



# INTEGRATED **ANNUAL REPORT**

2022/23



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## NAVIGATING THIS REPORT



Forward-looking statements



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

## MATERIAL STAKEHOLDERS



National and Provincial Government



Shareholders



Regulatory bodies



Suppliers



Employees



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



The environment



Communities



Media

## MATERIAL MATTERS



Achieving a permanent banking licence



Compliance with applicable legislation



Strategy choice for growth



Technology



Employee value proposition

## OUR CAPITALS



Financial capital



Human capital



Intellectual and regulatory capital



Manufactured capital



Social and relationship capital



Natural capital

ACC	Audit and Compliance Committee
AFS	Annual Financial Statements
AGSA	Auditor-General of South Africa
APP	Annual Performance Plan
APR	Annual Performance Report
AR	Annual Report
ATM	Automated Teller Machine
BASA	Banking Association of South Africa
BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
CA	Coordinated Assurance
CAR	Capital Adequacy Ratio
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRMP	Compliance Risk Management Plan
CSI	Corporate Social Investment
CTIR	Cost to Income Ratio
CTR	Cash Threshold Reports
DFI	Development Finance Institution
ECL	Expected Credit Loss
EDTEA	Economic Development, Tourism and Environmental Affairs
EGD	Engineering Graphics and Design
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EXCO	Executive Committee
FAL	First Additional Language
FAIS	Financial Advisory and Intermediary Services
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FSCA	Financial Sector Conduct Authority
FSB	Financial Services Board
HL	Home Language
HR	Human Resource
HRCC	Human Resources and Remuneration Committee
IAC	Insurance Advisory Committee
IAR	Integrated Annual Report
IDFC	Ithala Development Finance Corporation
IEP	Ithala Education Platform
IFRS	International Financial Reporting Standards
IoDSA	Institute of Directors Southern Africa
IMS	Insurance Management System
ITGC	Information Technology Governance Committee
King IV™	King Code of Governance for South Africa (2016)
KPIs	Key Performance Indicators
KYC	Know Your Client
KZN	KwaZulu-Natal
LAN	Local Area Network
LSM	Living Standards Measure
MEC	Member of Executive Council
NCR	National Credit Regulator
NPS	Net Promoter Score
OCI	Other Comprehensive Income
PDI	Previously Disadvantaged Individuals
PRB	Principles for Responsible Banking
PFMA	Public Finance Management Act
POS	Point of Sale
RCMC	Risk and Capital Management Committee

<b>RDARR</b>	Risk Data Aggregation and Risk Reporting
<b>ROA</b>	Return on Assets
<b>SARB</b>	South African Reserve Bank
<b>SCM</b>	Supply Chain Management
<b>SESC</b>	Social Ethics and Sustainability Committee
<b>SLA</b>	Service Level Agreement
<b>SMME</b>	Small, Medium and Micro Enterprises
<b>SOC</b>	State-Owned Company
<b>SOE</b>	State-Owned Entity
<b>SRP</b>	Strategy Response Plan
<b>SSD</b>	Self-Service Device







# 01: INTRODUCING OUR INTEGRATED ANNUAL REPORT

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## ABOUT ITHALA

Ithala SOC Limited (Ithala), a licensed financial services and registered credit provider, is a 100-percent-owned subsidiary of Ithala Development Finance Corporation Limited (IDFC) and is listed as a public entity in terms of Schedule 3 of the Public Finance Management Act (PFMA). Our purpose is to provide financial services mainly to the people of KwaZulu-Natal (KZN), thereby contributing to the province’s socio-economic development. Our physical footprint spans the entire province of KZN and, in some rural areas, we still remain the only financial institution with a physical presence.

## ABOUT THIS INTEGRATED REPORT

This Integrated Annual Report (IAR) outlines the performance of Ithala for the financial year ended 31 March 2023, within the context of our operating environment with its risks and opportunities, our key stakeholders, our overall strategy, and our internal operations and governance. It is intended for our key stakeholders, who include our shareowner, IDFC; our ultimate shareholder, the KZN Provincial Government; National Treasury; the South African Reserve Bank (SARB); Financial Sector Conduct Authority (FSCA); our regulators and large investors. To be concise, we refer to Ithala SOC as the business or Ithala. This report may be read in conjunction with our 2022/23 annual financial statements.

## SCOPE AND BOUNDARY

Our 2022/23 Integrated Annual Report (the report or IAR) is intended to enable stakeholders to make informed assessments of our ability to create, preserve or erode value in the short term (less than 12 months) and medium term (one to three years) as well as our efforts to secure long-term value beyond these horizons through our purpose-driven strategy and business model. The report provides context to our material matters, governance principles and structures, including remuneration and overall performance. It is built on our knowledge of the interconnectedness of various internal and external factors and its impact on Ithala’s ability to create sustainable value. This integrated report covers Ithala’s strategy, material issues and performance from 1 April 2022 to 31 March 2023. The IAR also includes significant matters post 31 March 2023 up to the approval date by the board.

## REPORTING FRAMEWORKS

Our IAR is guided by a range of reporting frameworks, codes, and legal regulations, as illustrated below.

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

## ASSURANCE

With the approval of the Coordinated Assurance (CA) policy in June 2023, Ithala applies the coordinated assurance model. We draw on the expertise of our risk management, compliance and internal audit units, complemented by external assurance providers. The Auditor-General of South Africa (AGSA) provides external assurance on the fair presentation of the Annual Financial Statements (AFS), as required by the Public Audit Act that is applicable to Ithala as a State-Owned Company (SOC). In addition to the AFS and opinion included here, the external auditors provided assurance on selected information contained within the Annual Performance Report (APR).



## MATERIALITY

During 2022/23, we enhanced our materiality determination process by adopting a double materiality approach to identify and prioritise material matters. By adopting this approach, we acknowledge that we must manage, and take responsibility for, the actual and potential adverse impacts that our decisions could have on people, society and the environment. Material matters are prioritised based on their potential to impact our ability to create value over the short, medium and long term, as well as their impact on society, communities and the environment. This includes both qualitative and quantitative matters that affect our various stakeholders in their assessment of the value we add.

 Material matters and the process followed to determine these matters are outlined on page 70 of this report.

## FORWARD-LOOKING STATEMENTS

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

## APPROVAL

While the reporting process was delegated to a sufficiently skilled and experienced reporting team, the Board takes ultimate responsibility for the integrity of the Integrated Annual Report. The Board and the Audit and Compliance Committee (ACC), in their advisory capacity to the Board, have applied their collective mind and reviewed the report's content. The Board is satisfied that this report was prepared in accordance with the appropriate frameworks and standards listed on page 8, addresses all material issues, and presents a fair and balanced account of the performance of Ithala.



The Board of Directors approved the 2022/23 IAR on 30 August 2023.



**MM Pupuma**  
Chairman of the Board



**Dr T Vilakazi**  
Chief Executive Officer



# 02: ABOUT ITHALA

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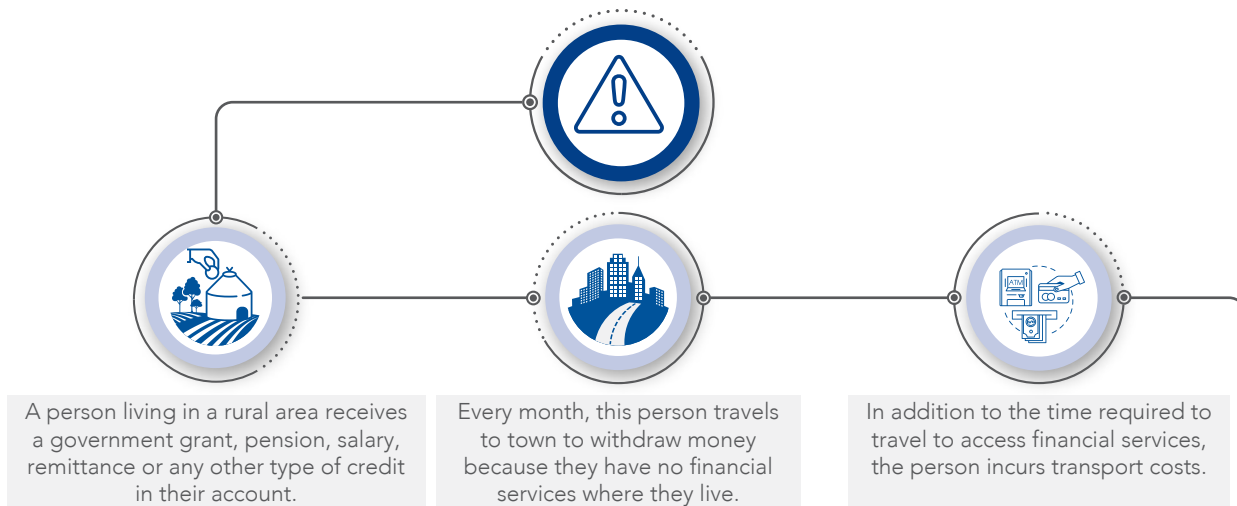
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ITHALA AT A GLANCE

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

THE PROBLEM

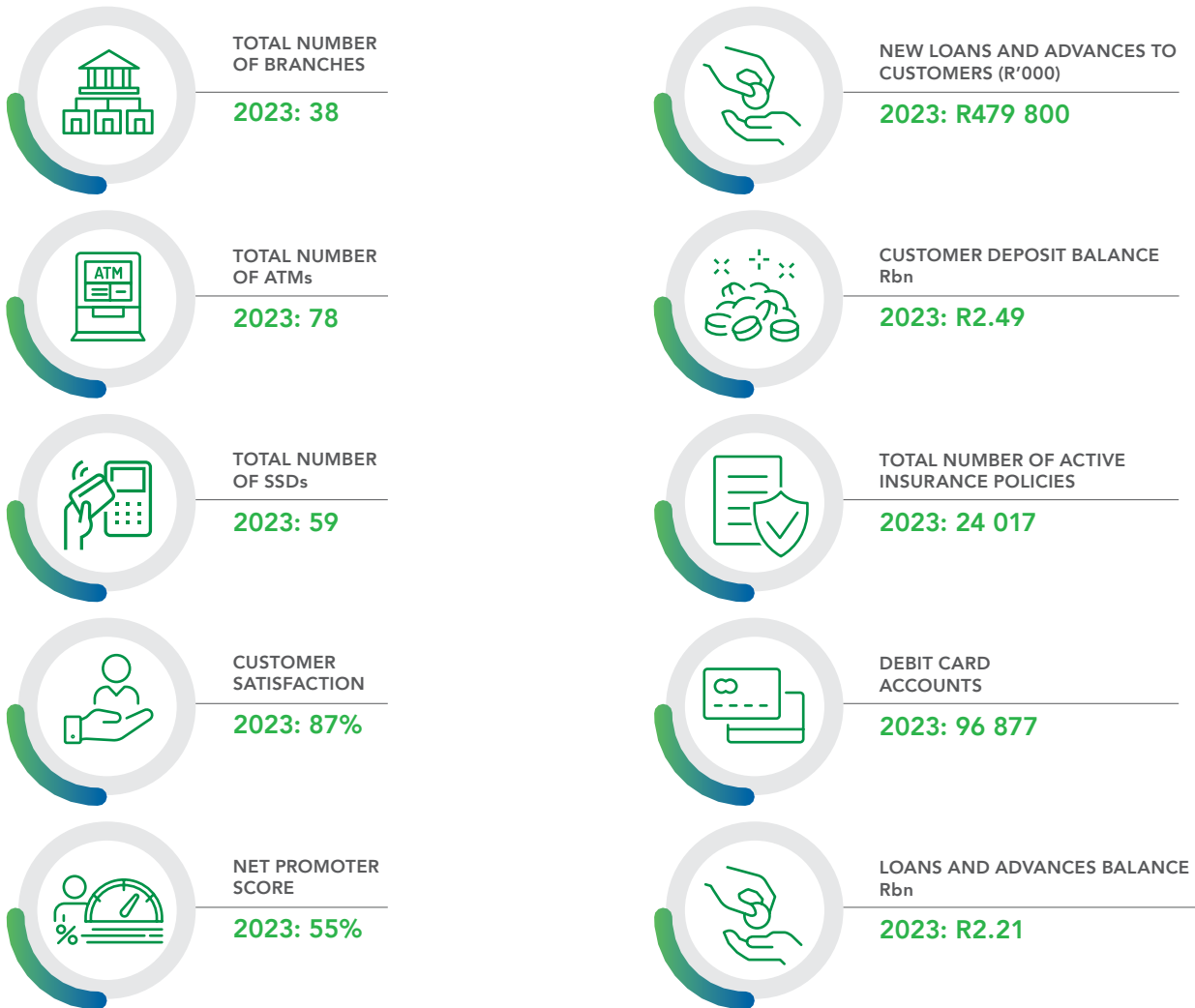


HOW WE RESPONDED



OUR FOOTPRINT, PRODUCTS AND SERVICES

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



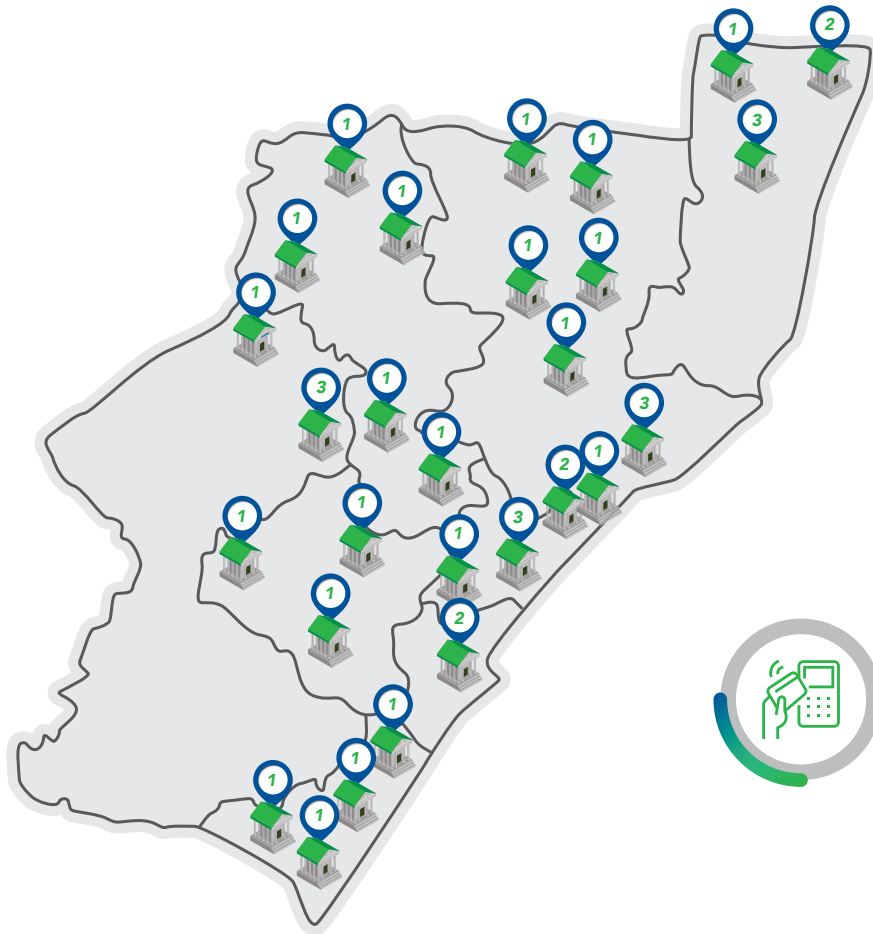
**Presence**

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

**Areas of competitive advantage**

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





**59**

self-service devices (SSDs)

### Branches

- |                        |                         |                        |                     |                          |                         |
|------------------------|-------------------------|------------------------|---------------------|--------------------------|-------------------------|
| <b>1</b> Anton Lembede | <b>2</b> Umgeni Road    | <b>3</b> KwaMashu      | <b>4</b> Mega City  | <b>5</b> KwaMnyandu      | <b>6</b> Stanger        |
| <b>7</b> Tongaat       | <b>8</b> Maxwell Street | <b>9</b> Richards Bay  | <b>10</b> Mtubatuba | <b>11</b> Manguzi        | <b>12</b> Mbazwana      |
| <b>13</b> Jozini       | <b>14</b> Ingwavuma     | <b>15</b> Mkhuze       | <b>16</b> Estcourt  | <b>17</b> Long Market    | <b>18</b> Church Street |
| <b>19</b> Mandini      | <b>20</b> Eshowe        | <b>21</b> Ixopo        | <b>22</b> Umzinto   | <b>23</b> Port Shepstone | <b>24</b> Harding       |
| <b>25</b> Izingolweni  | <b>26</b> Nongoma       | <b>27</b> Ulundi       | <b>28</b> Ndumo     | <b>29</b> Ladysmith      | <b>30</b> Newcastle     |
| <b>31</b> Pongola      | <b>32</b> Nkandla       | <b>33</b> Tugela Ferry | <b>34</b> Greytown  | <b>35</b> Bulwer         | <b>36</b> Ngquthu       |
| <b>37</b> Pinewalk     | <b>38</b> Vryheid       |                        |                     |                          |                         |
- \*ATMs ARE PROVIDED AT EACH BRANCH

Ithala’s branch network and geographic footprint remains the same as in the last reporting period. The branches that were burnt down during the 2021 civil unrest have been rebuilt, except for Umgeni and KwaMashu branches. These are currently operating within other branches, allowing our customers to continue to access services.





# 03: LEADERSHIP MESSAGES

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*“Our actions were guided by our strategic goals, with the triple “R” strategy remaining at the core of our operations.”*

## Message from the Chairman

2022/23 presented various challenges due to the South African economy’s stagnation, the rising cost of living, and the impact of flooding in KZN. These circumstances put our governance framework, structures, and processes to the test. Despite this, the Board remained steadfast in upholding the highest standards of corporate governance, adopting an integrated approach in all our deliberations.

Throughout the 2022/23 financial year, we diligently worked towards meeting all regulatory requirements and conditions set by our regulators. This unwavering commitment to compliance strengthened our relationship with stakeholders and positioned us favourably as we prepared to apply for a banking license, with our exemption notice expiring in December 2023.

Our actions were guided by our strategic goals, with the Rebuild, Remodel, Reimagine strategy remaining at the core of our operations. Our aim is to implement an agile operating system, leveraging cutting-edge technologies such as artificial intelligence, to propel Ithala forward. This will enable us to offer innovative products and expand our presence beyond KZN, aligning our profit motives with our developmental mandate, particularly in the realm of financial inclusion.

### BOARD MATTERS

We acknowledge the importance of diversity and inclusion within our organisation. We also recognise the need for better representation, especially in terms of women holding top leadership positions. Consequently, we actively seek ways to attract and empower talented women who can contribute to our collective success. During 2022, we welcomed Yedwa Mbali Mjiako to the Board. She has more than 21 years risk management, financial management, and leadership skills, among others.



We also undertook various initiatives aimed at strengthening our governance structures. I am pleased to report that we are now independently managed by a majority of non-executive directors, in line with the requirements of the Prudential Authority (PA) and industry best practice. I am satisfied that our Board now has the appropriate balance of newer directors and directors with deep institutional memory. Our commitment to good governance and compliance reflect our values and ethos as a development finance institution, and will enhance our decision-making processes and performance.

### ACKNOWLEDGEMENTS

As I conclude my inaugural message as Board Chair, I would like to acknowledge the Deputy Chair, INkosi Sibonelo Mkhize, who led the board from 21 April 2020 until my appointment on 5 December 2022. Your contributions and leadership have set a strong foundation for our current endeavours, and I am grateful for the seamless transition that took place.

I also extend my gratitude to the entire Board for your dedication and commitment to the success of Ithala. Our journey may have had its share of challenges, but it is through our collective efforts and resilience that we have made significant progress. I look forward to another fruitful year ahead, where we will build upon our achievements, navigate challenges with agility, and uphold our commitment to delivering value to our stakeholders.

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



**MM Pupuma**  
Chairman



*“Internally, Ithala demonstrated resilience and maintained a healthy and productive organisational environment.”*

## Message from the CEO

Despite the challenging external environment in 2022/23, Ithala remained steadfast in its commitment to supporting the economic development of KZN and South Africa as a whole. The year was marked by various obstacles, including record high interest rates, increased living costs, and extreme weather patterns resulting in flooding. However, Ithala maintained a robust product offering to support its customers, engaged in social investment initiatives to benefit communities, and focused on serving the unbanked and underbanked segments of the market.

Internally, Ithala demonstrated resilience and maintained a healthy and productive organisational environment. Despite the difficult circumstances, we successfully executed our strategic plans, laying the groundwork for future growth while achieving satisfactory operational performance.

Ithala’s financial performance was gravely impacted by the challenging macroeconomic environment. Ithala reported a loss of R60,5 million for the 2022/23 financial year (2021/22: R52,0 million loss). Impairments of R8.7 million were raised, whilst in the prior year there was a release in impairments of R7.2 million. Despite these challenges, Ithala managed to obtain a double digit growth on revenue, increasing by 19,9% year on year, resulting in an improved cost-to-income ratio of 113,1% (2021/22: 117.9%). Ithala’s capital adequacy ratio was at 18.1% (2021/22: 18.3%), above the regulatory requirement of 15%.

### OBTAINING A BANKING LICENCE

Ithala continues to prioritise the acquisition of a banking license as a key objective. The extension of the banking license exemption until December 15, 2023, granted by the Prudential Authority in July 2022, with the approval of the Minister of Finance, reflects the recognition of this goal. However, it is essential to note that the extension is subject to the fulfilment of specific conditions imposed by the regulatory authorities.

One of the conditions requires Ithala to submit an application to the Prudential Authority, seeking permission

to establish either a bank as provided in section 12 of the Banks Act or a mutual bank as provided in section 13 of the Mutual Banks Act. This application process will initiate the necessary steps to obtain the required approvals and licenses to operate as a financial institution.

In addition, Ithala is mandated to secure irrevocable and unconditional commitments and guarantees from either the Provincial Government of KwaZulu-Natal or the National Government. These commitments and guarantees are crucial in protecting the interests of depositors and ensuring their financial well-being. The Provincial Government of KwaZulu-Natal has provided an irrevocable and unconditional commitment to fund all capital shortfalls below the higher of R250 million or 15% of risk-weighted assets. This undertaking is valid until 31 March 2024.

### SERVING OUR CUSTOMERS DURING CHALLENGING TIMES

We remain committed to exploring new opportunities and partnerships to serve our customers better. One such opportunity is the “missing middle” market, where we have partnered with other organisations to provide services to potential home buyers who are neither subsidised by government nor meet the credit criteria set by mainstream banks. We have also engaged with the National Taxi Associations to offer collective security and schemes to help borrowers sustain their businesses amidst rising fuel and energy costs. We are also expanding our insurance portfolio and introducing grace periods to help our customers weather economic challenges.

### OUTLOOK |

Looking ahead, we are excited about the decision to apply for a banking license, which will allow us to participate more effectively in South Africa’s financial services industry. This will bring a wealth of capabilities and access to the national payment system, allowing us to offer our clients instantaneous services, real-time clearance, and other capabilities that were previously limited.

### ACKNOWLEDGEMENTS

My deepest gratitude goes to the Board for their unique insights and conscientious guidance in 2022/23. To the executive team and staff at Ithala, thank you for another year of growth and excellent delivery against our strategy. I appreciate your commitment to our customers and communities and all your hard work throughout the year. I extend my sincere thanks to our customers for choosing Ithala and for trusting us with their financial wellbeing. I look forward to your continued partnership and support in 2023 and beyond.



**Dr T Vilakazi**  
CEO



# 04: GOVERNANCE

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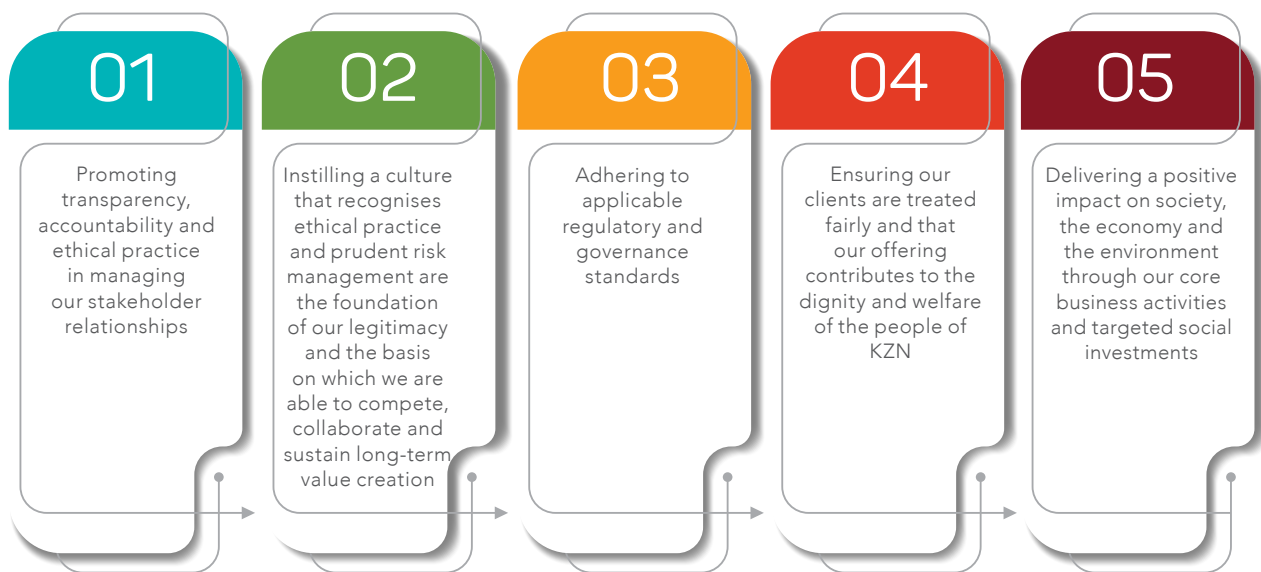


## OUR APPROACH TO GOVERNANCE

Ithala views the implementation of good corporate governance practices as integral to its business and recognises the need to conduct its business with openness, integrity and accountability. The Board is the focal point and custodian of corporate governance in the business and assumes ultimate accountability for the performance and affairs of the business. The aim is to ensure Ithala continues to operate ethically and sustainably and to deliver long-term value to our shareholders and other stakeholders.

The Board has adopted a charter, aligned with the provisions of the Companies Act, PFMA requirements, King IV™ and the Banks Act, that defines its mandate and responsibilities. The Board Charter further describes the Board's role in setting the standards for organisational ethics through policies and practices to establish ethical business practices in respect of corporate governance and addresses the powers delegated to various Board committees.

Our governance approach rests on the following commitments:



The Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the 2022/23 financial year.

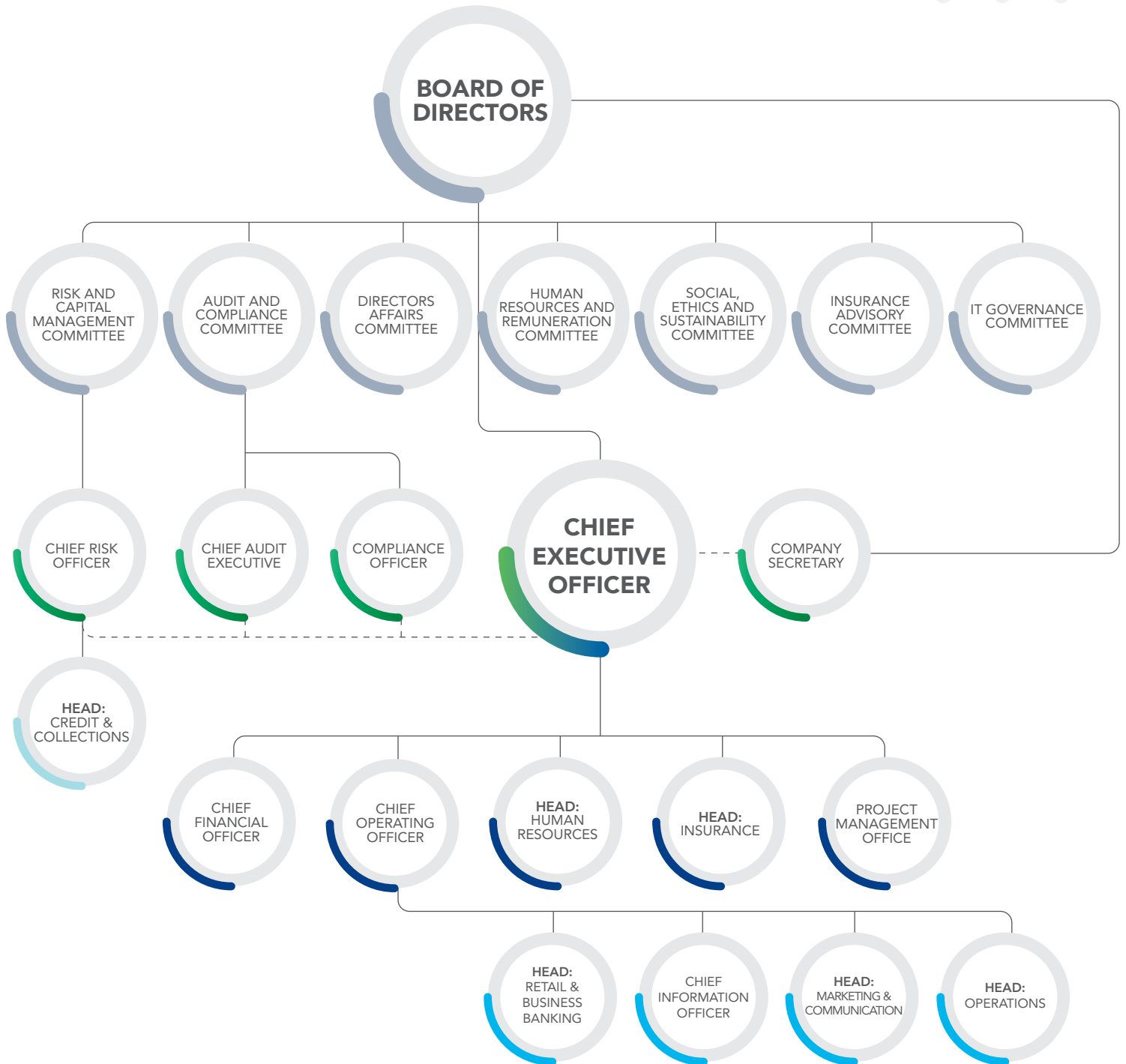
## ETHICS

Our ability to achieve our purpose depends on our legitimacy and reputation as a trusted partner to our clients. It is underpinned by the ethics and values shaping our organisational culture and the conduct of our people. The Board has adopted a Code of Ethics that seeks to assist members in fulfilling their duties to the business. The Code charges Board members to act in good faith and exercise the powers vested in them in order to honestly fulfil the duties imposed by their office. Each Director has a duty to act in what they consider to be the best interests of the business, and all such actions must be for a proper corporate purpose. The Board ensures this approach to doing business permeates throughout the business and holds management accountable to ensure that this commitment manifests itself throughout the organisation.

## WHISTLE-BLOWING HOTLINE

To achieve our goal of an ethically compliant business environment, Ithala utilises the private and confidential services of an accredited external service provider. The hotline information is available in employee e-mail signatures as well as on the company's website. The hotline was continuously monitored by the Internal Audit Division and necessary investigations were performed by a special forensic investigation team. The Social and Ethics Committee provided necessary oversight over the process. During the period under review, Ithala received 4 valid fraud tip-offs, which were investigated by the forensic investigation team.

GOVERNANCE STRUCTURE



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

## BOARD OF DIRECTORS

### NON-EXECUTIVE DIRECTORS



**MM Pupuma (69)**  
Appointed August 2020

- Master of Business Leadership
- Bachelor of Accounting Sciences



**INkosi SN Mkhize (45)**  
Deputy Chairman  
Appointed March 2018

- BCom in Economics
- Certificate in Public Policy



**GR Sibiyi (55)**  
Appointed August 2017

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



**NS Simelane (54)**  
Appointed January 2021

- Master of Business Administration
- Postgraduate Certificate in Business Administration



**Dr SB Mnguni (46)**  
Appointed October 2019

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



**YM Mjiako (51)**  
Appointed September 2022

- Master of Business Administration
- Certified Internal Auditor
- Certification in Control Self-Assessment
- International Executive Leadership Development

### EXECUTIVE DIRECTOR

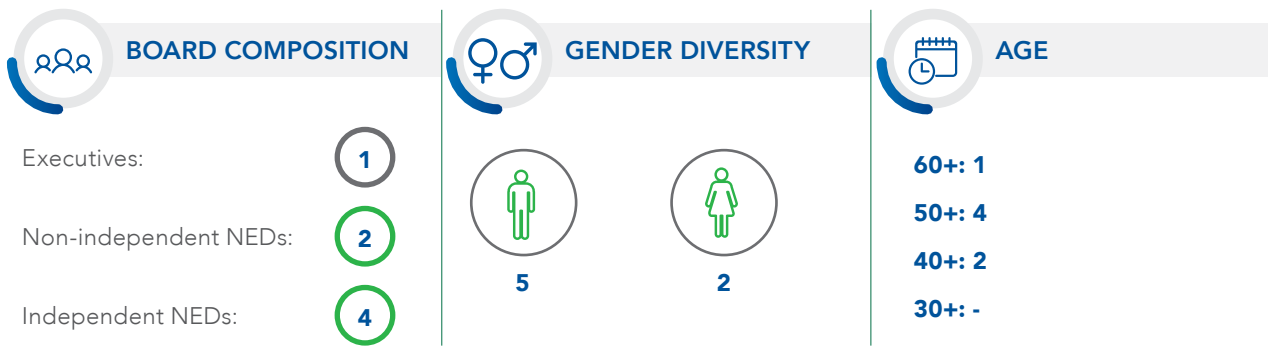


**Dr DT Vilakazi (57)**  
Appointed September 2020

- Doctor of Business Leadership (DBL) – PhD (Banking)
- Postgraduate Diploma in Company Direction
- Master of Business Administration
- Certificate of Commendation US Banking Practicum (JP Morgan Chase, NY, USA)
- Certificate of Commendation US Banking Practicum (Mellon Bank, USA)
- Certificate in the Art of General Management
- Diploma in General Management



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



**BOARD EFFECTIVENESS**

The Board and its committees undergo effectiveness evaluations every two years on an alternating schedule. The performance of the Board and its committee are assessed through the following:

MANDATE REVIEWS	EFFECTIVENESS EVALUATION	ONE-ON-ONE DISCUSSIONS
A detailed assessment of the compliance of the Board and each subcommittee within the provisions of their respective mandates is done annually. The company’s external auditors conduct a limited assurance assessment on the review.	The Board alternates every other year between an externally facilitated independent evaluation, and an internal evaluation facilitated by the Chairman, supported by the Company Secretary. Directors also participate in peer reviews, which are conducted every three years.	Evaluation of individual Director performance is carried out by the Chairman in one-on-one discussion with individual Directors.

An independent Board evaluation was conducted in 2022. The evaluation was done by the Institute of Directors Southern Africa (IoDSA). The Board was found to be well functioning and cohesive. The required structures and processes remain in place to ensure the Board has adequate oversight and that the core governance processes are well taken care of. The following focus areas were identified:

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

The recommendations and key focus areas were included in the Board’s annual workplans. In addition, the Board and executive management team attended a Board Leadership Training at the end of October 2022. The training was delivered by the Gordon Institute of Business Science (GIBS).

## DECLARATION OF INTEREST

The Board has implemented a structured approach for handling conflicts of interest, with a standing agenda item dedicated to the declaration of interests at all Board meetings. Directors are obligated to declare any actual or perceived conflicts of interest, which are then assessed by the appropriate committee. If a conflict is identified, the Director abstains from participating in the meeting. A yearly declaration process is in place for both employees and Directors, overseen by the Company Secretary. No conflicts of interest were reported during the reporting period.

## COMPANY SECRETARY

Nomusa Mzimela was appointed as the Company Secretary in November 2021. The primary responsibility of the Company Secretary is to ensure the proper functioning of the Board, in accordance with the Companies Act. As the overseer of good governance and regulatory compliance, the Company Secretary assumes a pivotal role in providing guidance on ethical conduct and compliance with statutory requirements. Furthermore, the Company Secretary is responsible for developing and regularly updating a corporate governance manual, as well as conducting an induction programme for new Directors, to acquaint them with Ithala's operations, their fiduciary obligations and responsibilities. The Company Secretary is required to attend all Board and Board committee meetings, with unrestricted access to the Chairperson. The Board charter clearly outlines the roles and responsibilities of the Chairperson, Chief Executive Officer (CEO) and Company Secretary, ensuring a separation of duties and preventing any one individual or group of individuals from having unlimited powers. This separation of responsibilities also fosters an appropriate balance of power and authority on the Board. Finally, all Directors have access to the support and services provided by the Company Secretary.

## BOARD REPORT

The 2022/23 financial year was another challenging year given the stagnation of the South African economy, the rising cost of living and increased incidence of natural disasters. The Board led and provided oversight to management as Ithala assisted its customers, employees and communities to navigate the challenging operating environment.

In these times, the resilience and robustness of our governance framework, its structures and processes were tested. Through it all, the Board continued to uphold the highest corporate governance standards in all its deliberations. This was done through a considered and integrated approach, taking into account the impact of Ithala's operations on the communities in which we operate and on broader South African society.

Ithala's Board of Directors has established seven committees to assist with fulfilling its responsibilities. Each committee has clear terms of reference that are reviewed annually, and the Board delegates specific responsibilities to the CEO as outlined in terms of reference. The Board receives reports from each committee and periodically reviews the activities of each committee in accordance with annual work plans. The Board is satisfied with the performance of its committees during the reporting period.



## MEETING ATTENDANCE

Board member	Board of Directors	Directors Affairs Committee	Audit and Compliance Committee	Risk and Capital Management Committee	Information Technology Governance Committee	Human Resource and Remuneration Committee	Social, Ethics and Sustainability Committee	Insurance Advisory Committee	Annual General Meeting and Shareholder Meetings
	Number of meetings: 43***	Number of meetings: 4	Number of meetings: 9	Number of meetings: 7	Number of meetings: 5	Number of meetings: 5	Number of meetings: 4	Number of meetings: 4	Number of Meetings: 1
	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
<b>MM Pupuma*</b>	41/43	4/4	6/9	5/7	5/5	5/5	4/4	n/a	1/1
<b>INKosi SN Mkhize</b>	39/43	4/4	n/a	2/7	5/5	5/5	4/4	4/4	1/1
<b>GR Sibiya</b>	36/43	4/4	9/9	7/7	n/a	5/5	4/4	n/a	1/1
<b>NS Simelane</b>	35/43	4/4	9/9	7/7	5/5	n/a	n/a	4/4	1/1
<b>Dr SB Mnguni</b>	31/43	4/4	5/9	n/a	4/5	n/a	2/4	2/4	1/1
<b>YM Mjiako**</b>	18/43	3/4	5/9	3/7	n/a	2/5	n/a	1/4	0/1

\* Mr MM Pupuma was appointed as Chairman of the Board effective 05 December 2022

\*\*YM Mjiako was appointed 01 September 2022

\*\*\* The Board convened 38 special meetings, majority thereof relating to deliberations on the banking licence application process and other regulatory matters of which other Board members were not part of.

## KEY BOARD CONSIDERATIONS DURING 2022/23

As a financial services organisation with a clear developmental mandate, the ability of Ithala to innovate and remain relevant in a changing context is critical to its sustainability. The Board is committed to ensuring that Ithala remains agile to meet the changing needs of customers and other stakeholders.

OUTLOOK 

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

- Application for a banking licence and participation into the National Payment System
- Attaining the extension for the Banking Licence Exemption Notice; the current licence is due to expire in December 2023
- Providing oversight of the implementation of strategy, with a focus on increased revenue and improved operational efficiencies
- Assessing the effectiveness of the Board's own governance practices, including the implementation of recommendations of Board evaluation conducted by IoDSA
- Monitoring the improvements in maintaining sound internal control functions, including an effective compliance function that, among other things, routinely monitors compliance with corporate governance rules, regulations, codes and policies to which Ithala is subject and ensures deviations are reported to an appropriate level of the management governance structure
- Ensuring Ithala has an appropriate plan for executive succession by identifying successor(s) who are qualified, fit and proper in the event that the executive position becomes vacant

## BOARD COMMITTEES

Ithala has well-defined governance structures embedded across the organisation, supporting our ability to create and preserve value, while guarding against value erosion. This includes the establishment of appropriate Board committees.

The seven committees of the Board assist the Board in discharging its duties and responsibilities. Each committee’s mandate is formalised through Board-approved committee charters, which are reviewed annually to ensure effective coverage of the operations of the Group. All committees are free to take independent professional advice, as and when necessary. They have unrestricted access to all company information and have access to members of EXCO and the Company Secretary.

The Board committees are:

- Audit and Compliance Committee
- Risk and Capital Management Committee
- Directors Affairs Committee
- Information Technology Governance Committee
- Human Resources and Remuneration Committee
- Social, Ethics and Sustainability Committee
- Insurance Advisory Committee

## AUDIT AND COMPLIANCE COMMITTEE



**Chairman**  
GR Sibiya

**Number of meetings**  
9

**Meeting attendance**  
9/9



### ROLE

The Audit and Compliance Committee (ACC) functions as a subsidiary body of the Board. Beyond its mandated duties outlined in the Companies Act, the ACC supports the Board by offering guidance and presenting recommendations pertaining to financial reporting. It also holds oversight over various aspects including the risk management procedures, internal financial controls, external and internal audit operations, as well as statutory and regulatory adherence of the company.

This committee operates primarily in an advisory capacity rather than an executive one. Hence, it abstains from engaging in managerial operations or undertaking managerial obligations. Instead, it upholds an impartial and autonomous role, serving as an objective entity.



### COMPOSITION, SKILLS AND EXPERIENCE

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



## MEETING ATTENDANCE

Board member	Audit and Compliance Committee	
	Number of meetings	9
	Attended	
GR Sibiyi (Chairman)	9/9	
MM Pupuma*	6/9	
NS Simelane	9/9	
YM Mjiako**	5/9	
Dr SB Mnguni***	5/9	

\* Resigned from ACC 6 December 2022

\*\* Appointed 01 September 2022

\*\*\* Permanent invitee

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

The ACC also executed the following:

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

## OUTLOOK

The ACC continues to focus on the following as its key priorities in the next financial year:

- The augmentation and the enhancement of the Coordinated Assurance model for the company
- Compliance requirements to be adhered to and any relevant pieces of legislation, including but not limited to, BASEL III

## RISK AND CAPITAL MANAGEMENT COMMITTEE



**Chairman**  
MM Pupuma

**Number of meetings**  
7

**Meeting attendance**  
5/7

**ROLE**

The Risk and Capital Management Committee (RCMC) aids the Board in fulfilling its responsibilities concerning risk and capital management. It offers an impartial and unbiased assessment of the data presented by the management regarding capital and risk management. This committee closely monitors external developments in the realm of risk management, encompassing emerging risks and their potential implications.

The primary duty of the committee involves establishing necessary measures to improve the sufficiency and effectiveness of risk management policies, procedures, practices, and controls implemented within Ithala. It assumes the task of overseeing the governance surrounding risk and capital management by guiding the approach and resolution of these matters. In addition, the committee ensures that the standards and policies for risk and capital management align with the company's strategy and are thoroughly documented.

**COMPOSITION, SKILLS AND EXPERIENCE**

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

**MEETING ATTENDANCE**

Board member	Risk and Capital Management Committee	
	Number of meetings	7
	Attended	
YM Mjiako (Chairman)*	3/7	
MM Pupuma**	5/7	
INkosi SN Mkhize	2/7	
GR Sibiyi	7/7	
NS Simelane	7/7	

\* Appointed RCMC Chairman 6 December 2022

\*\* Resigned as RCMC Chairman 6 December 2022



## KEY ACTIVITIES

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

The RCMC also executed the following:

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

## OUTLOOK |

The RCMC will continue prioritising the following activities in the next financial year:

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



## INFORMATION TECHNOLOGY GOVERNANCE COMMITTEE



**Chairman**  
NS Simelane

**Number of meetings**  
5

**Meeting attendance**  
5/5



### ROLE

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



### COMPOSITION, SKILLS AND EXPERIENCE

At year-end, the committee was chaired by an independent Non-executive Director and comprises one other independent Non-executive and two Non-executive Directors. The CEO, CFO and Chief Information Officer are standing invitees. Collectively, the members of the committee have the relevant skills and experience in corporate governance, ICT, regulatory universe, financial services and business leadership.



### COMPOSITION AND MEETING SCHEDULE

Board member	Information Technology Governance Committee	
	Number of meetings	5
	Attended	
NS Simelane (Chairman)	5/5	
INkosi SN Mkhize	5/5	
MM Pupuma	5/5	
Dr SB Mnguni	4/5	

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

The ITGC also executed the following:

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

### OUTLOOK



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

- Implementation of a core banking platform
- Ensuring IT governance is in place and always adhered to by the business
- Oversight of IT capital projects
- Approval of ICT investments, business cases and contracts in accordance with approved delegations of authority or Board resolution
- Review IT audit reports and decide on appropriateness of remedial actions

## HUMAN RESOURCES AND REMUNERATION COMMITTEE



**Chairman**  
MM Pupuma

**Number of meetings**  
5

**Meeting attendance**  
5/5



### ROLE

The Human Resources and Remuneration Committee (HRRC) functions as a representative of the Board with regards to human resources and remuneration affairs. The Board has bestowed upon the HRRC the responsibility of guaranteeing that Ithala possesses appropriate remuneration policies and methodologies, which serve to entice, inspire, and retain top-tier talent. Additionally, the committee is entrusted with the task of assuring that these policies and practices are rooted in principles of sound governance, responsibility, and equity.



### COMPOSITION, SKILLS AND EXPERIENCE

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



### MEETING ATTENDANCE

Board member	Human Resource and Remuneration Committee	
	Number of meetings	5
	Attended	
YM Mjiako (Chairman)*	2/5	
MM Pupuma**	5/5	
INkosi SN Mkhize	5/5	
GR Sibiya	5/5	

\* Appointed as HRRC Chairman 6 December 2022

\*\* Resigned as HRRC Chairman 6 December 2022



### KEY ACTIVITIES

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

The HRRC also executed the following:

- Approved remuneration disclosures for the Integrated Annual Report
- Standardisation of remuneration practices across the organisation
- Reviewed and approved the executive succession plan

### OUTLOOK



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

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

## SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE



**Chairman**  
GR Sibiya

**Number of meetings**  
4

**Meeting attendance**  
4/4



### ROLE

The Social, Ethics and Sustainability Committee (SESC) holds the responsibility of presenting reports and offering suggestions to the Board concerning sustainability, ethics, social and economic advancement, ethical corporate conduct, environmental considerations, health and public welfare, consumer interactions encompassing Ithala’s marketing activities, public image, and adherence to consumer protection regulations, as well as labor and employment matters.



### COMPOSITION, SKILLS AND EXPERIENCE

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



### MEETING ATTENDANCE

Board member	Social, Ethics and Sustainability Committee	
	Number of meetings	4
	Attended	
GR Sibiya (Chairman)	4/4	
INkosi SN Mkhize	4/4	
MM Pupuma	4/4	
Dr SB Mnguni	2/4	



## KEY ACTIVITIES

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

The SESC also executed the following:

- Monitoring Ithala's standing in terms of the goals and purposes of:
  - The 10 principles set out in the United Nations Global Compact Principles
  - Employment Equity Act
  - Broad-Based Black Economic Empowerment Act (B-BBEE)
- Monitoring Ithala's activities regarding good corporate citizenship:
  - Promotion of equality, prevention of unfair discrimination, and reduction of corruption
  - Contribution to the development of the communities in which our activities are predominantly conducted or within which our products or services are predominantly marketed
  - Keeping record of sponsorship, donations and charitable giving and to report progress to the Board
  - Monitoring the activities of Ithala in respect of the environment, health and public safety, including the impact of Ithala's activities and of its products or services
- Monitoring consumer relationships, including Ithala's marketing activities, public relations and compliance with consumer protection laws
- Monitoring labour and employment activities in respect of the following:
  - Ithala's standing in terms of the International Labour Organisation Protocol on decent work and working conditions
  - Employment relationships
  - Contribution towards the educational development of its employees

## OUTLOOK |

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

- Monitoring of enhanced code of conduct
- Providing oversight on the implementation of CSI initiatives
- Fraud risk and fraud prevention monitoring and providing mitigating solutions
- Setting and monitoring of expenditure targets supporting Black Economic Empowerment (BEE), Small, Medium and Micro Enterprises (SMMEs) and previously disadvantaged individuals (PDI)

## INSURANCE ADVISORY COMMITTEE



**Chairman**  
Inkosi SN Mkhize

**Number of meetings**  
4

**Meeting attendance**  
4/4



### ROLE

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



### COMPOSITION, SKILLS AND EXPERIENCE

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



### MEETING ATTENDANCE

Board member	Insurance Advisory Committee	
	Number of meetings	4
	Attended	
Inkosi SN Mkhize (Chairman)	4/4	
Dr SB Mnguni	2/4	
NS Simelane	4/4	
YM Mjiako*	1/4	

\* Appointed 1 September 2022 and resigned from IAC 6 December 2022



### KEY ACTIVITIES

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

The IAC also executed the following:

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

### OUTLOOK

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

- Developing and offering new products to existing and newly targeted customers
- Ensuring the business generates sustainable revenue
- Continue to drive coordination and collaboration between Insurance and Retail and Business Banking



## EXECUTIVE COMMITTEE

Ithala's executive management team is responsible for the day-to-day affairs of the company, subject to matters reserved for the Board. The team is held accountable through agreed Key Performance Indicators (KPIs) outlined in the company's corporate plan. It is a diverse and experienced group that includes a full-time CEO, Chief Audit Executive, Compliance Officer, Head of Credit and Collections, Head of Marketing and Communications, Head of Insurance, Head of Retail and Business Banking, Company Secretary, Chief Information Officer, Chief Risk Officer, Head: HR and General Manager: Finance.

### CHANGES TO THE EXECUTIVE MANAGEMENT TEAM DURING THE YEAR

In the year under review, the executive team welcomed Dr Theo Nell, who was appointed as Head: HR in November 2022. Mohamed Gafoor was appointed as Chief Financial Officer in July 2023 and Rikshana Jugoo was appointed as Head: Credit & Collections in August 2023.



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

- Doctor of Business Leadership (DBL) – PhD (Banking)
- Postgraduate Diploma in Company Direction
- Master of Business Administration
- Certificate of Commendation US Banking Practicum (JP Morgan Chase, NY, USA)
- Certificate of Commendation US Banking Practicum (Mellon Bank, USA)
- Certificate in the Art of General Management
- Diploma in General Management



**Advocate Kabelo Nkambule (43)**  
Compliance Officer  
Appointed August 2020

- LLB
- Certificate in Marketing
- Certificate in Cooperative Governance



**Mr Aaron Pather (53)**  
Head: Insurance  
Appointed July 2019

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



**Mr Shane Moodley (48)**  
Head: Retail & Business Banking  
Appointed July 2015

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



**Mr Sethu Nsele (50)**  
Chief Audit Executive  
Appointed September 2020

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



**Rikshana Jugoo (41)**  
Head: Credit and Collections  
Appointed August 2023

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



**Mr Sandile Xolo (45)**

Head: Marketing & Communication  
Appointed August 2016

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



**Ms Nomusa Mzimela (46)**

Company Secretary  
Appointed November 2021

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



**Mohamed Gafoor (44)**

Chief Financial Officer  
Appointed July 2023

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



**Sibongiseni Phakathi (44)**

Chief Information Officer  
Appointed January 2022

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



**Brenda van der Lingen (55)\***

Chief Risk Officer  
Appointed November 2021

- MBA
- Diploma in Business Management
- Diploma in Financial Management
- Certified Risk Specialist



**Dr Theo Nell (53)**

Head: Human Resources  
Appointed November 2022

- MA (Industrial Psychology)
- DPhil (Leadership, Performance and Change)

\*Resignation effective  
31 August 2023

## RESIGNATIONS



**Sihle Gwala (47)**

Head of Human Resources  
Resigned June 2022

- BSocSc, SMDP
- BA Honours (Industrial Psychology)



**Mr Xolani Khumalo (41)**

Head: Credit & Collections  
Resigned January 2023

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



## KEY SKILLS AND COMPETENCIES

Banking and  
Financial servicesRisk  
management

Taxation

Accounting,  
auditing and  
financeCorporate  
governanceMarketing and  
communication

Sustainability

Human  
resources

Strategy

Business  
leadershipLegal and  
complianceInformation and  
communications  
technology

## MEETING SCHEDULE

Executive Members	Designation	Number of meetings: Attended:	29
Dr T Vilakazi	Chief Executive Officer	27	
S Moodley	Head: Retail & Business Banking	28	
A Pather	Head: Insurance	27	
X Khumalo <sup>1</sup>	Head: Credit and Collections	25	
S Xolo	Head: Marketing & Communication	13	
K Nkambule	Compliance Officer	23	
S Gwala <sup>2</sup>	Head: Human Resources	08	
T Nell <sup>3</sup>	Head: Human Resources	17	
S Phakathi	Chief Information Officer	24	
B van der Lingen <sup>4</sup>	Chief Risk Officer	27	
Executive Members INVITEES	Designation	Number of meetings: Attended:	29
S Nsele	Chief Audit Executive	24	
M Gafoor <sup>5</sup>	General Manager: Finance	26	
N Mzimela	Company Secretary	28	

<sup>1</sup> Resigned January 2023<sup>2</sup> Resigned June 2022<sup>3</sup> Appointed November 2022<sup>4</sup> Resignation effective 31 August 2023<sup>5</sup> Appointed July 2023 as CFO



## KEY ACTIVITIES

- Increase compliance with laws and regulations
- Implementation of repurposed strategy with a view to obtaining a banking licence
- Managing and monitoring the affairs of the company in accordance with approved business plans and budgets
- Managing consumer relationships, including Ithala's marketing activities, public relations and compliance with consumer protection laws
- Implementation of CSI initiatives including the rollout of the Ithala Edu Platform and financial literacy initiatives
- Developing new products for offer to existing and newly targeted customers
- Fraud risk and fraud prevention monitoring and providing mitigating solutions

## OUTLOOK |

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

- Application for banking licence and designation as a clearing system participant into the National Payment System
- Implementation of the new enterprise-wide digital core banking platform
- Developing new products for offering to existing and newly targeted customers
- Fraud risk and fraud prevention monitoring and providing mitigating solutions
- Alignment of performance targets with strategic objectives and operating model
- Investment in key projects to address compliance and regulatory requirements
- Filling of critical positions and retention of key skills to support business needs and ensure business continuity



## KING IV™ DISCLOSURES



**The accounting authority should lead ethically and effectively.**



### Application

The Board is responsible for ensuring its conduct and that of management is aligned with Ithala’s values and code of ethics and conduct, and that these inform the decision-making across the business. In executing their duties, Board members are transparent and act with integrity and fairness. Accountability is entrenched in the decision-making processes at both individual and collective level. Board members have a legal obligation to avoid conflicts of interest and make full and timely disclosure of potential conflicts.



**The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.**



### Application

The Board governs the ethics of the business in a way that supports the establishment of an ethical culture. It is committed to the Constitution of the Republic of South Africa (including the Bill of Rights) and advances the principles of fairness, accountability and integrity in creating an ethical business culture. The responsibility for monitoring the overall responsible corporate citizenship performance of the organisation is delegated to the Human Resources and Remuneration Committee (HRRC) and Social, Ethics and Sustainability Committee (SESC).



**The accounting authority should ensure the organisation is and is seen to be a responsible corporate citizen.**



### Application

The Board retains overall responsibility for ensuring that Ithala is, and is seen to be, a responsible corporate citizen. It is assisted in this regard by the SESC. A strategy session is held annually by the Board and management to review and approve the short-, medium- and long-term strategy and purpose of Ithala, with a view to ensuring that the company remains aligned with its mandate and responsibilities as a State-owned development finance institution.



**The accounting authority should ensure reports issued by the organisation enable stakeholders to make informed assessment of the organisation’s performance, and its short, medium and long-term prospects.**



### Application

The Annual Financial Statements and integrated report are reviewed by the Audit and Compliance Committee and recommended to Board for approval annually. The integrated report is distributed to relevant stakeholders and published on Ithala’s website for access by stakeholders.

**Status indicator:**



Applied



Not applied





**The governing body should serve as the focal point and custodian of corporate governance in the organisation.**



**Application**

The Board serves as the focal point and custodian of corporate governance in Ithala and is ultimately accountable and responsible for the performance and affairs of the business. The Board exercises its leadership role by steering the business and setting its strategic direction, approving policy and planning that give effect to the direction provided, overseeing and monitoring of implementation and execution by management, and ensuring accountability for organisational performance by means of, among other things, reporting and disclosure.

The Board's role, responsibilities, membership requirements and procedural conduct are documented in a Board charter, which it regularly reviews to guide its effective functioning. The Board is satisfied it has fulfilled its responsibilities in accordance with the Board charter for the period under review. Board members are entitled to and have access to all relevant business information and management to assist them in discharging their duties and responsibilities, in order for them to make informed decisions.

The Board meets at least quarterly to consider performance, to monitor issues of strategic direction and to consider any other issues having a material effect on the business.

A formal agenda is prepared for each Board meeting and comprehensive Board packs containing the information required to enable Directors to make informed decisions are forwarded to Directors and invitees prior to Board meetings.



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



**Application**

Ithala has a unitary board structure that, during the year under review, consisted of six Non-executive directors and one Executive Director. The Executive Director (CEO) is responsible for the day-to-day management of the company. Non-executive Directors are chosen for their knowledge, skills and experience and they bring an independent view to bear on key issues.

The process for the nomination, election and appointment of Board members is formal and transparent. The majority of the Board members are independent Non-executive Directors.

The Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance.



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



**Application**

The Board delegates certain responsibilities to well- structured Board and Statutory Committees each with formal Terms of Reference without abdicating the Board's own responsibilities.

**Status indicator:**

-  Applied
-  Not applied



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



**Application**

A self-assessment as well as an independent Board evaluation was conducted by the IoDSA with the aim of ensuring continued improvement in its performance and effectiveness.



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



**Application**

The Board delegates certain powers to the CEO, which the CEO can further delegate to Executive Officers as governed by the Delegated Powers of Authority. The CEO's performance, along with the performance of Board committees, are reviewed on a regular basis. During 2022/23, the Board received a report detailing the results of these evaluations and implemented necessary actions to address any identified areas for improvement.



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



**Application**

The Risk and Capital Management Committee has delegated the responsibility of identifying, assessing, mitigating and managing risks within Ithala's operating environment to management. This delegation is made with consideration to the continuously evolving risk profile of the organisation. In order to manage these risks, appropriate mitigating controls have been developed. The Board is regularly informed of progress on the risk management plan.



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



**Application**

The Information Technology Governance Committee supports the Board in the governance of information technology. Recognising the close link between technology, information, and the strategy, performance and sustainability of Ithala, the Board acknowledges the importance of this committee's work. In this regard, IT policies have been thoroughly reviewed and subsequently approved by the Board.



**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.**



**Application**

The Audit and Compliance Committee aids the Board in assessing the efficiency of the system for monitoring compliance with all applicable laws and regulations. Additionally, the committee reviews the outcomes of management's investigation and follow-up procedures concerning any identified cases of non-compliance.

**Status indicator:**



Applied



Not applied



**The governing body should ensure the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.**



**Application**

The Human Resources and Remuneration Committee assists the Board with the approval of and monitoring the execution of the remuneration policy that articulates and gives effect to its direction on fair, responsible and transparent remuneration.



**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.**



**Application**

The Audit and Compliance Committee ensures a coordinated assurance model is implemented, which enables a coordinated approach to all assurance activities.



**In execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach, which balances the needs, interests and expectations of material stakeholders in the best interest of the organisation over time.**



**Application**

Ithala has identified its stakeholder groups and actively balances their legitimate and reasonable requirements, interests and expectations.



**The governing body of an institutional investor organisation should ensure responsible investment is practised by the organisation to promote the good governance and creation of values by the companies in which it invests.**

This principle is not applicable to SOEs.

**Status indicator:**



Applied



Not applied





# 05: STRATEGY

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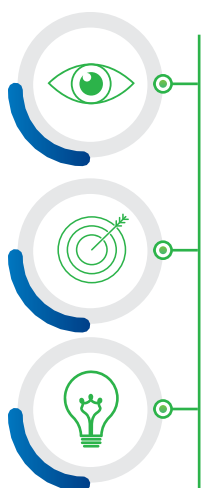


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## OUR VISION

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 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.

## STRATEGY CHOICE FOR GROWTH

On an annual basis, the leadership reviews the strategic direction of the business. As part of the 2023 - 2026 strategy review, it was determined that there is a need for Ithala to regularise its operations in order for the business to become a fully licenced bank in terms of the Banks Act. The executive management and the Board, led by the new Board Chairman, are committed to steering Ithala in the right direction and prioritising actions such as strengthening trust with regulators, empowering employees through training, containing costs, and implementing an efficient operating model. As such, the Rebuild, Remodel, and Reimagine" (RRR) strategy was revised to ensure that these imperatives are achieved.

The successful implementation of the RRR strategy will pave the way for Ithala to attain authorisation to establish a bank and therefore enable Ithala to expand its product and service offerings. Ithala's focus is on growing the customer base, optimising the deposit mix, and investing in technology. Ithala further aims to improve operational efficiency to enhance the overall banking experience for its clients. Furthermore, addressing regulatory requirements and building trust with regulators will be crucial in ensuring compliance and demonstrating Ithala's commitment to transparent and responsible banking practices.

### The Rebuild, Remodel and Reimagine Strategy Response Plan

Given the environment that Ithala operates in and the position of the business, the executive management team proposed a strategy response plan (SRP) that will turn the business around and take it forward. Through a proactive approach, the SRP seeks to capitalise on opportunities, realign actions with market dynamics, and ensure long-term success by focusing on resource allocation, innovative offerings, and robust risk management. The SRP comprises three growth phases spanning 2024 – 2026:

- **Rebuild** - We will invest to rebuild a foundation for the future growth of our franchise.
- **Remodel** - We will remodel our capabilities for operational resilience and innovation.
- **Reimagine** - We will reimagine our business with a new delivery model and emerge stronger.

Ithala's SRP is underpinned by the following seven selected strategic objectives:

1. Secure a banking licence and designation as a clearing participant in the National Payment System
2. Implement the Operating Model to improve efficiencies and customer service experience
3. Stem out losses through sustainable revenue growth and cost containment
4. Maintain optimum business and operational resilience through liquidity and capital management
5. Treat risks, reduce compliance and audit issues
6. Run the bank and remodel IT capabilities
7. Empower our people to lead for innovation and growth

Performance against these objectives is tracked and measured through key performance indicators (KPIs). Exco's performance contracts are based on the set KPIs which ensures alignment.

### Rebuilding capacity to facilitate growth

To establish a strong foundation, Ithala is implementing the new operating model which focuses on streamlining processes to efficiently serve the customer. Additionally, Ithala is investing in modernising the IT infrastructure to transform the business into a customer-centric organisation capable of meeting the changing needs of our clients.

FROM ————— TO

#### A FUNCTIONAL INWARD ORIENTATION

- Our current operating model lends itself to a high cost to serve
- Over-specialisation and key-person dependencies
- Bureaucracy
- Functional silo model
- Inter-functional rivalry and conflict ridden
- Structured to service a narrow product set
- Regimented service model
- Supported by an archaic and obsolete IT platform
- Manual processes and practices
- Risk Management is a tick-box exercise

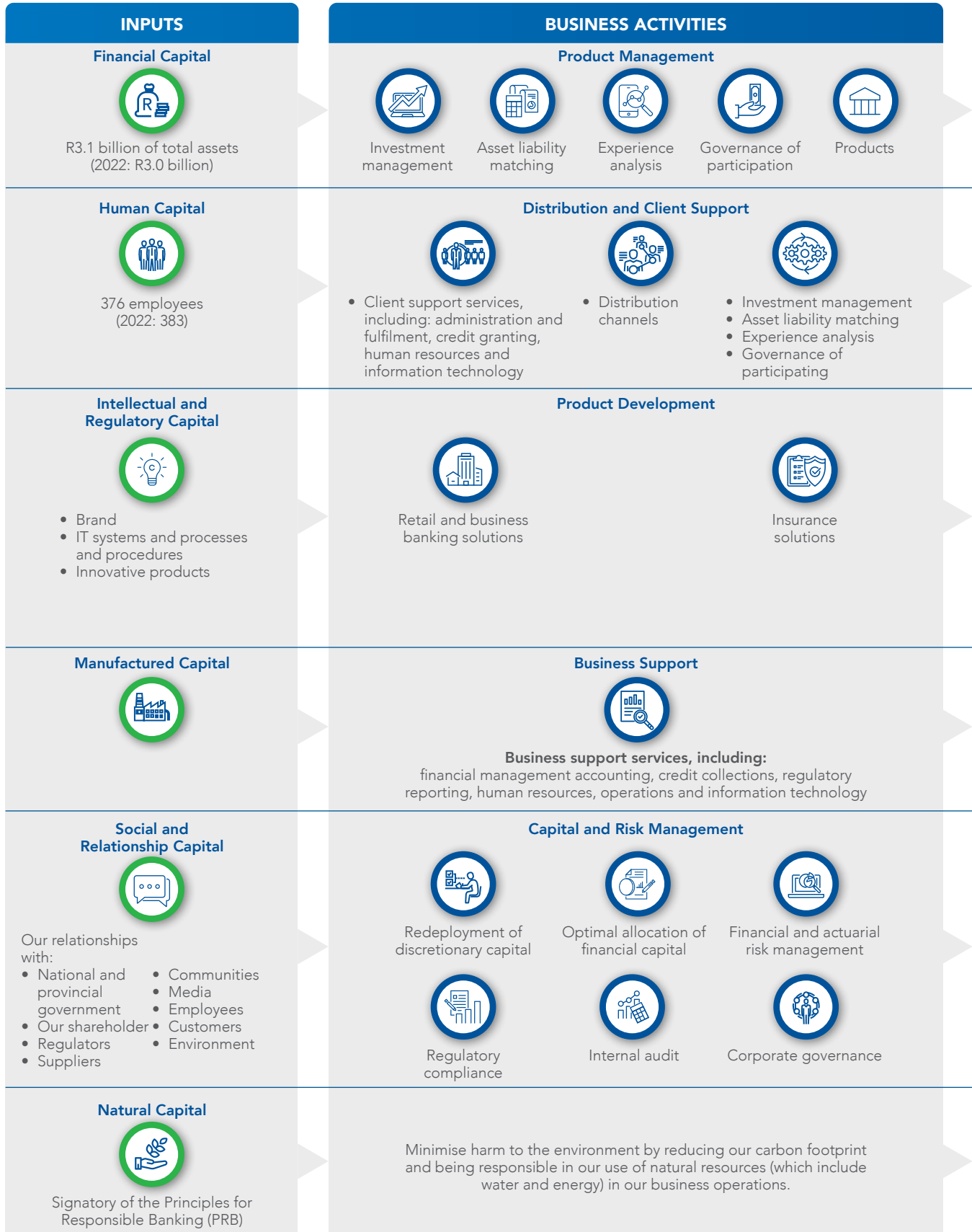





















#### A CLIENT-CENTERED OUTWARD ORIENTATION

- Vision-led and values-driven
- Client segmentation & client-centered
- Simplified client value propositions
- Seamless client service model
- IT evolution to progressive modernisation
- Network modernisation and automated workflows
- Risk management enabled franchise

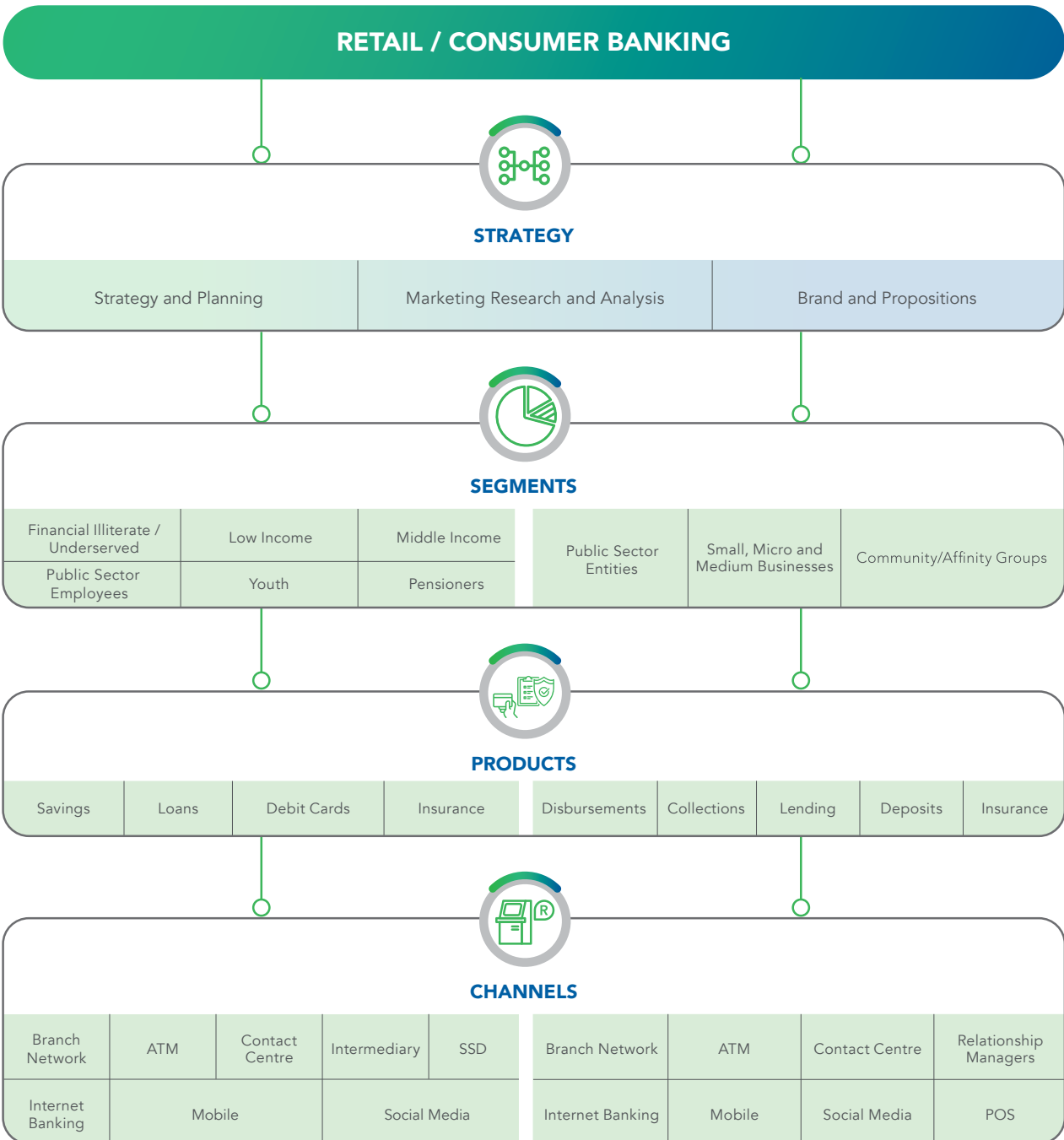
## HOW WE CREATE VALUE

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



OUTPUTS	OUTCOMES
<ul style="list-style-type: none"> <li>• CTIR: 113.1% (2022: 117.9%)</li> <li>• Jaws: 4.0% (2022: 3.7%)</li> <li>• CAR: 18.1% (2022: 18.3%)</li> <li>• RoE: -16.27% (2022: -14.31%)</li> <li>• RoA: -1.96% (2022: -1.68%)</li> </ul>	<ul style="list-style-type: none"> <li> Going concern basis adopted in preparation of AFS</li> <li> Company incurred loss</li> <li> Company is reliant on continued support of shareholder</li> </ul>
<ul style="list-style-type: none"> <li>• Value distributed to employees: R207.5 million (2022: R181.2 million)</li> </ul>	<ul style="list-style-type: none"> <li> Organisational excellence through sound performance management</li> <li> Trust-based relationship with employees</li> <li> Rewards policy in line with strategic imperatives of the business</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Customer deposits:</b> R2.49 billion (2022: R2.47 billion)</li> <li>• <b>Loans and advances to customers:</b> R2.21 billion (2022: R2.05 billion)</li> <li>• <b>Rural home loans:</b> R16.0 million (2022: R19.5 million)</li> <li>• <b>Home improvement loans:</b> R440.4 million (2022: R311 million)</li> <li>• <b>Number of debit cards:</b> 96 877 (2022: 88 986)</li> <li>• <b>Taxi finance:</b> R75.7 million (2022: R172 million)</li> <li>• <b>Interest paid to depositors:</b> R67.6 million (2022: R57.6 million)</li> </ul>	<ul style="list-style-type: none"> <li> Enhanced business effectiveness through technology</li> <li> Enhanced positioning and brand identity</li> <li> Trust-based relationship with customers</li> <li> Contribution to wealth creation</li> <li> Contribution to economic development in KZN</li> </ul>
<p>38 branches (2022: 38)</p> <p>78 ATMs (2022: 87)</p> <p>59 SSDs (2022: 248)</p>	<ul style="list-style-type: none"> <li> Enhanced market positioning and brand identity</li> <li> Established public sector banking services</li> <li> Contribution to financial inclusion and economic development</li> <li> Enhanced effectiveness through technology</li> <li> Enhanced proximity to customers</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Value distributed to suppliers:</b> R193.3 million (2022: R164.4 million)</li> <li>• <b>Value distributed to government:</b> R11.9 million (2022: R11.8 million)</li> <li>• <b>Value distributed to the community:</b> R1 402 107 (2022: R640 178)</li> </ul>	<ul style="list-style-type: none"> <li> Mutually beneficial strategic partnerships</li> </ul>
	<ul style="list-style-type: none"> <li> Increased recycling efforts</li> <li> Increased adoption of digital and paperless solutions</li> </ul>

## OPERATIONAL STRUCTURE



## PRODUCTS AND SERVICES

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

### HOME LOAN

Ithala Home Loan offers applicants an opportunity to buy, build, improve or renovate their own properties in urban and rural areas. The loan is secured by registering a mortgage bond against their property.



### VEHICLE AND ASSET FINANCE

Ithala vehicle and asset finance offers applicants an opportunity to buy a light commercial vehicle and passage vehicle through a hire purchase agreement. Applicants can assess their affordability using Ithala calculator even before approaching Ithala for financing.

### CASH ADVANCE

Ithala cash advance offers an access to immediate cash to deal with any personal emergencies. The advance is issued against client's invested funds committed by term agreements at Ithala.



### INDIVIDUAL DEBIT CARD AND BUSINESS TRANSACTIONAL CARD PRODUCTS

Ithala transactional account allows clients and businesses to perform debit and credit transactions on available balances at their convenience and provides them with access to cash through multiple channels, namely Automatic Teller Machine (ATM), Point of Sale (POS), Branch Network, Internet and Mobile Banking.

### TARGET SAVE

This investment account is specially designed to allow clients to save for a specific event like child's education, for a wedding, for paying amalobolo, deposit for a dream home, etc. The Target Save Account offers clients the opportunity to save an amount of their choice every month for a minimum period of six months. The savings period is renewable.



### FIXED DEPOSIT

This product is specially designed to maximize the growth of client's investment, generating wealth, while providing the client with the peace of mind of financial security and guaranteed capital investment. Fixed Deposit account is an account that locks the client's savings into an investment period of the client's choice and offers them a competitive interest rate to ensure the rapid growth of their capital.

### TRANSACTIONAL SAVINGS BOOK

Ithala's customers expect personalised service, where staff communicate with them in their mother tongue, IsiZulu, and explain transactions related to their book accounts in a manner that promotes better comprehension and informed decision-making. As customers visit their branch at least once a month to deposit or withdraw money from their book accounts and to update their books with the latest transactions and balances, this personalised service is crucial in maintaining the loyalty of this significant customer group to the financial institution.







## CLUB SAVE

Customers who are members of stokvels and other affinity clubs remain an essential part of Ithala's customer base. Ithala provides meeting rooms that are available for these groups to use when their savings mature at the end of the year.



## PENSION-BACKED LOAN

Ithala's Pension-backed Loan product is aimed at customers who wish to purchase, build, renovate, or buy land to build their home using pension as collateral. This product provides an affordable way for customers to enhance their assets and offers competitive interest rates and repayment periods.



## TAXI FINANCE

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

## BASIC FUNERAL COVER

The Ithala Funeral Plan allows customers to bury loved ones with the dignity they deserve and without the financial burden that comes with planning a funeral. This affordable cover helps customers save so that they can afford to pay for the unexpected costs of a funeral, giving them the freedom to grieve and support their family in their time of need. The funeral plan pays out a lump sum from a minimum of R5 000 to R15 000. Claims are paid out within 48 hours, as long as all the necessary documents are provided.

## FAMILY FOREVER FUNERAL COVER

The Ithala Family Forever Funeral Plan provides coverage for an entire family with a single premium, including up to two spouses and eight children. This plan offers additional benefits as the premium payments cease when the primary member passes away, while the rest of the family continues to receive coverage for life. This affordable plan allows customers to cover the unforeseen expenses of a funeral, allowing them to focus on grieving and supporting their loved ones during difficult times. The plan provides a lump sum payout ranging from R20 000 to R80 000. Claims are quickly processed within 48 hours, provided that all the required documents are submitted.



## INCOME BOOSTER

The Ithala Income Booster is a plan that provides coverage for the main insured in the event of their death, whether it is from natural causes or an accident. This plan offers a monthly cash benefit ranging from a minimum of R300 to R1 000 per month for a period of 12 months. By providing regular monthly payments, this plan can help ease the financial burden for loved ones left behind and ensure they have some financial stability during a difficult time. With the Ithala Income Booster, customers can have peace of mind knowing they have a plan in place to provide for their family's financial needs in the event of their unexpected passing.

## CREDIT LIFE

This insurance product provides coverage for the insured in case of death or permanent disability. In the event of the insured passing away or becoming permanently disabled, the entire account balance is settled. Additionally, the policy can be taken with an optional retrenchment benefit, which provides up to six low instalments in case the insured is retrenched.

**HOMEOWNERS' INSURANCE (BUILDING)**

With an Ithala buildings policy, customers can rest assured that their residential homes and outbuildings are well protected. The policy covers a range of unexpected events, including fire, natural disasters, theft, vandalism and accidents. In the unfortunate event that a disaster does strike and leaves the home uninhabitable, the policy includes a temporary accommodation benefit, providing added peace of mind.

**HOMEOWNERS' INSURANCE (CONTENTS)**

With Ithala's Household Goods Cover, customers can protect their household contents from risks such as theft, fire, natural disasters and vandalism. Additionally, the package includes a benefits package that covers smaller risks and costs, incorporating loss of guest or staff property, replacement of keys and locks, temporary security guarding, fridge contents, and trauma counselling.

**VEHICLE INSURANCE – COMPREHENSIVE**

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

**VEHICLE INSURANCE THIRD PARTY, FIRE AND THEFT**

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

**VEHICLE INSURANCE – THIRD PARTY ONLY**

Ithala's third-party-only vehicle insurance policy provides coverage for third-party claims in which the policyholder is liable for the cost of damages or injuries. In addition, the package includes limited medical expense coverage for passengers, trauma counselling, emergency hotel expenses, and key/remote replacement costs.



## EXTERNAL ENVIRONMENT

### MACRO-ECONOMIC ENVIRONMENT

While South Africa's economy grew by an estimated 2.5 percent in 2022, the growth outlook has deteriorated to a predicted 1.4 percent growth over the next three years. This was compared with the 1.6 percent prediction in the 2022 Medium Term Budget Policy Statement (MTBPS). Inadequate electricity supply remains the most immediate and significant constraint to production, investment and employment, compounded by disruptions to and underinvestment in freight and logistics networks, which erode competitiveness. With global growth expected to slow down in 2023, central banks around the world were countering the effects of high inflation through increased interest rates. Rising inflation has constrained household spending and raised the cost of living.

South Africa needs much higher growth to address unemployment and poverty. This requires continued commitment to a macro-economic framework that encourages investment, accelerated progress on reforms underway, and improved State capability.

As a State-Owned Entity (SOE) with a mandate to contribute to economic development, Ithala will continue providing financial products and services to those who are unable to access them from traditional banking institutions, promoting financial inclusion and economic empowerment.

## STAKEHOLDER REVIEW

Our capacity to create value is inextricably linked to the value we create for our stakeholders, society and the broader environment. We remain focused on unlocking the potential in each relationship, particularly where stakeholder insight and perspectives might help us to innovate in support of our core purpose.

The following table provides a brief review of our key stakeholder groups, our interdependencies in terms of value creation, the most material interests of each group, and how we engage with them to identify and address these interests. We recognise that there is a significant diversity within each group, with individual stakeholders often having very different interests. The priority interests listed below are broadly indicative of each stakeholder group's priorities assessed by the management team based on our ongoing engagements.





## NATIONAL AND PROVINCIAL GOVERNMENT

### How we engage

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

#### Priority interests and concerns

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

#### Our response

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

#### Outcomes

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

#### Contribution to value creation

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



## OUR SHAREHOLDERS

### How we engage

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

#### Priority interests and concerns

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

#### Our response


- Ithala promotes financial inclusion and supports the IDFC in the delivery of its developmental mandate
- Appointment of new Directors to improve and/or sustain diversity and skills as well as succession planning
- Repurposing of strategy with a view towards profitability by 2026

#### Outcomes

- Ithala has submitted its Section 12 application for authorisation to establish a bank
- Ithala has been granted an extension of the banking licence exemption until December 2023
- Capable leadership team is now in place

#### Contribution to value creation

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



**CUSTOMERS**

**How we engage**

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

**Priority interests and concerns**

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

**Our response**


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

**Outcomes**

- Overall, Ithala customers are satisfied with the service they are receiving from Ithala and remain very loyal; 87% of customers are satisfied with the service they receive from Ithala and 77% are brand promoters. The Net Promoter Score (NPS) achieved for the year is 55%.

**Contribution to value creation**

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



**REGULATORY BODIES**

**How we engage**

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

**Priority interests and concerns**

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

**Our response**

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

**Outcomes**

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

**Contribution to value creation**

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

**EMPLOYEES****How we engage**

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

**Priority interests and concerns**

- Provide wellness and health support to all employees
- Empower our people to lead for innovation and growth
- Innovate for internal client centricity and to optimise our people processes
- Enable a performance driven culture
- Manage our people cost base
- Competitive remuneration
- Opportunities for career development and growth

**Our response**

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

**Outcomes**

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

**Contribution to value creation**

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

**COMMUNITIES****How we engage**

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

**Priority interests and concerns**

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

**Our response**

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

**Outcomes**


- Lessons and examination preparation made accessible to learners via the Ithala Education Platform and the app. This contributes to the learner's readiness for final year examinations and improves the pass rate.
- 18 youth completed the internship programme

**Contribution to value creation**

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



	<p><b>SUPPLIERS</b></p> <p><b>How we engage</b> We engage our suppliers through tender processes, service level agreements (SLA) and performance evaluations.</p>
<p><b>Priority interests and concerns</b></p>	
<ul style="list-style-type: none"> <li>• Fairness and transparency in procurement processes</li> <li>• Localisation and transformation of the supply chain</li> <li>• Payment of invoices on time</li> </ul>	
<p><b>Our response</b></p>	
<ul style="list-style-type: none"> <li>• Prioritise Broad-Based Black Economic Empowerment (B-BBEE) suppliers</li> <li>• Ensure effective management of service level agreements (SLA)</li> <li>• Adhere to supply chain policies, procedures, legislation and regulations</li> <li>• Utilise an anti-fraud hotline</li> </ul>	
<p><b>Outcomes</b></p>	
<ul style="list-style-type: none"> <li>• The establishment of an internal fully functional supply chain management function</li> </ul>	
<p><b>Contribution to value creation</b></p>	
<p>Suppliers contribute through strategic partnerships that allow Ithala to implement its strategy and sustain operations.</p>	

	<p><b>MEDIA</b></p> <p><b>How we engage</b> We engage with media on an ongoing basis or on an ad hoc basis as determined by media queries and developments in the operating environment.</p>
<p><b>Priority interests and concerns</b></p>	
<ul style="list-style-type: none"> <li>• Key developments within the business including the extent to which it is able to fulfil its mandate</li> <li>• Response to perceived corporate governance breaches and corruption</li> <li>• Progress with obtaining banking licence</li> </ul>	
<p><b>Our response</b></p>	
<ul style="list-style-type: none"> <li>• Regular updates to media on material matters, in particular, progress with obtaining a banking licence, executive appointments and CSI initiatives</li> </ul>	
<p><b>Outcomes</b></p>	
<ul style="list-style-type: none"> <li>• Maintained ongoing positive relationship with the media</li> </ul>	
<p><b>Contribution to value creation</b></p>	
<p>The media supports Ithala through reporting and ongoing engagement with our brand.</p>	



## THE ENVIRONMENT

### How we engage

We engage with environmental issues as dictated by business requirements.

#### Priority interests and concerns

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

#### Our response

- Reduced printing and stationery costs by 26% from R1.6 million in 2022/23

#### Outcomes

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

#### Contribution to value creation

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



## ENTERPRISE RISK MANAGEMENT

To fulfil our mandate, it is imperative that we proactively manage both risks and opportunities in a sustainable manner. The ultimate accountability for effective risk management lies with the Board, which has delegated this responsibility to its sub-committees, with the Risk and Capital Management Committee (RCMC) specifically tasked with managing risks in line with its Terms of Reference. Senior management is responsible for creating a risk management culture within the business through communication, education and training. Our risk management policies are designed to establish appropriate limits and controls, and we regularly review them to ensure that they reflect changes in markets, products and industry best practices. Our goal is to achieve a balance between risk and return and minimise potential adverse effects on our financial performance.

### RISK STRATEGY



### ENTERPRISE RISK MANAGEMENT FRAMEWORK

In executing risk oversight, the Board has adopted an Enterprise Risk Management (ERM) framework, an approach that ensures a comprehensive view of the risks inherent in our strategy, business and operations. As a result, the management of risk and opportunity is an integral part of all our planning and decision-making processes. Ethical behaviour, compliance with laws and regulations, and sound accounting practices form the foundation of our internal control processes, ensuring effective governance of risk.

The ERM framework serves as the fundamental basis and support for the entire risk management structure within the company. The framework establishes the guidelines and procedures for identifying, evaluating, monitoring, and controlling risks at both the organisational and individual levels. By implementing this framework, Ithala ensures that risk management is a continuous and ongoing process.

### THREE LINES OF DEFENCE

Ithala follows the Three Lines of Defence model that is aligned to the Basel Committee of Banking principles. The Three Lines of Defence Policy was introduced and approved by the Board in 2022.

The first line of defence at Ithala includes the executive team, business unit managers and employees. Together, they are responsible for fostering a risk-aware culture and implementing risk monitoring and prevention procedures. Every employee plays a role in this effort.

The second line of defence is the fraud and risk function. This function operates under Ithala’s ERM framework and is responsible for developing and documenting risk policies, providing oversight of risk management and fraud detection efforts, and reporting to the executive team and the Board.

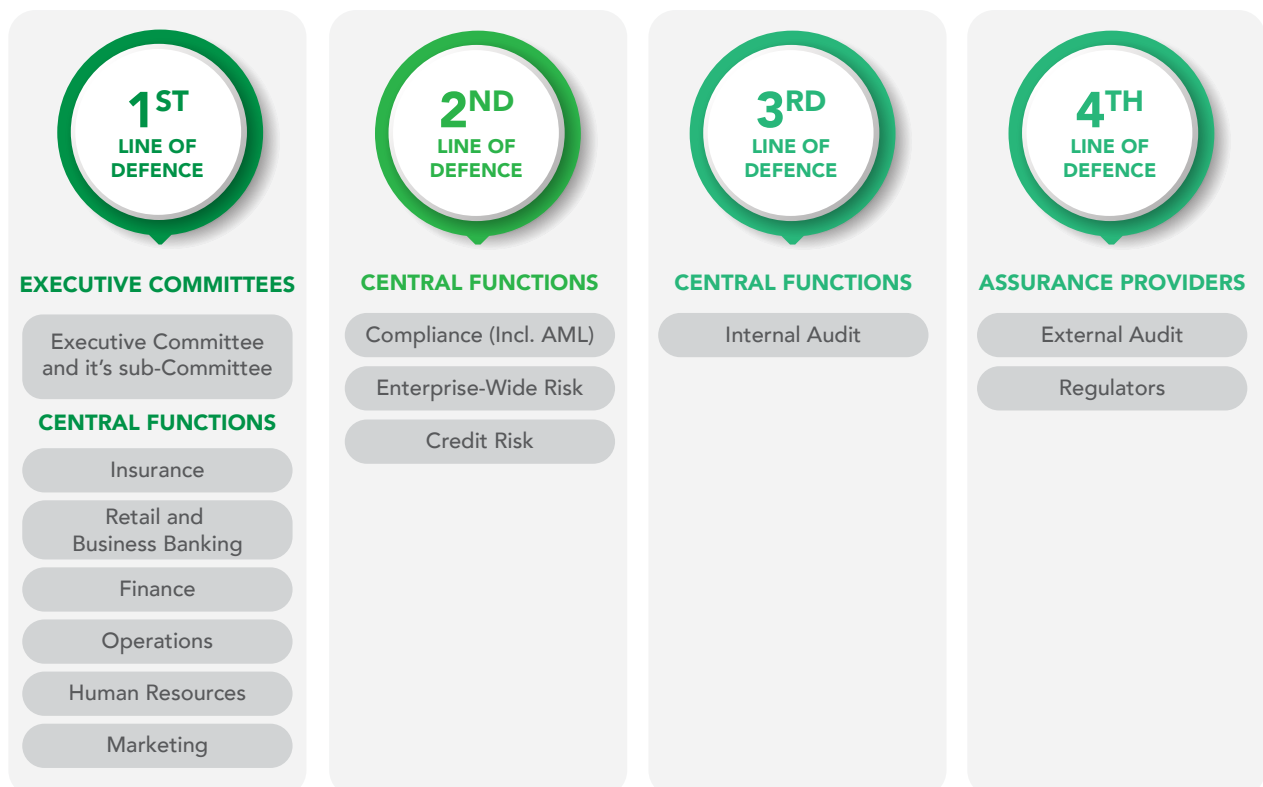
The third line of defence is the internal audit function, which conducts independent audits of risk processes throughout the organisation. This function provides assurance on risk management and drives coordinated assurance efforts.

### COORDINATED ASSURANCE

Coordinated Assurance (CA) is provided by the second and third lines of defence with focus on integrating and aligning the assurance process. The aim of the CA within Ithala is to ensure that assurance providers, internal and external, work together to ensure assurance is obtained in the right areas and in the most cost-effective way possible. This has been enforced by the approval of the CA policy in June 2023.

### BOARD COMMITTEES

Statutory Board Committee and it’s sub-Committee



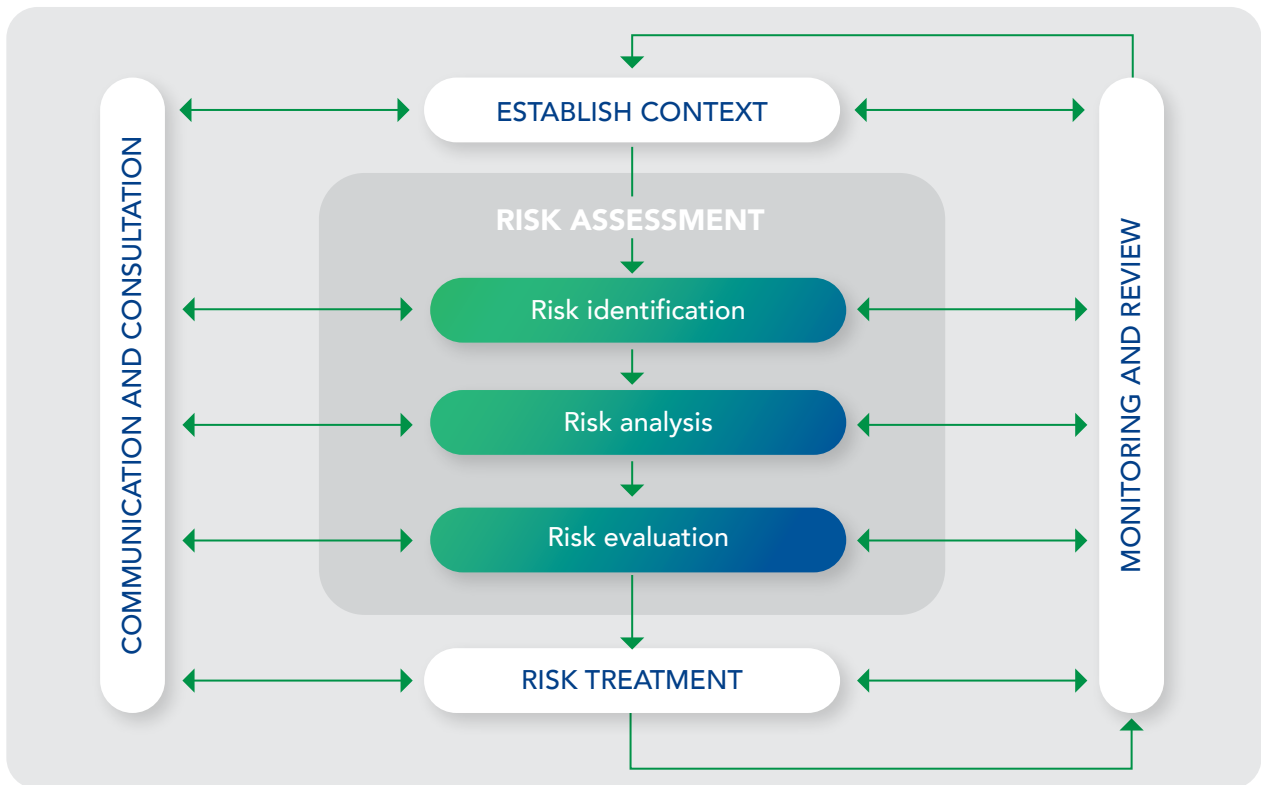
**RISK MANAGEMENT PROCESS**

Ithala has implemented the ISO 31000 standard. This adoption reflects Ithala’s commitment to effectively manage risk and ensure a robust risk management framework. Within this framework, two key mechanisms have been established: monitoring and review of performance, and communication and consultation.

The monitoring and review of performance allows Ithala to continuously assess and evaluate our performance in relation to risk management. By regularly monitoring and reviewing our activities, the business can identify potential risks, assess their impact, and take appropriate measures to mitigate the risks. This proactive approach helps Ithala to navigate through a volatile, uncertain, and fragile environment by staying responsive to emerging risks and adapting its strategies accordingly.

In addition, effective communication and consultation play a crucial role in managing risk within the organisation. By establishing clear channels of communication and actively engaging with stakeholders, Ithala ensures that information flows smoothly and that all relevant parties are involved in the risk management process. This fosters a culture of transparency and collaboration, enabling the business to gather valuable insights, receive feedback, and make informed decisions regarding risk management.

By incorporating these mechanisms into its risk management practices, Ithala demonstrates its commitment to proactive risk management and creating a resilient environment in the face of uncertainties and challenges. The adoption of ISO 31000 provides a structured framework for these activities, enabling Ithala to effectively identify, assess, and mitigate risks while promoting a culture of continuous improvement and stakeholder engagement.



Risk Management Process based on ISO 31000

## OUR RISK UNIVERSE

Strategic Risk (including Business Execution Risk)	Financial Risk	Capital Risk	Market Risk in Trading and Banking Book	Operational Risk	Third Party Risk	Concentration Risk	Information and Technology Risk	Financial Crime Risk (Including fraud, bribery, corruption and cyber crime)
People Risk	Compliance Risk (Including Regulatory Risk)	Credit Risk	Liquidity and Funding Risk	Insurance Risk	Conduct Risk	Legal Risk	Environmental, Social and Governance Risk (ESG), including ethical risk	Reputational Risk

## OUR RISK RESPONSE

To execute changes in the following areas:

- Operating model
- Capital injection
- Change in shareholding, to enable Ithala SOC Ltd to operate independently
- To raise capital to:
  - Consolidate and digitise Ithala's IT systems
  - To address the non-compliance with BCBS 239(RDARR)
  - Automation

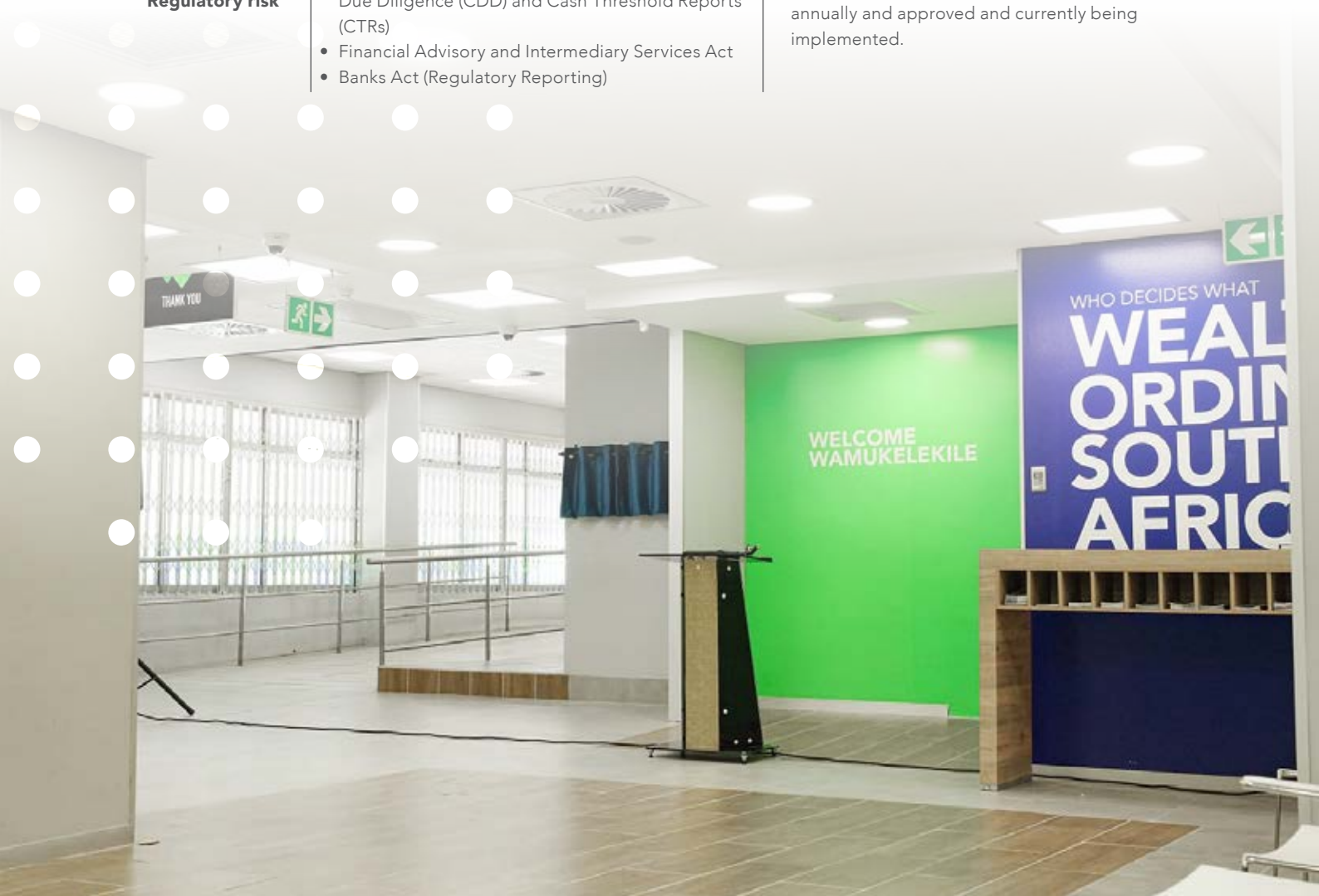
OUTLOOK 

Ithala is committed to improving its internal controls, particularly in the areas of governance and business continuity. To this end, we will continue to monitor and enhance our internal control processes. Additionally, we will align our repurposed strategy with our Enterprise Risk Management Framework and increase its project management capacity to execute key projects, particularly in IT. This will help to reduce risks associated with outsourcing. In order to proactively detect fraud, Ithala will implement automated fraud detection mechanisms, reducing reliance on whistleblowing and fraud tip-offs.



## OUR PRINCIPAL RISKS

RISK CATEGORY	KEY AREAS OF CONCERN	RISK RESPONSE
<b>Capital risk</b>	<p>The continued loss-making position of Ithala erodes capital and may result in the prudential limit of 15% on capital adequacy being breached.</p> <p>Capital limitations may potentially constrain any further growth opportunities in the lending portfolio.</p>	<p>During the year under review, the shareholder committed an additional R51 million capital injection for FY2023/24. Additional capital of R53 million and R56 million has been committed for years 2024/25 and 2025/26 respectively. The shareholder will be engaging in a capital raising exercise through the formation of an InterposedCo. The difficulties experienced with the fiscus and looming budget cuts may put additional strain on Ithala's capital adequacy levels.</p>
<b>Strategic risk</b>	<p>Banking licence decline or extension of exemption declined.</p>	<p>The Prudential Authority extended the entity's banking licence exemption to 15 December 2023 subject to Ithala – together with our stakeholders – fulfilling conditions set out in the exemption notice. Ithala continues to rely on the financial support of the parent entity to maintain the required capital in terms of the conditions of the banking licence exemption. Ithala has since submitted an application for authorisation to establish a bank per section 12 of the Banks Act.</p>
<b>Regulatory risk</b>	<p>Non-compliance with regulatory requirements and applicable legislation. Specifically, the</p> <ul style="list-style-type: none"> <li>• Financial Intelligence Centre Act (FICA), Customer Due Diligence (CDD) and Cash Threshold Reports (CTRs)</li> <li>• Financial Advisory and Intermediary Services Act</li> <li>• Banks Act (Regulatory Reporting)</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory universe and the compliance programme (including Compliance Risk Management Plan (CRMP)) are reviewed annually and approved and currently being implemented.</li> </ul>



## COMPLIANCE

Ithala's Board has embraced a zero tolerance approach when it comes to regulatory transgressions and unethical behavior. The commitment extends towards fostering a culture of adherence that transcends mere procedural formalities. This compliance ethos is deeply ingrained across all facets of the business. During the year under review, the focal points included aligning with the stipulations of the Banks Act and FICA, along with the continuous enhancement of the compliance culture. In this context, the following initiatives were undertaken:

- Ithala undertook to manually remediate its clients' Know Your Client (KYC) information. KYC remediation was delivered on a project basis
- Ithala procured customer on-boarding partner that will ensure all the regulatory concerns raised by the PA and the Financial Intelligence Centre (FIC) are promptly resolved
- Ithala embarked on a process to store its business records – including customer information – on a digital platform
- Ithala appointed a document management service provider

All the above initiatives will ensure Ithala is fully compliant with FICA and other legislative requirements.

## INTERNAL AUDIT

In accordance with regulation 38 of the Banks Act and King IV™, internal audit has been established to assist in establishing and maintaining an effective system of internal controls to manage business risks and opportunities, serving as a third line of defence. The internal audit activities are conducted in line with International Standards for the Professional Practice of Internal Auditing. The Chief Audit Executive (CAE), who holds an independent role within the Executive Committee, reports functionally and directly to the Audit and Compliance Committee (ACC). The CAE is responsible for presenting the internal audit charter, a three-year rolling audit plan, and an annual audit plan to the ACC for review and approval during committee meetings. On a quarterly basis, the CAE furnishes the ACC with a comprehensive report detailing the condition of the risk and control environment, a summary derived from the conducted audit work.

Throughout the review period, the central concentration was on augmenting efficiency and efficacy, all the while reducing instances of revenue loss within the business. This priority will persist as the executive management team carries out the Strategic Revitalisation Plan (SRP) and introduces a novel operational framework. These strategic actions are geared towards guiding the business on a trajectory towards achieving profitability.

## MATERIAL MATTERS

This report is centered around issues that hold significance within Ithala’s process of generating value. We delineate a material matter as one that exerts an impact on our capacity to execute our strategy successfully and to sustain commercial viability while retaining social relevance within the communities we engage with. This encompasses both qualitative and quantitative aspects that influence the assessments made by our diverse stakeholders regarding the value contributed by the business.

During 2022/23, we enhanced our materiality determination process by adopting a double materiality approach to identify and prioritise material matters. By adopting this approach, we acknowledge that we must manage, and take responsibility for, the actual and potential adverse impacts our decisions could have on people, society and the environment. Material matters are prioritised based on their potential to impact our ability to create value over the short, medium and long term, as well as their impact on society, communities and the environment.

 <p><b>BANKING LICENCE</b></p> <p>Please see page 50 for more information on this material matter.</p>	<b>Associated capitals</b>		
	 <p><b>Financial</b></p>	 <p><b>Social and relationship</b></p>	 <p><b>Human</b></p>
<b>DESCRIPTION AND DESIRED OUTCOME</b>			

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


### OUR STRATEGIC RESPONSE

Ithala has adopted a repurposed strategy plan focused on enabling Ithala to obtain a banking licence. These strategic imperatives are discussed on page 50 of this report. 

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

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

### OUR STRATEGIC RESPONSE

The Board has approved our top high-risk legislation, which we shall continue to manage and monitor through the improvement and development of compliance risk management plans. In addition, we endeavour to ensure we are complying with the overall regulatory requirements contained in our over 76 pieces of legislation applicable to the organisation. Please see page 69 of this report for more information. 

 <p><b>STRATEGY CHOICE FOR GROWTH</b></p> <p>Please see page 50 for more information on this material matter.</p>	<b>Associated capitals</b>		
	 <p><b>Financial</b></p>	 <p><b>Social and relationship</b></p>	 <p><b>Manufactured</b></p>

**DESCRIPTION AND DESIRED OUTCOME**

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

**OUR STRATEGIC RESPONSE**

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

 <p><b>TECHNOLOGY</b></p> <p>Please see page 91 for more information on this material matter.</p>	<b>Associated capitals</b>		
	 <p><b>Financial</b></p>	 <p><b>Manufactured</b></p>	 <p><b>Intellectual</b></p>

**DESCRIPTION AND DESIRED OUTCOME**

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

Ithala’s IT systems are characterised by a lack of process automation that results in a significant proportion of manual workflows and leads to inefficiencies and errors and encumbers the management and monitoring of processes. The lagging technology diminishes its appeal to customers especially those who reside far from branches. Ithala’s appeal is also limited for higher-income and digitally sophisticated customers who prefer digital interaction. The lack of investment in technology and technical skills has contributed to the loss of competitiveness and market share, which inadvertently leads to Ithala’s financial challenges.

**OUR STRATEGIC RESPONSE**

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

 <p><b>EMPLOYEE VALUE PROPOSITION</b></p> <p>Please see page 90 for more information on this material matter.</p>	<b>Associated capitals</b>	
	 <p><b>Human</b></p>	 <p><b>Financial</b></p>

**DESCRIPTION AND DESIRED OUTCOME**

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

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

**OUR STRATEGIC RESPONSE**

Ithala is a learning institution committed to attracting and retaining skilled and experienced banking staff. We embed a culture of performance aimed at ensuring excellence across all our functions. To ensure alignment with best practice, Ithala has embarked on various initiatives to enhance our EVP. A key focus is on on-boarding and talent management – which includes employee engagement, employee development, career pathing and succession planning, where possible successors have been identified to ensure a pipeline to fill critical positions.

Our wellness program has also been extended to include a specific focus on Executive wellness.









# 06: PERFORMANCE

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## ANNUAL PERFORMANCE REPORT

The table below presents Ithala's performance information. Out of the 32 goals set for FY2022/23, Ithala achieved 10, which is 31% of the set target.

Financial & Shareholder Perspective (Weighting = 40%)				
Strategic Objectives	Key Performance Indicator	Target 2022/2023	Actual 2022/2023	Management Comments
Increase sales revenue and reduce our cost base	Achieve the targeted minimum/(maximum) net profit/(loss) by 31 March 2023 (R'000)	≤ (59 789)	(60 511)	Loss due to the higher ECL raised during the year which is R8 million higher than budget. This is due to the tough economic environment and increasing interest rates, making it difficult for clients to service their debt. Ithala is on a drive to increase non-interest income to compensate for the increase in ECL. Additionally, the loan book will be closely monitored to reduce defaults.
	Achieve the targeted maximum cost to income ratio (CTIR) by 31 March 2023	≤ 115.7%	113.1%	Target Achieved
	Achieve the targeted JAWS ratio by 31 March 2023	-0.6%	4.0%	Target Achieved
	Achieve the targeted minimum net interest margin by 31 March 2023	≥ 72.1%	74.3%	Target Achieved
	Achieve the targeted minimum non-interest income to total income ratio by 31 March 2023	≥ 56.5%	49.2%	Non-interest income for the year is below the target due to lower transactions volumes, whilst total income was boosted by the increase in interest rates. Ithala has initiated a new targeted off-site sales campaign. Sales to focus on acquiring quality transaction accounts.
	Achieve the targeted minimum non-interest income to total expenses ratio by 31 March 2023	≥ 49.0%	43.3%	

<b>Maintain Optimum Business and Operational Resilience through Liquidity and Capital Management</b>	Achieve the targeted minimum leverage ratio by 31 March 2023	<b>≥ 11.7%</b>	<b>12.0%</b>	Target Achieved
	Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by 31 March 2023	<b>≥ 11.8%</b>	<b>10.2%</b>	Growth in customer deposits has been lower than budget resulting in minimal surplus funds held. This is due to the challenging economic environment, leaving customers with less surplus funds available for savings. Ithala has initiated certain initiatives, and interest incentive schemes, to attract new deposits as well as retain existing funds.
	Achieve the targeted maximum impaired advances ratio by 31 March 2023	<b>≤ 8.0%</b>	<b>8.0%</b>	Target Achieved
	Achieve the targeted minimum capital adequacy ratio (CAR) by 31 March 2023*	<b>≥ 18.4%</b>	<b>18.1%</b>	Target missed due to higher risk weighted assets held compared to budget. CAR at 18.1%, is above the minimum regulatory requirement of 15%. CAR is monitored through ALCO.
	Achieve the targeted minimum customer deposits balance by 31 March 2023	<b>≥ 2 557 511</b>	<b>2 485 352</b>	The current macro-economic conditions, high interest rates and inflation, has impacted customer's disposable income, leaving customers with lower surplus funds to save. Additionally, branch closure due to system downtime or loadshedding leaves branches unable to service customers. The business has initiated certain initiatives, addressing downtime and interest incentive schemes, to attract new deposits as well as retain existing funds.
	Achieve the targeted minimum new advances amount by 31 March 2023	<b>≥ 516 964</b>	<b>479 800</b>	Low uptake of loans mainly due to failure of the home loan on-boarding system and increased application time. Ithala changed focus from home loans to pension-backed loans and taxi finance which have grown YoY by 42% and 23%, respectively. Expanding loan offering to short term loans as they are a safety net in high interest rate environments.

\*Unaudited key performance indicator (KPI).

Customer Perspective (Weighting = 25%)				
Strategic Objectives	Key Performance Indicators	Target 2022/2023	Actual 2022/2023	Management Comments
Increase sales revenue and reduce our cost base	Achieve the targeted minimum non-interest income from insurance activities by 31 March 2023	≥ 20 152	13 744	Dividends/fees from cell-captives have not materialised. Additionally, delays in the Insurance Management System (IMS) implementation has impacted the reinstatement of Credit Life offering. Ithala is engaging IDFC requesting capital support for the IT Solutions that are required for the Life and Non-Life Cell Captives.
	Achieve the targeted minimum non-interest income from banking activities by 31 March 2023	≥ 201 559	175 600	Non-interest income for the year is below the target due to lower transactions volumes, whilst total income was boosted by the increase in interest rates. Ithala has initiated a new targeted off-site sales campaign. Sales to focus on acquiring quality transaction accounts.
	Achieve the targeted minimum advertising noting score by 31 March 2023	<b>Achieve target of advertising noting score of ≥ 50</b>	21%	This is due to limited budget to sustain awareness campaigns across key advertising mediums. A marginal increase in the marketing investment budget has been secured for the FY2023/24. More investment in digital marketing, TV and Radio is planned for FY2023/24.
	Achieve the targeted minimum net promoter score (NPS) by 31 March 2023	<b>Achieve NPS score of ≥ 50%</b>	55%	Target Achieved
	Achieve the targeted minimum customer satisfaction score by 31 March 2023	<b>Achieve customer satisfaction score of ≥ 80.0%</b>	87%	Target Achieved
	Implement operating model review and redesign project to embed efficiencies and innovation	<b>90% adherence to the implementation milestones per the approved project plans</b>	<b>New operating model approved by Board in September 2022. Organizational structure approved by Board in March 2023.</b>	New operating model outcomes were presented to and approved by Ithala Board and Exco. Recommendations were considered by management during the strategy session held in Nov/Dec 2022. New operating model initiatives to be implemented by management.

Business Process Perspective (Weighting = 25%)				
Strategic Objective	Key Performance Indicators	Target 2022/2023	Actual 2022/2023	Management Comments
Strengthen our IT capabilities	Successful implementation of IT roadmap initiatives	<b>90% adherence to the implementation milestones per the approved project plans</b>	<b>Phase 1 = 67%. Overall (all 3 phases) = 34%</b>	Global shortage of network switches delayed the implementation of the network between the Production Data center and the Disaster Recovery center. Alternative supplier of switches is being considered.
	System availability (IT Readiness)	<b>Achieve minimum uptime of 85%</b>	<b>94%</b>	Target achieved
Treatment of Risks, reduce Compliance and Audit issues	Achieved an unqualified audit opinion (clean audit) with no material findings on compliance or pre-determined objectives for the financial year ended	<b>Unqualified audit opinion with no material findings on compliance or pre-determined objectives</b>	<b>Unqualified audit opinion with findings on compliance (FY2021/2022)</b>	An unqualified audit opinion, with financial statements free from material misstatements was achieved for FY2021/22. However, findings were raised on irregular expenditure incurred due to expired SLAs. Ithala has regularised most of these expired SLAs.
	Achieve the targeted reduction rate of Risk Issues Log for the financial year end	<b>On-time remediation <math>\geq 75\%</math></b>	<b>11%</b>	A total of 4 issues were resolved on time against a total of 35 resolved issues in FY2022/23. Management to implement issues according to agreed action plans on time, monitored through audit champions and quarterly meetings.
		<b>Overdue Issues <math>\leq 15\%</math></b>	<b>93%</b>	
		<b>Failed Issues Assurance <math>\leq 5\%</math></b>	<b>10%</b>	Inadequate Portfolio of Evidence (PoE) submitted for evaluation. A total of 4 issues failed assurance against a total of 39 issues whose PoE was evaluated during follow-up testing. Audit champions to be appointed to support business and follow up to be done quarterly.

People, Learning & Growth Perspective (Weighting = 10%)				
Strategic Objective	Key Performance Indicators	Target 2022/23	Actual 2022/23	Management Comments
<b>Empower our people to lead for innovation and growth</b>	Increase our Human Capital readiness for change	<b>Increase our human capital readiness to 65%</b>	<b>Not achieved</b>	The annual climate survey will be conducted in May 2023.
	Devolution of delegated authority to senior and middle management and monitoring	<b>Increase our human capital readiness to 70%</b>	<b>Not achieved</b>	The Delegation of Authority document is currently under review, and will be implemented after approval by the Board.
	Increase productivity and performance to set values	<b>Performance rating distribution 10% &lt; 3</b>	<b>&lt;3 = 17%</b>	When viewed in isolation, the Q3 performance rating is below the target, but the final performance ratings, which is influenced by Q4 performance, will result in more people reaching their full targets for the year.
		<b>85% = 3</b>	<b>3 = 74%</b>	
		<b>5% &gt; 3</b>	<b>&gt;3 = 9%</b>	
	Communication and engagement	<b>Employee scores of &gt; 75%</b>	<b>Not achieved</b>	The annual climate survey will be conducted in May 2023.
	Talent retention and succession planning as per EE Plan	<b>40% of positions advertised to be earmarked for internal candidates</b>	<b>8%</b>	Most senior appointments required specialist knowledge which was acquired externally and immersed with prospective successors internally. The succession plan has identified possible successors to critical positions and those requiring scarce skills.
<b>50% of internal promotions to be reserved for female candidates</b>		<b>100%</b>	Target Achieved	



## IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL EXPENDITURE

### DEFINITIONS

**Irregular expenditure** means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including—

- (a) PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

**Fruitless and wasteful expenditure** means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

### FRUITLESS AND WASTEFUL EXPENDITURE

There was no fruitless and wasteful expenditure incurred in the current year (2022: R0).

### IRREGULAR EXPENDITURE

	2023	2022	2021
	R '000	R '000	R '000
<b>Reconciliation of irregular expenditure</b>			
Opening balance	111 120	92 623	46 059
Prior period errors	-	-	25 690
<b>As restated</b>	<b>111 120</b>	<b>92 623</b>	<b>71 749</b>
Add: Irregular expenditure confirmed	4 474	18 497	20 874
Less: Irregular expenditure condoned	-	-	-
Less: Irregular expenditure not condoned and removed	-	-	-
Less: Irregular expenditure recoverable	-	-	-
Less: Irregular expenditure not recovered and written off	-	-	-
<b>Closing balance</b>	<b>115 594</b>	<b>111 120</b>	<b>92 623</b>

Irregular expenditure was incurred as a result of not complying with the Supply Chain Management Policy.

	2023	2022
	R '000	R '000
<b>Reconciling notes to the annual financial statement disclosed</b>		
Irregular expenditure that was under assessment	-	-
Irregular expenditure that relates to the prior year and identified in the current year	-	-
Irregular expenditure for the current year	4 474	18 497
<b>Total</b>	<b>4 474</b>	<b>18 497</b>

	2023	2022
	R '000	R '000
<b>Details of current and previous year irregular expenditure (under assessment, determination, and investigation)</b>		
Irregular expenditure under assessment	-	-
Irregular expenditure under determination	-	-
Irregular expenditure under investigation	4 474	18 497
Irregular expenditure incurred is still under investigation.		

## Details of current and previous year irregular expenditure condoned

Irregular expenditure condoned

No irregular expenditure was condoned

2023	2022
R '000	R '000

- -

## Details of current and previous year irregular expenditure removed - (not condoned)

Irregular expenditure not condoned and removed

No irregular expenditure was removed

2023	2022
R '000	R '000

- -

## Details of current and previous year irregular expenditure recovered

Irregular expenditure not condoned and removed

No irregular expenditure was recovered

2023	2022
R '000	R '000

- -

## Details of current and previous year irregular expenditure written off (irrecoverable)

Irregular expenditure not condoned and removed

No irregular expenditure was written off

2023	2022
R '000	R '000

- -

## Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure

Total

Irregular expenditure is being investigated to determine disciplinary action to be taken.

2023	2022
R '000	R '000

- -

Refer to note 27 of the annual financial statements for additional disclosure.

## INFORMATION ON SUPPLY CHAIN MANAGEMENT

Procurement by other means					
No	Project Description	Name of Supplier	Types of Procurement by other means	Contract Number	Value of contract
1	Profida Annual License Fee for a period of five (05) years at Ithala SOC Limited	Computer Science Software Pty Ltd	Single Source	RFB 04/22	R3 273 900,10
2	Provision of Stadium LED Advertising during the new Soccer Season for Ithala SOC Limited	SAIL Rights Commercialisation	Single Source	RFQ 20191	R2 671 400,00
3	The appointment of a service provider to assist with the Integrated Annual Report for a period of two years	Triologue Pty Ltd	Single Source	RFB 09.22	R1 339 368,64
4	The Appointment of a Card Supplier for an End to End EMV and Contactless Debit Card Management for a period Three (3) Years	Oberthur Technologies South Africa t/a IDEMIA	Closed Multi-Source	RFB 08.22	R884 120,00
5	Appointment of service provider for the designing, supplying, delivering, installing, commissioning and maintenance of IBM hardware and software for a period of three (3) years with an option to renew for a further period of two (2) years.	Technology Corporate Management (TCM)	Closed Multi-Source	RFB 02/22	R10 621 527,11
6	Appointment of a service provider to provide with a Business Analyst for the IMS Project	FACHS Business Consulting and Training	Single source	RFQ 19649	R552 000,00
7	Emergency service to repair/replace damaged security access doors at Ithala Ngwavuma branch	Alusteel Designs (Pty) Ltd	Emergency	RFQ 19307	R126 270,00
8	Emergency service to replace inter-leading door override keys and ATM cash office door locks & keys at Inkandla branch	Alusteel Designs (Pty) Ltd	Emergency	RFQ 19429	R29 486,00
9	Appointment of a contractor for the completion of works at Anton Lembede branch	Pro-Contracts (Pty) Ltd	Emergency	RFQ 20123	R601 538,04
10	Emergency service to service and repair the existing entrance access system and emergency exit door at Anton Lembede	Bona Electronic solutions (Pty) Ltd	Emergency	RFQ 20502	R55 435,97
11	Rental of adlites for a period of 12 month in 13 locations	Primedia Outdoor A Division of Primedia (Pty) Ltd	Single source	RFQ 20280	R233 220,00
12	Online Banking Board Leadership Programme	Gordon Institute of Business Science (GIBS), a Division of University of Pretoria	Single Source	RFQ 20499	R 307 500,00
13	Appointment of a service provider to for media services	Provantage (Pty) Ltd	Single source	RFQ 20523	R3 972 555,65
14	Emergency service to to repair UPS system and replace batteries due to an electrical short circuit at Mbazwana branch	Testyl Trading Investments (Pty) Ltd	Emergency	RFQ 20796	R105 805,75

Procurement by other means (continued)					
No	Project Description	Name of Supplier	Types of Procurement by other means	Contract Number	Value of contract
15	Sourcing and contracting an RPG Programmer for the period of six months	Highbury Solutions (Pty) Ltd	Single source	RFQ 20887	R990 000,00
16	Emergency service to repair main entrance door electronics, inter-leading door control arm and override at Ndumo branch	A and A Door (Pty) Ltd	Emergency	RFQ 20592	R38 744,62
17	Emergency service for general repairs and building of vault room at Ndumo branch	Thulisi Construction (Pty) Ltd	Emergency	RFQ 20639	R251 432,55
18	New safe at Ezingolweni Branch	Mutual Austen Safe and Security Natal (Pty) Ltd	Emergency	RFQ 20922	R91 997,70
19	Appointment of a service provider for the training of chairperson/presiding officers on chairing of disciplinary/ grievance hearing	Labour guide	Single source	RFQ 20917	R72 105,00
20	Supply, deliver and install teller drawers at Eshowe Branch	Mutual Austen Safe and Security Natal (Pty) Ltd	Single source	RFQ 20955	R99 992,50
21	Appointment of a service provider for provision of backscanning services	Metrofile (Pty) Ltd	Closed multi-source	RFB 06/22	R4 587 331,00
22	Emergency service to service generators at Ithala SOC Limited Northern region branches	Ivek Electro Mechanical cc	Emergency	RFQ 20767	R62 205,80
23	Leasing of AS400 server for the priod of twelve (12) months	Technology corporate management	Single source	RFQ 20508	R552 000,00
24	Appointment of a service provider to provide general repairs and building	Thula wazi nomafu (Pty) Ltd	Emergency	RFQ 20785	R257 255,00
25	Appointment of a service provider to facilitate strategy session	Letsema consulting	Single source	RFQ 21031	R51 750,00
26	Database Developer/ Solutions Architect to define the requirements for Ithala SOC Enterprise Data warehouse	Highbury Solutions (Pty) Ltd	Single source	RFQ 20954	R920 000,00
27	Appointment of a service provider to prepare and process the application of accreditation for Ithala Academy at BankSeta	Lynel Farrel Consulting South Africa	Single source	RFQ 21086	R49 045,00
28	Emergency service for general repairs and building of vault room at Izingolweni branch	Thula Wazi Nomafu (Pty) Ltd	Emergency	RFQ 20785	R340 400,00
29	Emergency service to supply, install and commission Uninterruptable Power Supply (UPS) system at Harding branch	Testyl Trading Investments (Pty) Ltd	Emergency	RFQ 21029	R180 329,09
30	Repairing of interleading and main entrance doors at various Ithala Branches	A and A Door (Pty) Ltd	Emergency	RFQ 20748	R259 278,34
31	Aircon repairs and replacement	VM Refrigeration air conditioning	Emergency	RFQ 21108	R132 130,29

Procurement by other means (continued)					
No	Project Description	Name of Supplier	Types of Procurement by other means	Contract Number	Value of contract
32	Aircon repairs and replacement	VM Refrigeration air conditioning	Emergency	RFQ 21109	R112 902,40
33	Aircon repairs and replacement	VM Refrigeration air conditioning	Emergency	RFQ 21110	R99 729,15
34	Installation of UPS	PSS Distributors	Emergency	RFQ 21104	R294 024,07
35	Hospitality package for Durban Jazz Festival	Limitless Brands	Single Source	RFQ 21080	R60 950,00
36	Appointment of a service provider to procure macro-economic data, forecasts and presentations for a period of 36 months at Ithala SOC head office	Econometrix Pty (Ltd)	Single Source	RFQ 21144	R448 500,00
37	Appointment of a service provider to provide activation agency services	Flooid (Pty) Ltd	Single source	RFQ 21226	R233 763,00
38	Microsoft engineer	NEXIO	Single source	RFQ 21394	R 625 598.80
39	Speaker at Business Engagement at Musgrave Coastlands Hotels	Empowaworx	Single Source	RFQ 21390	R63 250,00
40	Appointment of a service provider to provide financial regulatory reporting training	Karusha M Consulting (Pty) Ltd	Single source	RFQ 21419	R140 000,00
41	Appointment of a service provider to provide cash management solution at various Ithala SOC limited branches for the period of five years	Fidelity Cash Solutions (Pty) Ltd	Closed multi-source	RFB 11/22	R11 587 963,12

Contract variations and expansions							
No	Project Description	Name of Supplier	Contract Number	Contract modification type (Expansion or Variation)	Original contract value	Value of previous contract expansion or variation of contract	Value of current contract expansion or variation
1	Appointment of a service provider to supply and install electrical items	Testyl trading investment	RFQ 19592	Additional work discovered	R417 450,00	R0,00	R141 025,00
2	Mantrap access control cubicle, anti-bandit dorr, gate manufacture and installation contractor at Ithala's new facility at Eshowe	Mutual Austen Safe and Security Natal (Pty) Ltd	RFQ 20216	Additional work discovered	R181 312,45	R0,00	R 29 152,50
3	Supply, install and deliver office furniture at Ithala new banking facility located at Eshowe	Jarman Office Furniture	RFQ 20524	Additional work discovered	R 235 474,29	R0,00	R 12 394,24
4	Supply and installation of graphics and general signage at Ithala's new banking facility located at Eshowe	Foot Print Design (Pty) Ltd	RFQ 20220	Additional work discovered	R122 989,63	R0,00	R8 922,28
5	Supply and install alarm, CCTV cameras and fire detection system at Ithala's new banking facility located at Eshowe	Fidelity Security Services (Pty) Ltd	RFQ 20214	Contract variation	R387 717,00	R0,00	R 18 125,59
6	Advertising a tender in various newspapers	Kone Staffing Solutions	RFQ 21172	Contract variation	R38 531,19	R0,00	R8 562,49
7	Installation of mantrap and anti-bandit doors at Ithala's new banking facility located at Anton Lembede, Durban	Mutual Austen Safe and Security Natal (Pty) Ltd	RFQ 19049	Contract variation	R243 604,50	R0,00	R77 107,50
8	Request for approval to approve 20% variation to the Econometrix subscription	Econometrix Pty (Ltd)		Contract variation	R50 000,00	R0,00	R10 000,00
10	Request for approval to approve variation of the scanned images from 10m to 30m images	Metrofile (Pty) Ltd	RFB 06/22	Contract variation	R4 587 331,00	R0,00	R8 912 669,00

## FINANCIAL OVERVIEW

South Africa's economic growth in 2022 was estimated at 2.5 percent, but the growth outlook has worsened, with a predicted growth of 1.4 percent over the next three years. This revision is lower than the 1.6 percent prediction stated in the 2022 Medium-Term Budget Policy Statement. The inadequate electricity supply remains a major constraint on production, investment, and employment, and it is further compounded by disruptions and underinvestment in freight and logistics networks, which negatively impact competitiveness. Additionally, global economic growth is expected to slow down in 2023, leading central banks worldwide to counter high inflation through increased interest rates. Rising inflation has constrained household spending and increased the cost of living for individuals.

### OPERATING PERFORMANCE

Ithala recorded a loss of R60.5 million for the fiscal year ending on March 31, 2023, compared to a loss of R52.0 million in the previous year. The net loss for FY2023 includes an increase in Expected Credit Losses (ECL) of R8.7 million, primarily relating to the loans and advances book. In contrast, the prior year saw a release of ECL amounting to R7.2 million.

However, when excluding the impact of ECL, the trading performance of the business has demonstrated year-on-year growth. This growth is evident from the positive JAWS ratio of 4.0%. Moreover, as of March 31, 2023, the company's total assets exceeded total liabilities by R374.2 million, while total surplus funds amounted to R558.8 million. Comparatively, as of March 31, 2022, total assets exceeded total liabilities by R369.7 million, and total surplus funds stood at R635 million.

The capital adequacy ratio was 18.1%, slightly lower than the 18.3% recorded in March 2022. However, this ratio remains above the minimum capital adequacy ratio required by the SARB, which stands at 15%.



## BUSINESS UNIT OVERVIEW

### RETAIL AND BUSINESS BANKING

During the fiscal year 2022/23, Ithala Retail and Business Banking (RBB) faced ongoing constraints within the domestic economy, negatively impacting consumer spending. The challenging economic conditions, combined with rising petrol prices and sharp increases in interest rates, have significantly impacted a majority of Ithala's clients. As a consequence, clients' disposable income has been shrinking, making it increasingly difficult for them to meet their monthly loan installments.

As a result, customers resorted to accessing their savings and investments to meet their living expenses. This drawdown in funds led to flat growth in the company's savings and investment portfolio, culminating in a year-end customer deposit balance of R2.48 billion, a slight increase from R2.47 billion in 2022.

While the challenging operating environment hindered the achievement of targets for maximising non-interest revenue, we retained focus on delivering quality services to our customers. The company attained NPS of 55%, with a customer satisfaction score at 87%, indicating the level of satisfaction among our customer base. These metrics serve as a testament to the company's commitment to providing excellent services despite the prevailing circumstances.

### INSURANCE

At Ithala, our core focus is on financial planning and building professional relationships with our clients. We prioritise understanding their unique financial and personal situations to develop tailored financial plans and actively manage them in collaboration with our clients. Our commitment to serving the state and the people of South Africa has driven us to diversify our existing model.

One significant development in line with our diversification efforts is the establishment of Ithala SOC Corporate Brokerage. Through this initiative, we now offer our clients access to products and services that were previously unavailable. During the review period we implemented a comprehensive fourfold strategy aligned with our distribution channels.

The first part of our strategy centres around cell captives, enabling us to provide both long- and short-term insurance solutions and generate revenue through binder and commission income.

The second part of our strategy focuses on brokerage arrangements, allowing us to distribute external insurance products and earn commission revenue in the process.

Our third strategic component involves establishing key account arrangements with entities throughout the province. This approach enables us to offer customised solutions to these entities and their value chains, utilising both cell captive and external insurance products.

Finally, we have invested in our digital platform. Our MyIthala website currently serves as a hub for all the products we market. We are actively engaging with various service providers to develop a digital end-to-end process that caters to the needs of individuals and businesses (B2B).

By diversifying our offerings and embracing digital advancements, we aim to provide comprehensive and convenient financial services to our clients, while upholding our commitment to serving the people of South Africa.

## OUTLOOK |

Despite the challenges faced by Ithala in the period under review, there is a positive outlook for the business, indicating a growth trajectory. Through an analysis of trading results compared to previous years, it is evident that the business is on a positive trajectory. In line with this, Ithala has set a budget and strategic plan to turn around the business over the next three years, with the goal of reporting a net profit in the 2026 financial year.

To achieve this objective, Ithala is implementing the SRP, which outlines specific actions and initiatives aimed at improving the financial performance and overall health of the business. The SRP includes various measures to address the challenges faced by the business, such as enhancing revenue generation, optimising cost structures, managing credit risks, and strengthening operational efficiency.

By executing the SRP and focusing on strategic initiatives, Ithala aims to overcome the obstacles experienced in the past and achieve sustainable profitability in the future. This demonstrates our determination to restore financial stability and deliver positive results, ultimately benefiting its stakeholders and contributing to the economic development of South Africa.

## PEOPLE

At the core of our business sustainability lies the belief that people are indispensable. Our goal is to cultivate a healthy, diverse and high-performing workforce by enhancing our leadership capacity, promoting employee engagement and performance, and attracting, developing and retaining top-tier talent critical to our business success in the short, medium and long term. We have focused our efforts on transforming our organisational culture into a high-performance one, empowering our workforce to lead with innovation and growth while prioritising employee health.

We are confident that our current organisational structure and culture align with our business strategic priorities, enabling our employees to make better decisions, drive innovation and contribute to long-term sustainable value creation.

Our primary objective is to transition our organisational culture, effectuate transformational change and facilitate the implementation of our new operating model by optimising our structures and reporting lines.

### STRATEGIC IMPERATIVES

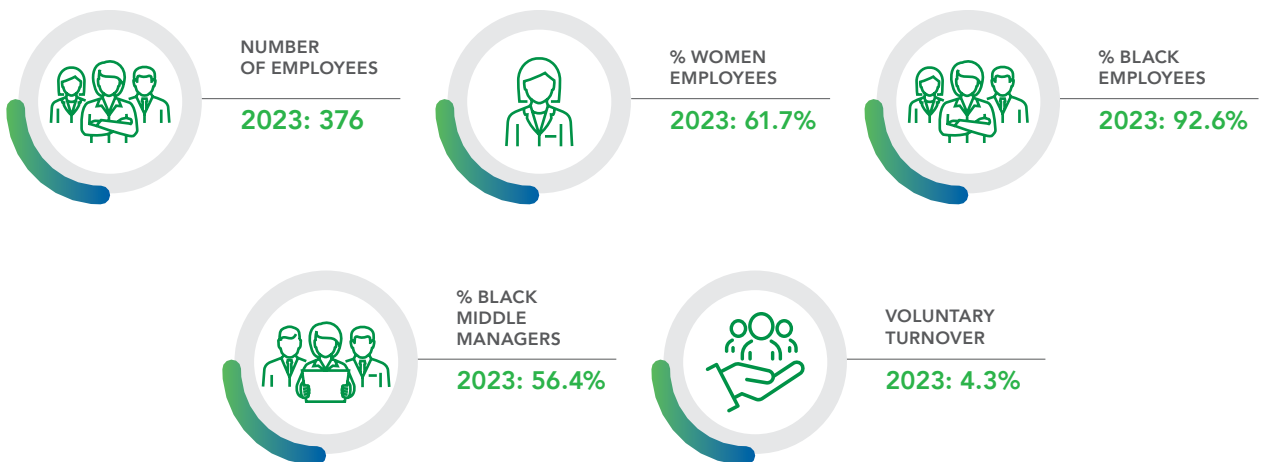
- Realignment of current talent and resources towards key strategic functions for the future of the business
- Development of a compelling value proposition to position Ithala as an employer of choice
- Implementation of capacity-building initiatives while maintaining existing development programmes
- Embed a performance culture through effective performance engagements
- Introduction of organisational development themes to shape Ithala's culture
- Implementation of transformation and change management capability through the MyIthala Leadership programme to steer organisational transition into the future
- Engagement in learnership programmes for students
- Ensuring employee wellness and health
- Revision of all HR policies

## KEY INITIATIVES DURING THE YEAR UNDER REVIEW

- Comprehensive review of the Remuneration Policy to ensure alignment with the strategic direction and value drivers of the business
- Review of the Talent Management Framework to ensure effectiveness and relevance
- Alignment of individual performance contracts to the revised Talent Management Framework
- Approval and implementation of divisional structures
- Retention of key skills to ensure business continuity
- Leadership development to cultivate and grow talent internally
- Implementation of staff development programmes that go beyond compliance requirements
- Maintaining stability in executive positions
- Succession planning for critical positions to mitigate potential talent gaps
- Allocation of sufficient budget for training and development initiatives
- Filling of critical positions to support the needs of the business

## OUTLOOK

In keeping with our growth ambitions and commitment to creating sustainable value for all our stakeholders, we have devised a revised organisational development and change management plan. The plan aims to support the implementation of our SRP. At the heart of the plan is our people strategy, which focuses on empowering our employees and stakeholders. Our people strategy aims to instil a culture of learning and development as we position the business for innovation and future growth. Our top priority for the coming financial year is therefore to turn our culture into a competitive advantage, attract top talent, and support and enable our people.



## SYSTEMS

Ithala launched a project in 2018 to migrate from an outdated legacy system to a new core banking system. This migration was delayed owing to the complexity of integrating with various interfaces and payment streams, as well as aligning the system with South Africa's highly regulated banking environment. Consequently, the business has fallen behind its commercial banking peers in terms of technology and workflow automation. During the review period, we prioritised increasing revenue and decreasing operational costs, with a focus on leveraging our IT capabilities to achieve these objectives. To this end, the team explored various technology solutions. In the upcoming financial year, we have planned several IT capital projects to improve our capabilities.

The following IT initiatives were completed:

No.	System	Background	Challenge	Commitment
1	<b>NETWORK MODERNISATION</b>	The goal of the network modernisation project was to replace an outdated network. The project started in 2021. In scope were fibre links to head office and branches, Software-Defined Wide Area Network (SD-WAN), office Local Area Network (LAN) and telephony.	Delays were experienced in 2021 due to July civil unrest and damages to branches	Project completed in May 2022
2	<b>AS400 SERVER CONSOLIDATION</b>	Replace the current disparate and outdated AS400 server platform by consolidating the Servers, Applications and Database, on a centralised environment.	Delays were experienced in 2022 due to global shortage of network components	Project completed 26 May 2023

The following IT Initiatives are in progress:

No.	System	Background	Challenge	Commitment
1	<b>ENTERPRISE DATAWAREHOUSE (EDW)</b>	An EDW will replace Excel and other reporting platforms with a modern-day, centralised reporting and analysis solution.	Dependency on the completion of the AS400 Server Consolidation	EDW to be implemented by end 2023
2	<b>CORE BANKING SYSTEM</b>	Replace the current legacy systems with a core banking system.	Finding a fit-for-purpose solution	Phase 1 to be completed by March 2024
3	<b>MOBILE BANKING APP</b>	A mobile banking app is a critical and strategic important product offering by Ithala.	Develop and launch the product in a relatively short period of time with the key functions that customers expect	Deliver phase 1 of the project by end November 23

## OUTLOOK

We are confident that the implementation of the new operating model will lead to operational efficiencies which will result in cost savings. In addition, capital investments will be made to enhance our focus on client centricity, which includes better market understanding, product development and improved shared services such as technology, processes and skills. This will enable us to take advantage of economies of scale, which is not currently being leveraged owing to misaligned resource utilisation.

## BUSINESS SUSTAINABILITY

We must ensure the operational and financial resilience of the business remains a top priority for us. To this end, we have developed a comprehensive Strategic Recovery Plan (SRP) that focuses on obtaining a banking licence and creating sustainable financial value by maintaining profitability. The plan outlines key imperatives, such as implementing an effective operating model, investing in IT and infrastructure, reducing external consultant and outsourcing dependencies, and addressing capital funding requirements. Our goal is to achieve long-term success by building a strong foundation that enables us to weather future challenges and continue delivering value to our stakeholders.

### OUTLOOK

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

<b>INCREASING SALES REVENUE</b>	We will focus on growing non-interest revenue over the next three years. This will be achieved by growing transactional banking fees including a targeted increase in the number of active debit cards, increase in transaction volumes, and implementation of uniform pricing.
<b>REDUCING COSTS</b>	As part of efforts to reduce the high cost-to-income ratio, the executive management team is implementing the new organisation’s operating model. This exercise is expected to eliminate revenue and operational leakages, deliver efficiencies and reorganise Ithala in a way that makes customer interactions with the business more efficient.

## SOCIO-ECONOMIC TRANSFORMATION REVIEW

We recognise that the sustainability of our business depends on the well-being of the communities in which we operate. Therefore, developing mutually beneficial relationships with our stakeholders and promoting sustainable socio-economic development are key objectives for us. In line with these objectives, we launched Ithala Edu Platform in 2019. Ithala Edu Platform is an initiative aimed at assisting Grade 12 learners in KwaZulu-Natal to prepare for their final exams by providing curriculum content and learner support. The platform focuses on subjects such as IsiZulu, English, Accounting, Mathematics, Geography, Physical Science, and Applied Computer Technologies.

### ITHALA EDUCATION PLATFORM

The Ithala Education Platform (IEP) is an initiative that was created to address the impact of the COVID-19 crisis on Grade 12 learners in KwaZulu-Natal, South Africa. The programme was developed in collaboration with the non-profit organization GoDigitalSA Foundation. It specifically targets learners from rural areas who faced difficulties participating in remote schooling during the national lockdown due to limited resources and lack of access to technology.

The IEP focuses on seven Grade 12 subjects: Accounting, English FAL (First Additional Language), Computer Applications Technology, Geography, isiZulu HL (Home Language), Mathematics, and Physical Science. In addition to these subjects, the program also offers wellness and career guidance, digital skills development and financial literacy.

During the 2022/23 financial year, the programme was implemented successfully, providing learning material, revision material, and opportunities for interaction between tutors and learners through the IEP platform, which includes a website ([www.myithala.education](http://www.myithala.education)) and a mobile application. To further promote the platform and increase its usage, the programme plans to conduct roadshows in partnership with the KwaZulu-Natal Department of Education.





# 07: REMUNERATION

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## REMUNERATION REPORT

### STATEMENT FROM THE CHAIR OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

A key focus of our strategy for FY2022/23 was to drive change within the organisation, and our organisational change and development programme yielded positive results. We were able to continue the implementation of several change and transformation pillars via the Ithala competency framework. Based on the framework, a Leadership Development Course continued for levels of the organisation. The programme had a positive effect on our leadership skills, and this has been reflected in the positive changes in our annual climate survey.

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

Despite the financial impact of external factors like natural disasters, among others, we were able to implement salary increases for our staff. Similar to recent years, we did not activate the short- and long-term incentives owing to our loss making. However, we sustained our focus on building the organisation. At the heart of our talent acquisition and retention strategy for FY2022/23, was our unique mandate as a state-owned provincial development financial institution, and the role we can play in South Africa's development agenda.

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

We were able to sustain our comprehensive employee health and wellness offering across the business. In partnership with ICAS, the employee wellness and health service provider, we were able to provide the necessary psychological support to our staff.

The company is also committed to continue its focus in responding to the scourge of gender-based violence with the participation of employees across the business.

Strategic objectives for FY2022/23 were as follows:

- Objective 1: To provide wellness and health support to all employees
- Objective 2: Empower our people to lead for innovation and growth
- Objective 3: Innovate for internal client centricity and to optimise our people process
- Objective 4: To enable a performance-driven culture
- Objective 5: Manage our people cost base

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

## OUR REMUNERATION PHILOSOPHY

Ithala's remuneration philosophy has remained similar to the previous financial years even though the business has not been able to activate its short- and long-term incentive scheme owing to continued financial loss. In FY2022/23, Ithala was able to pay guaranteed salaries to employees.

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

## SHORT-TERM EMPLOYEE BENEFITS

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

## DEFINED CONTRIBUTION PLANS

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

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

## POST-RETIREMENT MEDICAL AID BENEFIT

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

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

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

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

## PENSION AND PROVIDENT FUND

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

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

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

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

For the post-retirement medical aid benefits, actuarial gains and losses are recognised in the year in which they arise in Other Comprehensive Income (OCI). The net interest expense is determined on the net defined benefit liability, by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into consideration any changes as a result of contributions and benefit payments made. The net interest expense is recognised in profit or loss.

## LONG SERVICE AWARD

For the long service award paid by the business, the employee receives a fixed amount based on the number of year's service, which should be a minimum of 5 years. The payment of the award is the cost of providing the benefits, which is determined using the projected unit credit method. On an annual basis, independent actuaries conduct actuarial valuations for the long service award benefit.

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

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

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



## TERMINATION BENEFITS

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

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

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

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



## RETIREMENT BENEFIT OBLIGATIONS

### POST-RETIREMENT MEDICAL BENEFITS

Ithala provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date. A total of 93 current and retired employees are covered under the scheme (2022: 85).

The most recent actuarial valuation of the present value of defined benefit obligations were executed in the current financial year by Alexander Forbes, a fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the projected unit credit method.

The principal actuarial assumptions used included a discount rate of 12.20% (2022: 11.10%) and a health care cost inflation rate of 8.10% (2022: 8.20%). The movement in the liability annualised in the statement of financial position is as follows:

#### Movement in the defined benefit obligation, is as follows:

	2023	2022
	R '000	R '000
Balance at beginning of the year	42,428	37,378
Current service costs	673	655
Interest costs	4,586	4,448
Net actuarial (gain)/loss recognised during the year	1,274	1,717
Benefit payment	(2,132)	(1,770)
<b>Balance at end of the year</b>	<b>46,829</b>	<b>42,428</b>

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

Present value of unfunded obligations	46,829	42,428
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#### Post retirement medical benefits

##### Actuarial (loss)/gain

##### The actuarial gains arose as a result of the following:

Change in Real Discount Rate	3,675	117
Higher than Expected Healthcare Cost Inflation including Changes in Members' Benefit Options	(1,130)	776
Unexpected Changes in Membership	(3,819)	(2 610)
<b>Total</b>	<b>(1,274)</b>	<b>(1 717)</b>

#### Actuarial assumptions used and sensitivity analysis

##### Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2023	2022
			R '000	R '000
Present value of obligation			46,829	42 428
Health care cost inflation	8.10%	+1%	52,428	48 053
		-1%	42,097	37 738
Discount rate	12.20%	+1%	42,275	37 895
		-1%	52,272	47 924
Expected retirement age	60 years	+1 year	45,506	43 173
		-1 year	48,619	40 800

## PENSION AND PROVIDENT FUND SCHEMES

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

The defined contribution pension fund and defined contribution provident fund are governed by the Pension Funds Act of 1956 and are open to new members and members who have elected to transfer from the defined benefit funds. Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2022 showed that in respect of both the defined benefit pension fund and the defined benefit provident fund, the present value of the obligation was adequately covered by the fair value of the scheme assets.

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

### Defined benefit pension fund

	2023	2022
	R '000	R '000
Fair value of plan assets	(4,759)	(4,406)
Surplus	(4,759)	(4,406)
Amount allocated to employer surplus account	4,759	4,406
<b>Asset not recognised due to asset ceiling</b>	-	-

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

	2023	2022
	R '000	R '000
Balance at beginning of the year	4,406	3,906
Interest income	-	-
Actuarial loss	353	500
<b>Balance at end of the year</b>	<b>4,759</b>	<b>4,406</b>

### Actuarial (loss)/gain

#### The actuarial gains arose as a result of the following:

	2023	2022
	R '000	R '000
Actuarial gain arising changes in demographic assumptions	-	153

### Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2023	2022
			R '000	R '000
Discount rate	0.00%	+1%	-	-
		-1%	-	-
Expected salary rate	0.00%	+1%	-	-
		-1%	-	-



# REMUNERATION

The business expects to make no contribution (2022: Nil) to the company defined benefit provident fund and no contribution (2022: 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

	2023	2022
	R '000	R '000
Pension and provident fund	352	500
Post retirement medical	(1,274)	(1 716)
	<b>(922)</b>	<b>(1 216)</b>

## Long service obligation

Balance at beginning of the year	4,154	5 096
Expensed during the year	574	899
Contributions paid	967	(1 841)
<b>Balance at end of the year</b>	<b>3,761</b>	<b>4 154</b>

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

Present value of unfunded obligations	3,761	4 154
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## Amounts recognised in the statement of comprehensive income are as follows:

Current service cost	427	473
Interest cost	335	380
Net actuarial loss recognised in the year	(188)	46
	<b>574</b>	<b>899</b>

## Sensitivity analysis

	Change	2023	2022
		R '000	R '000
Present value obligations		3,761	4 154
Average salary inflation	+1%	3,761	4 154
	-1%	3,761	4 154
Average retirement age	-2 years	3,605	3 959
	+2 years	3,864	4 292

From 1 April 2021 the calculation will be based on a cash reward for every 5 years of continuous service up to 25 years of service, based on the new approved policy.

An actuarial valuation of the provision for long service awards at 31 March 2023 quantified the present value of obligations at R3.8 million (2022: R4.2 million). These actuarial valuations are conducted annually at statement of financial position date. The most recent actuarial valuation of the long service awards was carried out for the current financial year by Alexander Forbes, fellow of the Institute of Actuaries of South Africa. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 10.20% (2022: 9.3%) and an average salary inflation of 6.10% (2022: 6.80%).

## REMUNERATION FOR NON-EXECUTIVE DIRECTORS

	2023	2022
	R '000	R '000
Y Mjiako (appointed 01 September 2022)	394	-
G Sibiya	771	775
M Pupuma	966	765
INkosi SN Mkhize	996	875
S Mnguni	-	-
S Shabalala (resigned 27 October 2021)	-	382
N Simelane	692	589
	<b>3 819</b>	<b>3 386</b>

## REMUNERATION FOR EXECUTIVE DIRECTORS

### Executive Directors' remuneration - 2023

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
T Vilakazi – Chief Executive Officer	2 889	379	-	3 268

### Appointed prescribed officers' remuneration - 2023

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
S Gwala – Head: HR (resigned 24 June 2022)	392	35	191	618
S Xolo – Head: Marketing & Communication	1 646	140	-	1 786
S Moodley – Head: Retail & Business Banking	1 709	145	-	1 854
A Pather – Head: Insurance	1 557	140	-	1 697
T Nell – Head: HR (appointed 25 November 2022)	929	71	-	1 000
S Nsele – Chief Audit Executive	1 650	137	-	1 787
N Nkambule – Compliance Officer	1 646	140	-	1 786
X Khumalo – Head: Credit & Collections (resigned 31 January 2023)	1 401	122	174	1 697
B Van der Lingen – Chief Risk Officer	1 467	122	-	1 589
N Mzimela – Company Secretary	1 077	95	-	1 172
S Phakathi – Chief Information Officer	1 925	164	-	2 089
M Gafoor – General Manager Finance	1 557	137	-	1 694
	<b>16 956</b>	<b>1 448</b>	<b>365</b>	<b>18 769</b>

# REMUNERATION

## Executive Directors' remuneration - 2022

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

## Appointed prescribed officers' remuneration - 2022

	Short-term employee benefits	Post-employment benefits	Termination benefits	Total
S Gwala – Head: HR	1 623	139	-	1 762
S Xolo – Head Marketing and Communication	1 340	110	-	1 450
T Luthuli – Company Secretary (resigned 30 April 2021)	124	11	278	413
S Moodley – Head: Retail and Business Banking	1 542	141	-	1 683
C Gumede – Chief Risk Officer (resigned 30 April 2021)	128	11	49	188
A Pather – Head Insurance	1 380	124	-	1 504
L Barnard – Head IT (appointed 01 March 2021, resigned 06 July 2021)	550	50	56	656
S Nsele – Chief Audit Executive	1 382	121	-	1 503
N Nkambule – Compliance Officer	1 423	129	-	1 552
X Khumalo – Head Credit	1 607	143	-	1 750
B Van der Lingen – Chief Risk Officer (appointed 15 November 2021)	422	34	-	456
N Masuku – Company Secretary (appointed 15 November 2021)	351	28	-	379
S Phakathi – Chief Information Officer (appointed 06 January 2022)	413	40	-	453
S Dlamini – Executive Assistant (appointed 01 July 2021)	672	60	-	732
	<b>12 957</b>	<b>1141</b>	<b>383</b>	<b>14 481</b>

## Acting Prescribed Officers remuneration

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

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









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