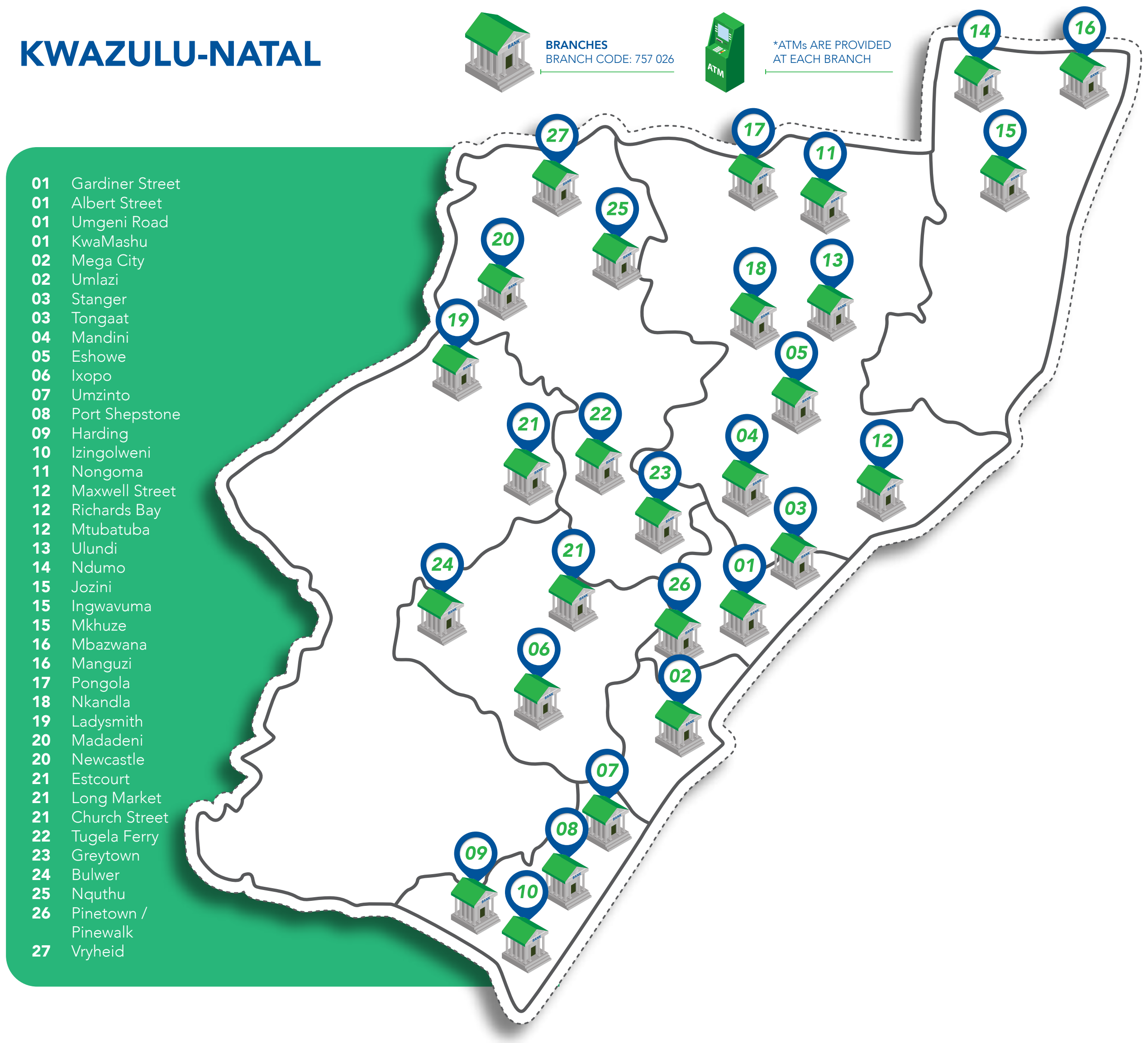
Taxi Finance offers funding to applicants who wish to venture into the business of transporting and commuting South Africans. The applicants are required to have an operating permit to qualify for the funding. Ithala understands the seasonal nature of this business and offers a loan structure designed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

OUR CUSTOMERS

GEOGRAPHICAL FOOTPRINT

Having been established during the apartheid era, Ithala's branches are predominantly located in areas which served the black market. Accordingly, the majority of Ithala's branches can be found in KZN's small towns, townships and rural areas. In recent years, as our customers' needs have evolved, a number of branches have been opened in urban areas, including central Durban.

There are 212 self-service devices (SSDs) stationed in rural areas throughout KZN. This amounts to the deployment of an additional 122 new devices in this reporting period.



We are constantly mindful of the fact that our mandate is to provide financial services, in particular, to the previously disadvantaged people of KZN. It is our aim to partner with these customers on their wealth-creation journey.

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.

THE PROBLEM

A person living in a rural area receives a government grant, is sent money by a child, or receives some sort of credit in their account.

Every month, this person travels to town to buy their goods and services and has to pay to get their goods back home.

While in town, the person draws money because they have no financial services where they live.

HOW WE RESPONDED

We deployed self-service devices (SSDs) in rural areas to replace ATMs. The device is located in rural spaza shops to enable our customers to draw their cash when they need it which creates a small saving.

Merchants start to recycle their cash which enables them to sell more goods and services.

Spaza shops' turnover increases, requiring owners to employ more people from their area, thereby growing the local economy.

Customers can save by not travelling great distances to town, but rather by staying within their area and supporting the local economy.

Spaza shop owners can improve their bookkeeping which enables Ithala to make a reasonable credit assessment when a loan is requested.

Ithala intervention provides financial services to its mandated customers and changes the financial lives of many people within the rural communities where we operate.

" WE WILL CONTINUE TO LIVE UP TO **OUR PROMISE** TO **BANK THE UNBANKED** AND **DEVELOP** OUR VALUE PROPOSITION TO **MEET THE EVOLVING NEEDS** OF THE PREVIOUSLY UNBANKED POPULATION. "

SECTION 03:

LEADERSHIP MESSAGES

MESSAGE FROM THE **DEPUTY CHAIRPERSON**

- INKOSI SBONELO MKHIZE

When I look back on Ithala's financial year, the word that stands out is: possibilities. The organisation faced internal leadership challenges and an unprecedented external environment which culminated in the COVID-19 pandemic at the end of the financial year. Within this context, the Executive Team developed an aggressive turnaround plan that showed five months of consecutive profitability, an achievement that has eluded us for many years. The positive trajectory we experienced before the sudden economic fallout of COVID-19 demonstrates Ithala's potential to be a profitable, fully-fledged banking institution. Although our full-year results are disappointing, we are optimistic about the possibilities that lie ahead.

A CHALLENGING YEAR

We faced both internal and external challenges during the year. As a public entity, we work within a political context. We were highly impacted by the national election last year which resulted in a change to our political principals. Such significant changes inevitably result in a period of disruption and learning, particularly considering Ithala's unique position within the economic development cluster of state-owned entities (SOEs).

Amid the changes to our political working relationships, our Chief Financial Officer (CFO) resigned early in the year and we parted ways with our Chief Executive Officer (CEO) in November 2019. The departure of our former Chairman, Mr Malose Kekana shortly thereafter – and subsequent resignations of several other Board members – left us with only four remaining Board members and an Executive Team that was thinly stretched. For this reason, we made sure that we maintained leadership composure and professional operations to retain the confidence of our stakeholders.

THE BOARD'S RESPONSE

The Board's priority for the second half of the year was to maintain stability. As at the release of this report, we do not have a Chairman and require a minimum of seven board members to comply with the Memorandum of Incorporation (MoI). Whilst the appointment process is underway, I have resigned as a member of the Board of the IDFC to assure my independence and the Board is currently taking collective responsibility for the functioning of Board committees. As soon as new members have been appointed to the Board of Directors, a test of my independence will be conducted to ensure alignment with the Banks Act and regulations and other governance guidelines.

Post year end, we received support from the Office of the Member of the Executive Council (MEC) in ensuring the establishment of a stable Board. Two new independent Non-executive Directors, Mpumzi Pupuma and Zamangwane Khanyile were appointed with effect from 1 August 2020.

I welcome our new members and look forward to working with them.

We have also deployed an aggressive recruitment plan to fill some of the vacant executive positions, such as CEO, Chief Operations Officer (COO), Compliance Officer, Treasury Manager, Head of Credit and Chief of Information (CIO). With so many vacant critical roles, Ithala was considered non-compliant with the Exemption Notice and Banks Act. As at the release of this report, we are pleased to report the appointment of Dr Thulani Vilakazi as CEO, Kabelo Nkambule as Compliance Officer and Siphosethu Nsele as Chief Audit Executive, which has contributed substantially towards stabilising the organisation.

With the outbreak of COVID-19 pandemic, there has been a surge in deposits and a corresponding reduction in interest rates by the SARB. Whilst the acting Treasury Manager has been fulfilling this role in the interim, the appointment of a Treasury Manager has been prioritised so the organisation can formulate and execute an investment plan to protect and grow interest revenue.

Attracting skills is a major challenge and a material issue for the organisation. Drawing top banking talent to the KZN province and ensuring succession plans for critical roles is a priority for the Board. Ithala operates differently to other financial institutions and its culture is unique. It takes time for newly appointed employees to adapt to our organisational culture. The Board has prioritised succession planning and anticipates that internal staff development for leadership roles will help alleviate the issue.

The Board considered Ithala's culture during the year. In the past, we have delegated this issue to management. However, we now recognise that culture begins with the Board. The organisation was inadvertently fostering a culture which lacked consequence management and failed to strive for excellence. I am taking a personal interest in understanding the drivers of our current culture and will endeavour to guide a shift towards a culture that motivates and inspires people to achieve their highest potential. This includes driving positive discussions with the Executive Team and visiting branches across the province.

OUR JOURNEY TO PROFITABILITY

The performance highlight of the year was turning a profit for five consecutive months, which was a significant milestone, considering Ithala has been unprofitable for five years prior to that. This accomplishment required a new approach from the Executive Team, as we realised that revenue growth alone is not sufficient to drive profitability. For this reason, the Executive Team shifted its focus to cost management, which enabled the organisation to achieve several quick wins which also contributed to our profitability. The cost-to-income and jaws ratios are significant ratios within our exemption notice, and as such, it has been critical for the Executive Team to entrench a cost-management mindset into our ethos.

LESSONS LEARNT

The Board also learnt some valuable lessons in the reporting period from our uneasy relationship with the Regulator, brought on by the process of replacing our CEO and a potential conflict of interest. The process highlighted that we lacked legal expertise within our Board. We subsequently sought an external legal opinion and are now remedying both the absence of legal skills at Board level and our relationship with the Regulator. The Board has met with a new supervisory team to restore a good relationship and we look forward to positive engagements in the future.

REBUILDING TRUST FOR THE FUTURE

The issue of rebuilding trust among our customers, employees, shareholder and communities is our priority for the near future. We will rebuild trust with our customers by finding more effective solutions for them and treating them fairly. Cultivating trust with our employees is vital. The Board will place emphasis on understanding our employee value proposition and culture to provide guidance on a way forward for the Executive Team. In our shareholder's eyes, Ithala has been a problem-child. This year, we saw the possibility of becoming a profitable SOE with the potential to become a licensed bank. In the coming years, we need to regain that positive momentum and the trust of our shareholders. COVID-19 will hinder this objective in the short term but over the long term, we expect to return to profitability.

Regaining the trust of the communities where we operate is also critical. We will continue to live up to our promise to bank the unbanked and develop our value proposition to meet the evolving needs of the previously unbanked population. The Board will continue to challenge the Executive Team to position and adjust our products and services to meet the needs of our current and potential customers. Our position as an SOE and development finance institution – along with our expertise in rural KZN – gives us a competitive edge against commercial banks in rural areas. We need to capitalise on opportunities to meet the needs of customers who live in rural areas or who are moving from urban to rural areas.

There are still 1.5 million people in the KZN province who are unbanked. Ithala will remain true to its purpose by providing access to finance. As the unbanked become banked, our socio-economic role and contribution will change. We believe wealth is not for the elite alone; with the right knowledge and tools, ordinary citizens can accumulate wealth. By slowly shifting our brand positioning and activities, we intend to contribute to building prosperity for ordinary South Africans. Although economic challenges in the near future might slow our progress, we will uphold our purpose of uplifting lives through financial inclusion.

APPRECIATION

I would like to express my sincere appreciation to the three remaining Board members at year end, who have gone far beyond the norm to provide support and guidance to myself and the Executive Team during this complex year.

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), Nomusa Dube-Ncube. We would also like to thank our management, staff and our entities for their dedication and hard work.

INKOSI SBONELO MKHIZE
Deputy Chairman

MESSAGE FROM THE EXECUTIVE TEAM

TOP LEFT TO RIGHT: Sihle Gwala | Aaron Pather | Chrystal Gumede | Shane Moodley
BOTTOM LEFT TO RIGHT: Sethu Nsele | Kabelo Nkambule | Thulani Vilakazi | Sandile Xolo | Thabisile Luthuli

To say this past year has been a challenge to Ithala would be an understatement. Ongoing negative economic conditions in a year which culminated in the global COVID-19 pandemic and the Moody's and Fitch downgrades of the South African sovereign credit rating, combined with our internal leadership turnover resulted in unprecedented circumstances which hindered our efforts to achieve our purpose and objectives.

In the last half of the year, we realised a glimmer of possibility by achieving profitability for five consecutive months. The rapid expansion and economic fallout of COVID-19 and the downgrades dashed our hopes for a profitable annual result and we recorded a loss of R75.3 million for the year. Despite the loss, we are left with a level of optimism that profitability is not beyond reach.

ECONOMIC CONTEXT

The 2020 financial year was marked by South Africa experiencing an economic downswing - the longest recorded since 1945. Key factors include the unsustainable financial and operational position of Eskom resulting in periodic severe and frequent power outages; an unsustainable South African fiscal position with a high debt to GDP ratio; a Moody's sovereign credit rating downgrade; a gap between policy pronouncements and underlying legislative enablement; as well as the increasing impact of climate change and severe drought in parts of the country.

These challenging economic conditions have a direct impact on personal disposable income and causes a slowdown in nominal wage growth, higher direct and indirect taxes, sluggish consumer spending which in turn leads to muted transactional activity, and ultimately, high unemployment levels and elevated household debt burdens.

INTERNAL CHALLENGES

The two most urgent challenges we face are securing a banking licence and restoring the stability of our leadership team. Both are required to sustain Ithala.

Despite several vacancies within our Executive Team, our annual financial performance improved significantly. This has allowed all of us at Ithala to believe the banking licence which we have worked towards for many years, is possible. Among the Executive Team that remains, we believe these challenges have strengthened our resolve and capabilities and unified our organisation. In incredibly difficult circumstances and an operating environment with little-to-no-growth opportunities, the team was able to mobilise the workforce towards dramatic shifts in outlook and culture. Ithala has an immense transformative purpose and we have committed ourselves to it.

Having lost our CEO, CFO, CIO, Head: Credit and Collections, Compliance Officer and a Chief Audit Executive, among others, Ithala was faced with the enormous task of reassuring our stakeholders – both internal and external – that we would continue to deliver on our mandate and protect our depositors and customers. We believe we succeeded in this and that Ithala would have been in a much more advantageous position, had it not been for the unforeseen global pandemic and subsequent economic fallout. Our efforts to resolve our leadership crisis were compromised by the practical realities of lockdown. Social distancing and general uncertainty undoubtedly delayed and complicated the process of finding suitable candidates in our new leadership team.

Despite these challenges, we were on track to achieve both profitability and the necessary regulatory and financial compliance. Regrettably, the COVID-19 restrictions imposed on our organisation and the entire South African economic sector thwarted this outcome in the last few days of March 2020.

OUR PERFORMANCE

The internal circumstances undoubtedly inspired a new approach from the Executive Team, which enabled Ithala to achieve a profit for five consecutive months and exceed our cost-to-income ratio target, after five years of being unprofitable. This was achieved through cohesive collaboration on key business improvement initiatives aimed at increasing revenue and reducing costs across the organisation.

The trading performance of Ithala was positive. Both our interest and non-interest revenue grew compared to FY 2019 and our operating expenses grew by less than 3%. The loss recorded for the year was primarily driven by two provisions we raised for possible impairments to financial instruments. The first was a provision of R38.3 million to account for potential COVID-19 impacts on the loans and advances portfolio. The second was a provision of R28.9 million related to a Land Bank instrument in which we were invested.

OUR STRATEGIC RESPONSE

Ithala has commenced in earnest with the hiring of skilled and experienced bankers to address the lack of experience as highlighted by the SARB, as well as to navigate an uncertain future in the short to medium term.

The proposed strategy around the target operating model to take Ithala into the future will bring certain capabilities in-house that are currently run by consultants or have been wholly missing from current management. Developing our people, creating a compliance culture and learning from past mistakes have been key features of our journey over the year under review.

To achieve our objectives and to build the bank, we have identified those matters material to our long-term sustainability. In this report, we discuss our performance and the challenges we have faced in the year under review through the lens of these material matters. Chief among them being obtaining a banking licence. This goal has mobilised the entire organisation to collaborate and strive to find solutions, design products and serve our customers.

OUTLOOK

In a fast-changing environment with unprecedented uncertainty, it is difficult to predict the impact on Ithala in the medium to long term. In the short term, considering the evolution of the COVID-19 pandemic and the South African economy after our year end, we are unlikely to record a profit for the next financial year.

Operationally, we are prepared to offer a great service to our customers, creating shared value and managing our costs. We are prepared to leverage technology and innovative product design to improve our service and responsiveness to our mandate. We look forward to welcoming a new, experienced and competent Executive Team to lead Ithala into its newest chapter of being a licensed bank. We are ready to continue developing a culture within the institution that supports growth and sustainability.

A long journey lies ahead for Ithala with many challenges to overcome. The coming year may prove to be the most decisive in Ithala's history as we evolve to adapt to the rapidly changing post-pandemic world and ensure we continue to contribute to the socio-economic needs of the people of KZN.

Ithala SOC Limited Leadership Team

"**INCREASED OVERSIGHT** HAS STRENGTHENED GOVERNANCE AND CONTROLS THROUGHOUT THE ORGANISATION TO **PROACTIVELY CONTRIBUTE** TO AND **MANAGE** OUR **REGULATORY ENVIRONMENT.**"

SECTION 04: EXTERNAL ENVIRONMENT

MACRO-ECONOMIC ENVIRONMENT

Ithala, like all South African organisations, faced a challenging economic environment which culminated in the COVID-19 lockdown in the last month of our financial year. The South African economy grew 0.2% in 2019 – against 0.8% in 2018 – and it is expected to fall to -5.8% in 2020 due to the outbreak of the COVID-19 pandemic and pick up to 4% in 2021, according to updated International Monetary Fund (IMF) forecasts from 14 April 2020. Inflation also decreased from about 4% in 2019 to 2.1% in July 2020. Responding to low growth and slowing inflation, caused by the economic restrictions imposed to slow down the pandemic, the SARB took action by dramatically reducing the repo rate which is the rate at which it lends money to banks. This was reduced from 6.5% at the start of 2020 to 3.5% by July 2020. The easing of the repo rate was a boost to consumers with loans, as their interest rates were lowered according to this rate.

President Cyril Ramaphosa significantly invested in policy improvements to restore macro-economic stability in the country. He also earmarked boosting of economic growth, cutting unemployment and avoid downgrades by credit-rating agencies as key priorities of government. In spite, the country still faces rising public debt, inefficient SOEs and spending pressures which have reduced our global competitiveness. Nevertheless, as it is home to 75% of the largest companies in Africa, with an advanced economic structure, South Africa remains the leading African economy.

Impact on Ithala

The credit downgrades directly impacted our financial position as the downgrade initiated an immediate default on a Land Bank instrument we are holding. We incurred a R28.9 million impairment as a result which, in turn, impacted our profit.

The economic conditions also affect our customers. Ninety-one percent of Ithala's customers are in LSM 1-6, who are the hardest hit in times of low economic growth or decline. They are also from rural areas and their banking behaviour tends to differ from other income levels. Most of our customers use Ithala only once a month, to withdraw a monthly payment as cash. Our marketing plan is targeted at changing banking behaviour by offering financial information and tools to those who may not have had access to them in the past. It includes building awareness of Ithala, educational programmes and digital enhancements. The plan also targets youth, who are more likely to engage with debit cards and other banking services, thereby growing our potential for fee income.

REGULATION

Ithala's operations are regulated by the SARB's Prudential Authority (PA) and the FSCA – formerly the Financial Services Board – following the introduction of the Financial Sector Regulation Act (Twin Peaks).

The regulatory environment constantly changes which exposes the organisation to higher compliance costs and the risk of non-compliance. Increased oversight has strengthened governance and controls throughout the organisation to proactively contribute to and manage our regulatory environment. A summary of current regulatory changes or developments are as follows:

Regulator	Directive / Guidance Note	Description
Prudential Authority	The Financial Matters Amendment Act, May 2019	Section 10 of the Financial Matters Amendment Act No. 18 of 2019 (FMAA) amends the definition of 'public company' in section 1 of the Banks Act to include a "national State-owned company"; which allows a national State-owned company to apply for authorisation as a bank. The FMAA also amends section 12 of the Banks Act, to provide that, where the applicant is a national State-owned company, additional requirements apply to the applicant's application for a banking licence. The additional requirements include, inter alia, in sub-section 12(4)(b) the approval of the Minister of Finance and of the Minister who is accountable to Parliament for that applicant. The term 'national State-owned company' implies the term refers only to State-owned companies which are listed in Schedules 2, 3A and 3B of the PFMA (and which are companies), to be eligible to apply for authorisation to establish a bank. The bank controlling company for Ithala, still to be created, will therefore need to be defined as a PFMA Schedule 2, 3A or 3B entity.
Prudential Authority	Guidance Note 4, April 2020	These contain recommendations to banks regarding the distribution of dividends on ordinary shares and the payment of cash bonuses to executive officers in light of COVID-19. The PA expects that no distribution of dividends on ordinary shares should take place during 2020, in order for banks to increase their current capital positions to be able to absorb possible future losses. The PA further indicated that it expects the boards of directors of banks to take appropriate action in respect of any distributions or dividends that may already have been declared by banks. Based on the above recommendations, Ithala will not be increasing its employees' annual salaries and there will be no increase in Board fees.
Prudential Authority	Directive 1, March 2020	As from 1 April 2020, the PA lowered the Liquidity Coverage Ratio (LCR) requirements from 100% to 80%. Due to the current financial market turmoil, market liquidity has decreased and banks have been under increased pressure to comply with the currently prescribed LCR requirements. Ithala's LCR as at 31 March 2020 was 141.2%, exceeding the minimum requirement of 100%.

Regulator	Directive / Guidance Note	Description
Prudential Authority	Directive 2, April 2020	This directive relates to temporary capital relief to alleviate risks posed by the COVID-19 pandemic. The Prudential Authority (PA) implemented measures to reduce the minimum requirement of capital and reserve funds to be maintained by banks to provide temporary capital relief to enable banks to counter economic risks to the financial system as a whole, as well as to individual banks. The Pillar 2A capital requirement is maintained for systemic risk and is to be held over and above the relevant minimum internationally agreed requirement specified in the Basel III capital framework. The PA believes the temporary relaxation of the Pillar 2A capital requirement (which amounts to 1%) will assist the banking sector to continue lending to the real economy. It is the PA's intention to reinstate the minimum Pillar 2A capital requirement following the COVID-19 stress period. In addition to relaxing the Pillar 2A capital requirement, banks will be allowed to draw down against the capital conservation buffer in the upcoming period after consulting the PA. Ithala's capital adequacy ratio (CAR) as at 31 March 2020 is 18.0%, exceeding the minimum requirement of 15%.
Prudential Authority	Directive 3, April 2020	This directive relates to the treatment of restructured credit exposures due to the COVID-19 pandemic. Banks are required to determine whether a restructured loan was up to date as at 29 February 2020 and, through its assessment process, determine whether the status of the loan is expected to remain current subsequent to the relief period, with all other factors remaining constant. These restructured loans will be classified as COVID-19-related restructures. On the standardised approach, the same risk weight assigned to the loan before the said restructure may be applied to the COVID-19-related restructured loan, as if these loans are not considered distressed. Loans not reasonably expected to remain in good standing or those loans which, despite the relief measures, still exhibit signs of distress must be treated in terms of the existing requirements of Directive 7 of 2015. Ithala has adopted a COVID-19 debt relief programme to assist clients.
National Credit Regulator (NCR)	The National Credit Amendment Act 7 of 2019 was promulgated	The effective date is expected to follow finalisation of the regulations required to give effect to its provisions. The amendments will introduce the possibility for over-indebted consumers with an income of no more than R7 500 and who have unsecured debt of no more than R50 000 to apply for debt intervention. Under debt intervention, a consumer's debt obligations may be suspended for up to 24 months or may be expunged. A further amendment will empower the courts to enforce reductions in interest and fees for consumers under debt review or debt intervention. The Amendment Act will also make credit life insurance compulsory on loans where the loan term exceeds six months and the principal debt does not exceed R50 000. Ithala is reviewing the Compliance Risk Management Plan (CRMP) to ensure the required controls are implemented.
Information Regulator	Protection of Personal Information Act, 2013	The operative provisions of the Protection of Personal Information Act, 2013 comes into effect on 1 July 2020. Within 12 months, the organisation is required to establish measures which ensure we collect, use, store, delete and otherwise handle personal information only in permitted ways and that it is appropriately protected from unauthorised access or loss. Ithala is in the process of implementing a CRMP with required internal controls to ensure compliance.

COVID-19

The IMF has referred to the COVID-19 pandemic as a crisis like no other, predicting 2020 will be far worse than 2009 and the aftermath of the global financial crisis. The various lockdown measures imposed by governments across the globe to contain the spread of the virus has severely undermined economic activity, resulting in unprecedented monetary and fiscal measures being implemented to contain the economic fallout and consequential global recession.

The economic damage caused by measures implemented in an attempt to curb the spread of COVID-19 is reflected in the Purchasing Managers' Indices (PMI) of major economies plummeting in the first half of 2020. In South Africa, a strong response is needed to limit the damage from reduced global demand for its exports, domestic output (and demand), as well as foreign capital inflows. In an ever-changing environment with radical uncertainty, it is difficult to predict the impact on Ithala in the medium to long term.

Impact on Ithala

The economic impact of COVID-19, although emerging in the last few weeks of Ithala's financial year end, had an immediate effect on the 2020 financial results. In particular, a Land Bank liquidity crisis and increased impairments raised the potential for defaults on the loans and advances portfolio which resulted in a loss for the year.

Over the period of the national lockdown, transaction volumes (branch transactions, cash withdrawals, ATM transactions) and credit sales were lower, while customers are increasingly applying for payment holidays.

HOW WE CREATE VALUE

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

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

INPUT | BUSINESS ACTIVITIES AND COMPETENCE | OUTPUT | OUTCOMES

Financial Capital

Input:
R3.1 Billion of total assets
(2019: R2.89 billion)

Business activities – Product Management:
- Investment management
- Asset liability matching
- Experience analysis
- Governance of participating
- Products

Output:
- **CTIR:** 98.5% (2019: 103.4%)
- **Jaws:** 5.1% (2019: 0.7%)
- **CAR:** 18.0% (2019: 17.7%)
- **RoE:** -23.4% (2019: -10.3%)
- **RoA:** -2.5% (2019: -1.0%)

Outcomes:
- Sustainable profitability
- Increased and enhanced capital base and assets

Human Capital

Input:
358 EMPLOYEES
(2019: 358)

Business activities – Distribution and Client Support:
- **Client support services, including:** Administration and fulfilment, credit granting, human resources and information technology
- Distribution channels
- Investment management
  Asset liability matching
  Experience analysis
  Governance of participating

Output:
- **Value distributed to employees:** R162.4 million (2019: R164 million)

Outcomes:
- An organisational culture that promotes excellence
- Excellence through sound performance management
- Sound customer relationship management

Intellectual and Regulatory Capital

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

Business activities – Product Development:
- Retail and business banking solutions
- Insurance solutions

Output:
- **Customer deposits:** R2.6 billion (2019: R2.4 billion)
- **Loans and advances to customers:** R1.9 billion (2019: R1.8 billion)
- **Rural home loans:** R30.5 million (2019: R36.6 million)
- **Home improvement loans:** R93.3 million (2019: R150.0 million)
- **Number of debit cards:** 101 863 (2019: 111 643)
- **Taxi finance:** R72.0 million (2019: R29.3 million)
- **Interest paid to depositors:** R94.5 million (2019: R93.6 million)

Outcomes:
- Increased market share
- Enhanced business effectiveness through technology
- Enhanced market positioning and brand identity
- Established public sector banking services

Manufactured Capital

Input:
R80 MILLION
(2019: R58.3 million)

Business activities – Business Support:
- **Business support services, including:** Financial management accounting, credit collections, regulatory reporting, human resources and information technology

Output:
Unqualified audit opinion with no findings on predetermined objectives

Outcomes:
- Effective risk management and compliance

Social and Relationship Capital

Input:
Our relationships with:
- National and provincial government
- Our shareholder
- Regulators
- Suppliers
- Communities
- The media
- Employees
- Customers
- The environment

Business activities – Capital and Risk Management:
- Redeployment of discretionary capital
- Optimal allocation of financial capital
- Financial and actuarial risk management
- Regulatory compliance
- Internal audit
- Corporate governance

Output:
- **Value distributed to suppliers:** R140.2 million (2019: R156.5 million)
- **Value distributed to government:** R13.3 million
- **Value distributed to the community:** R200 000

Outcomes:
- Smart and beneficial strategic partnerships implemented

"AT ITHALA, OUR **STRATEGY DEVELOPMENT PROCESS** IS INFORMED BY **STAKEHOLDER ENGAGEMENT** TO ENSURE WE **CREATE VALUE** AND **DELIVER** ON STAKEHOLDER EXPECTATIONS."

SECTION

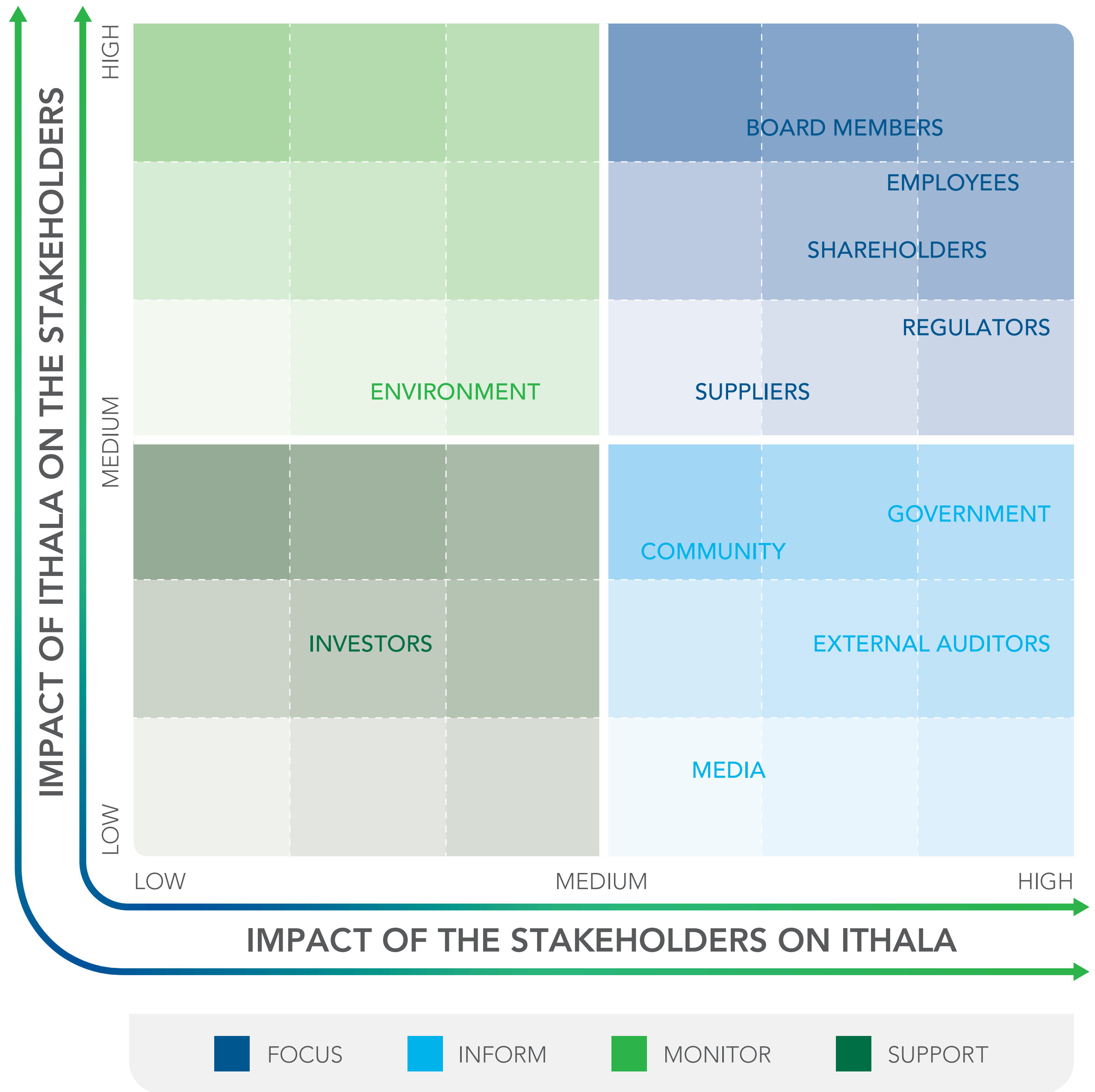
05: STAKEHOLDER REVIEW

STAKEHOLDER REVIEW

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

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

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



NATIONAL AND PROVINCIAL GOVERNMENT

We engage with government bodies annually through our annual reporting process and financial statements or ad hoc as dictated by business requirements.

Their concerns

- Fulfil our mandate as a sustainable and responsive provincially owned retail deposit-taking institution.
- Ensure alignment with mandate and understand how Ithala supports delivery of government priorities.
- Achieve sustainable profitability.
- Achieve a permanent banking licence.

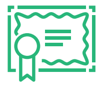
Our response

- Ensure strategy and business plans are based on our mandate from government.
- Aim to fulfil our mission to be a national state bank that furthers the interests of government policy.
- Collaborate with government entities and our shareholder to support delivery of government priorities.

Outcomes

- The Board has successfully motivated for the extension of the banking licence exemption until 31 December 2021.
- Launched the wealth-creation brand re-positioning.

Material issues



OUR SHAREHOLDERS

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

Their concerns

- Deliver on our corporate plan and the targets that are outlined in our APP.
- Understand our business performance and progress on the implementation of our business strategy.
- Achieve sustainable profitability.
- Achieve a permanent banking licence.
- Maintain good corporate governance.
- Monitor Board leadership and effectiveness.

Our response

- Promote financial inclusion and support the IDFC in the delivery of its developmental mandate.
- Execute strategic plans to achieve sustainable profitability.

Outcomes

- The Board has successfully motivated for the extension of the banking licence exemption until 31 December 2021.
- Prior to the outbreak of COVID-19, we achieved five months of profitability and were on a trajectory towards break even.
- Have made significant progress in filling vacant Board and senior management positions.

Material issues

CUSTOMERS

(Individuals, youth and entrepreneurs, community-based businesses, taxi associations, co-operatives and stokvels)
We engage with our customers on an ongoing or ad hoc basis, as determined by customer requirements, business priorities and regulatory requirements. A customer satisfaction survey is conducted twice per year, reporting results in September and March.

Their concerns

- Provide access to affordable products.
- Enhance customer service and experience.
- Provide relevant financial literacy programmes to assist with managing money and create wealth.
- Apply honest and understandable communication.
- Ensure fair treatment.
- Ensure trained and competent Ithala employees.

Our response

- Conduct quarterly customer satisfaction surveys.
- Roll out a relevant financial literacy programme aligned to the wealth-creation journey.
- Leverage suitable partner relationships for the rollout of financial literacy training.
- Develop and launch new products and services.
- Develop strategic associations and collaborations with fintech and insurtech companies.
- Develop a holistic view of our customers.

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 89% are brand promoters. The net promoter score (NPS) achieved for the year is 85%.
- Ithala, in partnership with the Consumer Financial Education Foundation (CONFEF), rolled out consumer education programmes under Ithala MoneyTalks (read more: page 88)
- Ithala partnered with Human Insights to conduct end-to-end customer research to understand their needs, determine which products and services (including existing ones) meet those needs - and implement processes to best deliver and service them.

Material issues

THE ENVIRONMENT

We engage with environmental issues as dictated by business requirements.

Concerns

- Cause the least amount of environmental damage possible.

Our response

- Act on the limited impact a financial institution such as Ithala has on the environment.
- Increase awareness of our consumption among employees to ensure it is kept to a minimum.

Outcomes

- Reduced subsistence and travel costs by 14.5% from R4.0 million in 2019.
- Reduced printing and stationery costs by 11.7% from R3.2 million in 2019.

COMMUNITIES

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

Their concerns

- Provide access to affordable products.
- Ensure relevant financial literacy programmes to assist with managing money and create wealth.

Our response

- Utilise corporate social initiatives (CSIs) to give back, focusing on education initiatives.
- Run an internship programme in partnership with various institutions of higher learning and sector education and training authorities (SETAs).
- Roll out a financial literacy programme aligned to the wealth-creation journey.
- COVID-19 response initiative to provide matric learners with online educational support.

Outcomes

- Ithala Edu Platform launched curriculum support to Grade 12 learners as a response to COVID-19. A total of 36 453 students have benefited from this initiative.
- The Ithala MoneyTalks financial education programme benefited 1 782 different participants.
- The digital skills development programme benefited 44 students from rural schools.
- We have 112 graduates/learners from technical vocational education and training (TVET) colleges who are offered experiential training.

Material issues

REGULATORY BODIES

(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).
We engage with regulatory bodies on a daily basis or ad hoc as required.

Their concerns

- Maintain full regulatory and legal compliance.
- Conduct risk management.
- Ensure good corporate governance.
- Monitor Board leadership and effectiveness.

Our response

- Maintain strong relationships with regulators.
- Maintain compliance with legal and regulatory requirements, to ensure the retention of our various operating licences and minimise operational risk.
- Implement a modern and effective human capital management organisational structure which addresses any deficiency in skills.
- Ensure good governance.
- Maintain a fully functional Board and sub-committee structure in line with the provisions of all applicable regulations and legislation.

Outcomes

- Improved relations and interactions between the Board and the regulators.

Material issues

EMPLOYEES

We engage with our employees in multiple ways. We engage quarterly through Executive Team road shows and performance appraisals; and monthly through our internal newsletter. An annual culture survey is conducted by Awakening Excellence through our Investors in People (IIP) project. Our HR function supports employees and line managers daily. Ad hoc engagements are conducted as business and employees require.

Their concerns (Based on our last survey)

- Maintain optimal employee engagement and wellness.
- Implement reward and recognition programmes.
- Ensure leadership stability and strategic direction.

Our response

- Sustain our organisational development, transformation and change programme through an in-house specialist consultant.
- Improve and maintain employee wellness and health programmes.
- Instil employee engagement and communication.
- Improve and maintain employee engagement.
- Implement benchmarked relevant reward and recognition programmes in line with industry standards.
- Sustain the talent-calibration processes and employee productivity measures.

Outcomes

- Ithala realised an improvement in the organisational development, transformation and change implementation strategy.
- Our employee wellness and health programme is yielding positive results and wellness days were conducted across the province, through our partnership with ICAS. There was a decrease in sick leave during certain quarters.
- Despite budget challenges, we provided a 6% salary increase to staff and sustained preferential rates on monthly repayments for housing and vehicle asset finance at prime minus 1.725 points.

Material issues

SUPPLIERS

We engage with our suppliers on a monthly basis or ad hoc as business requires.

Their concerns

- Pay invoices on time.
- Apply fairness and transparency in procurement practices.

Our response

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

Outcomes

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

Material issues

MEDIA

We engage with media on an ongoing basis or on an ad hoc basis as determined by media queries.

Their concerns

- Manage perceived corporate governance breaches and corruption.
- Communicate on State bank and banking licence application.

Our response

- Maintain and enhance media relationships.
- Update the media on progress on obtaining the banking licence.

Outcomes

- Media is an important stakeholder to Ithala and, as such, ongoing engagements are maintained to enhance existing relationships. A media engagement function was hosted in December 2019. The media was updated on key protects currently underway at Ithala.
- Members of the media are also hosted at the Ithala corporate suite at Moses Mabhida stadium during sports events and concerts.

Material issues

"IN **RESPONSE** TO COVID-19, SPECIFIC **ADDITIONAL SCENARIOS** WERE MODELLED TO MONITOR OUR LIQUIDITY RISK AND REVISE BUDGETS TO ABSORB THE **IMPACT** AND **LONG-TERM EFFECTS** OF THE PANDEMIC."

SECTION

06:

RISKS

Prudent and effective risk management still underpins our approach to risk management with a renewed focus on creating sustainable value for our stakeholders through a clearer understanding of our broader universe of business risk. In the year under review, we continued to evolve our risk management approach to ensure flexibility and relevance to business needs in a changing operating environment, while facilitating appropriate standardisation.

A risk maturity assessment has been conducted and, while Ithala is still at the development stage of the risk management process, the exercise has provided the organisation with a better understanding of its risks and the interventions required to elevate risk management and strengthen the link between risk and strategy at Ithala. There is evidence that employees are more aware of potential risks and are reporting these more frequently, advancing the risk culture of the organisation.

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

Unique and central to Ithala is the existential risk of not complying with the requirements of the Banking Licence Exemption Notice and the possibility of not being able to apply for the banking licence within the time made available by the notice issued by the SARB. The risk management objectives for 2019/20 were thus aimed at positioning Ithala in a way that effectively mitigates this risk. Broadly stated, these objectives were:

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

Key among these has been our legacy system and transition to a new core banking system. Delays in the implementation of the digital core banking platform due to inadequate planning, execution, skills and over-reliance on service providers resulted in project cost overruns. The management of this and other operational risks was exacerbated by another key risk to Ithala: the lack of stability in leadership over the period under review. These risks to the organisation hold up the broader risk universe that Ithala operates in at both a strategic and operational level which impacts Ithala's ability to implement its operating model, plan succession, manage contracts and make prudent investment decisions.

In response and towards achieving our risk management objectives, our Enterprise-wide Risk Management Framework (ERMF) was reviewed to enable our departments to respond effectively to risks and opportunities in a standardised and integrated manner. This approach is also supported with the implementation of our combined assurance model that works closely with the compliance and internal audit function on key areas within the organisation.

This resulted in a turnaround plan with the following objectives:

- Stop revenue leakages and reduce costs to meet profitability requirements under the exemption notice;
- Allocate resources to critical areas of the business in their support until the business model is implemented;
- Improve the compliance culture within Ithala;
- Build internal supply chain management capacity with further improvements to be implemented in the 2020/21 financial year; and
- Review our credit processes and collections capabilities and our investment policy.

RISK APPETITE

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

Financial risk appetite metrics were reviewed and have not changed for this financial year. We monitor our risk appetite against the indicators which form part of our regulatory requirements. Financial risk appetite metrics include Jaws, Return on equity (RoE) and Return on assets (RoA); credit risk appetite metrics include expected credit losses, non-performing loans and our credit risk-weighted assets and credit growth. Prudential requirements include our capital adequacy ratio (CAR), liquidity coverage, net stable funding and cost-to-income ratio. Ithala monitors the impact of applicable risks on its financial risk appetite and tolerance thresholds and implements appropriate management action, where required, to ensure risk appetite metrics are managed within its appetite and tolerance levels.

Stress testing

Our stress testing evaluates our financial position under severe, though plausible scenarios and includes

defining our risk appetite and risk tolerance, strategic planning and budgeting process, and capital planning and management. We develop risk mitigation and contingency plans across a range of these stress conditions. In our recovery and resolution planning, we assess the adequacy and plausibility of proposed recovery actions. We conduct stress testing across all major risk types by using a number of macro-economic stress scenarios.

Stress testing is augmented by product- and service-specific stress testing and sensitivity analyses, to identify the drivers of our risk profile. The risk management function is tasked with ensuring stress testing is embedded in operational processes so that it is intuitive, relevant and part of business activities. Our Risk and Capital Management Committee (RCMC) approves both the appropriateness of the stress scenarios we use and the impact of these situations on the risk profile for use in the internal capital adequacy assessment process (ICAAP) and our broader capital planning process.

In response to COVID-19, specific additional scenarios were modelled to monitor our liquidity risk and revise budgets to absorb the impact and long-term effects of the pandemic.

Capital management

Ithala's ICAAP aims to answer the questions pertaining to whether the organisation identifies all material risks and sets out in detail the range of processes and controls effectively in place to mitigate risks. The ICAAP furthermore demonstrates how it will ensure, at any point in time, that the organisation holds sufficient capital given its risk profile.

Elements of ICAAP – such as stress testing, scenario analyses, target levels of capital adequacy, risk management processes and risk appetite – are dealt with in detail in the ICAAP and reviewed annually. The organisation endeavours to continuously refine and improve its ICAAP in any areas where it is deemed necessary to improve compliance. Some of these steps and initiatives refer to future activities that will be developed as the sophistication of risk and capital management processes within the organisation increases to keep pace with the expansion of activities and services offered to clients.

Credit risk

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

Credit risk consists of counterparty risk (including primary, pre-settlement, issuer and settlement risk) and concentration risk. Ithala applies the standardised approach to the capital requirement for credit risk.

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

From the 2018/19 financial year, our mitigation strategies were aimed at ensuring the risk absorbed to pursue strategic objectives remains within the approved risk appetite.

In the previous financial year and heading into the financial year under review, the objective was for the non-performing loan (NPL) percentage to remain below 5.0% with a concerted effort to reduce it to 3.5% over the next 24 months and beyond. This has been dramatically impaired with the onset of the global pandemic resulting in our NPL percentage peaking at 7% as of March 2020.

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

Liquidity risk

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

The business activities of Ithala are geared towards short-term maturities on deposits and long-term maturities on advances which compound the liquidity risk. This risk is monitored closely in terms of the regulations and as a regulatory requirement, but also a material matter to Ithala and central to the strategic objective and the primary material matter of achieving a banking licence.

The liquidity recovery plan was reviewed during the year whereby a set of triggers were developed to help identify the early stages of a liquidity crisis and respond accordingly.

Operational risk

Operational risk emanates from a failure in systems, people, processes, systems and external events.

Ithala applies the basic indicator approach for operational risk. The organisation commenced with adoption of some aspects of a standardised approach to ensure the operational risk management processes are aligned to the Basel III regulatory reforms.

Fraud risk

Ithala has zero tolerance for fraud and as such, any fraudulent or unethical behaviour are consistently dealt with in line with our consequence management procedures and the criminal laws of our country.

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

OUR FRAUD RISK MANAGEMENT PROCESS

During the year under review, the following fraud risk management processes were executed:

- In support of our risk management process, a branch fraud controls assessment was conducted, to understand how our anti-fraud controls worked on the ground;
- Vulnerabilities were assessed and we identified how to escalate these threats to the Executive Committee to remediate any gaps in the system to prevent fraud and corruption at Ithala; and
- Technology was identified as a key tool to strengthen our risk management process across the organisation and to combat fraud and corruption.

RISK MANAGEMENT TOOLS

The risk management tools we implemented assist the organisation to:

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

Finally, with the spread of the COVID-19 into South Africa and the subsequent national lockdown, several risks emerged that will have long-term effects. Ithala continues to monitor the performance of its crisis management plan in terms of its response to the pandemic and how it poses risks relative to working from home, interest rate risk, the impact on liquidity and financial sustainability. While COVID-19 has brought about tremendous uncertainty, Ithala remains confident in its ability to measure, monitor and respond appropriately to risks in terms of our risk management processes, tools and governance structures.

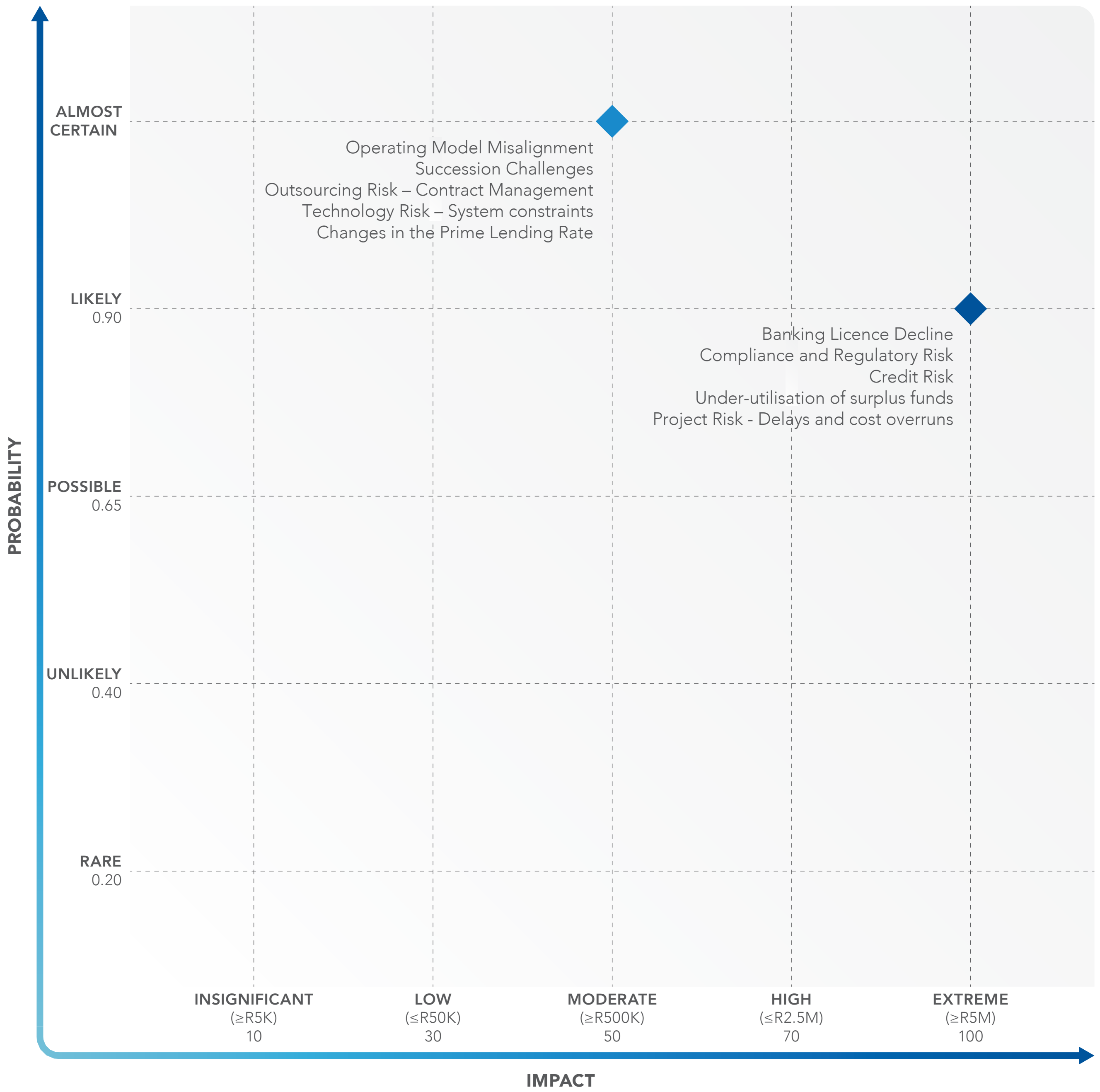
PREVENTION - fraud prevention policies, controls and initiatives contribute to reducing the risk of fraud and preventing fraud and misconduct before it occurs;

DETECTION - detection of fraud occurs as part of a vigilant, proactive investigation approach and where business is also vigilant in detecting fraud. This is informed by forensic analyses and data analytics;

INVESTIGATION - the investigation of fraud includes the establishment of investigation protocols, increased turnaround time, conducting investigations without fear or favour or prejudice, effective reporting on investigations and providing recommendations on findings;

REMEDIATION - during the course of investigations, certain relevant shortcomings in the control environment are identified and recommendations are provided to correct weaknesses; and

MONITORING - continuous monitoring to improve the control environment after recommendations were implemented.



CATEGORY	FACTOR	MANAGEMENT ACTION
EXTREME	>50	This risk should be terminated/insured/controlled
HIGH	>30≤50	This risk should be insured/controlled
MODERATE	>20≤30	This risk will typically be controlled (treated)
LOW	>10≤20	Management will make an informed decision as to whether this risk must be controlled or absorbed by the business unit. The decision will be based on a cost vs benefit approach
INSIGNIFICANT	1≤10	Impact and probability is insignificant. This risk may be tolerated and cost of losses will be absorbed by the operating unit

	Risk category	Risk description	Mitigation
1	Strategic risk	**Banking licence decline** Inability to comply with the conditions of the Banking Licence Exemption Notice.	The turnaround cost plan identified short-, medium- and long-term initiatives to not only address revenue leakages, but also potentially reduce certain cost drivers to ensure the organisation complies with the Exemption Notice requirements.
2	Operational risk	**Project risk – delays and cost overruns** Delay in the implementation of the digital core banking platform due to inadequate planning, execution, skills and over-reliance on service providers resulted in project cost overruns. Decision-making on whether switching to the new core banking platform is still the ideal state. The stringent timelines set and expectations created may have resulted in an error in execution based on contractual terms and an unrealistic outlook of the solution.	An external project review is in progress.
3	Strategic risk	**Operating model misalignment** Challenges experienced in the operating model implementation – misalignment between key decisions made and operating model/capability to support decisions.	As an interim measure, resources were allocated to ensure certain functions are taken care of and monitored until the business model is fully implemented.
4	Operational risk	**Succession challenges** Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets.	The Board approved a performance incentive scheme that provides both long and short-term incentives.
5	Operational risk	**Outsourcing risk – contract management** Ineffective contract management results in operational inefficiencies impacting on our branches and ultimately our customers.	In-house development of the Supply Chain Management Function including contract management to be implemented during the 2020/2021 financial year.
6	Operational risk	**Technology risk – system constraints** Technology legacy that is not supported internally (shared services/hosted services), inability to use analytics and big data.	An IT strategy and implementation roadmap was approved to prepare the organisation for managing all IT infrastructure and applications internally and discontinuing the shared services model with the Group. The IT strategy incorporates the establishment of an enterprise data warehouse and provides for the consolidation of all applications.
7	Operational risk	**Compliance and regulatory risk** The organisation is in a precarious position in respect of regulatory compliance. There has been repetitive adverse findings against the organisation by various regulators that has not been remediated yet. Due to this consistent inability to meet the fundamental regulatory requirements and achieve compliance, we have not been able to secure a banking licence yet.	Considering that compliance is a critical priority, the Executive Team is currently exploring short-term solutions for the necessary modification of the current platform. In alignment with the Banking Licence Exemption Notice, cost turnaround initiatives are furthermore being implemented.
8	Credit risk	**Increasing credit risk** Potential increase in loan repayment default which will, in turn, increase the expected credit losses and potentially bad debt write-offs, having an impact on both Ithala's income and cash flow (liquidity).	Optimisation of the credit processes and collection capability is currently under review.
9	Interest rate risk	**Change in the prime lending rate** A decrease in the prime lending rate increases the variance in the long-term assets funded by short-term liabilities with a resultant loss in revenue.	Interest rate risk are managed by our finance division and changes in prime lending rates is managed by investing large customer funds in back-to-back investments, as well as investing surplus funds in financial instruments linked to the Johannesburg Interbank Average Rate (JIBAR). The ALCO exercises oversight of the interest rate sensitivity analysis which is conducted monthly.
10	Strategic risk	**Under-utilisation of surplus funds** Lack of a vigorous investment policy has resulted in surplus funds not being maximised.	Investment policy options in the process of being revised.

COMPLIANCE

Ithala operates in a highly regulated industry with the additional responsibility of maintaining compliance with public finance legislation as a State-owned organisation. Compliance is the responsibility of all staff and every staff member is expected to play their part in achieving the aims of our Compliance Policy. The Compliance Policy establishes the overarching principles and articulates our commitment to being compliant by:

- Promoting a consistent and comprehensive approach to compliance throughout Ithala;
- Developing and maintaining practices that facilitate and promote compliance;
- Seeking to ensure standards of good corporate governance and ethics; and
- Creating a culture of compliance where all employees within Ithala accept personal responsibility for compliance.

Implementation of the Compliance Policy throughout the organisation has seen the compliance culture improve with an increase in compliance awareness and the disciplined implementation of our key controls and training. This has resulted in the effective development of manual capturing to overcome the shortcomings of our legacy systems and not having a client onboarding partner. Ithala has also adopted a combined assurance model to further the aims of the policy and the independent compliance function as part of the risk management framework, in line with the requirements of Section 60A of the Banks Act and Regulation 49.

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

Our regulatory universe

Consideration of Ithala's regulatory universe is crucial to its ability to compete with its peers in the industry. Ithala currently operates under an Exemption Notice signed by the Deputy Governor of the SARB and published in the Government Gazette No. 42927 on 27 December 2019 (Notice 654 of 2019) effective from 1 January 2020 and expiring on 31 December 2021 with strict performance and compliance standards to be met in order to submit our Section 12 banking licence application by no later than 30 June 2021. In addition to all banking laws and regulations (FAIS, FIC, NCA, FSR, FMA, etc.), Ithala operates under the Public Finance Management Act (PFMA) 1 of 1999, adding a layer of complexity to the compliance function and posing significant challenges to the operations of the compliance function, Ithala's competitiveness and the pursuit of the company's strategic objectives, including the application for a Section 12 banking licence. In response, Ithala aims to apply for limited and specific exemptions from certain provisions of the PFMA to meet the requirements of an application for a banking licence and to operate on the same terms as its industry peers.

It is also anticipated that the compliance landscape will change due to the impact of COVID-19. Due to the regulations pertaining to alert levels 5,4 and 3 as stipulated by the Disaster Management Act, Ithala had to adopt virtual processes for monitoring our branches. The regulations themselves have added an additional compliance burden on the compliance team. Ithala, like every business worldwide, will have to consider the long-term impact of COVID-19 on the business and its ability to adapt to a new normal, with new rules. We have appointed a Compliance Officer for COVID-19 to monitor whether internal protocols are adhered to.

Key focus areas

A key focus area for the year under review has been to improve the compliance programme by implementing a combined assurance model and the adoption of a risk-based approach. This includes commitment to a full review of our compliance practices and the monitoring of legislative changes against our CRMP. Our priorities are to maintain our compliance with the Exemption Notice and for all the requirements to be met to apply for a banking licence by 30 June 2021.

The Compliance Officer resigned in December 2019 and the external Compliance Officer resigned in February 2020. The new Compliance Officer was appointed in August 2020 and his credentials are such that there is no fiscal regulatory requirement for an external Compliance Officer. Leadership remains a key material concern for Ithala and is particularly central to building the bank and building upon the improvement in the compliance culture and practices at Ithala.

We remain committed to improving the relationship further and communicating effectively with our supervisory bodies – the PA and the FSCA – to anticipate any future challenges and the implementation of key projects.

Key challenges and opportunities in the year ahead Include:

- The consolidation of systems;
- Implementation of our IT strategy; and
- A new banking platform.

We believe the latter will:

- Resolve up to 90% of our compliance issues;
- Help with adapting to the new normal brought about by COVID-19;
- Financial regulatory reporting; and
- Responding to the challenges pertaining to the customer identification and verification project.

We conducted training for employees in several areas of compliance during the year. A total of 127 employees were trained on the Financial Intelligence Act (FICA) Standards. These initiatives were conducted as part of the ongoing SARB remediation of customers exercise. We conducted continuing professional development (CPD) online training as per FAIS requirements. In total, 196 (branch and insurance) FAIS representatives successfully completed their online modules and have successfully attained their minimum required CPD points for FY2018/19. A total of five staff members completed class of business (CoB) training which is a legal requirement for all financial services providers, key individuals and representatives, subject to the financial products and services they are authorised to provide.

We maintained our regulatory compliance by conducting training sessions for our employees on the following:

- FICA policies and standards;
- Conflict of interest, complaints management and resolution policies;
- The FAIS act policy; and
- The National Credit and Public Finance Management Acts.

Fraud awareness training was conducted for branch and regional managers. Our external stakeholder, BANKSETA, hosted regulatory compliance workshops which where attended by 39 staff members. Three senior employees also attended the following courses and events as part of their CPD:

- RE1 and Basel II Regulatory Reforms workshop; and
- The Premier Corporate Governance Conference (Chartered Secretaries SA).

INTERNAL AUDIT

The internal audit function – which operates unimpeded and independently from operational management and has unrestricted access to the ACC – appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business. The ACC, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

Two of the key objectives of the internal audit plan for the year under review was to:

- Contribute to establishing a compliance culture within the organisation to prepare for the successful application of a banking licence in 2021; and
- Develop an appropriate response to the material matters identified to ensure Ithala's long-term sustainability.

During the year under review, we also performed a pillar III disclosures audit to identify areas that must be addressed for improved transparency and enhanced public disclosure of systems and processes. A new website and internal system will be developed to enable this and ensure that the requirements are consistently met into the future.

We also made concerted efforts to protect the integrity and organisational independence of the internal audit function in line with our internal audit charter.

Combined Assurance Model

From the financial year 2018/2019, the ACC determined that a process of co-ordinating all assurance activities is appropriate to address the significant risks facing the organisation or each principle risk and business area. Therefore, a combined assurance model would be implemented and owned by the internal audit function with the risk and compliance function as an integral part of the process.

During the 2018/19 financial year, the ACC decided to implement a process for the coordination of all assurance activities to address the significant risks that the organisation is faced with, including the principle risk in each business area. To this end, a combined assurance model will be implemented and owned by the internal audit function, which integrates the risk and compliance functions with the process.

This framework has not yet been executed, due to Ithala's challenges with filling leadership vacancies such as the CEO and CFO, as well as the Chief Audit Executive (CAE) position which has been vacant for three years. Instead, the focus has been on filling these positions for accelerated implementation of the combined assurance framework, upon adoption by the ACC.

> "ITHALA HAS ADOPTED A **TURNAROUND PLAN** THAT IS ANCHORED IN THE **EXPANSION** OF ITS **DEVELOPMENTAL PURPOSE** BUT IS ALSO TIGHTLY LINKED TO THE REQUIREMENTS OF THE BANKING LICENCE."

SECTION 07:

MATERIAL MATTERS

MATERIALITY PROCESS

To define our material matters, we considered the potential influence of material topics on stakeholder assessments and the significance of our decisions on our economic, environmental and societal impact. 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.

While we 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 periodic assessments of our business environment and strategy, our material stakeholders' expectations, as well as issues emanating from our risk management process.

For Ithala, materiality is also determined by broader societal expectations. Therefore, in the process, we consider our purpose of providing financial services to the people of KZN and thereby contributing to socio-economic development. This purpose and our ownership by the State means we need to consider the expectations which the tax base has for Ithala, as well as our potential impact on broader society.

The material matters are described below and are reflected in the disclosures throughout the report.

MATERIAL MATTER: ACHIEVING A PERMANENT BANKING LICENCE/ SUSTAINING A BANKING EXEMPTION

A banking licence is crucial to the sustainability of the organisation and all its stakeholders. It is required for us to expand into other market segments with new products that we are currently unable to offer. It is therefore not only our primary material matter, but it is also core to our existence and closely tied to all our other material issues.

BACKGROUND

When Ithala was established in 2001 to ring-fence the IDFC's retail banking activities, the Minister of Finance granted a conditional exemption from the licensing requirements of the Banks Act, Act No. 94 of 1990 (Banks Act), permitting Ithala to continue providing retail banking services, provided that the organisation will register as a bank under the Banks Act within a specified timeframe. Until recently, due to a period of organisational instability caused by a lack of continuity of leadership and investment in infrastructure and technology, Ithala has not been able to finalise this application.

On 18 November 2016, Ithala submitted its second application to SARB for being licensed to operate as a bank in terms of section 12 of the Banks Act. SARB did not issue the licence as there was not sufficient evidence that Ithala can successfully operate as a bank, has the financial means to comply with the requirements of the Banks Act and has senior management with adequate experience. As such, Ithala continues to operate under an exemption notice that expires on 31 December 2021 and must prepare to resubmit an application for a banking licence by no later than 30 June 2021.

There are some key factors which Ithala needs to address to prepare for the 2021 application. Our performance against these factors – all requirements to be awarded a banking licence – are reflected below.

STRATEGIC RESPONSE

Ithala has adopted a turnaround plan that is centred on nine strategic imperatives that are predominantly focused on the sustainable development of the organisation and enabling it to obtain a banking licence. These strategic imperatives and our performance against it are discussed on page 78.

In summary, these imperatives aim to improve Ithala's income statement (increasing and diversifying market share and revenues in the banking and insurance arena and managing costs) and balance sheet (enhancing the quantum and quality of its assets; strengthening its capital base; managing its liabilities; and ensuring sound asset/liability management).

This is underpinned by an overarching focus on sound risk management, compliance and governance.

PERFORMANCE

During the second half of the reporting year, Ithala managed to achieve profits for five consecutive months, which presented the possibility of financial sustainability for the first time in many years. This notable improvement was unfortunately curbed by the unexpected COVID-19 pandemic and subsequent economic downturn which led to a record loss and an inability to meet the profitability requirements to obtain a banking licence. This loss is therefore by no means a true reflection of management's efforts to stabilise the organisation or the resilience of the organisation's balance sheet.

	Target	FY 2020	FY 2019	FY 2018
1	Minimum required capital of 15% of risk-weighted assets or as determined by the Prudential Authority	17.96%	17.67%	15.24%
2	A leverage ratio of not less than 5%	10.20%	9.64%	8.62%
3	Liquid assets of at least 7.5% of liabilities	14.00%	13.56%	15.29%
4	Ithala shall remain profitable at all times	X	X	X
5	A positive Jaws ratio, i.e. growth in operating income greater than growth in operating costs	5.14%	0.69%	5.82%
6	Cost-to-income ratio of not more than 78%, i.e. operating costs divided by operating income adjusted for credit impairments	98.49%	103.41%	104.09%
7	Impaired loans and advances as a percentage of total loans and advances not greater than 8%	7.09%	4.02%	3.51%

Assets and liabilities

The mismatch between assets and liabilities poses a liquidity risk that must be carefully managed in terms of the enterprise risk management framework and the legislative requirements. Mismanagement of this risk places depositors at risk and the sustainability of the organisation. As at 31 March 2020, Ithala's total assets exceeded its total liabilities by R321.9 million (FY 2019: R314.8 million) and total surplus funds were R1.035 million. (FY 2019: R897 million.)

History shows that, although we are borrowing short and lending long, our balance sheet is resilient. A strategic tactic we have initiated is to source customers who are seeking long-term instruments. We have a R300 million government-backed guarantee that will ensure depositors funds are protected at all times.

Cash, deposits with bank and non-statutory investments amounted to R1.035 million as at 31 March 2020 and represents an increase of R138 million compared to the previous financial year. Current cash flow projections for the next 12 months reflect no cash flow shortages. The currency liquidity surplus provides for continued organic growth which, if executed in an efficient and responsible manner supported by sound risk management, will lay the foundation for restoring profitability.

Improvement in capital adequacy

Ithala has maintained a CAR of 18.0% which is above the stipulated level of 15%. Compliance with this requirement is material to the status of the exemption notice as well as the strength of the application for a banking licence under the Banks Act.

Leadership roles

We are continuously building the capacity of the business by sourcing key talent. The following summarises the status of executive appointments as at the release of this report:

- Chief Executive Officer – The position was filled effective 1 September 2020.
- Chief Audit Executive – The position was filled effective 1 September 2020 .
- Head Credit & Collections – The prospective candidate has accepted the offer of employment and the BA020 application process was underway.
- Chief Financial Officer – Recruitment is underway with a shortlist of candidates to be interviewed.
- Chief Operating Officer – Recruitment is underway with a shortlist of candidates to be interviewed.
- Head: Banking Operations – The position is put on hold, with a focus on filling the senior management positions. The Executive Committee has resolved to allocate the responsibilities of this position to the Head: Retail & Business Banking.
- Compliance Officer – The position was filled effective 1 August 2020.

FUTURE FOCUS

The COVID-19 pandemic is likely to result in more challenging economic conditions with increased risk in credit, liquidity management and capital preservation. The financial impact is still emerging and not fully quantifiable.

In a difficult South African macro-economic environment, it is critical to accelerate digitalisation and drive digital innovation to improve digital sales, enhance the customer experience, create new revenue streams beyond and reduce costs.

There must also be a greater focus on risk management and in particular, credit risk. The behavioural outcome of the COVID-19 pandemic is likely to drive increased levels of digital adoption and promote greater levels of flexible work
practices.

Key risks include slow advances in growth, particularly muted retail lending and corporates not investing, lower interest rates (endowment impact), slower transactional volumes that impact revenue growth and higher bad debts driven by job losses and corporate defaults. Managing costs wisely is imperative.

MATERIAL MATTER: COMPLIANCE WITH APPLICABLE LEGISLATIVE REQUIREMENTS

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

We identified that legislation is material to the operation and continued existence of Ithala. A CRMP is thus being developed to guide the business in identifying its regulatory compliance obligations and implement the necessary measures to ensure continuous compliance.

This will also improve Ithala's chances of successfully obtaining a banking licence under the Banks Act.

Ithala is currently operating under an exemption issued by the PA which permits it to conduct certain business activities reserved for registered banks. Accordingly, Ithala is 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 which is already highly regulated. Regardless, the Ithala Board has adopted a zero-tolerance approach to regulatory non-compliance. Regulators such as the NCR are among the critical stakeholders of the business and we remain committed to work closely with them to implement the necessary measures to ensure Ithala's full compliance with all regulatory obligations. Further information on the organisation's compliance is available on page 29.

MATERIAL MATTER: GROWTH AND COMPETITIVENESS

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. Whilst we require revenue growth to achieve the necessary level of profitability to secure a permanent banking licence, our growth is also limited by the absence of such a banking licence.

BACKGROUND

There are key barriers to our growth that our marketing strategy aims to address.

The first is accessibility of our products and services. We are constrained by both physical and digital limitations. Our customers travel long distances, sometimes at great personal expense, to reach our branches. We are proud of our 39 branches but they are not sufficient to provide access to the number of new customers we need for growth. If we are to offer our customers easy and more cost-effective branch access, we need to expand and densify our footprint, either through branches or USSDs and ATMs.

Digital accessibility is the second barrier and is equally challenging. Our lagging technology diminishes our appeal to customers who reside far from branches. Our appeal is also limited for higher-income and digitally sophisticated customers who prefer digital interaction. All banking customers need IT and have a minimum expectation that they are able to transact remotely. We must also be able to onboard new customers online and immediately. At present, our customer recruitment is restricted to face-to-face encounters within the branches which is a labour-intensive and inefficient process.

Our growth is also limited by a lack of awareness due to our historical under-investment in marketing. Our marketing budget to revenue ratio is less than 2%, which is marginal when compared to the norm of 5-7% in the financial services industry. Our campaigns are thus specific and focused.

The fourth barrier is usage. A challenge for Ithala is to increase the share of wallet because the majority of our customers are low-income, rural and elderly customers who are inclined to use cash. A positive development is that we are seeing traction in the penetration of card usage but consumer behaviour is slow to change in this regard.

Amid these barriers, 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 to swipe their cards at the point of sale. Therefore, it also impacts our current strategy of driving people to our branches.

Our current reality presents us with a dilemma. We are not permitted to offer a full range of services to the public sector until we attain a permanent banking licence. However, if we were able to obtain a licence, we would be in a position to offer banking services to wealthy public sector institutions and such customers are extremely lucrative to a bank. Ithala hopes to one day attract such customers to enable the revenue generated from them to subsidise the low-income market that, although not necessarily profitable as customers, remain at the core of our mandate. It is imperative we service such customers as effectively and efficiently as possible. Our application for a banking licence currently constrains us but we must obtain it for our future sustainability.

Our key opportunities lie in enhancing our brand reputation and image, and business growth through targeting public sector banking and growing the insurance business. We acknowledge that real growth by targeting public sector organisations is dependent on a banking licence and is a long-term target. We also identified the insurance business as a long-term opportunity, as it may require legal restructuring as a subsidiary to ring-fence it from other banking activities and ease regulatory requirements.

STRATEGIC RESPONSE

We understand our target market and know that there are three ways to sustain and expand our reach: increase the number of customers, increase the wealth of our customers, and increase our share of wallet. In the short to medium term, our marketing strategy focuses on the objectives of increasing share of wallet from our existing customers and exploring digital customer onboarding solutions to increase customers. Our brand positioning communicates an increase in the wealth of customers.

COVID-19 has fast-tracked the requirement for a new marketing strategy that not only drives customers to our branches, but also integrates innovative approaches to drive brand loyalty and customer satisfaction through alternative ways that do not require face-to-face contact.

Accessibility and awareness are the challenges we need to overcome if we are to service existing customers and expand our reach. Ithala enjoys a good reputation among its existing customers. Our customer satisfaction level is 91% which compares extremely favourably to the financial services industry benchmark of 76%.

Our existing customers tend to transact via the branches and SSDs to initiate a few, predictable transactions per month such as the withdrawal of entire salary or grant, perform a balance enquiry, purchase electricity and airtime. These customers are likely to remain stable and dependable but COVID-19 restrictions changed the way they interact with us. We will drive transactional card usage by existing users, thereby growing the transactional fee income.

We are unable to invest what is required to develop an awareness of our brand for new customers. As low-income earners, our customers cannot stretch their wallets any further, because most, if not all of their income, is utilised for necessities. Our challenge is to expand awareness of our brand and our products while being constrained by tight marketing budgets in a competitive market. Alongside this awareness of our offerings, we aim to develop financial awareness and understanding in our customers through financial education. We reflect on the details of our initiatives that drive financial literacy under the section of this report entitled "Socio-economic Transformation".

Our strategy also aims to attract new customers from the public sector and build awareness of the Ithala insurance business and our core value proposition. We also see a potential market among the children of our existing, loyal customers. They are likely to be younger but still rural and low-income earners who are more technologically and financially educated than their parents.

In the medium term, we must enable our existing and new market segments to reach us digitally. There is a false perception that our existing market does not need IT: all banking customers need IT, even if there is not a high demand for sophisticated technology.

Customers today have a minimum expectation that they are able to transact remotely. We must also be able to onboard customers online and immediately. At present, our customer recruitment is restricted to face-to-face encounters within the branches; which is labour intensive and inefficient.

Supporting Ithala's strategy

Ithala offers banking to ordinary South African customers who we aim to assist in the management of their finances on a journey towards wealth creation. We endeavour to ensure people who have previously been financially excluded are given access to wealth-creation opportunities through our services. Ithala's value proposition challenges the traditional perceptions about wealth and who achieves it. We believe wealth is not for the elite but rather that people with the right skills and tools can also accumulate wealth. Our slogan reflects on this when we say: "Have you ever heard the words wealth and ordinary South Africans in the same sentence?" This positioning highlights our relevance in the marketplace and positions us differently from other financial institutions. Our goal is to help our customers through our products rather than to take money from them. This drives financial inclusion which meets our purpose and is aligned to government objectives.

This brand positioning is also vital to Ithala's future. Ithala began as an institution for the unbanked. However, once 100% of South Africans have access to basic financial solutions, our role will need to shift and we are already embarking on that process. The goal of financial inclusion is to enhance the wealth of previously excluded and low-income people.

We hope to individualise the concept of economic transformation: what wealth means to me, may not necessarily mean the same thing as it does to you. Our aim is to give our customers the knowledge and the tools to be able to achieve their own definition of wealth.

We want to give people a reason, bigger than a transactional account, to be loyal to Ithala. If we can help our customers manage their money to ultimately create wealth, we have done something great and, in return, we will be rewarded with their loyalty.

We are aligned with our shareholder in our philosophy towards our customers. Our products are tools to help our customers achieve financial stability; they are not products to enable Ithala's profitability.

FUTURE FOCUS

We have four different customer markets and our strategy and marketing initiatives and product uptake differs for each segment. We are aware that in order to become profitable and sustainable, we need to attract customer segments that may not be profitable for Ithala in the short term. However, we aim to attract these new customer segments to assure a sustainable future for Ithala. We believe these future customers will provide valuable fee-based income that will enable us to remain profitable while supporting our commitment to bank the unbanked. This imperative must always remain at the core of our existence and it is our obligation to find ways to ensure our sustainability if we are to enable a different future for the ordinary South Africans who choose Ithala as their financial services institution.

LOW INCOME
EXPAND SHARE OF WALLET THROUGH SALE OF ADDITIONAL PRODUCTS.
Over the medium term, we aim to stabilise the financial circumstances of these customers through financial education and product offerings that encourage savings and investment.

MIDDLE INCOME
NEW, YOUNGER, RURAL AND URBAN CUSTOMERS
Attract this market for medium-term profitability. Understand that customers become embedded and do not switch banks easily, so this is for the sustainability of Ithala. Ithala hopes to enable financial literacy through MoneyTalks and thus to partner with these customers in their wealth-creation journey. Over the long term, the goal is to establish a broader and more financially sustainable customer base that has access to a broad range of suitable products for the needs of lower-, middle- and upper-income customers.

COMMUNITY BASED
STOKVELS, TAXI ASSOCIATIONS, CO-OPERATIVES
Encourage financially prudent habits and behavioural changes, e.g. savings for future wealth, not for consumption purposes.

COMMUNITY BASED
PUBLIC SECTOR CUSTOMERS AND EMPLOYEES
It is prudent for public sector entities to bank with a State-owned bank. It amounts to reinvesting in itself and achieving the socio-economic goals that underpin Ithala's existence. The collective goal of all SOEs is to create economic transformation that is met collectively and through reciprocal servicing of needs. The creation of a self-sustaining ecosystem within the public sector universe is possible and remains the goal. Ithala will target these customers upon securing the banking licence. Public sector employees tend to use Ithala for specific products, whereas they use other institutions as their primary bank. We plan to develop awareness loyalty through familiarity with brand and a realisation that we offer competitive services/products.

MATERIAL MATTER: TECHNOLOGY

Developments in information technology have been a key driver of innovation and competitiveness in the retail banking sector over recent years. 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. As such, the lack of investment in technology and technical skills has also contributed to our inability to finalise an application for authorisation to establish as a bank. Technology is an inherent material matter to the sustainability of Ithala and its ability to create value.

BACKGROUND

A process of analysing our IT infrastructure and architecture was undertaken during the year. We asked how we could use technology to optimise the workplace, facilitate compliance, drive growth and reshape the client experience. Our answers enabled us to distil the key weaknesses within the existing systems:

- A legacy of two core banking systems continues to limit Ithala's online banking functionality for our personnel and customers.
- The lack of an enterprise data warehouse and supporting data strategy inhibited us from effectively utilising our available data for analytics and intelligence for behavioural, transactional, product and channel analysis.
- A lack of process automation that results in a significant proportion of manual workflows and leads to inefficiencies and errors and encumbers the management and monitoring of processes.
- A shortage of tools and training to develop product awareness among customers and staff.
- The overall technology architecture was expensive to maintain and operate and not agile enough to meet our innovation needs.

STRATEGIC RESPONSE

Every IT initiative of this year was devised in response to the four themes central to Ithala's success: compliance and risk, data first, agility and scalability. Our IT strategy was determined by conducting a complete assessment of the technological requirements necessary to achieve our goal, namely to obtain a banking licence in the short term; and to become a sustainable and profitable organisation in the long term.

Our IT strategic imperatives can be outlined as follows:

- To be sustainable in the long term, it is prudent to unbundle Ithala's technology from our holding company. While we enjoy significant support via shared services agreements, we aim for networking and infrastructural independence. In addition to IT, staff members have also been recruited into key roles to capacitate autonomy from the shareholder. In the interests of sustainability, it is valuable for Ithala to own its own technology IP that is distinct from any other entity.
- Migration onto a single-core banking platform for all products and channels. This will unlock efficiencies and increase the client experience at our distribution points.
- Establishment of an enterprise data warehouse within which all data will be managed and the establishment of a business intelligence (BI) competency to support the organisation.
- A shift from manual processing and capturing to automated solutions will not only enhance efficiency and accuracy, but it will reduce costs and better enable measurement of a variety of important organisational statistics. This in turn, ensures consistent and demonstrable regulatory compliance. In broad terms, regulatory compliance informs every IT decision.
- Our personnel require the tools and the training to ensure demonstrable regulatory compliance and customer service at all times. Correct and accurate Ithala information must always be accessible to our staff and stakeholders. The only way the regulator can measure us is through our systems. The best way for the customer to measure us is through our products. Our people must be empowered through their service to stakeholders through expert use of our systems.
- Our outdated technology is both an operational and a cybersecurity risk that must be resolved.
- COVID-19 forced us to consider our IT readiness and to understand our technology shortcomings and capabilities. Lockdown enabled a significant proportion of our workforce to continue working remotely.

The strategic framework of Ithala's IT considers and identifies the optimal IT possibilities based on the impact of this technology on our personnel, our customers, our governance and compliance environment, and our financial performance. These are identified in the diagram below.

ITHALA DIVISIONS AND PERSONNEL VALUE PROPOSITION	• Tools for collaboration and training, software, hardware, operational • Data to enable reports, measurement, insights • Connectivity between divisions and branches • Process automation (e.g. onboarding of new customers, product sales) • Service to personnel to support, help and provide information
CUSTOMER VALUE PROPOSITION	• Optimal product and cross-channel design to best facilitate interface with bank • Branch process, sales and service automation offered to customers • Core banking system • Safe and secure engagement between personnel and customers • Service to customers to support, help and provide information
GOVERNANCE AND COMPLIANCE	• Data aggregation • Reporting for regulatory, financial, risk and operational purposes • Business process and automation monitoring • Information and cybersecurity • IT governance PMLC and SDLC • Disaster recovery • Maintenance and governance • Policies and procedures
FINANCIAL PERFORMANCE	• Cost containment and management • SLA management • Budget management • Optimal use of technology stack

PERFORMANCE

We are mindful that a bank is the custodian of two vital things: customer's money and their data. We have learnt not to view the core banking system as a panacea. Although, we still believe that with the right IT, the possibilities are extraordinary. Our previous mistakes have taught us that the core system will not instantly solve all business requirements. We have come to understand the core banking system is only one component of a much broader and necessary technology ecosystem. A supplementary technology is required to address regulatory requirements, data security, data management, infrastructure, networking and data reporting. We still believe that with the right technology architecture and tools, the possibilities are extraordinary.

FUTURE FOCUS AREAS

We have made progress on our IT journey but we have further to go. We have successfully demonstrated that we have a single view of a customer or groups of customers and we are in a much-improved position to leverage the power of data. Our future journey entails taking ownership of our technology services and contracts. It also requires us to further integrate our IT knowledge to enable strong business analytics to efficiently drive customer service, sales and our operations. Solving the shortcomings of our IT environment has forced our team to innovate and take ownership of our technology. This has enhanced our creativity, our understanding of our environment and our ownership of work streams. We are excited by the future role of IT within Ithala and what this will mean for us and our customers.

MATERIAL MATTER: IMPACT OF COVID-19

BACKGROUND

COVID-19 and the associated global lockdowns has evolved rapidly and the impact on the local and world markets has been volatile and severe. The full impact remains uncertain. This challenging environment is expected to endure for some time. The SARB's PA has issued several directives over this period to enable the banking sector to better support the economy.

Many of the South African businesses, where Sasfin focuses its lending activities, have been significantly impacted by COVID-19. This has resulted in lower lending and transactional banking volumes, lower demand for credit and an increase in impairments.

We have established the crisis management response team to oversee our actions and manage the unfolding risks. This team is supported by the Executive Committee (EXCO), focusing on operational matters – including managing business continuity plans and on maintaining a healthy liquidity and capital position – and credit risks.

STRATEGIC RESPONSE

Ithala has developed a four-point plan to address the potential impact of COVID-19.

1. Health and safety

Ithala has taken significant steps to ensure we protect the health and safety of our staff, customers and the communities we serve; our top priority in the face of COVID-19. This included implementing best practices in terms of hygiene and social distancing.

2. Remote working

Ithala has been able to operate as an essential services provider throughout the various levels of lockdown. We quickly and successfully implemented remote working capabilities whereby our head office functions were able to operate remotely. The branch network – where a significant percentage of our workforce continued operations during Alert Levels 5 and 4 – ensured that all our products and services remained available to customers with no unusual downtime experienced during this period. We anticipate that the majority of our support functions will continue to work remotely during Alert Level 3, in line with the President's request that those companies which are able to ensure remote working should continue to do so.

3. Financial stability

Capital

Ithala has prioritised financial stability at this time. As at 31 March 2020, our CAR was 18.0%. Given the expected increase in impairments which we outline in greater detail below, we will continue to prioritise our capital position.

Funding and liquidity

Our LCR at 31 March 2020 was 141.5% and remains well above regulatory requirements. The PA has given temporary relief to the banks by reducing the required minimum LCR from 100% to 80% but it is unlikely Ithala will find it necessary to utilise this dispensation. Our funding base has strengthened throughout this period.

Ithala holds Land Bank bills which have historically been classified as level 2 quality liquid assets (HQLA), in terms of banking regulations. The Land Bank bills can no longer be recognised as level 2 HQLA due to the temporary suspension of such bills as eligible collateral for the purposes of refinancing SARB operations. At year end, Ithala held total cash and near cash (excluding Land Bank bills) of R1, 1 billion and our LCR has improved by 13.6% to 141.2%.

Land Bank plays a critical role in ensuring food security and a strong agricultural sector in South Africa. We take note of the assurances given by the Minister of Finance and National Treasury that the government must do what it can to support the bank.

Credit

Businesses have come under increasing pressure in the face of the far-reaching impact of COVID-19. We are supporting our customers and, by the end of June 2020, had granted payment holidays to customers approximating 5% of our total loans and advances. These payment holidays have been granted in terms of the PA's directive relating to COVID-19 restructured loans.

We have experienced a significant increase in impairments. Our expected credit loss and non-performing loan percentages are above target and we anticipate this trend to continue in the coming months. Furthermore, as IFRS 9 requires lenders to adopt a forward-looking view of the quality of their loans, we anticipate further increasing impairments in June. This is expected to have a negative impact on our earnings in the next financial year.

Other earnings impacts

There has been a contraction in loans and advances since 31 March 2020, arising from the impact of COVID-19. Given Ithala's conservative approach to credit granting, we anticipate a further reduction in loans and advances which will result in lower than originally anticipated income to 30 November 2020. Apart from the negative impact on the back of interest rate cuts, we anticipate an additional reduction in revenue due to lower transactional banking volumes and higher bad debts driven by job losses and corporate defaults.
Ithala has taken steps to control its costs which are expected to be flat compared to June 2019. We plan to achieve this without any retrenchments or salary cuts in the year caused by COVID-19.

MATERIAL MATTER: EMPLOYEE VALUE PROPOSITION

Ithala's employee value proposition is a material matter for several reasons. Firstly, the SARB could not issue the section 12 banking licence application due to a lack of clarity on whether Ithala has senior management with sufficient experience. Secondly, and closely linked with the first, is our challenge to attract top banking talent from Johannesburg to the KZN province. Leaders need a fantastic challenge or a fantastic package. As an SOE, we are mindful of the remuneration packages we can offer and therefore rely on attracting talent in other ways. Thirdly, although we have made progress towards improving our culture, we have more work to do to instil a results-oriented mindset among our employees.

BACKGROUND

Our application for a banking licence in 2016 was an instructive experience and enabled us to identify the gaps to close to obtain a banking licence in 2021. This process highlighted two key focus areas for HR. We need to prioritise appointments for key vacancies and create certain new roles to be compliant and proficient. Secondly, we must ensure complete autonomy from IDFC which required the introduction or enhancement of personnel within various departments of Ithala. Our ability to attain these goals has been inhibited by the reality of the balance sheet which required careful attention and a cost-cutting initiative to drive profitability where salaries are the biggest expense. We are competing for critical personnel with large corporate banks with large remuneration budgets. We are also hindered to some extent by the fact that KZN is not the region of choice for individuals with the skills we seek.

4. Communication, training and monitoring

Regular communication and training as the regulations have evolved during the alert levels are continuous. Incident management and monitoring of all key risk indicators has been implemented and communicated widely among various stakeholders.

FUTURE FOCUS AREAS

Ithala has a healthy capital and liquidity base and maintains healthy buffers to weather further shocks emerging from COVID-19. We continue to implement our strategic plan and are fast-tracking our digital capabilities given the changing work landscape.

STRATEGIC RESPONSE

It is against this background that we identified the five critical pillars to enhance and refine our human capital:

1. Alignment of existing human resources
2. Employee value proposition
3. Capacity building
4. Organisational development
5. Transformation and change

OUR PERFORMANCE

We have conducted extensive research to ensure we understand our internal value chain. We implemented numerous initiatives against the five pillars during the year.

1. Alignment of existing human resources

We implemented a range of initiatives to more effectively align and structure our people for a stronger organisation. Human capital gaps which had been created through resignations and retirements were filled through the movement of existing staff into areas that were new or better suited to their skill sets. We instituted a new unit within the HR function – that synchronised organisational development and change initiatives – which focuses on leadership development, performance engagement, the implementation of talent programmes and driving change within the organisation. This has also ensured organisational development and capacity building is better aligned to the skills shortages within the organisation.

Major initiatives completed during the year were the identification, development and appropriate reward of top talent and the development of a key competency framework to ensure internal promotions are compliant and appropriate. We created a new layer of management which resulted in approximately 12 new management positions ensuring work is better co-ordinated and creates promotional opportunities. This has inspired and motivated several talented Ithala people to develop much-needed skills. To inspire and develop our staff, we also implemented a leadership and mentoring development programme and a forum where they can raise social issues. These new approaches have enabled good progress to align and develop our existing human resources.

2. Employee value proposition

Our long-term vision is to be an employer of choice. The banking market for talent is competitive and we have a journey ahead of us to be an employer of choice in this industry. Nevertheless, our efforts to enhance our employee value proposition are enjoying success and our reputation is improving. We have also been successful at sourcing critical vacancies. Reputable individuals have begun to join our organisation and this, in turn, will attract more talent and motivate existing Ithala personnel.

In this financial year, we have relied on non-financial means of rewarding our employees due to budget constraints. Despite of our budget challenges, we managed to provide an average of 6% salary increase to our staff. During our employee engagements, we positioned our people strategy and futuristic growth plans to strengthen employee retention. Our talent strategy and employee development plans will take shape in the next financial year and enable us to more effectively recognise and develop our top talent. As a benefit to our employees, we maintained our employee preferential rates on housing, vehicle and asset financing at prime minus 1.725 points.

Our employee wellness and health programme is yielding desired results and through our partnership with ICAS, employee reception of the programme has been good. We conducted wellness days across the province, where different medical practitioners make themselves available to test and assess staff. There was a positive impact on our sick leave rate during some quarters. We also improved the occupational health and safety aspect of our wellness programme by improving ergonomics in the branch network.

3. Capacity building

Our staff training and development efforts have been varied and extensive. Although a number of these training initiatives are compliance requirements, they also enhance the employee value proposition.

- In keeping up to date with new employee relations legislation, our Employee Relations Specialist attended a training workshop on trade unions in the workplace.
- Our performance engagement training manual was designed to support the performance engagement training sessions held in February 2020 and attended by 201 staff members.
- We invested in the upskilling of our employees in scarce and critical skills in the IT environment such as Windows Server 2016; COBIT Foundation; ITIL Foundation; CompiaTIA Network+ and CompTIA Security+.
- We invested R182 988 in the form of study loans to staff who are studying towards Bachelor of Laws (LLB) and Bachelor of Business Administration (BBA) Degrees or a Postgraduate Diploma in Business Management.
- We have 112 graduates/learners from TVET colleges who are offered experiential training.

4. Organisational development and change

Subsequent to the progress that our change management partner delivered for the organisation, we enhanced our in-house capability by hiring a reputable specialist. Ithala realised an improvement in the organisational development, transformation and change implementation strategy which better supports the overall transformation agenda of the organisation.

The change management work started by the external change consultant was continued with the appointment of the Organisational and Change Manager in August 2019. A comprehensive organisational development and change plan was approved with the goal of developing a competency framework, aligning the performance management process to the framework and embedding an integrated talent management approach.

The talent management process identified critical skills and critical positions, and positions that require scarce skills. This information has aided in improving our succession planning and career management. The revised performance engagement process also assisted us to identify our top talent and the need for various initiatives. For example, a coaching and mentoring programme will be implemented to focus on development and retention.

5. Transformation and change

As at 31 March 2020, our headcount was 358 of which 91% (326) comprise Africans, 60% (216) women and 57% (203) African women.

The management component of the total headcount is 13% (45) of which 76% (34) are males.

Our Skills Development and EE Committee has remained functional throughout the year and we improved our numbers of coloured employees in the organisation in line with our target. We also added 24 fixed-term contract employees.

	Total ACI 2020	Total ACI 2019	Female 2020	Female 2019	Male 2020	Male 2019	Total Employees 2020	Total Employees 2019
Senior management	4	7	2	4	3	6	5	7
Professionally qualified and experienced specialist and managers	39	36	9	8	30	28	40	36
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	128	135	79	87	50	51	131	138
Semi-skilled and discretionary decision making	182	178	126	121	56	56	182	177
Total	**353**	**356**	**216**	**220**	**139**	**141**	**358**	**358**

FUTURE FOCUS

It is imperative for Ithala to have a diverse workforce because this is the best way to attract new customer markets. If our customers look at our organisation, they must be able to see people like themselves.

The common goal of a banking licence has created a cohesiveness among Ithala's people. We are unified in this goal and we intend to build on this united culture. In particular, we enjoy a good partnership between HR and compliance that we believe will enable us to provide service excellence via our talented people. We have learnt from COVID-19 that certain roles can be sustained remotely and that our traditional approach can be modified. We foresee this change having a positive impact on the value proposition for existing and future Ithala employees.

We believe an Ithala employee signifies empathy. Our people understand that their mandate is to empower ordinary South Africans and their communities. We intend to capitalise on our people's commitment to ensure we deliver on this mandate if we are awarded a banking licence in 2021.

"THE **EXECUTIVE TEAM** REMAINS **UNDETERRED** FROM THE **VISION** IT HAS FOR ITHALA AND IS **COMMITTED TO ENSURING** THE BANKING LICENCE APPLICATION IS **SUCCESSFUL.**"

SECTION

08: PERFORMANCE

FINANCIAL REVIEW

Overview

Our financial performance for the 2019/20 year reflects the impact of higher impairments raised due to COVID-19. Following five months of profitability, Ithala was on a trajectory towards achieving a break-even year, a first in five years. Substantial growth in non-interest income combined with flat operating expenses resulted in improved trading performance for the year.

Unfortunately, the outbreak of COVID-19 and the resulting economic decline and rating downgrades negated the financial performance gains of those five months. Ithala posted a loss of R75.3 million for the financial year that ended 31 March 2020. Despite the loss, the underlying trading performance is viewed as an indicator of Ithala's potential for long-term financial sustainability. This progress was achieved under challenging internal circumstances where several key leadership roles were vacant during the second half of the year. Ithala looks forward to returning to a positive growth trend with a full complement of executives while continuing with those initiatives underpinning the positive performance result.

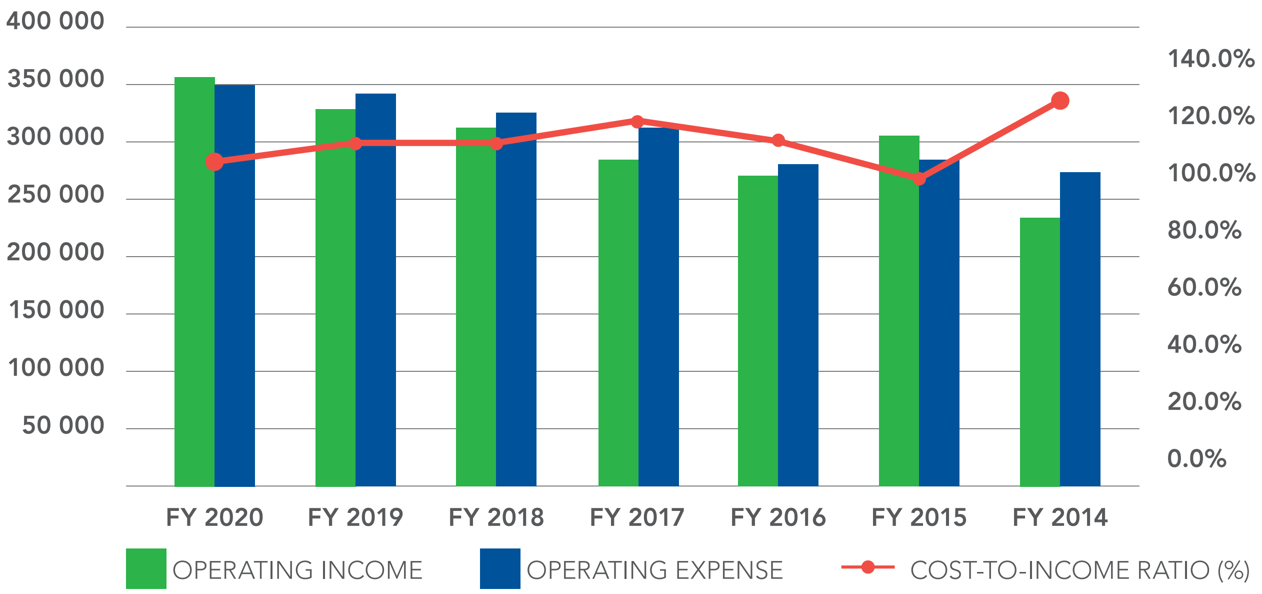
Positive operating performance

Net interest income grew to R184.4 million (+7%). Non-interest income grew to R151.1 million (+9.5%) due to an increase in fees earned from debit cards as a result of a higher number of debit card transactions compared to the previous year.

Net profitability between October and February was driven by a focused cost management plan. As shown in the graph below, Ithala's cost-to-income ratio has gradually reduced from 111.6% in 2017 to 98.5% in FY 2020 (versus 103.4% in FY 2018) marking the first time in five years that operating income exceeded operating expenses.

As we slowly return to more normal business operations, the focus will continue to be on guarding against inefficient expenditure and avoiding revenue leakages.

OPERATING EFFICIENCY



JAWS	2020: 5,1%	2019: 0,7%
646,5%		
COST TO INCOME RATIO	2020: 98,5%	2019: 103,4%
4,8%		
NET PROFIT/(LOSS) (Rm)	2020: 75,4	2019: 28,9
-160,9%		

Two key factors impacted profit

Despite a positive operating performance, a net loss was posted due to two main factors. Firstly, at year end, the provision for potential defaults on the loan and advances portfolio was increased by an additional R38.3 million. IFRS 9 requires management to consider forward-looking information in the calculation of expected credit losses. Management anticipates an increase in customer stress following the pandemic and the resultant economic pressures over the next 12 to 18 months.

Secondly, Ithala has a R62 million three-year floating rate note investment in Land Bank, purchased in November 2018. Subsequent to the financial year end, Land Bank defaulted on a loan obligation, resulting in a provisional impairment of R27.7 million. Excluding these impairments, Ithala posted a loss of R1.9 million for the financial year that ended on 31 March 2020, which is a R27.0 million improvement from the previous year.

OUTLOOK

Subdued economic growth, COVID-19 and the resulting uncertainty, rating downgrade and reduced consumer disposable income will continue to impact South Africa and Ithala in the short to medium term. The ultimate economic outcome of the pandemic is not yet fully understood. The national lockdown affected Ithala from the first month of the 2021 financial year and the impact continues. Throughout the national lockdown, transaction volumes (branch transactions, cash withdrawals, ATM transactions) and credit sales were lower. In addition, clients are increasingly applying for payment holidays. Consequently, there is a reasonable degree of certainty that earnings will decline in the 2020/2021 financial year.

The Executive Team remains undeterred from the vision it has for Ithala and is committed to ensuring the banking licence application is successful.

In the immediate future, the Executive Team aims to steer the business through these difficult times by implementing the cost management plan which aims to eliminate revenue wastage and manage arrears, while ensuring compliance with statutory prudential requirements pertaining to its liquidity and capitalisation.

INCOME STATEMENT ANALYSIS

Income Statement			
R'000	Change %	2020	2019
Interest income	4,9%	**278 990**	265 855
Interest expenditure	-1,0%	**(94 544)**	(93 586)
Net- interest income	7,1%	**184 446**	172 269
Non-interest income	`	**151 154**	137 984
Other income	-10,7%	**10 232**	11 457
Actuarial gains/(losses)	27,1%	**8 888**	6 995
Operating income	7,9%	**354 720**	328 706
Impairments charge on financial instruments	356,7%	**(80 743)**	(17 678)
Net income after impairment charge	-11,9%	**273 977**	311 028
Operating expenses	-2,8%	**(349 359)**	(339 925)
Interest expense on non-trading activities	-44,5%	**(9 687)**	(6 705)
Personnel costs	1,0%	**(162 436)**	(164 057)
Other operating expenditure	-4,8%	**(177 236)**	(169 163)
(Loss)/profit for the year	-160,9%	**(75 382)**	28 898

See below for further information.
See page 71 for further information.
See page 71 for further information.
See page 71 for further information.

Net-interest income

The key driver of increased interest earnings is the growth of the housing, taxi and pension-backed loans and advances. Similarly, growth in the deposit book has increased the interest expense. Overall, the net-interest margin improved marginally from 64.3% to 65.5%.

No longer carrying municipal deposits, Ithala has reduced its lending appetite to ensure the loan to deposit thresholds are not breached; which had a negative impact on net-interest income. This restriction also prevents Ithala from participating in disbursement or collection programmes required by these entities and we therefore had to forego such revenue earning opportunities.

Product	Change %	2020	2019
Mortgage loans >R75,000	0,1%	**1 482 161**	1 481 028
Mortgage loans <R75,000	24,5%	**44 568**	35 797
Rural home loans	-16,8%	**30 484**	36 636
Home improvement loans	28,9%	**193 334**	150 016
Cash loans	21,6%	**30 339**	24 941
Vehicle finance	-0,3%	**35 967**	36 089
Taxi finance	145,9%	**71 975**	29 266
Unsecured loans	-37,4%	**2 746**	4 389
		1 891 574	1 798 162

Non-interest income

The fee income was R13.2 million higher than the previous year, primarily due to a growth in fees earned from debit cards (R9.3 million) as a result of increased volume of debit card transactions. The positive variance of higher fees earned from transactional savings accounts (R2.4 million) and third-party payment and distribution (R1.7 million) also contributed to the positive growth.

-8,8%

NUMBER OF DEBIT CARDS
2020: 101 863
2019: 111 643

Fees earned from debit cards was R83.4 million, which is R9.3 million (12.6%) higher than the year ending 31 March 2019.

Revenue generated by the Insurance Division was R12.9 million. Revenue earned from insurance products has remained flat (FY 2019: R13.0 million).

	Change %	2020	2019
Revenue generated by Insurance Division	-0,3%	**12 980**	13 018
Commission income	2,8%	**11 194**	10 884
Administration fees	-13,1%	**1 032**	1 188
Funeral cover commission and other fees	-20,3%	**754**	946
Commission and fee income from banking activities	10,6%	**138 174**	124 966
Fee income from loans and advances	-3,3%	**4 748**	4 912
Debit cards and customer deposits	11,2%	**132 903**	119 530
Other fee income	-0,2%	**523**	524

Credit impairments

The bad debts provision was R30.7 million higher than the previous financial year due to impairments to the value of R38.3 million raised because of the impact of COVID-19 on economic conditions. This additional credit impairment comprises R17.6 million due to adjusted macro-economic forecasts and an additional management overlay of R20.7 million. Bad debts written-off for the year total R5.5 million of which R3.6 million relates to home loans. A further R27.7 million has been raised on a Land Bank financial instrument as current liquidity constraints impact Land Bank's ability to honour capital and interest commitments.

Operating expenditure

Operating costs increased by 2.8% year-on-year, from R349.4 million to R339.9 million. This R9.5 million increase includes a R6.5 million impairment of computer equipment which was damaged prior to year end. An insurance accrual could not be raised, as the insurance claim process has not yet been finalised. As soon as this is finalised in the new financial year, the corresponding gain will be noted.

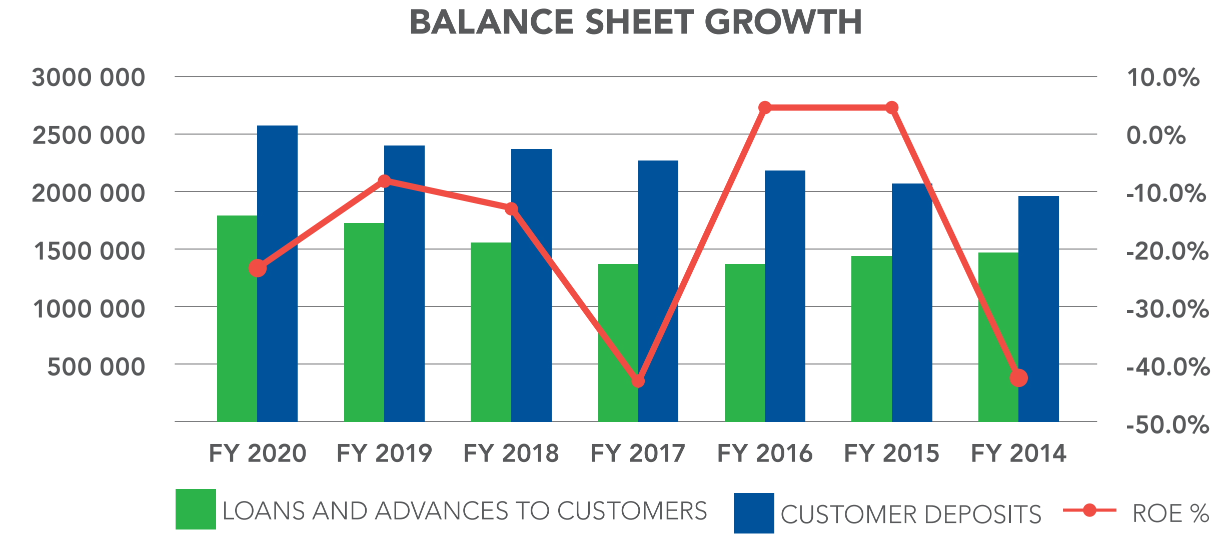
STATUTORY BALANCE SHEET ANALYSIS

The growth in the balance sheet compared to 31 March 2019 is evidence of improving resilience. Key drivers of asset growth are loans and advances and cash and cash equivalents which generate the majority of interest income. Liabilities are driven by customer deposits and have increased considerably in terms of the value of deposits by existing customers as well as growth in the number of clients. This was achieved in spite of losing deposits of several municipalities as per the Municipal Finance Management Act (MFMA) regulation barring municipalities from depositing funds with unlicensed financial institutions. The ability to grow the deposit book despite the loss of these key clients indicates the value we offer to our remaining clients.

As at 31 March 2020, the total assets exceeded the total liabilities by R329.2 million (FY 2019: R314.8 million) and the total surplus funds were R1 billion (2019: R899 million). The CAR of the organisation was 18.0% (FY 2019: 17.7%) which is above the minimum CAR of 15% required by the SARB.

Balance Sheet			
R'000	Change %	FY 2020	FY 2019
Assets			
Cash and cash equivalents	32,3%	**784 261**	592 604
Statutory investments	-2,6%	**183 565**	188 389
Investments and deposits with banks	-17,1%	**254 243**	306 664
Loans and advances to customers	2,6%	**1 772 113**	1 727 741
Receivables	-11,6%	**11 617**	13 145
Inventory	-15,6%	**1 114**	1 320
Properties in possession	-32,0%	**2 454**	3 610
Tangibles	25,0%	**52 161**	41 719
Intangible assets	15,0%	**14 966**	13 016
Total assets	6,5%	**3 076 494**	2 888 208
Liabilities			
Customer deposits	6,6%	**2 574 363**	2 414 080
Trade and other payables	23,7%	**113 302**	91 582
Provisions	0,0%	**450**	450
Loan account with holding company	-1,4%	**13 110**	13 290
Long service obligation	-16,1%	**12 914**	15 384
Retirement benefit obligations	-14,1%	**33 163**	38 614
Total liabilities	6,5%	**2 747 302**	2 573 401
Equity			
Capital and reserves attributable to the equity holders of the shareholder			
Issued share capital	0,0%	**190**	190
Issued share premium	17,6%	**599 258**	509 498
(Accumulated loss)/Retained income	41,8%	**(285 835)**	(201 572)
Actuarial gains/(losses)	132,8%	**15 579**	6 691
Total equity	4,6%	**329 192**	314 807
Total liabilities and equity	6,5%	**3 076 494**	2 888 208

See page 73 for further information. (Cash and cash equivalents)
See page 74 for further information. (Loans and advances to customers)
See page 74 for further information. (Customer deposits)



CUSTOMER DEPOSITS (Rb)
2020: 2,6
2019: 2,4
6,6%

TOTAL ASSETS (Rb)
2020: 3,1
2019: 2,9
6,9%

RETURN ON ASSETS
2020: -2,5%
2019: -1,0%
-148,3%

RETURN ON EQUITY
2020: -23,4%
2019: -10,3%
-128,8%

LEVERAGE RATIO
2020: 10,2%
2019: 9,6%
6,3%

CAPITAL ADEQUACY RATIO
2020: 18.0%
2019: 17,7%
2,6%

LOANS AND ADVANCES TO CUSTOMERS (Rb)
2020: 1,9
2019: 1,8
5,2%

Cash, statutory investments and deposits with banks

Cash, deposits with the bank and non-statutory investments amounted to R1.2 billion as at 31 March 2020, an increase of R169.9 million compared to 31 March 2019.

LIQUID ASSETS RATIO
2020: 14,0%
2019: 13,6%
2,9%

On a monthly basis, Ithala is required to hold an average amount of statutory investments not less than 7.5% of its liabilities to the public. Ithala holds a buffer of 20% above this value to ensure the minimum threshold is not breached in any instance. These funds are not available for use in operational activities. As at 31 March 2020, Ithala held R183.5 million in liquid assets which exceeded the statutory minimum target of R96.7 million (5%) by R86.8 million carried in the form of interest-bearing treasury bills. The PA requires that this be carried in a non-interest-bearing account in future which will result in a loss of interest income.

The liquidity gap on a contractual basis is negative, on a business as usual basis; however, the organisation does not reflect a cumulative negative mismatch in any time band disclosed in the BA300.

Ithala also has a government-backed R300 million guarantee in place.

Loans and advances to customers

New advances amounted to R369.5 million and represents a year-on-year decrease of R63.9 million (6.4%). As at 31 March 2020, R133 million of the total advances of R1.9 billion were non-performing. This 7% non-performing loan ratio is 1.5% greater than that of the previous year, primarily attributable to the introduction of the cure rule during the IFRS 9 model recalibration. The cure rule requires non-performing loans which rehabilitate or cure, to remain in stage 3, the expected credit loss stage for a period of 7–11 months for review. The total non-performing loan balance of R65 million consists of loans that have been in arrears for 12 months or more. No individual non-performing loan exceeds 10% of the qualifying capital and reserve funds.

76,4%
IMPAIRED ADVANCES
2020: 7,1%
2019: 4,0%

145,9%
TAXI FINANCE (Rm)
2020: 72,0
2019: 29,3

28,9%
HOME IMPROVEMENT LOANS (Rm)
2020: 193,3
2019: 150,0

-16,8%
RURAL HOME LOANS (Rm)
2020: 30,5
2019: 36,6

	Change %	2020	2019
Mortgage loans	0,7%	1 526 729	1 516 825
Housing loans	-16,8%	30 484	36 636
Micro finance - secured loans	38,0%	331 615	240 312
Commercial property loans	0,0%	-	-
Micro finance - unsecured loans	-37,4%	2 746	4 389
Total loans and advances to customers	5,2%	**1 891 574**	1 798 162
Maturity analysis			
Maturing up to 1 month	13,9%	**63 878**	56 073
Maturing after 1 month but within 6 months	29,8%	**65 798**	50 702
Maturing after 6 months but within 1 year	35,2%	**69 241**	51 200
Maturing after 5 years	35,6%	**506 177**	373 233
Maturing after 1 year but within 5 years	-6,4%	**1 186 480**	1 266 954
		1 891 574	1 798 162

Customer deposits

Customer deposits have increased by R160.3 million to R2.6 billion compared to the balance at 31 March 2019, a year-on-year increase of 6.6%.

	Change %	2020	2019
Call deposit accounts	5,7%	**68 265**	64 561
Savings accounts	15,8%	**1 105 638**	954 578
Term deposits	0,4%	**1 400 460**	1 394 940
Total customer deposits	6,6%	**2 574 363**	**2 414 079**
Maturity analysis			
On demand	15,0%	**1 176 294**	1 022 525
Maturing up to 1 month	-0,4%	**207 707**	208 542
Maturing after 1 month but within 6 months	4,2%	**786 698**	754 663
Maturing after 6 months but within 1 year	-6,2%	**359 568**	383 213
Maturing after 1 year but within 5 years	-2,3%	**44 096**	45 137
		2 574 363	2 414 080

BUSINESS UNIT OVERVIEW

Retail and business banking

All activities on the financial statements are completed by the retail and business banking arm because of limitations that exist under the banking licence exemption to extend into other sectors. There is enormous potential to supplement this division with corporate and public sector banking once a permanent banking licence is achieved.

The three categories of this division offer transactional products, savings and investments. Within transactional banking there are three segments: student level, individual working adults and small business accounts. These are all generally low-fee earning accounts for Ithala due to the socio-economic circumstances of these customers who do not transact frequently or for high-value amounts. The student market is a growth area and is considered important for the sustainability of Ithala to counteract the reality of the current age demographic of the existing customer base. The savings and investment products offered are call investment, 32-day investment and fixed deposits. Lending products include home loans, vehicle finance, taxi finance, pension back-loans and rural home loans over tribal lands.

The number of savings and investment accounts increased, while the number of lending accounts and debit card accounts decreased. Transactions through our self-service channels increased, suggesting growing adoption of these types of engagement among our clients.

1.23%
TOTAL NUMBER OF SAVINGS AND INVESTMENT ACCOUNTS (INCL. BOOK-BASED ACCOUNTS)
2020: 557 389
2019: 550 628

-8.76%
TOTAL NUMBER OF DEBIT CARD ACCOUNTS (BALANCES GREATER THAN ZERO)
2020: 101 863
2019: 111 643

-1.14%
TOTAL NUMBER OF LENDING ACCOUNTS
2020: 13 104
2019: 13 255

35.16%
TOTAL CLIENTS REGISTERED FOR INTERNET BANKING
2020: 8 019
2019: 5 933

46.09%
TOTAL NUMBER OF INTERNET BANKING TRANSACTIONS
2020: 31 518
2019: 21 574

5.14%
TOTAL NUMBER OF USSD MOBILE BANKING USERS
2020: 19 120
2019: 18 185

4.20%
TOTAL NUMBER OF USSD MOBILE BANKING TRANSACTIONS
2020: 48 889
2019: 46 919

10.33%
TOTAL NUMBER OF ATM TRANSACTIONS
2020: 2 224 598
2019: 2 016 229

12.11%
TOTAL NUMBER OF POS TRANSACTIONS
2020: 1 907 071
2019: 1 701 123

-6.39%
TOTAL NUMBER OF DEBIT CARD TRANSACTIONS
2020: 9 894 663
2019: 10 570 213

4.03%
TOTAL NUMBER OF BRANCH CASH WITHDRAWALS
2020: 185 796
2019: 178 591

Insurance

Ithala's commitment to serving the State and the people of South Africa is a key driver of the product strategy, particularly as it relates to insurance products. The objective is to grow the Insurance Division's business with products and services that meet target customers' expectations. A relationship-based philosophy has been adopted which is underpinned by partnership to deliver on plans to provide services to our primary market and service domestic, commercial and specialised insurance.

For the year under review, our goal was to increase insurance revenue and build the capacity of the organisation by investing in an Insurance Management System (IMS) and attracting suitably skilled personnel to Ithala. These initiatives were still underway as at the release of this report.

The success of the Insurance Division within Ithala is closely tied to the goal of achieving a banking licence in 2021. The division will then become an insurance subsidiary and be able to bring white label products to the market.

Insurance revenue contributed 3-4% of Ithala's revenue in the 2019/20 financial year. This has the potential to be increased by up to 30–40% in the short term, by addressing the current challenges with the legacy technology system and increasing productivity in the organisation.

THE FOUR CORNERSTONES THAT UNDERPIN OUR
NINE STRATEGIC OBJECTIVES ARE INEXTRICABLY CONNECTED.

The essence of our Corporate Plan has not changed. The overarching goal is to meet our purpose and mandate through the achievement of a full banking licence. Ithala is currently operating under an exemption notice that has strict performance standards. Ithala is required to submit a section 12 banking licence application by no later than 30 June 2021.

Our strategy is built upon this critical milestone required for us to achieve our purpose of providing financial services to the people of KwaZulu-Natal, thereby contributing to the province's socio-economic development. The strategy is premised upon four pillars and nine imperatives.

SYSTEM

The goal

The technology ecosystem underpins the banking business model. Ithala requires a technology revolution. We will focus on creating a stable and reliable technology stack for Ithala, while delivering on much-needed business needs.

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 diversifying revenue streams with the expansion into market segments.

Status

In 2018, we initiated a project to migrate from our legacy system to a new core banking system. This migration has unfortunately been delayed due to 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 remains a priority and the team is continuously exploring numerous technology solutions to successfully enable the migration.

Most of Ithala's branches are located in small towns, townships and rural regions of KZN, as this is where the majority of Ithala's customers are based. Recently, we have also commenced with opening branches in urban areas, such as Durban City.

We developed a dedicated strategy to expand our branch network and leverage digitisation and connectivity to provide our customers across the various geographies with increased access to our services. Expansion of our branch network includes setup of mobile branches in containers, which is much quicker and more cost-effective than brick and mortar buildings. These mobile branches will also have ATMs and SSDs, which will contribute to improving financial literacy and growing these rural economies.

A detailed assessment of current and new market segments is already underway to ensure the customer value proposition (CVP) is correctly defined to compete with our competitors. This CVP will be aligned with our brand positioning campaign, the tagline of which is: "What does wealth mean for ordinary South Africans?"

Ithala's credit processes are currently being reviewed and realigned, with the aim to improve the efficiency and turnaround times of credit applications.

Part of Ithala's product growth strategy is to grow the Insurance Division significantly by offering new products and services and eventually developing our own life- and short-term insurance business. This will be achieved through cultivating relationships and establishing mutually beneficial partnerships. The Insurance Division primarily provides services to customers in the domestic, commercial and specialised insurance markets. To better meet the requirements of these customers, we are developing a suite of new products which will be delivered through multiple distribution channels.

Financial literacy programmes feature prominently on the Ithala strategy dashboard as a stand-alone activity but also alongside and supporting the potential digitisation of the rural area citizen.

FOCUS AREAS FOR 2020/21

Ithala appointed an interim CIO in July 2019 and a new IT strategy has been approved. The IT strategy encompasses the following aspects:

- Unbundling of key IT services from IDFC;
- Developing a corporate data warehouse, data management and analytics capabilities;
- Building a centralised regulatory reporting function;
- Enhancing Ithala's information and cybersecurity functions;
- Implementing a digital workplace strategy with workflow automation to drive operational efficiency and effective risk management;
- Implementing enterprise-wide collaboration and training tools for a cost-effective and flexible enterprise engagement;
- Implementing a records management system; and
- Enhancing IT infrastructure across the organisation.

We have defined a short- to medium-term solution in line with the licence application in 2021 and our intention is to demonstrate sustainability on this interim solution for a period of 12 months.

Following the re-engineering and automation of the credit approval process, debit cards and loan products will be focus areas of growth for 2020/21.

Another key priority will be to unlock new market segments and increase our non-interest revenue by increasing channel functionality on our internet banking and cell phone banking platforms, and enable increased participation in our payment streams.

We will also prioritise improving the functionality of our SSDs and increasing the number of distribution points to expand our reach across the province.

PEOPLE

The goal

To build a culture of accountability, excellence and customer service.

Strategic imperatives

1. Create an enabling business environment, to usher in a performance culture and accountability.
2. Establish organisational capacity to enable the execution of the strategic plan, including the implementation of a new organisational structure.

Status

At the core of the annual people plan is an organisational change and transformation strategy that seeks to sustain employee engagement and establish an overall organisational culture of performance. To this end, a communication funnel was developed to enhance engagement on strategic matters between employees on different levels.

A competency framework was developed as a barometer against which the training, development and growth of our employees can be measured. This framework will also define our job profiles and inform recruitment processes to ensure appointment of people that are fit-for-purpose. Our people are furthermore being developed in line with the future talent requirements of the business, whilst establishing synergy between the identified training needs, employee development, career growth and delivery.

The new performance management system serves to ensure that all employees on all levels are held accountable for performance and that non-performance is dealt with decisively, yet fairly.

FOCUS AREAS FOR 2020/21

We will continue to realign our human capital to support a sustainable business (read more in "Material issues: Employee value proposition" on page 62).

We commenced with our talent-calibration process, with the aim to determine existing capacity and develop a succession plan for key positions. This process is underpinned by a consistent approach which serves to identify employees with potential for growth and prioritise the development of future talent from within.

The Ithala Executive Management Team continues to drive cost containment to ensure the right balance between the required Jaws ratio and sustaining profitability. Our employee productivity ratio is also continuously being monitored for
optimal performance and serves as a baseline for determining the requirement for appointing new people.

A performance incentive scheme will be introduced to reward exceptional employee performance.

SUSTAINABILITY

The goal

In order to achieve our purpose and to secure a full banking licence, Ithala needs to be financially sustainable.

Strategic imperatives

1. Achieve sustained break-even trend during 2020 and sustained profitability from 2021 onwards.
2. Successful application for and granting of a full banking licence by SARB and exemption from operating under the PFMA.
3. Ensure adequate capital investment to meet the strategic plan.

Status

The five consecutive months of profitability that Ithala achieved during the year under review, provided invaluable insights for achieving profitability in the long term. Two areas that were identified as key for profitability, were cost-containment and a results-driven culture. Whilst these are not the only factors that must be considered, they will certainly enjoy priority in the near future, especially in managing the post-COVID-19 economic environment.

In banking, there is a complex inter-dependency between the price of products, the size of the customer base and the level of revenue earned from that customer base. This inter-dependency can be leveraged optimally, through an intelligent marketing strategy.

Re-engineering of the credit department is currently underway and will continue in the new financial year. Critical credit skills will be acquired, and existing staff will be prepared for the changes through the necessary training and development. A risk-based pricing model will also be developed and implemented to ensure lending products are adequately and competitively priced.

We require financial support to re-engineer the institution, ensure the regulatory capital is well provided for and develop it into a bank to be ready to receive a full banking licence by 30 June 2021. Our corporate plan considers a requirement of R60 million for FY 2020/21.

FOCUS AREAS FOR 2020/21

We expect a continued difficult environment for the consumer and heightened uncertainty is expected to dampen business confidence and investment in the next financial year.

In the current economic climate, ensuring continued operational and financial resilience is paramount. We are therefore planning to temporarily pause our aggressive growth ambitions to focus on cost management, re-engineering of our operating model and capital and liquidity preservation, while continuing to support customers.

COMPLIANCE AND REGULATORY

The goal

Ithala strives for compliance with all relevant legislation and regulations, as well as generally accepted governance principles and practice, in particular, both the King Code of Good Governance for South Africa and the Banking Association of South Africa Code of Banking Practice.

Strategic imperatives

1. Achieve 100% compliance with all laws and regulatory requirements, including the Banks Act, Basel III, IFRS and the King IV Report; and
2. Improve internal controls and governance processes.

Status

Ithala has embarked on a major Know Your Customer (KYC) remediation project and has developed and submitted a plan to SARB, which outlines the steps that will be taken to ensure full compliance with the requirements. To date, significant milestones have been achieved, including the approval of key policies and procedures, drafting of key controls aligned to the new digital banking platform and the appointment of a recognised document management service provider. We also made a strategic decision to manually remediate the non-compliance of nearly 400,000 customers via an external call centre, with the aim to complete this exercise by the end of 2020/21. This project will run concurrently with the KYC process modernisation programme which serves to automate our KYC processes.

Many of the adverse findings in the processes of Ithala will be resolved through the implementation of the new digital banking platform, as this will automate our processes, which will in turn minimise, if not eliminate errors that can typically occur through manual interventions.

Ithala has adopted Basel II and Basel III but is in the process of addressing the Basel III regulatory reforms relating to operational and credit risk. The organisation's risk appetite is being revised to align with performance indicators as stipulated in the exemption notice.

The divisions with outstanding repeat findings will also be supported to resolve findings that do not require system improvements for conclusive resolution.

FOCUS AREAS FOR 2020/21

We will address the requirements for compliance with all the obligations specified in the exemption notice to improve Ithala's chances of successfully obtaining a banking licence.

To this end, we established a programme to develop risk management plans that are relevant to the following core legislation that is imperative to the operations and sustainability of Ithala:

- Banks Act;
- National Credit Act;
- Financial Advisory and Intermediary Services Act (FAIS);
- Protection of Personal Information Act No. 3 2013 (POPIA);
- Public Finance Management Act (PFMA);
- Financial Intelligence Centre Act (FICA);
- Companies Act;
- Basic Conditions of Employment Act No. 75 of 1997 (BCEA);
- Consumer Protection Act No. 68 of 2008 (CPA); and
- Occupational Health and Safety Act No. 85 of 1993 (OHASA).

ANNUAL PERFORMANCE REPORT

FINANCIAL AND SHAREHOLDER PERSPECTIVE (WEIGHTING = 25%)

Objectives	Related material matters	Key performance indicators	Actual 2017/18	Actual 2018/19	Target 2019/20	Actual 2019/20	Status
Sustainable profitability	• Achieving a permanent banking licence • Growth and competitiveness • Technology • Improvement of capital adequacy	Maintain the total budgeted expenditure as at 31 March 2020 (R'000)	R325 412	R339 925	R411 462	R349 359	✓
		Achieve the budgeted annual net profit/(loss) by 31 March 2020 (R'000)	-R33 320	-R28 897	-R25 266	-R 75 382	✗
		Management comments The net loss for the year includes a R28,7 million impairment on certain investments, a R6,3 million impairment of computer equipment and a prudent increase in credit impairment provisions to the amount of R38,3 million to account for the anticipated impact of COVID-19 on the loans and advances portfolio. Without these unanticipated adjustments, Ithala would have posted a net loss of R2 million, which would have been a substantial decrease of R23,3 million from the previous financial year.					
		Achieve the budgeted cost-to-income ratio (CTIR) by 31 March 2020	104,1%	103,4%	106,1%	98,5%	✓
Effective risk management and compliance	• Achieving a permanent banking licence • Assets and liabilities • Improvement of capital adequacy	Achieved an unqualified audit opinion (clean audit) with no findings on compliance or predetermined objectives for the financial year that ended 31 March 2019	Unqualified audit opinion with no findings on predetermined objectives	Unqualified audit opinion with no findings on predetermined objectives	Unqualified audit opinion with no findings on compliance or predetermined objectives	Unqualified audit opinion with no findings on predetermined objectives	✗
		Management comments Although an unqualified audit opinion was achieved and there were no findings on predetermined objectives, there were findings raised on compliance. An audit findings tracker schedule has been compiled with action plans to ensure findings are addressed and repeat findings avoided. In addition, significant improvements have been made in the combined risk assurance environment (internal audit, compliance, risk) with issues of non-compliance being addressed though risk registers.					
Increase and enhance capital base and assets	• Assets and liabilities • Improvement of capital adequacy	Achieve the budgeted CAR by 31 March 2020*	15,2%	17,7%	19,9%	18,0%	✗
		Management comments The CAR at year end was deteriorated by the three unanticipated adjustments to impair certain investments, to impair computer equipment and a prudent increase in credit impairment provisions to account for the anticipated impact of COVID-19 on the loans and advances portfolio. Without these unanticipated adjustments, Ithala would have posted a net loss of R2 million, which would have been a substantial decrease of R23,3 million from the previous financial year, and a clear indication of the organisation's sustainability.					

Satus indicator

✓ Achieved ✗ Not achieved

CUSTOMER PERSPECTIVE (WEIGHTING = 25%)

Objectives	Related material matters	Key performance indicators	Actual 2017/18	Actual 2018/19	Target 2019/20	Actual 2019/20	Status
Increase market share	• Growth and competitiveness	Achieve the budgeted insurance revenue amount by 31 March 2020 (R'000)	R13 434	R13 018	R15 857	R12 980	✗
		Management comments This target was prepared on the assumption that certain products would be relaunched, that the IMS and a full sales force would be available. Although the target has not been achieved, the business has shown a positive trajectory with 81.9% of the target being achieved despite not having a full sales force. The department reached a milestone this past quarter in respect of the implementation of the IMS which is currently underway.					
		Achieve the budgeted transactional banking revenue amount by 31 March 2020 (R'000)	R58 578	R76 502	R80 222	R83 394	✓
		Achieve the budgeted customer deposits amount by 31 March 2020 (R'000)	R2 387 119	R2 414 079	R2 198 406	R2 574 363	✓
		Achieve the budgeted retail and consumer banking new advances amount by 31 March 2020 (R'000)	405 869	R433 394	R487 040	R369 496	✗
		Management comments The implementation of new risk models affected the take-on of new customers which was further compounded by the increase in competition from the larger banks. Although the budget for the housing loan product was not achieved, significant growth has been observed in other products, including taxi finance and pension backed loans.					
Enhanced market positioning and brand identity	• Growth and competitiveness	Conduct financial literacy programmes at the targeted number of learning institutions by 31 March 2020	New KPI not in 2017/18	11	20	25	✓
Sound customer relationship management	• Growth and competitiveness	Achieve the targeted NPS by 31 March 2020	New KPI not in 2017/18	85,0%	50,0%	85,0%	✓
		Achieve the targeted score per the customer satisfaction measure by 31 March 2020	91,0%	90,0%	80,0%	91,0%	✓

BUSINESS PROCESS PERSPECTIVE (WEIGHTING = 25%)

Objectives	Related material matters	Key performance indicators	Actual 2017/18	Actual 2018/19	Target 2019/20	Actual 2019/20	Status
Effective customer service delivery	• Growth and competitiveness • Technology	Install and operationalise the budgeted number of new SSDs by 31 March 2020	19	75	215	120	✗
		Management comments With the approval of the IT strategy, we will be able to renegotiate the commercial terms of the current agreements with the various service providers. The deployment of SSDs will recommence with the finalisation of new commercial terms.					
		Install and operationalise the budgeted number of new ATMs by 31 March 2020	9	5	30	16	✗
		Management comments The ATM service level agreement is undergoing an internal review which has delayed the deployment. The deployment of ATMs will recommence with the finalisation of the service level agreement and new commercial terms.					
		Achieve the in-house call centre solution implementation milestones by 31 March 2020	New KPI not in 2017/18	n/a	90% adherence to the implementation milestones	n/a	✗
		Management comments This project was subject to an approved business case and the necessary funding from the shareowner. Due to cost constraints, it was reprioritised in favour of other projects.					
Enhanced business effectiveness through technology	• Growth and competitiveness • Technology	Achieve the new digital banking platform implementation milestones by 31 March 2020	New KPI not in 2017/18	63% adherence to the implementation milestones	90% adherence to the implementation milestones	65% adherence to the implementation milestones	✗
		Management comments There were delays due to project scope creep, resource constraints and a lack of system implementation skills. The Board approved a plan to migrate all products to an interim cloud-based solution for up to three years, at which point the implementation of the new digital banking platform will be revisited.					

PEOPLE, LEARNING AND GROWTH PERSPECTIVE (WEIGHTING = 25%)

Objectives	Related material matters	Key performance indicators	Actual 2017/18	Actual 2018/19	Target 2019/20	Actual 2019/20	Status
An organisational culture that promotes excellence	• Employee value proposition	Implement the IIP Standard by 31 March 2020	Met 17 of the evidence requirements for the developed standard	n/a	Meet 13 evidence requirements for the established standard	Met 2 evidence requirements for the established standard	✗
		Management comments During the year under review, Ithala met 19/27 of the developed standard requirements and 2/17 of the established standard. Whilst these figures are encouraging, the target is still not met. Recent initiatives such as the talent forum, competency framework, 2019/20 human resources (HR) plan and the 2019-2023 strategy address the areas of development that were highlighted in the assessment report. As soon as these are implemented, Ithala should be well underway towards establishing a high-performing culture.					
Excellence through sound performance management	• Employee value proposition	Achieve the targeted employee productivity measure by 31 March 2020	R92 004 net loss per employee per year	R80 718 net loss per employee per year	R61 474 net loss per employee per year	R210 564 net loss per employee per year	✗
		Management comments The net loss for the year includes a R28,7 million impairment on certain investments, a R6,3 million impairment of computer equipment and a prudent increase in credit impairment provisions to the amount of R38,3 million to account for the anticipated impact of COVID-19 on the loans and advances portfolio. Without these unanticipated adjustments, Ithala would have posted a net loss of R2 million, which would have been a substantial decrease of R23,3 million from the previous financial year, and a clear indication of the organisation's sustainability.					

* Unaudited key performance indicator (KPI).

SOCIO-ECONOMIC TRANSFORMATION

Ithala's main purpose is to play a role in the socio-economic transformation of ordinary South Africans. To this end, we aim to alleviate poverty in the deeper rural areas through financial inclusion and by bringing financial services to these markets that are grossly unbanked and underserved by the traditional banks in our country.

A critical part of the services we render, is to leverage technology to bridge the digital divide, so we can educate our customers on finances, and consistently help them take small, but meaningful steps to start saving.

Ultimately, this is not just another corporate social investment (CSI) for us. Banking the unbanked, and guiding our customers on the path to financial prosperity is the very reason for our existence. Some of the initiatives that we are implementing to help accomplish that, are outlined below.

MONEYTALKS

As a member of the Banking Association of South Africa (BASA), Ithala is required to conduct financial literacy education to the community. Ithala launched its own financial programme called MoneyTalks for this purpose and invested R253 750 in the programme during the year under review. The main objective of the programme is to initiate frank conversations about money, which can often be a difficult topic, especially in previously disadvantaged households. Having open conversations about money creates the opportunity to educate our customers on the topic and guide them on the path to financial prosperity.

MoneyTalks offers our customers financial literacy skills which empower them to make sound financial decisions, manage their money and create wealth. The programme contains a series of modules with practical advice and examples relevant to our customers. We have also introduced MoneyTalks lessons in various rural schools and other environments where we hope to impact future generations of Ithala customers. Over and above the external participants, MoneyTalks lessons were also presented internally to Ithala staff members, to familiarise them with the content of our wealth creation brand repositioning activations.

Our achievements with the MoneyTalks programme for the year under review can be summarised as follows:

- A total of 30 MoneyTalks lessons were conducted throughout KZN to a total of 1 782 participants;
- There are five modules, and all five were covered in each lesson;
- The content was also taught in partnership with community radio stations, covering one module per week; and
- Our audiences ranged from school learners and SMMEs, to Ithala staff.

Ensuring that Ithala staff are familiarised with the content of the MoneyTalks lessons, was a strategic imperative of our wealth-creation brand repositioning launch activations. Our mandate of creating wealth for ordinary South Africans can only be achieved when our own personnel are constantly mindful of that. Our aim is to leverage financial education to drive good financial behaviour. When customers understand the implications of their financial behaviour and what impacts their credit rating, they know what to do to improve their long-term financial wellbeing.

Ithala believes that by redefining what wealth means and educating and giving South Africans the necessary tools to manage their money, it will help address the triple challenges of poverty, unemployment and inequality. By simplifying wealth creation into four steps (shown below), we aim to offer our customers and potential customers a journey to accumulate wealth.

KEY PRINCIPLES OF WEALTH CREATION

1	GET OUT OF DEBT
2	START SAVING
3	START INVESTING
4	BUILD MULTIPLE SOURCES OF INCOME

4IR Digital Skills Development

In July 2019, Ithala Education Fund resolved to direct resources towards the development of digital skills through the 4IR Digital Skills Development programme. A sum of R150 000 was invested in this initiative. The objective was to provide learners with digital skills that will allow them to be active participants in the Fourth Industrial Revolution (4IR) by exposing them to the world of coding, robotics, artificial intelligence and gaming.

The first was an intensive winter/summer school programme in September 2019.

A total of **44** learners from **11** schools attended where programming and coding skills were taught.

The programme that was planned for the autumn school holiday was postponed as a precautionary measure due to the outbreak of COVID-19 and subsequent lockdown.

The training proved to be extremely popular and delivered early successes, whilst the programme is on track to be relaunched as soon as it is permissible.

ITHALA EDUCATION PLATFORM

During the year under review, Ithala opted to redirect is CSI efforts to an online education initiative to alleviate the impact of the COVID-19 crisis on disadvantaged Grade 12 learners in KZN and help them prepare for their exams. A total of R556,717 was invested in the initiative. In the short term, the programme focused on assisting these learners with their CAPS curriculum, soft skills and career guidance. To provide learners with 24-hour access, the webinars were also uploaded to the Ithala Education Platform and was made available through multiple additional platforms such as the GoDigital_SAMovement, MyIthala on Facebook and Ukhozi FM radio channel. The partnership with Ukhozi FM was crucial to gain greater exposure to matric learners who were in dire need of assistance to overcome the educational challenges caused by the pandemic.

We reached **35453** students and had **4405** engagements across eight subject areas.

My Best Childhood Foundation Partnership

Ithala entered into a partnership with My Best Childhood Foundation with the main aim to assist disadvantaged learners from rural communities. The partnership covers three key projects, namely: school signage, a feeding scheme and vegetable gardens. The programme was disrupted by the COVID-19 pandemic and national lockdown, but Ithala intends to honour its investment commitment of R200,000 and is prepared to adapt the nature of the assistance required as a result of the pandemic.

"ITHALA IS **COMMITTED** TO THE **BUSINESS CODE OF CONDUCT** AND **ETHICS MANAGEMENT PROTOCOL** FOR FAIR DEALING AND **INTEGRITY** IN THE CONDUCT OF OUR BUSINESS."

SECTION

09: GOVERNANCE OVERVIEW

OUR APPROACH

Transparency and good governance are fundamental to being a responsible corporate citizen that considers its social, cultural and environmental responsibility towards the communities within its influence and in all aspects of its operations, as well as in its financial and economic responsibility to its shareholder and immediate stakeholders.

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

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

During the period under review, the Board has experienced and survived many challenges. Chief among these is the uncertainty around the legitimacy of the composition of the Ithala Board in terms of the Companies Act, 2008 and the directives issued by the Prudential Authority in terms of the Bank's Act, 1990 and whether the committees are quorate following the departure of all but three of the Board members of Ithala. Irrespective of these challenges, Ithala is confident the Board was constituted in line with the Companies Act to perform its duties and discharge its responsibilities towards the organisation.

The day-to-day management of Ithala is vested in the CEO, subject to the delegated powers of authority approved by the Board. In the year under audit, the CEO position was vacant and the Board delegated the day-to-day management of Ithala to the Executive Committee collectively.

The Company Secretary plays a vital role in the corporate governance of the organisation and is responsible to the Board for, inter alia, ensuring compliance with procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties.

ETHICS

The Chairman and the Board set the tone of the organisation and collectively ensure the conduct of the Board and Executive management is aligned with the organisation's values and the business code of conduct and ethics management protocol. Evaluation of the effectiveness of the Board includes the measurement of its ethical behaviour.

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

An approach of ongoing awareness and reinforcement ensures that Ithala establishes an ethical culture in all day-to-day operations and decisions of the business. The Board through the Social, Ethics and Sustainability Committee (SESC) monitors the Group's activities, taking into consideration all relevant legislation, regulations and prevailing codes of best practice.

BOARD OF DIRECTORS

Executives

DR THULANI DENNIS VILAKAZI (CEO) (AGE – 54)

(Appointed September 2020)

Dr. Vilakazi holds a Doctorate in Business Leadership from the University of South Africa (UNISA), MBA from Henley Business College Brunel University London (UK), Post Graduate Diploma in Company Directorship, and various Executive Development programmes including being selected by the US Committee of Banks for the Top 30 Best & Brightest African Bankers Training Programme Spring 2000.

Dr. Vilakazi has extensive experience in banking and leadership that spans over 30 years. Some of the key roles he has served in include, Global Advisor for Guidepoint Advisors focusing on financial, banking, and corporate business services in Europe, Middle East & Africa (EMEA) region with a focus in the SADC region; Head of Strategy Marketing & Communication at Nedbank Group Africa Division; Deputy Chief Executive Officer and Director Rentworks Africa (PTY) LTD; Deputy Executive Director of Standard Bank Malawi Ltd; National Manager New Enterprise Banking ABSA Bank; Divisional Manager at The Valley Trust (Primary Health Care and Development Finance Sector). Dr. Vilakazi has also held various Directorship roles including, Executive Director Stanbic Bank Limited Malawi; and Non-Executive Director of the Malawian Stock Exchange (MSE).

Independent Non-Executive Directors

INKOSI SBONELO MKHIZE (DEPUTY CHAIRMAN) (AGE – 41)

(Appointed March 2018)

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

GIVEN SIBIYA (AGE – 51)

(Appointed in August 2017)

Sibiya is a Chartered Accountant and until August 2014 was the Head of Internal Audit at SekelaXabiso (Pty) Ltd, a division with approximately 60 professional staff members and a customer portfolio of an estimated R30 million revenue. She has over 29 years' experience in internal and external auditing, risk management, management consulting, corporate governance and forensic and special investigations. Before joining SekelaXabiso, Sibiya spent nine years at SizweNtsaluba VSP, where she was Director: Forensics and where she was transferred to the firm's Corporate Governance Services Division in 2005. She also worked for Anglo American Corporation as an Internal Auditor in the Group Audit Services Department.

She currently is a Non-Executive Director at Harmony Gold Mining Company Ltd and Audit Committee Chairperson of the Presidency.

MPUMZI PUPUMA (AGE – 66)

(Appointed August 2020)

Pupuma holds a Bachelor of Accounting Sciences and a Master of Business Leadership and has a wealth of banking experience over his 40-year career. His most recent position was Chief Executive Officer of Standard Bank of Namibia which he held from 2007 until his retirement in 2014. He has held numerous directorships across banking institutions including large financial institutions, insurance providers and development agencies. Pupuma currently serves on the boards of Khoin Pty Ltd, Ntinga OR Tambo Development Agency and Grassland Development Trust.

Non-independent Non-executive Directors

SANDILE MNGUNI (AGE – 43)

(Appointed October 2019)

Sandile is a qualified Chartered Accountant who holds an MBA. He has more than 20 years' experience in both auditing and accounting. Sandile is currently Group Chief Financial Officer of Ithala Development Finance Corporation.

Sandile's experience covers both private and public sector and various sectors including financial services, pension funds and public sector i.e. local, provincial and national government and state-owned entities.

Sandile has over ten years of senior management experience. In addition, he has served in various governance or board structures and his governance experience includes being a Chairperson of Audit Committee.

BOARD COMPOSITION

1
Executives

1
Non-independent non-executive directors

3
Independent non-executive directors

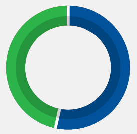
GENDER DIVERSITY:

Men: 4
Women: 1

AGE

60+	1	50+	2	40+	2	30+	0

DEMOGRAPHICS

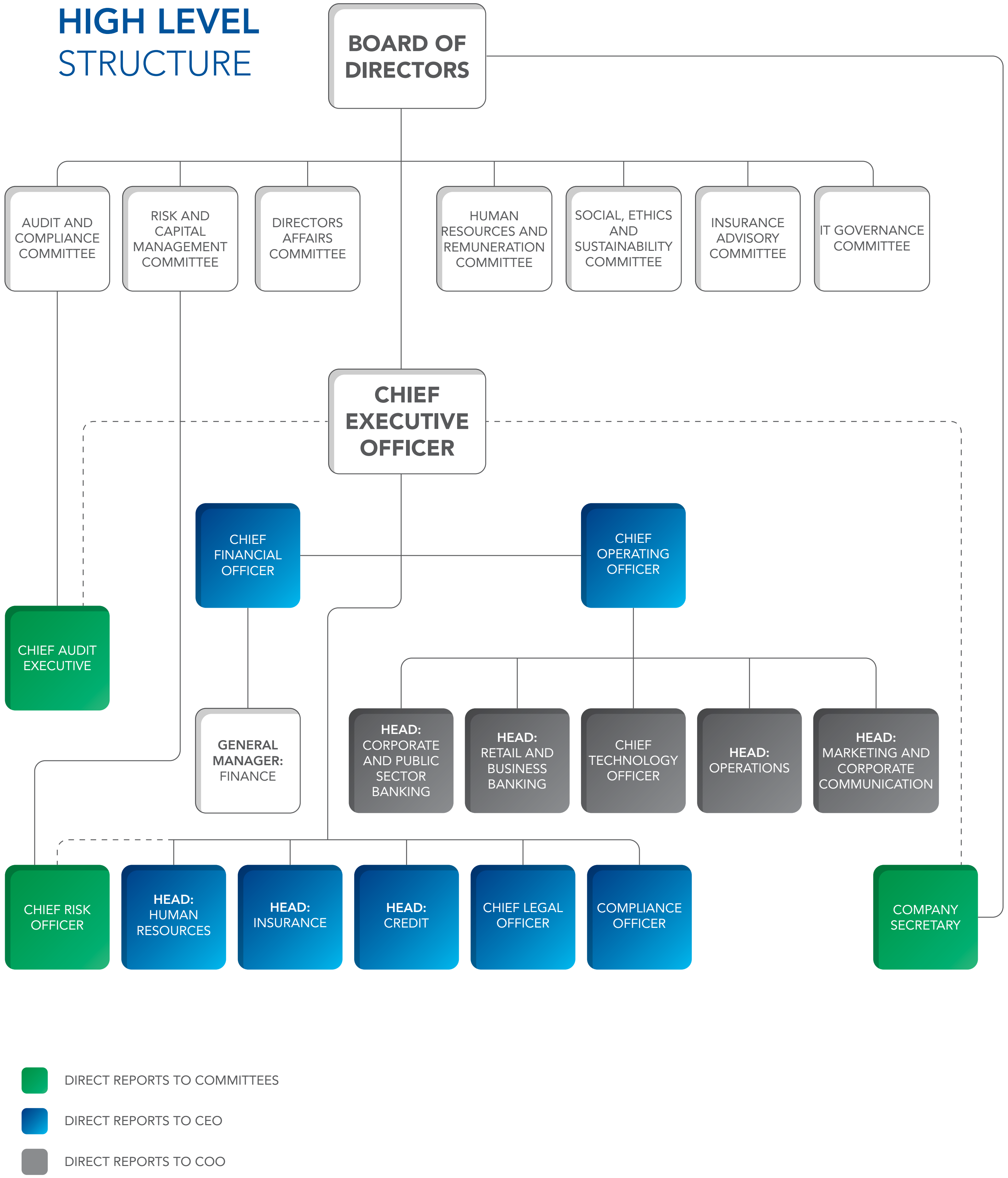


- Black men: 4
- Black women: 1
- White men: 0
- White women: 0

SKILLS

- Corporate Governance
- Regulatory Environment
- Financial Services
- Business Leadership

HIGH LEVEL STRUCTURE



Board 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: 16	Number of meetings: 3	Number of meetings: 12	Number of meetings: 4	Number of meetings: 8	Number of meetings: 3	Number of meetings: 3	Number of meetings: 6	Number of Meetings: 3
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Malose Kekana	4	1	n/a	n/a	n/a	1	n/a	n/a	3
INkosi Sbonelo Mkhize	16	2	3	4	8	1	3	6	2
Mahmood Mia	1	1	n/a	2	3	1	n/a	1	1
Sipho Ngidi	16	3	n/a	n/a	n/a	3	3	n/a	3
Babalwa Ngonyama	1	n/a	5	2	4	1	n/a	1	n/a
Given Sibiya	13	3	10	4	n/a	3	3	n/a	2
Polo Radebe	4	1	10	3	5	n/a	n/a	3	2
Danete Zandamela	4	n/a	n/a	3	6	2	2	3	3
Sandile Mnguni	13	1	n/a	n/a	2	n/a	n/a	3	1

Notes:
The Human Resources Social Ethics Committee was dissolved, and on 14 November 2018, the following new committees were formed: The Human Resources and Remuneration Committee and the Social Ethics and Sustainability Committee.

Mr Thembinkosi Mathe resigned on 30 April 2019
Mr Mbusiswa Ngcobo resigned on 23 June 2019
Mrs Babalwa Ngonyama resigned on 26 July 2019
Ms Polo Radebe resigned on 31 October 2019
Mr Mahmood Mia retired on 26 July 2019
Mr Malose Kekana resigned on 1 November 2019
Mr Danete Zandamela's contract of employment was terminated on 4 November 2019
Mr Sandile Mnguni was appointed on 4 October 2019
Dr. Thulani Vilakazi was appointed on 1 September 2020
Ms. Zamangwane Khanyile was appointed on 1 August 2020
Ms. Zamangwane Khanyile resigned on 31 October 2020
Mr Mpumzi Pupuma was appointed on 1 August 2020

BOARD EFFECTIVENESS

The cyclical and specialist nature of banking necessitates the retention of Directors with long-serving Board experience. An annual evaluation of Director independence is undertaken every two years. The evaluation process includes the completion of a comprehensive self-assessment questionnaire, evaluating their performance, as well as the performance of their peers. This assists the Chairman to identify the training and skills requirements of the Board members.

During the period under review, Ithala experienced a number of resignations at Board level. The remaining members of the Board took on more responsibility to assist management in expediting areas for the sustainability of the organisation. The experience has certainly emphasised the requirement for a pool of talented and experienced Directors to draw from to maintain the stability of the Board and its operations.

DECLARATION OF INTEREST

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

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

COMPANY SECRETARY

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

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

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

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

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

Role

The Board's role is to exercise leadership, integrity and judgment in directing the organisation to ensure its business plan, including its goals and objectives, are achieved in an accountable manner. To approve the strategic direction of the organisation as defined in the business plan, as well as the long-term strategies of the business, and monitor its implementation by management. The Board must ensure the business is a going concern, effectively control the organisation and its management and be involved in all decisions that are material for this purpose. It should approve all organisational policies, including risk management strategies and policies and be satisfied that the appropriate policies, procedures and practices are in place and are duly observed, to protect the organisation's assets, employees and reputation.

Key activities

The Board is satisfied that it has fulfilled its obligations in terms of its mandate, during the year under review. The Board convened 16 meetings during 2019/20, including three special meetings to approve the AFS, integrated annual report and budget, corporate plan and APP.

The Board also executed the following:

- Approval of the 2020/21 budget, APP and corporate plan recommended by the ACC;
- Monitoring of management's plans in respect of future changes to IFRS 9 and other regulations;
- Focusing on ensuring that the financial systems, processes and internal controls are operating effectively;
- Monitoring the implementation of the enterprise-wide digital core banking system through the ITGC;
- Reviewing the 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;
- Engaging with the supervisory team of the SARB in line with the SARB's annual supervisory programme;
- Ensuring that the risk management and capital management processes are appropriate in the context of a challenging local and global economy, the current risk environment and a changing business landscape;
- Approving organisational policies as recommended by the various Board committees;
- Monitoring the CAR and sourcing of additional capital from the shareholder; and
- Ensuring that the organisation is a going concern and obtains a banking licence by end of December 2021.

Role

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

Committee composition, skills and experience

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

Key activities

The Audit and Compliance Committee (ACC) is satisfied that it has fulfilled its obligations in terms of its mandate, for the year under review.

The ACC also executed the following:

- Assisting the Board in its evaluation of the integrity of the AFS through evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and internal auditing applied in the day-to-day management of our business;
- Recommending the AFS and the annual integrated reports to the Board of Directors for approval;
- Overseeing the internal audit function, and IFRS 9 recalibration;
- Reviewing and approving the internal audit, as well as the internal audit plan and combined assurance framework;
- Reviewing quarterly reports from the internal audit charter, including progress on delivery of the audit plan; an analysis of the results of the audit outcomes for the year; and the status of material issues previously reported;
- Reviewing and approving the compliance mandate which sets out the mission, approach, accountability, roles, responsibilities and authority;
- Confirming the independence and effectiveness of the compliance function;
- Considering and approving the compliance function's annual plan and monitoring their activities;
- Reviewing of quarterly reports from the Compliance Officer, including progress on delivery of the compliance plan and key compliance matters across the organisation. The report also provides an overview of interactions with various regulators;
- Managing the relationship with the external auditors and assessing their independence and effectiveness;
- Meeting with external audit during a closed session to discuss their experience from the engagement with management during the statutory audit, as well as external audit's perspective on the effectiveness of the finance function;
- Facilitating and promoting communication between the Board, executive management, external auditors and internal audit;
- Reviewing the external auditors' report on findings for the 2018/19 financial year and receiving quarterly progress reports on the resolution of the findings from the audit;
- Reviewing management reports in terms of resolving internal and external audit findings;
- Reviewing the governance report to assess compliance with all other statutory requirements in terms of the Companies Act, King IV, the Banks Act, 1990 and any other applicable regulatory requirements, and confirming that no reportable irregularities were identified and reported by the external auditors; and
- Recommending the appointment of the external auditors to the shareholder.

RISK AND CAPITAL MANAGEMENT COMMITTEE

Role

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

Committee composition, skills and experience

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

Key activities

The Risk and Capital management Committee (RCMC) is satisfied that it has fulfilled its obligations in terms of its mandate for the year under review: During 2019/20, four quarterly meetings were held.

The RCMC also executed the following:

» Assisting the Board in fulfilling its credit risk oversight responsibilities, particularly with regard to the evaluation of credit mandates and governance, policies and credit risk;
» Considering quarterly management updates and reports on events that occurred or risks that emerged, and directly or indirectly impacting the risk profile;
» Reviewing detailed risk management reports, including key risk types, as well as credit and operational risks;
» Reviewing capital adequacy and liquidity ratios on a quarterly basis, including events that could lead to the organisation becoming non-compliant with the targets set by the Prudential Authority;
» Reviewing the strategic risk registers to ensure the risks raised are mitigated by management;
» Reviewing the disaster recovery tests results of the current banking system;
» Reviewing and recommending the following policies to the Board for approval:
  - The asset and liability management strategy, including the liquidity interest rate risk management policies and strategies;
  - Property valuation and revaluation; and
  - Communications, credit risk management, write-off, debt restructure and property in possession policies.

Governance of risk

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

» The RCMC – evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls;
» The ACC – to: assist the Board with oversight of the evaluation of adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes;
» The IT Governance Committee (ITGC) – the monitoring and evaluation of IT-related risks;
» The Insurance Advisory Committee (IAC) – consider and ensure the implementation of the insurance strategy and business strategy;
» Human Resources and Remuneration Committee (HRRC) – responsible for governance of the employee remuneration and HR matters; assists in mitigating against the people risk; and
» The Social, Ethics and Sustainability Committee (SESC) – responsible for oversight of the reporting and compliance with legislation related to matters of sustainability, ethics, social and economic development.

Operational risks are managed by the :

» EXCO;
» Management Credit Committee (MCC); and
» Asset and Liability Committee (ALC).

IT GOVERNANCE COMMITTEE

Role

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

Committee composition, skills and experience

The committee is chaired by a Non-executive Director and comprises two Non-executive Directors. The CEO, CFO, and CIO are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, IT audit, regulatory universe, financial services and business leadership.

Key activities

The ITGC is satisfied that it has fulfilled its obligations in terms of its mandate for the year under review. During 2019/20, eight quarterly meetings were held.

The ITGC also executed the following:

» Reviewing the Head: IT's quarterly report, including an update on the implementation of IT's strategy and enterprise-wide digital core banking system by Tech Mahindra;
» Following delays in the implementation by Tech Mahindra and the current economic climate, resolved to place the implementation of the enterprise-wide digital core banking system on hold in the medium term but focus energy on enhancing the current system to provide our customers with better service;
» Resolved to focus resources on enhancing existing systems and migrating to a short- to medium-term solution in line with the licence application in 2021;
» Reviewing and monitoring of IT performance against budget, including key priorities of the IT projects;
» Considering key interactions with the Prudential Authority pertaining to IT and the responses to matters raised as part of the regulator's supervisory programme; and
» Ensuring alignment and implementation of a co-ordinated, efficient and effective and properly resourced IT strategy which will enhance the organisation's competitivity.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

Role

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

Committee composition, skills and experience

The committee comprises one independent Non-executive and one Non-executive Director, and is chaired by an independent Non-executive Director. However, during the year under review, it was chaired by a Non-executive Director. The CEO, CFO and Head: HR, are standing invitees. Collectively, the committee members have the relevant skills and experience in corporate governance, HR, the regulatory environment, financial services and business leadership.

Key activities

The HRRC is satisfied that it has fulfilled its obligations in terms of its mandate, for the year under review. During 2019/20, three quarterly meetings were held.

The HRRC also executed the following:

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

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE

Role

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

Committee composition, skills and experience

The committee is chaired by an independent Non-executive Director and comprises 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, HR, the regulatory environment, financial services, transformation, organisational development and ethical leadership.

Key activities

The SESC was established in November 2018, following the Board resolution for the organisation to have a specific focus on social and ethical matters in line with the principles of King IV. The committee is satisfied it has fulfilled its obligations in terms of its mandate for the year under review. During 2019/20, three quarterly committee meetings were held.

The SESC also executed the following:

- » Reviewing of the approved terms of reference and work plan for the 2020/21 financial year. Setting the agenda to monitor the organisation's activities with regard to matters relating to social and economic development, including:
  - The organisation's standing in terms of the goals and purposes of the 10 principles set out in the United Nations Global Company Principles
  - The OECD recommendations regarding corruption
  - The Employment Equity Act, No. 55 of 1998
  - The Broad-Based Black Economic Empowerment Act, No. 53 of 2003;

  Good corporate citizenship, including:
  - Promotion of equality and prevention of unfair discrimination and measures to address corruption
  - Our contribution to the development of the communities in which we primarily operate or within which our products or services are predominantly marketed
  - The environment, health and public safety, including the impact of the organisation's activities and its products or services;
- » Reviewing the organisation's performance in implementing the provisions of the code of ethics and the assertions made in this regard;
- » Ensuring management allocated adequate resources to comply with social and ethics policies, codes of best practice and regulatory requirements;
- » Monitoring that management develops and implements programmes, guidelines and practices in alignment with the organisation's social and ethics policies; and
- » Presenting the work of the committee to the shareholder at the AGM.

INSURANCE ADVISORY COMMITTEE

Role

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

Committee composition, skills and experience

The committee is chaired by 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.

Key activities

The IAC is satisfied it has fulfilled its obligations in terms of its mandate, for the year under review. During 2019/20, six quarterly committee meetings were held.

The IAC also executed the following:

» Reviewing the Insurance Division's business plan to ensure it is aligned to the strategic plan;
» Reviewing quarterly reports on the performance of the business;
» Reviewing quarterly reports from internal audit, compliance and risk;
» Reviewing the short- and long-term cell captive capital adequacy and liquidity requirements applicable to Ithala insurance and reporting any breaches to the Board; and
» Monitoring the implementation of the IMS.

DIRECTORS AFFAIRS COMMITTEE

Role

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

Committee composition, skills and experience

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

Key activities

The DAC is satisfied that it has fulfilled its obligations in terms of its mandate, for the year under review. The DAC had three meetings during 2019/20.

The DAC also executed the following:

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

REMUNERATION REPORT

One of the key aspects of our people agenda has been our determination to enhance our employee value proposition as part of building the organisation into the future. Our ability to secure talent with banking experience in key areas that are functionally located in head offices of most financial institutions has remained a challenge, particularly as a KZN-based entity. It has proven difficult to compete for talent due to excessive remuneration models implemented by our competitors as their way of retaining their best talent.

During the year under review, we managed to provide a structured and speedy wellness service to our employees across the province. This was achieved by partnering with ICAS, a specialist health and wellness programme service provider. Overall, there was good participation from our employees in the programme, which in turn had a positive impact on employee attendance at work. Our performance incentive scheme which seeks to remunerate high performance, has proven to be highly advantageous. The scheme provides both short- and long-term incentives, which establishes a good balance between rewarding employees for great performance and retaining talent. Our organisational performance trajectory indicates that while Ithala did not achieve profitability by year end, there has been an improvement in performance against its annual target.

Through our governance structures, and in particular the HRRC, Ithala has progressively driven its people agenda. The committee fully supports the principle that organisational culture and remuneration governance are essential to the mitigation of undue risk-taking within the organisation. For this reason, the committee ensured that our remuneration practices are aligned with the performance of the entity within its approved risk appetite, whilst contributing to the achievement of its overall business objectives.

To this end, the committee fully subscribes to the value and benefits derived from defining appropriately weighted quantitative and qualitative performance targets linked to variable remuneration. These targets are continuously being assessed by the Board and governance structures to ensure they remain relevant, appropriate and drive the correct behaviour. The committee believes that both quantitative and qualitative performance targets are required to mitigate all types of risks.

The committee further believes that a hybrid approach is required for the variable remuneration award processes where both top-down (organisation-wide performance) and bottom-up (divisional/individual performance) measurement approaches are considered. Discretion is being applied to individual salary increments in an open and transparent process involving the appropriate governance structures. During 2019/20, the performance incentive scheme has been implemented, whilst taking organisational performance into consideration.

As required by the King IV Code, the committee has ensured there is sufficient independence in the evaluation of managers working in various financial control and combined risk assurance and that their remuneration is independently determined.

Some key matters for consideration in 2019/20 were:

- In the context of evolving best practice, ensuring the quantum and construct of total remuneration remains market-related to enhance our ability to attract and retain key talent;
- Driving the organisational development and change management initiatives to benefit our employee value proposition, strategic projects and the overall Build the Bank (BtB) plans;
- Ensuring the demand for remuneration adjustments is more realistically related to the SA inflation environment;
- Continuously assessing our Performance Management Framework to ensure targets are relevant, appropriate and are driving the desired behaviour within an acceptable risk framework;
- Ensuring the implementation of total remuneration within Ithala is based on an approach that incorporates a formulaic approach as well as a measure of discretion in an open and transparent process.

Please see page 118 to 120

STATEMENT FROM THE
CHAIRMAN OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

We have continued to make good progress in our people agenda, albeit that we have not yet been able to attain the investors in people standards. Our last organisational assessment in 2019 depicted improvements in a range of areas. The organisational change and development programme has proven to yield positive results, in that, in 2020, our focus will be on implementing the competency framework. We have begun to enjoy success in our talent acquisition journey once more through LinkedIn, which will propel us into filling most executive and regulatory positions. Over the last few years, we have been unable to pay short- and long-term incentives due to our losses but we have sustained our focus on building the organisation. At the heart of our acquisition strategy for talent in 2020, we will utilise the rationale for our existence and solicit the willingness from our prospective talent to build Ithala for the benefit of our communities.

We have implemented a resounding talent framework with our talent forums having transpired throughout the regions. Our employee productivity has improved in this financial year, but with the COVID-19 challenge, it has negatively impacted the organisational budget and we weren't able to offer a salary increment to staff. Through a widely consultative drive, we have been able to foster and understanding from all staff that we need to tighten our belts and closely manage our expenses during this time.

Despite our financial situation, we have managed to provide a structured and speedy wellness service to our employees across the province. Our partnership with the employee wellness and health service provider in ICAS has proven to be beneficial during the height of the epidemic. Through their enlightenment and regular updates on the precautionary measures for employees and their families, Ithala has managed to remain stable. Whilst unplanned costs have been incurred during this time, the organisation has clearly outlined its primary objective to save employees' lives.

We have been able to drive a key national campaign in the form of Gender-Based Violence where most employees participated across the business and embraced the campaign.

As stipulated by the King IV Code, the committee has also ensured that there is sufficient independence in the evaluation of managers working in various financial control and combined risk assurance and that their remuneration is independently determined.

Our strategic objectives for 2020/2021 will remain:

- 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 Ithala employees, executive management, my fellow board members, and the human resources team for their commitment during this organisational growth phase.

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OUR REMUNERATION PHILOSOPHY

Our remuneration philosophy has remained similar to the previous financial year even though we have not been able to activate our short- and long-term incentive scheme due to the continued loss incurred by our company. In 2019/2020, we have been able to pay guaranteed salaries to our employees. We encountered a setback in the form of the COVID-19 epidemic since the better part of quarter IV of the financial year, where our revenue generation was negatively impacted, but we still managed to sustain our salary payment to employees with minimal COVID-19 relief claimed from government.

We have a distinct payment structure for junior employment levels ("A" to "C") compared to management levels ("D" to "F"). 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. We use the same benchmark data to align our annual salary adjustments, however due to our unplanned investment into the preventative measures for minimising the spread of COVID-9, we project a zero salary increase in 2020.

Short-term employee benefits

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

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

Defined contribution plans

When 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 due for service before the end of the reporting period, the company recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; or
b) As an expense.

Post-retirement medical aid benefit

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

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

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

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

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise, in Other Comprehensive Income (OCI). 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 due to contributions and benefit payments made. Interest expense is recognised in profit or loss.

Pension and provident fund

The company previously had a defined benefit provident fund and a defined benefit pension fund which was funded. The defined benefit plans were closed off and employees were transferred to the Old Mutual defined contribution plans. However, the defined benefit plans still have pensioners who have not yet been transferred to Old Mutual, as the company is still awaiting approval from the trustees and the Financial Services Board (FSB). Plan assets pertaining to the pensioners are therefore still currently held as at year end.

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

For defined benefit plans, the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations 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 due to 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. Actuarial valuations for the long service award are conducted separately by independent actuaries, on an annual basis.

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

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

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

Termination benefits

If the termination benefits include post-employment benefits, it is 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 subject to statutory requirements:

- Leave;
- Retirement funding;
- Healthcare;
- Disability cover; and
- Death cover.

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

RETIREMENT BENEFIT OBLIGATIONS

Post-retirement medical obligations

The company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date. A total of 86 current and retired employees (2019: 87) are currently covered under the scheme.

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 13.00% (2019: 10.40%) and a healthcare cost inflation rate of 9.10% (2019: 8.60%). The movement in the liability annualised in the statement of financial position is as follows:

	2020 R '000	2019 R '000
Movement in the defined benefit obligation, is as follows :		
Balance at beginning of the year	38,614	38,384
Current service costs	752	802
Interest costs	3,933	3,616
Net actuarial (gain)/loss recognised during the year	(8,606)	(2,823)
Benefit payment	(1,530)	(1,365)
Balance as at end of the year	**33,163**	**38,614**
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	33,163	38,614
Post-retirement medical benefits		
Actuarial (loss)/gain		
The actuarial gains arose as a result of the following:		
Change in Real Discount Rate	9,657	4,015
Higher than expected healthcare cost inflation including changes in members' options	(194)	(1,479)
Unexpected changes in membership	(857)	287
Total	**8,606**	**2,823**

Actuarial assumptions used and sensitivity analysis

Sensitivity analysis - unfunded accrued liability	Assumptions	Change	2020 R '000	2019 R '000
Present value of obligation			33,163	38,614
Health care cost inflation	9.10%	+1%	37,424	44,589
		-1%	29,597	33,739
Discount rate	13.00%	+1%	29,741	33,867
		-1%	37,289	44,502
Expected retirement age	60 years	+1 year	31,831	37,096
		-1 year	34,554	40,200

Healthcare cost inflation of +3% and -3% was considered due to COVID-19. If the healthcare cost inflation is increased by 3% the liability will be expected to be R48.8 million. If the healthcare cost inflation is decreased by 3% the liability will be expected to be R24.0 million.

Discount rate of +3% and -3% was considered due to COVID-19. If the discount rate is increased by 3% the liability will be expected to be R24.5 million. If the discount rate is decreased by 3% the liability will be expected to be R48.5 million.

Pension and Provident Fund Schemes

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

The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956 and are open to new members and members who have elected to transfer from the defined benefit funds.

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2020 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 the present value of defined benefits obligations was executed by Old Mutual Actuarial Consultants, a fellow of the Institute of Actuaries of South Africa, in the current and prior annual financial years 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	2020 R '000	2019 R '000
Present value of funded obligations	305	291
Fair value of plan assets	(2,370)	(2,462)
Surplus	(2,065)	(2,171)
Asset not recognised due to asset ceiling	**(2,065)**	**(2,171)**
Net asset balance currently recognised		
Amount allowed as a reduction of future contributions	3,655	5,175
Amount utilised for contributions	(3,655)	(5,175)
Asset as per balance sheet	-	-

Sensitivity analysis - unfunded accrued liability	Assumptions	Change	2020 R '000	2019 R '000
Present value of obligation				
Discount rate	10.1%	+1%	305	291
		-1%	305	291
Expected salary rate	6.3%	+1%	305	291
		-1%	305	291

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:	2020 R '000	2019 R '000
Balance at beginning of the year	291	894
Interest cost	27	47
Actuarial (loss)/gain	-	(17)
Past service costs	-	1,292
Benefits paid	(13)	(1,925)
Balance	**305**	**291**

The movement in the fair value of plan assets over the year, is as follows:		Restated
Balance at beginning of the year	2,462	3,947
Interest cost	221	243
Benefits paid	(13)	(1,925)
Actuarial (loss)/gain	(299)	197
Balance at end of the year	**2,371**	**2,462**

Actuarial (loss)/gain		
The actuarial gains arose as a result of the following:		
Actuarial gain arising from changes in demographic assumptions	-	-
Actuarial (loss)/gain arising from changes in financial assumptions	(299)	213

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

Defined benefit provident fund	2020 R '000	2019 R '000
Present value of funded obligations	-	21,456
Fair value of plan assets	(3,669)	(25,220)
Surplus	(3,669)	(3,764)
Amount allocated to employer surplus account	3,669	3,764
Asset not recognised due to asset ceiling	-	-

The movement in the defined benefit obligation over the year is as follows:	2020 R '000	2019 R '000
Balance at beginning of the year	21,456	23,232
Interest cost	351	1,804
Actuarial loss	-	(1,609)
Benefits paid	(21,807)	(1,971)
Balance	**-**	**21,456**
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	25,220	24,884
Interest income	778	1,942
Benefits paid	(21,807)	(1,971)
Actuarial loss	(523)	365
Balance at end of the year	**3,668**	**25,220**
Actuarial (loss)/gain		
The actuarial gains arose as a result of the following:		
Actuarial gain arising from changes in demographic assumptions	523	365
Actuarial gain arising from changes in financial assumptions	-	1,609

Sensitivity analysis - unfunded accrued liability

	Assumptions	Change	2020 R '000	2019 R '000
Present value of obligation			-	21,456
Discount rate	10.1%	+1%	-	21,456
		-1%	-	21,456
Expected salary rate		+1%	-	21,456
	6.0%	-1%	-	21,456

The company expects to make no contribution (2019: Nil) to the company's defined benefit provident fund and no contribution (2019: R0) to the Old Mutual Superfund defined benefit provident fund during the next financial year due to a payment holiday.

Actuarial gains and losses analysis	2020 R '000	2019 R '000
Pension and provident fund	282	4,173
Post-retirement medical	8,606	2,822
	8,888	**6,995**
Long service obligation		
Balance at beginning of the year	15,384	14,884
Expensed during the year	(1,169)	1,551
Contributions paid	(1,301)	(1,051)
Balance at end of the year	**12,914**	**15,384**
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	12,914	15,384

Amounts recognised in the statement of comprehensive income are as follows:	2020 R '000	2019 R '000
Current service cost	1,543	1,648
Interest cost	1,348	1,238
Net actuarial loss recognised in the year	(4,060)	(1,335)
	(1,169)	**1,551**

Sensitivity analysis

Assumptions	Change	2020 R '000	2019 R '000
Present value obligations		12,914	15,384
Average salary inflation	+1%	13,765	16,538
	-1%	12,140	14,346
Average retirement age	-2 years	14,379	17,030
	+2 years	11,660	13,714

Due to COVID-19, a change in the average salary inflation of +3% and -3% was considered. If the salary inflation is to increase by 3% the liability will be expected to be R15.7 million. If the salary average inflation is to decrease by 3% the liability will be expected to be R10.8 million.

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

An actuarial valuation of the provision for long service awards as at 31 March 2020, quantified the present value of obligations at R12.9 million (2019: R15.4 million). These actuarial valuations are conducted annually at the statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 11.4% (2019: 9.2%) and an average salary inflation of 6.6% (2019: 6.9%).

PRINCIPLES AND APPLICATION OF PAYMENT OF INCENTIVES

To supplement our salary payment, we offer short- and long-term incentives to all our employees to incentivise their exceptional performance. Our 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 (KPIs) 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.

We endeavour to apply our remuneration principles in a fair and consistent manner, and our executive management committee solicit guidance from the Human Resources and Remuneration Committee.

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

Net Profit Before Tax Performance	STIP Pool %
90% of budgeted Net Profit Before Tax (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:

BONUS POOL = ACTUAL NET PROFIT BEFORE TAX X STIP POOL PERCENTAGE

Short-term incentive

The distribution of our short-term incentive is allocated in a percentage split that is tiered across the grades. This recognises the different levels of responsibility in driving the achievement of the company goals. It drives behaviours that lift executive performance at that level and works to lift performance through driving desired behaviours across the other 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%

We encourage maximum performance from our employees hence we apply a personal modifier as the employee's personal achievement score coming out of the annual performance appraisal process matched against his/her 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 then a "2" performer in such exceptional circumstances would only be permitted to participate up to a maximum of 30% of what would have been payable to a 3rated performer.

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

Because we are an organisation that is in a build phase, the adopted principle is that should the organisation fail to meet the threshold performance leading 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 Remuneration Committee (RemCo) 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 shall be deliberated and recommended by RemCo 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 longterm 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 (3) 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); and
- 30% vests the second year (payable in June the second year after the award year).

REMUNERATION FOR NON-EXECUTIVE DIRECTORS IN 2019/2020

	2020 R '000	2019 R '000
MF Kekana (resigned 04 November 2019)	580	1,025
M Mia (retired 26 July 2019)	220	598
B Ngonyama (resigned 26 July 2019)	304	869
SC Ngidi	819	339
P Radebe (resigned 31 October 2019)	403	652
G Sibiya	696	506
M Madali (resigned on 28 February 2019)	8	412
Inkosi SN Mkhize	1,020	829
M Ngcobo (appointed 17 January 2019, resigned 23 June 2019)	142	128
S Mnguni (appointed 04 October 2019)	-	-
	4,192	**5,358**

REMUNERATION FOR EXECUTIVE DIRECTORS IN 2019/2020

2020

Executive directors' remuneration

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

Appointed prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
S Gwala - Head: HR	1,472	135	-	1,607
S Xolo - Marketing and Sales Manager	952	81	-	1,033
T Luthuli - Company Secretary	1,227	104	-	1,331
S Moodley - Head Retail and Business Banking	1,038	93	-	1,131
L Keyise - Head: IT (contract terminated on 20 December 2019)	886	84	138	1,108
M Sewchuran - Compliance Officer (resigned 31 December 2019)	1,033	94	47	1,174
D Mti: Head Credit (resigned 30 September 2019)	787	71	84	942
C Gumede: Chief Risk Officer (appointed 01 April 2019)	1,471	133	-	1,604
A Pather: Head Insurance (appointed 01 July 2019)	961	89	-	1,050
L Meyer - Acting Chief Financial Officer (appointed 01 August 2019, expiry of BA020 31 December 2019)	631	58	-	689
	10,458	**942**	**269**	**11,669**

Acting prescribed officers' remuneration

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

2019

Executive directors' remuneration

	Short-term employee benefits	Post-employment benefits	Total
D Zandamela - Chief Executive Officer	3,159	715	3,874
L Serithi - Chief Financial Officer and Acting Chief Risk Officer (resigned 31 March 2019)	2,364	503	2,867
	5,523	**1,218**	**6,741**

Acting prescribed officers' remuneration

	Short-term employee benefits	Post-employment benefits	Total
S Gwala - Head: HR	1,432	214	1,646
S Xolo - Marketing and Sales Manager	862	128	990
T Luthuli - Company Secretary	1,093	165	1,258
S Moodley - Head Segments	950	130	1,080
L Keyise - Head: IT	1,238	183	1,421
M Sewchuran - Compliance Officer (appointed 14 May 2018)	1,081	183	1,264
D Mti - Head: Credit (appointed 01 July 2018)	1,045	171	1,216
	7,701	**1,174**	**8,875**

Acting Prescribed Officers remuneration
Short-term employee benefits

	Short-term employee benefits	Post-employment benefits	Total
N Ndlovu: Acting Head Insurance (appointed 01 December 2017)	823	113	936
M Madali - Acting Head: IT (appointed 01 March 2019)	108	-	108
	-	-	-
	931	**113**	**1,044**

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.

KING IV DISCLOSURES

Ithala welcomed the enhancement of the King Code and focused on reviewing its application of and adherence to the 17 King IV principles. During the 2017/18 financial year, we conducted a gap analysis, and we commenced with addressing the identified gaps in the 2019/20 financial year, whilst placing emphasis on output and outcomes of governance structures.

The Board endeavours to continue monitoring and ensuring the full implementation and application of the King IV principles within the organisation.

LEADERSHIP	
Principle	1. The accounting authority should lead ethically and effectively.
Practice implemented	Ithala's Board of Directors holds one another accountable for decision-making, behaves ethically and offers effective leadership that results in achieving strategic objectives, as defined by King IV.
Status	Applied
Governance outcome	The Board exercises effective leadership and confirms its commitment to the highest standards of corporate governance, as well as the Board Charter and the Business Code of Conduct and Ethics Management adopted by the Board on 23 November 2017 which sets the ethical foundation for how Ithala operates. The Board acknowledges that an effective board must have sufficient skills and capability to address current and emerging issues to ensure the delivery of Ithala's strategy. The appointment of Directors is approved by the Prudential Authority to make sure competent Directors are appointed to the Board. Although the Board delegates duties to committees and Executive Management, it does not abdicate its accountability. The Code of Conduct and Ethics applies to both Executive and Non-executive Directors, as well as employees, contractors and suppliers. The Board and its committees monitor compliance with the Business Code of Conduct and Ethics Management and the Directors – individually and collectively – support and display integrity, competence, accountability, fairness and transparency in their leadership.
Principle	2. The accounting authority should govern the ethics of the SOE in a way that supports the establishment of an ethical culture.
Practice implemented	a. An Ethics and Fraud Prevention Committee (management committee) was established in October 2016 with terms of reference to monitor the implementation of codes of conduct and ethics within the organisation. b. Ithala has a hotline (whistle-blowing mechanism) which deals with disclosures.
Status	Applied
Governance outcome	The Board, with the assistance of the HRRC, the SESC and the ACC, exercises ongoing oversight of the management of ethics, monitoring Ithala's activities with regard to ethics and ensuring Ithala's conduct supports its values. The Business Code of Conduct and Ethics Management framework guides interactions with all stakeholders and addresses the key ethical risks of Ithala. Ithala has a whistle-blowing facility, operated by an independent service provider that enables employees and other stakeholders to report any unethical and fraudulent behaviour confidentially and anonymously.

RESPONSIBLE CORPORATE CITIZENSHIP	
Principle	3. The accounting authority should ensure that the SOE is and is seen to be a responsible corporate citizen.
Practice implemented	The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation is delegated to the SESC.
Status	Applied
Governance outcome	The Board has approved and has policies in place to ensure Ithala protects, enhances and contributes to the wellbeing of the economy, society and the natural environment. The SESC is mandated with the responsibility for monitoring and reporting on responsible corporate citizenship.

STRATEGY AND PERFORMANCE	
Principle	4. The accounting authority should appreciate that the SOE's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
Practice implemented	a. A strategy session is held annually by the Board and management to review and approve the short-, medium- and long-term strategy, purpose and values. b. The Board developed a balanced scorecard to measure performance and set targets. c. All Ithala policies are approved by the Board. A reporting framework is in place which suitably facilitates continuous monitoring of policies. d. Operational plans are reviewed and approved by the ACC on a yearly basis.
Status	Applied
Governance outcome	The Board, through its committees, approves and monitors the implementation of the strategy and business plan of Ithala, sets objectives and key deliverables of the business, reviews key risks, challenges and opportunities, and evaluates performance against the background of economic, environmental and social issues relevant to Ithala.

REPORTING	
Principle	5. The accounting authority should ensure reports issued by the organisation enable stakeholders to make an informed assessment of the organisation's performance and its short-, medium- and long-term prospects.
Practice implemented	a. The ACC approves the management determination of the reporting framework. b. The annual financial statements and Integrated Report are reviewed by the ACC and recommended to the Board for approval annually. c. The integrated report is circulated to the relevant stakeholders and published on Ithala's website for access by stakeholders.
Status	Applied
Governance outcome	The ACC ensures the necessary controls are in place to confirm and protect the integrity of the integrated annual report and all other disclosures. The committee oversees the integrated reporting process and reviews the AFS audited by the external auditor. All public disclosures in line with Ithala's regulatory requirements are published on Ithala's website.

PRIMARY ROLE AND RESPONSIBILITIES OF THE GOVERNING BODY	
Principle	6. The governing body should serve as the focal point and custodian of corporate governance in the organisation.
Practice implemented	The role, responsibilities, membership requirements, meeting attendance and procedural conduct for Board and its committee are documented in the terms of reference which are reviewed annually and approved by the Board.
Status	Applied
Governance outcome	The Board Charter and Board Committee's Terms of Reference are reviewed and approved by the Board annually. The number of Board and committee meetings and attendance are reported in the integrated annual report.

COMPOSITION OF THE GOVERNING BODY	
Principle	7. 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.
Practice implemented	a. 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. b. On an annual basis, the Board reviews the additional skills that may be required at Board level to ensure there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities. c. The majority of the Board members are independent Non-executive Directors. d. The CEO and CFO are members of the Board of Executive Directors. e. Declarations of interests are submitted annually or whenever there are significant changes. f. Members declare whether any of them have any conflict of interest in respect of a matter on the agenda at the beginning of each meeting.
Status	Applied
Governance outcome	The Board comprises a majority of Independent Non-executive Directors. Annually, a rigorous review of the independence and performance of the Board and committees is conducted. To ensure a formal and transparent appointment process, any new appointment of a Director is considered by the Board as a whole, on the recommendation of the Directors Affairs Committee. The selection process involves considering the existing balance of knowledge, skills and experience on the Board and a continual process of assessing the needs of Ithala and the Board's effectiveness and ability for it to discharge its governance role and responsibilities objectively and effectively. A formal induction programme is available for new Directors including background material on Ithala's business and Board matters, guidance on Directors' duties and responsibilities, and meetings with senior executives.

COMMITTEES OF THE GOVERNING BODY	
Principle	8. 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.
Practice implemented	Membership of the committees is as recommended in King IV. 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.
Status	Applied
Governance outcome	All seven Board sub-committees have formal Terms of Reference and their responsibilities and functions as delegated by the Board are detailed in the Terms of Reference. There is a balanced distribution of power, no individual dominates decision-making and there is no reliance on any individual. There is effective collaboration through cross-membership between the committees and each committee has a work plan for the year to avoid duplication of reports.

EVALUATION OF THE PERFORMANCE OF THE GOVERNING BODY	
Principle	9. The governing body should ensure the evaluation of its performance and that of its committees, its chair and its members and support continued improvement in its performance and effectiveness.
Practice implemented	Assessments of the performance of Board structures and its members are conducted annually and results are presented to the Directors Affairs Committee.
Status	Applied
Governance outcome	Performance evaluations of the Board, Board Committees, individual Directors, Chairman, Chief Executive Officer and Company Secretary are formally done every two years. The results of the evaluations are discussed with individual Board members, where remedial action is required and the overall results of the evaluations reported to the Directors Affairs Committee. The evaluations are not externally facilitated.

APPOINTMENT AND DELEGATION TO MANAGEMENT	
Principle	10. The governing body should ensure the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.
Practice implemented	a. A detailed delegated powers of authority indicates matters reserved for the Board and those delegated to management. b. The CEO does not have any work commitments outside of Ithala and its related companies. c. The Company Secretary is appointed on a full-time basis with the requisite knowledge, experience and stature. The Company Secretary signs off on disclosure of membership of Board structures, the number of meetings of each and attendance at each meeting, as well as the overall content of the committee information and reporting that are in the public domain.
Status	Applied
Governance outcome	The CEO operates under a normal employment contract applicable to all employees. The CEO does not have other professional commitments outside Ithala. The CEO is accountable to the Board for the successful implementation of our strategy and the overall management and performance of Ithala. The CEO is supported by a competent, multi-skilled team that helps him execute his responsibilities. The Delegation Powers of Authority framework is in place and updated on a regular basis and contributes to role clarity and effective exercise of authority by management. The Company Secretary is appointed by the Board in accordance with the Companies Act and the Banks Acts and his performance is evaluated annually during the independent assessment of Board effectiveness.

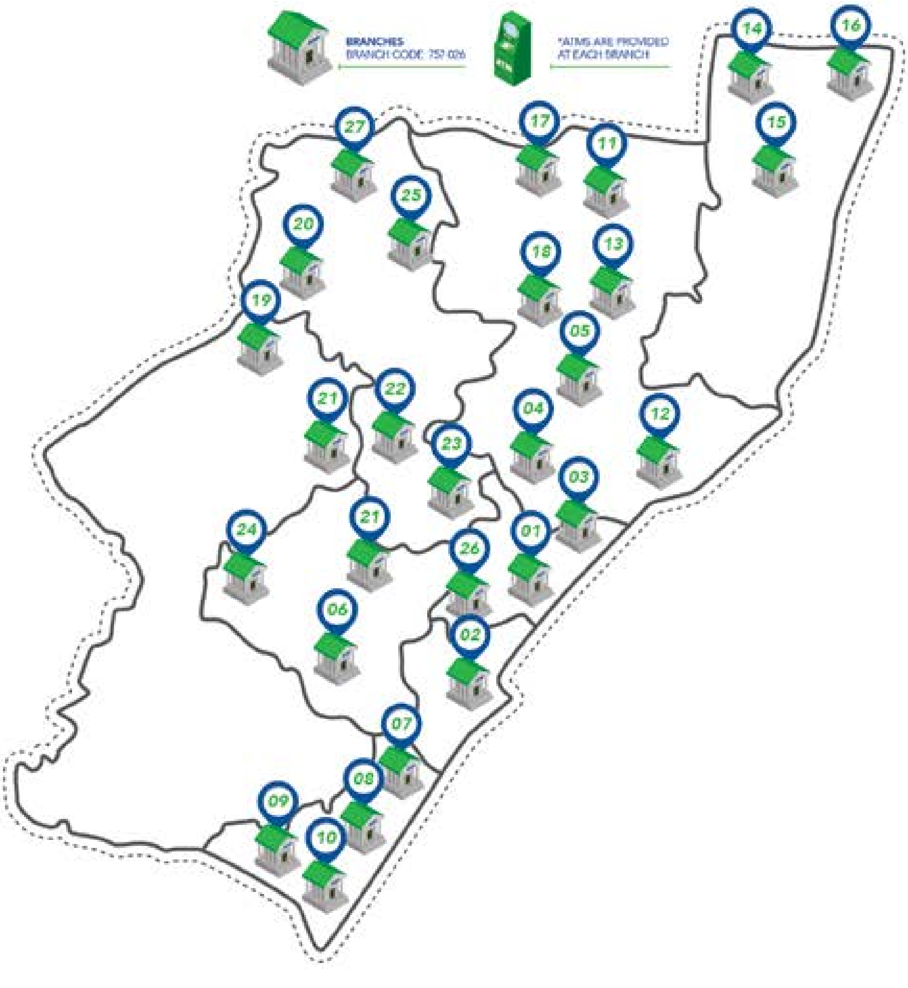
RISK GOVERNANCE	
Principle	11. The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.
Practice implemented	a. The RCMC assists the Board with the governance of risk. The Board is aware of the importance of risk management as it is linked to the strategy, performance and sustainability of Ithala. b. The RCMC implements a process whereby risks to the sustainability of the organisation's business are identified and managed within acceptable parameters. c. The RCMC 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 are formulated to address the risks and the Board is kept up to date on progress on the risk management plan.
Status	Applied
Governance outcome	The Board is responsible for the governance of risk. The Board sets Ithala's risk appetite and risk tolerance levels which provide the basis for achieving Ithala's strategic objectives referred to in the integrated annual report. The RCMC assists the Board with the governance of risk and monitors risk management. It is supported by the EXCO and reports quarterly to the RCMC in terms of the Risk Management Plan approved annually by the committee and the Risk Management Policy approved by the Board.
Principle	12. The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.
Practice implemented	a. The ITGC assists the Board with the governance of IT. The Board is aware of the importance of technology and information as it is closely linked to the strategy, performance and sustainability of Ithala. b. IT policies are approved by the Board.
Status	Applied
Governance outcome	The ITGC assists the Board in ensuring that IT governance, as part of enterprise governance, is adequately addressed; advises on IT strategic direction; reviews major IT investments, exercises oversight of project implementation; and identifies and monitors associated risks of the relevant projects. The ITGC sets overall standards which ensures the nature and type of IT systems deployed will result in overall compatibility and integration of systems. Monitors compliance with contingency planning, change management, disaster recovery planning, physical security, information security, computer security and copyright and ICT legislation.

COMPLIANCE GOVERNANCE	
Principle	13. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.
Practice implemented	a. The 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. b. The ACC reviews, approves and monitors the implementation of the compliance framework and compliance plan. c. The ACC reviews a report submitted by the Compliance Officer on the level of compliance with laws, regulations and supervisory requirements by the organisation at every meeting of the ACC; a copy of which is submitted to the Registrar of Banks.
Status	Applied
Governance outcome	The Board, with the assistance of the ACC, ensures Ithala complies with applicable laws, adopted non-binding rules, codes and standards. The Board has delegated to management the responsibility for implementation and execution of effective compliance management. There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations imposed on Ithala, individual Board members or Executive Management. There were no findings of non-compliance with environmental laws or criminal sanctions and prosecutions for non- compliance.

REMUNERATION GOVERNANCE	
Principle	14. The governing body should ensure the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.
Practice implemented	The HRRC assists the Board with the approval of and monitoring the execution of the remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.
Status	Applied
Governance outcome	Ithala is committed to a reward philosophy which focuses on rewarding consistent and sustainable individual and corporate performance. The HRRC and SESC operate under a mandate from the Board and written terms of reference approved by the Board and the approved Remuneration Policy on 23 November 2017. The HRRC considers the remuneration of Executive Management which is benchmarked against peer groups to ensure fair remuneration. Benchmarking is done with the assistance of an external independent adviser, PE Corporate Services, from time to time. Non-executive Directors' fees are approved by shareholders with Executive Directors' remuneration being reported to shareholders annually in the integrated annual report.

ASSURANCE	
Principle	15. The governing body should ensure assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports.
Practice implemented	a. The ACC ensures that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. b. The appointment of the CAE is approved by the ACC. c. The CAE is not a member of the Executive Committee but attends by invitation.
Status	Applied
Governance outcome	The Board has delegated to the ACC oversight of, among others, the effectiveness of Ithala's assurance services, with particular focus on combined assurance, including external audit, internal audit and the finance function as well as the integrity of the integrated annual report and the AFS and, to the extent delegated by the Board, other external reports issued by Ithala. The Committee also annually considers and satisfies itself of the appropriateness of the expertise and experience of the CFO and the finance function. Internal audit function complies with the standards as set by the Institute of Internal Auditors' Practice of Internal Auditing and Code of Ethics. A formal review of the external independent service providers is conducted annually, and the approved audit plan is monitored on an ongoing basis.

STAKEHOLDERS	
Principle	16. 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.
Practice implemented	Ithala has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations.
Status	Applied
Governance outcome	Ithala recognises the benefits of strong long-term relationships with its stakeholders. Stakeholder interactions provide a broader context, assist Ithala to refine its strategy and shape the long-term direction. At an operational level, Ithala identifies, prioritises and directly engages with stakeholders on matters that have the potential to affect their operational, sustainability or financial performance. The Board as a whole acts as a steward of Ithala and each Director acts with independence of mind in the best interest of Ithala and its stakeholders. In its deliberations, decisions and actions, the Board is sensitive to the legitimate interests and expectations of the stakeholders. The Communication Policy ensures timely, relevant, accurate and honest information is provided to all stakeholders.
Principle	17. The governing body of an institutional investor organisation should ensure responsible investment is practised by the organisation to promote good governance and the creation of values by the companies in which it invests.
Practice implemented	This principle does not apply to SOEs.
Status	N/A
Governance outcome	N/A



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