Annual Financial Statements 2024

ithala
SOC LIMITED

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Annual Financial Statements

DIRECTORS' RESPONSIBILITY STATEMENT

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

- The statement of financial position as at 31 March 2024;
- The statement of comprehensive income;
- The statement of changes in equity;
- The statement of cash flow for the year ended 31 March 2024;
- The notes to the AFS, which include a summary of significant accounting policies and other explanatory notes; and
- The Directors' Report, in accordance with IFRS, as prescribed by the International Accounting Standards Board (IASB).

To enable the Directors to meet these responsibilities:

- The Board and management set standards while management implements systems of internal controls, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded, and the risk of fraud, error or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the Audit and Compliance (ACC), appraises, and when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business.
- The ACC, together with the internal audit function, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

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

The company consistently adopts appropriate and recognised accounting policies which are supported by reasonable judgements and estimates, and provides additional disclosures when compliance with the specific requirements in accordance with International Financial Reporting Standards (IFRS) is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Company's financial position and financial performance.

The Directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management. All employees are required to maintain the highest ethical standards in ensuring that the company's practices are concluded in a manner, which is above reproach, in all reasonable circumstances.

The Directors conducted an assessment of the company's ability to continue as a going concern and included appropriate disclosure in the Directors' Report. The basis of accounting was adopted by the Board after enquiring from management and giving due consideration to information presented to the Board, including budgets and cash flow projections for the year ahead and key assumptions and accounting policies relating thereto. Accordingly, the Directors have no reason to believe that the company will not be able to continue as a going concern in the year ahead.

The Auditor General of South Africa (AGSA), who was appointed as independent auditor in terms of the Public Audit Act, Act No. 25 of 2004 and the PFMA, audited the Company's AFS. Their report is presented on pages 8 to 16.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The AFS of Ithala were approved by the Board on 31 July 2024 and are signed on their behalf by:

Mr Mpumzi Pupuma
Chairman of the Board

Dr Thulani Vilakazi
Chief Executive Officer

COMPANY SECRETARY'S CERTIFICATION

I hereby confirm in my capacity as Company Secretary of Ithala, that for the year that ended 31 March 2024, the Company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up-to-date.

Mrs Nomusa Mzimela
Company Secretary

AUDIT AND COMPLIANCE COMMITTEE REPORT

The Audit and Compliance Committee (ACC) presents its report for the financial year that ended 31 March 2024 as required by regulation 27.1.10(b) and (c) of the Treasury Regulations [In terms of Section 51(1)(a)(ii) and 76(4)(d) of the PFMA, Section 94(7)(f) of the Companies Act, the Banks Act, and the Code of Corporate Practices and Conduct set out in the King IV Report on Corporate Governance.

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

Purpose of the ACC

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

Terms of reference

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

Membership and attendance

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

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

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

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

Statutory duties

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

- Believes that the appointment of the AGSA as auditor complies with the relevant provisions of the Companies Act and the PFMA;
- Reviewed and approved the fees to be paid to the AGSA as disclosed in Note 22 of the AFS;
- Reviewed and approved the terms of engagement of the AGSA;
- Reviewed the quality of financial information;
- Reviewed the Integrated Annual Report and AFS;
- Received no complaints relating to:
  - The accounting practices and internal audit of the Company;
  - The content or auditing of its financial statements;
  - The internal financial controls of the Company; and
  - Any other related matters.
- Made a submission to the Board on matters concerning the Company's accounting policies, financial controls, records and reporting; and
- Concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

Oversight of risk management

The ACC:

- Received assurance that the processes and procedures followed by the Risk and Capital Management Committee (RCMC) are adequate to ensure that financial risks are identified and monitored; and
- Satisfied itself that the following areas were appropriately addressed:
  - Financial reporting risks;
  - Internal financial controls;
  - Fraud risk as it relates to financial reporting; and
  - IT risk as it relates to financial reporting.

Internal financial controls

The ACC:

- Reviewed the effectiveness of the Company's system of internal financial controls, including receiving assurance from management, internal audit and external audit;
- Reviewed significant issues raised through the internal and external audit processes;
- Reviewed policies and procedures for preventing and detecting fraud; and
- Reviewed significant cases of misconduct or fraud or any other unethical activity by employees of the Company.

Based on the processes and assurances obtained, the Committee believes that significant internal financial controls are effective.

Regulatory compliance

The Committee is of the opinion that controls over compliance with laws and regulations are partially effective, however, viable action plans are in place to address the areas of concern.

External audit

The ACC:
- Reviewed the external audit scope to ensure that the critical areas of the business are addressed; and
- Reviewed the external auditor's report including issues arising out of the external audit.

The external auditors furthermore provided written assurance to the ACC that they remained independent of the Company.

Details of the external auditor's fees are set out in Note 22 of the AFS.

Internal audit

The ACC:
- Reviewed and recommended the internal audit charter for approval;
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- Reviewed internal audit reports, including the response of management to issues raised therein;
- Satisfied itself that the internal audit function has the necessary resources, budget, and standing/authority within the Company to discharge its functions;
- Approved the internal audit plan; and
- Encouraged co-operation between external and internal audit.

Combined assurance model

The Committee determined that a process of coordinating all assurance activities is appropriate to address the significant risks facing the Company for each principal risk and business area.

The model is owned and managed by the Risk function, with the Internal audits and Compliance function being an integral part of the process.

The Committee recognises that there will be continuous enhancement of both the processes and its activities as it matures the approach to fully integrated reporting, particularly in respect of non-financial issues.

Finance function

The Audit and Compliance Committee believes that the Chief Financial Officer, Mr MH Gafoor CA(SA), possesses the appropriate expertise and experience to meet his responsibilities in that position.

The Committee is furthermore satisfied with the expertise and adequacy of resources within the finance function.

Based on the processes and assurances obtained, the ACC believes that Ithala's accounting practices are effective.

Integrated Annual Report

Based on processes and assurances obtained, we recommended the Integrated Annual Report to the Board for approval.

On behalf of the ACC

Mrs Given Sibiya CA (SA)
Chairperson

DIRECTORS' REPORT

The Directors of Ithala take pleasure in presenting their report, for the year that ended 31 March 2024.

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

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

Changes in Directors
A full list of Directors is included in the Corporate Governance Report. There was one new appointment to the Board during the period under review and no resignation.

- **Appointment:**
- Mr MH Gafoor (appointed 12 July 2023) – Executive Director

Going concern
Despite experiencing a loss of R92 million, primarily due to increased impairments and write-offs totalling R28,6 million and the extra-ordinary and once-off cost incurred, Ithala remains a financially sound business. The Company's robust liquidity position ensures that it can meet its financial obligations effectively. With the unwavering support of our shareholders, the Company is committed to implementing strategic measures to turnaround the business and ensure long-term financial sustainability. An analysis of the trading results in comparison to the prior year show revenue growth on both the net interest income lines and non-interest income lines. The increase in expenses is mainly due to an increase in staff cost to fill key regulatory and revenue generation positions, as per Ithala's turnaround strategy. Also contributing to the increase in expenses is once-off and extra ordinary costs incurred for Section 12 banking licence application, legal fees and other regulatory requirements. Ithala has implemented cost containment and cost reduction measures in the new financial year to ensure Ithala returns to profitability.

Ithala's liquidity continues to remain strong. This is evident in the growth in surplus funds and Ithala's key liquidity ratios which remain well above prudential requirements. As at 31 March 2024 the Company's total assets exceeded total liabilities by R354.2 million (31 March 2023: R395.1 million) and total surplus funds were R609.0 million (31 March 2023: R558.8 million). As at statement of financial position date the capital adequacy ratio of the Company was 15.14% (March 2023: 18.1%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15% (March 2023: 15%).

Despite posting a net loss, the expiry of the banking licence exemption and the suspension of the FSP licence, the Board, with the support of the shareholder and Government of Kwazulu-Natal and affirmed in the letter from the Minister of Finance which states a long-term solution must be found for Ithala, is certain that Ithala will continue to exist in the foreseeable future. The Board expects all obligations to be settled in the normal course of business and has accordingly adopted the going concern basis of accounting in the preparation of the Annual Financial Statements.

Financial results
The results of Ithala for the year that ended 31 March 2024 are disclosed in the AFS, as set out on pages 17 to 110.

Dividends
No dividends were declared or paid during the period under review.

Directors and Company Secretary
Information relating to the Directors is included on pages 75 to 77. Information relating to the Company Secretary is included in the Integrated Annual Report. The Directors' interest in share capital and contracts, and Directors' remuneration are disclosed in the notes to the AFS.

Material events after reporting period

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of Ithala SOC Limited (Ithala) set out on pages 17 to 108, which comprise the statement of financial position as at 31 March 2024, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Ithala as at 31 March 2024 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

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

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

Material uncertainty relating to going concern

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

7. As disclosed in Note 1.2, the entity incurred a net loss of R 92,05 million (2023: R56,82 million) for the year ended 31 March 2024. Included in the net loss are credit impairments and bad debts written off of R28,55 million (2023: R8,70 million) raised for the year.

8. On 15 December 2023, Ithala's exemption notice expired and has not been renewed. The Prudential Authority's appointment of the Repayment Administrator and the instruction issued to stop lending and deposit-taking activities have contributed to the net loss for the year ended 31 March 2024.

9. Ithala has prepared a turnaround strategy, however, this had to be put on hold when the Repayment Administrator was appointed in December 2023. Ithala will continue to implement this strategy once certainty on its future is decided. The entity continues to rely on the financial support of its parent entity.

10. Furthermore, Ithala received a notice from the Financial Sector Conduct Authority (FSCA), on 26 July 2024, that Ithala's Financial Service Provider (FSP) licence has been suspended with immediate effect. On 27 July 2024, Ithala wrote back to the FSCA to give notice of its intention to file an application in terms of Section 230 of the Financial Sector Regulation Act, 2017 (FSRA) to the Financial Services Tribunal (FST) for a reconsideration of the decisions and also gave notice that it will also be filing an application in terms of Section 231 of the FSRA and in terms of Rule 15 of the Consolidated Rules of the FST that the FSCA's decisions be suspended pending the outcome of the Section 230 reconsideration application.

11. These events and conditions, along with other matters as set forth in note 1.2, indicate that material uncertainties exist which may cast significant doubt on the entity's ability to continue as a going concern.

Emphasis of matters

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

Material losses and impairments

13. As disclosed in note 27 of the annual financial statements, fraud amounting to R4.20 million was identified in the current year.

14. As disclosed in note 27 of the annual financial statements, the entity wrote off loans amounting to R19,15 million (2023: R4,31 million).

15. As disclosed in note 29 to the financial statements, an impairment loss of R33,31 million (2023: R11,92 million) was incurred as a result of an impairment raised for loans and advances to customers.

Responsibilities of the accounting authority for the financial statements

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

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

Responsibilities of the auditor-general for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee

that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 9, forms part of our auditor's report.

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected material performance indicators presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

21. I selected the following material performance indicators related to Financial and Shareholder Perspective objective presented in the annual performance report for the year ended 31 March 2024. I selected those indicators that measure the entity's performance on its primary mandated functions and that are of significant national, community or public interest.

- Submit application for authorisation to establish a bank per Section 12 of the Banks Act
- Submit application for registration as a bank as per Section 16 of the Banks Act
- Submit application for designation as a Clearing Participant into the National Payment System post acquisition of banking licence
- Secure extension of Bank sponsorship beyond 31 December 2023
- Raise R498m capital injection from shareholders, excluding guarantees and commitments of R2.150bn for licence conditions (R'000)
- Achieve the targeted minimum/(maximum) net profit/(loss) by financial year end (R'000)
- Achieve the targeted maximum cost to income ratio (CTIR) by financial year end
- Achieve the targeted JAWS ratio by financial year end
- Achieve the targeted minimum net interest margin by financial year end
- Achieve the targeted minimum non-interest income to total income ratio by financial year end
- Achieve the targeted minimum non-interest income to total expenses ratio by financial year end
- Achieve the targeted minimum leverage ratio by financial year end
- Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by financial year end
- Achieve the targeted maximum impaired advances ratio by financial year end
- Achieve the targeted minimum capital adequacy ratio (CAR) by financial year end*
- Achieve the targeted loan to deposit ratio by financial year end
- Achieve the targeted growth of a mix of demand, term and savings deposits

REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA SOC LIMITED

22. I evaluated the reported performance information for the selected material performance indicators against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the entity's planning and delivery on its mandate and objectives.

23. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the entity's mandate and the achievement of its planned objectives
- all the indicators relevant for measuring the entity's performance against its primary mandated and prioritised functions and planned objectives are included
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets

24. I performed the procedures to report material findings only; and not to express an assurance opinion or conclusion.

25. I did not identify any material findings on the reported performance information for the selected indicators.

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement.

28. The table that follow provides information on the achievement of planned targets and lists the key indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets are included in the annual performance report on pages 84 to 90 of IAR.

Financial and Shareholder Perspective

Targets achieved: 29%		
Key indicators not achieved	**Planned target**	**Reported achievement**
Submit application for registration as a bank as per Section 16 of the Banks Act	Within 12 months of being authorised under Section 12 of Banks Act	On hold
Submit application for designation as a Clearing Participant into the National Payment System post-acquisition of banking licence	By 31 January 2024	On Hold
Secure extension of Bank sponsorship beyond 31 December 2023	By 31 October 2023	In Progress
Raise R498m capital injection from shareholders, excluding guarantees and commitments of R2.150bn for licence conditions (R'000)	≥ R248 000	R51 142
Achieve the targeted minimum net interest margin by financial year end	≥ 71.2%	67.5%
Achieve the targeted minimum non-interest income to total income ratio by 31 March 2024	≥ 50.4%	48.7%
Achieve the targeted minimum leverage ratio by financial year end	≥ 12.3%	10.3%
Achieve the targeted minimum liquid assets as a percentage of liabilities ratio by 31 March 2023	≥ 11.5%	10.5%
Achieve the targeted maximum impaired advances ratio by financial year end	≤ 8.00%	8.37%
Achieve the targeted minimum capital adequacy ratio (CAR) by 31 March 2024	≥ 18.5%	15.1%
Achieve the targeted loan to deposit ratio by financial year end	≤ 83.2%	91.1%
Achieve the targeted growth of a mix of demand, term and savings deposits	≥ 17.8%	-0.5%

REPORT ON COMPLIANCE WITH LEGISLATION

29. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the entity's compliance with legislation.

30. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

31. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

32. The material finding on compliance with the selected legislative requirements, presented per compliance theme is as follows:

Consequence Management

33. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by Section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed.

OTHER INFORMATION IN THE ANNUAL REPORT

34. The accounting authority is responsible for the other information included in the annual report which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act of South Africa. The other information referred to does not include the financial statements, the auditor's report and those selected material indicators in the scoped-in objective presented in the annual performance report that have been specifically reported on in this auditor's report.

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

36. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected material indicators in the scoped-in objective presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

INTERNAL CONTROL DEFICIENCIES

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

39. The matter reported below is limited to the significant internal control deficiencies that resulted in the material finding on compliance with legislation included in this report.

40. Slow response by management to investigate the reported irregular expenditure in the prior year was due to staff capacity. The entity should address the vacancies in order to finalise the investigations timeously and ensure compliance with the PFMA.

OTHER REPORTS

41. I draw attention to the following engagements conducted by various parties. These reports do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

42. The entity's forensic investigator is conducting investigations into alleged irregularities in the current and prior year relating to the misappropriation of assets and the procurement processes. These investigations were in progress at the date of this report.

Audit related services

43. Agreed-upon procedures reports were issued to the Prudential Authority relating to Banks Act returns issued in terms of the Banks Act 94 of 1990.

44. A report was issued to the National Credit Regulator on compliance with the National Credit Act 34 of 2005.

45. A report was issued to the National Department of Human Settlements relating to the annual return submitted in accordance with the Home Loans and Mortgage Disclosures Act 63 of 2000.

46. A limited assurance report was issued to the Registrar of Financial Services Providers on compliance in terms of Section 19(3) of the Financial Advisory and Intermediary Services Act 37 of 2002.

47. A report was issued to the Prudential Authority with respect to information technology project assurance and cybersecurity. The review was requested as part of bilateral engagements with the Prudential Authority in accordance with its powers under the Banks Act 94 of 1990.

Auditor - General.

Pietermaritzburg

31 July 2024

REPORT OF THE AUDITOR-GENERAL TO KWAZULU-NATAL PROVINCIAL LEGISLATURE ON ITHALA SOC LIMITED

ANNEXURE TO THE AUDITOR'S REPORT

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected material performance indicators and on the entity's compliance with selected requirements in key legislation.

Financial statements

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ''s internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the entity to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern

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

Communication with those charged with governance

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

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows: Legislation	Sections or regulations
Public Finance Management Act No.1 of 1999	Section 50(3)(b); 51(1)(a)(iii); 51(1)(b)(i); Section 51(1)(b)(ii); 51(1)(e)(iii); 52(b); 54(2)(c); Section 54(2)(d); 55(1)(a); 55(1)(b); 55(1)(c)(i); Section 56; 57(b); 57(d); 66(3)(d); 66(5); 67
Treasury Regulations, 2005	Regulation 29.1.1; 29.1.1(a); 29.1.1(c); 29.2.1; Regulation 29.2.2; 29.3.1; 31.2.5; 31.2.7(a); Regulation 32.1.1(a); 32.1.1(b); 32.1.1(c); 33.1.1; Regulation 31.1.2(c); 33.1.3
Companies Act 71 of 2008	Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); Section 45(4); 46(1)(a); 46(1)(b); 46(1)(c); Section 112(2)(a); 129(7)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulation 17; 25(7A)
Second amendment to National Treasury Instruction No. 5 of 202/21	Paragraph 1
Erratum National Treasury Instruction No. 5 of 202/21	Paragraph 2
National Treasury Instruction No. 4 of 2015/16	Paragraph 3.4
National Treasury Instruction No. 5 of 2020/21	Paragraph 4.8; 4.9; 5.3
National Treasury SCM Instruction No. 03 of 2021/22	Paragraph 4.2
National Treasury SCM Instruction No. 11 of 2020/21	Paragraph 3.1; 3.4(b); 3.9
Preferential Procurement Policy Framework Act 5 of 2000	Section 1; 2.1(a); 2.1(f)
Preferential Procurement Regulations, 2022	Paragraph 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3; 5.4
Preferential Procurement Regulations, 2017	Paragraph 4.1; 4.2, 5.1; 5.3; 5.6; 5.7; 6.1; 6.2; Paragraph 6.3; 6.5; 6.6; 6.8; 7.1; 7.2; 7.3; 7.5; Paragraph 7.6; 7.8; 8.2; 8.5; 9.1; 10.1; 10.2; Paragraph 11.1; 11.2
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	Section 34(1)

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024

	Note(s)	2024 R '000	2023 Restated R '000	2022 Restated R '000
ASSETS				
Cash and cash equivalents	3	419 956	320 050	426 355
Statutory investments and reserves	4	264 330	245 928	272 401
Investments and deposits with banks	5	180 196	226 539	194 191
Inventories	6	3 400	1 305	1 499
Receivables	7	21 618	18 760	19 337
Loans and advances to customers	8	2 127 908	2 207 869	2 047 328
Properties in possession	9	148	148	535
Tangible assets and right-of-use assets	10	119 547	96 232	80 622
Intangible assets	11	11 928	3 820	3 299
Total Assets		**3 149 031**	**3 120 651**	**3 045 567**
LIABILITIES				
Trade and other payables	12	173 082	132 653	126 598
Provisions	13	450	450	450
Loan account with holding company	14	95 427	56 493	17 899
Customer deposits	15	2 473 766	2 485 352	2 467 105
Long service obligation	16	3 442	3 761	4 154
Retirement benefit obligation	16	48 656	46 829	42 428
Total Liabilities		**2 794 823**	**2 725 538**	**2 658 634**
EQUITY				
Share capital	17	190	190	190
Share premium	17	839 523	788 381	723 381
Actuarial reserve	16	14 521	12 426	13 348
Accumulated loss		(500 026)	(405 884)	(349 986)
Total equity		**354 208**	**395 113**	**386 933**
Total Equity and Liabilities		**3 149 031**	**3 120 651**	**3 045 567**

Refer to note 37 for a narrative disclosure of the impact of prior period errors on Trade and other payables, and the Accumulated loss.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2024 R '000	2023 Restated R '000
Interest income from an effective interest rate	18	337 075	264 044
Interest expenditure from an effective interest rate	19	(108 939)	(67 613)
Net interest income		**228 136**	**196 431**
Non-interest revenue	20	194 656	171 668
Credit impairments (raised)/reversed	29	(28 551)	(8 700)
Other income	21	19 078	19 894
Operating income		**413 319**	**379 293**
Interest expense on non-trading activities	19	(15 411)	(10 205)
Operating expenses	22	(492 050)	(424 986)
Loss for the year		**(94 142)**	**(55 898)**
Other comprehensive income:			
Items that may not be reclassified to profit or loss:			
Actuarial gains/(losses)	16	2 095	(922)
Total comprehensive loss for the year		**(92 047)**	**(56 820)**
Attributable to:			
Equity holders of the Company		(92 047)	(56 820)

Refer to note 37 for a narrative disclosure of the impact of prior period errors on operating expenses.

STATEMENT OF CHANGES IN EQUITY

	Share capital R '000	Share premium R '000	Total share capital R '000	Actuarial reserve R '000	Accumulated loss R '000	Total equity R '000
Opening balance as previously reported	190	723 381	723 571	13 348	(367 223)	369 696
Adjustments						
Prior period error (refer to note 37)	-	-	-	-	17 237	17 237
Balance at 01 April 2022 as restated	**190**	**723 381**	**723 571**	**13 348**	**(349 986)**	**386 933**
Loss for the year before restatement (refer to note 37)	-	-	-	-	(59 589)	(59 589)
Other comprehensive loss	-	-	-	(922)	-	(922)
Issue of shares	-	65 000	65 000	-	-	65 000
Prior period errors (refer to note 37)	-	-	-	-	3 691	3 691
Balance at 01 April 2023 as restated	**190**	**788 381**	**788 571**	**12 426**	**(405 884)**	**395 113**
Loss for the year	-	-	-	-	(94 142)	(94 142)
Other comprehensive loss	-	-	-	2 095	-	2 095
Total comprehensive loss for the year	**-**	**-**	**-**	**2 095**	**(94 142)**	**(92 047)**
Issue of shares	-	51 142	51 142	-	-	51 142
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**51 142**	**51 142**	**-**	**-**	**51 142**
Balance at 31 March 2024	**190**	**839 523**	**839 713**	**14 521**	**(500 026)**	**354 208**
Note(s)	17	17	17	16		

STATEMENT OF CASH FLOWS

	Note(s)	2024 R '000	2023 Restated R '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(94 142)	(55 898)
ADJUSTMENTS FOR:			
Non-cash items included in loss for the year	23	58 295	38 406
Increase in operating liabilities	24	47 958	66 981
Decrease/(Increase) in operating assets	24	51 244	(173 207)
Cash generated by/(utilised) from operating activities		**63 355**	**(123 718)**
INVESTING ACTIVITIES			
Acquisition and additions of tangible assets excluding leased assets	10	(14 919)	(25 820)
Acquisition and additions of intangible assets	11	(9 339)	(928)
Disposal of intangible asset	11	711	-
Cash receipt/(acquisition) of investment	5	49 793	(30 588)
(Increase)/Decrease in statutory investments and reserves	4	(18 405)	26 606
Net cash generated/(utilised) by investing activities		**7 841**	**(30 730)**
FINANCING ACTIVITIES			
Proceeds from shares issued	17	51 142	65 000
Payments of capital portion of lease liability	30	(22 432)	(16 857)
Net cash generated by financing activities		**28 710**	**48 143**
Net movement in cash for the year		**99 906**	**(106 305)**
Cash and cash equivalents at the beginning of the year	3	320 050	426 355
Cash and cash equivalents at end of year	**3**	**419 956**	**320 050**
Additional information on the operational cash flows from interest			
Interest received		345 486	263 453
Interest paid		(108 845)	(67 848)

ACCOUNTING POLICIES

Corporate information

The Company provides key retail financial services including savings and home loan products primarily to previously unbanked citizens. The Company is wholly-owned by the Ithala Development Finance Corporation Limited, a finance development agency which is in turn wholly-owned by the KwaZulu-Natal Provincial Government.

The Company is a limited liability company incorporated and domiciled in South Africa. The address of its registered office and principal place of business is 28 Somtseu road, North Towers, Kingsmead Office Park, Durban, South Africa.

The financial statements for the year ended 31 March 2024 were authorised for issue in accordance with a resolution of the directors on Wednesday, 31 July 2024.

1. MATERIAL ACCOUNTING POLICIES

Accounting policies set out below are in line with amendment to IAS1, effective 01 Jan 2023 which requires companies to disclose their material accounting policies rather than their significant accounting policies.

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis utilising the historical cost concept except for the postretirement medical and defined benefit obligations are measured in terms of the projected unit credit method.

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

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

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

Functional and Presentation Currency

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

ACCOUNTING POLICIES

1.2 FINANCIAL SUSTAINABILITY

Ithala posted a loss of R92.1 million (2023: R56.8 million) for the year ended 31 March 2024. The net loss for FY2024, includes Expected Credit Losses (ECL) and bad debts written off of R28.6 million (2023: R8,7 million) as well as extra ordinary and once off cost incurred for the Section 12 banking licence application, legal fees and regulatory compliance totalling R14,1 million. In addition, the appointment of the Repayment Administrator and the instruction issued by him to stop lending and deposit taking activities have seen a decline in revenue in the last quarter of FY2024, adding to the losses. The ECL increased from R8,7 million in the prior year to R28,6 million in the current year mainly due to clients defaulting on their loan obligations. The tough economic conditions experienced in the prior financial year carried over into the 2023/24 financial year. Clients' disposal income have been shrinking making it difficult for them to meet their monthly loan instalments.

As at 31 March 2024 the Company's total assets exceeded total liabilities by R354.2 million (31 March 2023: R395.1 million) and total surplus funds were R609.0 million (31 March 2023: R558.8 million). As at statement of financial position date the capital adequacy ratio of the Company was 15.14% (March 2023: 18.1%). This level is above the minimum capital adequacy ratio required by the South African Reserve Bank of 15% (March 2023: 15%)

Banking Licence Exemption Notice

Since inception, Ithala has been operating under exemption notices, granted and extended by the Minister of Finance and the Prudential Authority. The last exemption notice expired on 15 December 2023 and the Prudential Authority declined Ithala's request for a further extension. Ithala also submitted a Section 12 application to establish a bank and this was also declined by the Prudential Authority. From 15 December 2023 Ithala has been operating under the Repayment Administrator appointed by the Prudential Authority. Ithala attempted to form an alliance with a registered bank to hold the deposit book while Ithala regularises its operation. However, this was unsuccessful.

Ithala has always been committed to meeting all of its exemption notice conditions. The previous banking licence exemptions had very stringent conditions that the Company had to fulfil. All but one condition was met. The condition that was not met was outside the control of Ithala as it required either Provincial Government of KwaZulu-Natal or National Government to provide the Prudential Authority with an irrevocable and unconditional guarantee equal to R0.75 for every R1.00 of the depositor funds held by the Company.

Ithala has made an application to the Minister of Finance to issue an exclusion notice in terms of Section 2(b)(vii) of the Banks Act, 1990 read together with Section 30(2) of the KwaZulu-Natal Ithala Development Finance Corporation, 2013. This application was followed up with a physical meeting with the Minister who committed to consider Ithala's proposal. The Minister of Finance, declined Ithala's request, however indicated that Ithala should co-operate with the RA so a long-term solution can be found for Ithala.

Ithala has been working tirelessly on alternative plans to not only find a short-term solution but a long-term solution. The application to the Minister was only a temporary solution for the short term. Ithala with the support of its shareholder is considering other options to ensure Ithala will be a going concern in the future. However, these options still require Ithala to follow governance process to get these options approved.

ACCOUNTING POLICIES

Financial Service Provider (FSP) Licence

Ithala applied to the Financial Sector Conduct Authority (FSCA) for exemption from Section 48 of Board Notice 194 of 2017 which requires FSP that are not registered Banks to comply with the financial soundness requirements. It is important to note that the aforesaid section does not apply to FSP's that are registered Banks, however, the FCSA is expecting Ithala to comply with these requirements. Accordingly, Ithala has previously been exempted from the Section 48 by the FSCA despite it not being a registered Bank in terms of the Banks Act. The latest exemption application was submitted on July 2022 and the FSCA has since declined the request for exemption.

The decline immediately renders Ithala to be non- compliant with Section 48 of the Board Notice 194 of 2017. It is against that background that the FSCA initially served Ithala with a notice of intention to suspend Ithala's FSP licence and invited Ithala to make representations in countering the pending decision to suspend its FSP license. The FSCA expressed concerns relating to the risk exposure of the premiums collected and the financial soundness of Ithala when applying a simple insolvency test, a test to which registered Banks are not subjected to.

Ithala made representations following numerous engagements with the FSCA and indicated the rationale for the exemption to be granted and the need for the licence to be sustained. Ithala put more emphasis on the legislative gap to cater for its uniqueness and that a simplified calculation should not be applied due to it holding deposits which are recognised as current liabilities.

Ithala made a further submission for reconsideration of the FSCA decision to decline the exemption application and made available a guarantee of R4,1million against the premiums collected.

Ithala received a notice from the FSCA, on 26 July 2024, that the FSP licence has been suspended with immediate effect. On the 27 July 2024, Ithala wrote back to the FSCA that Ithala gives notice of its intention to file an application in terms of Section 230 of the Financial Sector Regulation Act, 2017 (FSRA) to the Financial Services Tribunal (FST) for a reconsideration of the decisions and also gave notice that it will also be filing an application in terms of Section 231 of the FSRA and in terms of Rule 15 of the Consolidated Rules of the FST that the FSCA's decisions be suspended pending the outcome of the Section 230 reconsideration application. We currently await the FSCA response.

Going Concern Conclusion

Despite experiencing a loss of R92 million, primarily due to increased impairments and write-offs totalling R28,6 million and the extra-ordinary and once-off cost incurred, Ithala remains a financially sound business. Our robust liquidity position ensures that we can meet our financial obligations effectively. With the unwavering support of our shareholders, we are committed to implementing strategic measures to turnaround the business and ensure long-term financial sustainability.

Despite the ongoing challenges Ithala faces, an analysing the trading results in comparison to the prior year show revenue growth on both the Net Interest income lines and Non-Interest Income lines. The increase in expenses is mainly due to an increase in staff cost to fill key regulatory and revenue generation positions, as per Ithala's turnaround strategy. Also contributing to the increase in expenses is once-off and extra ordinary cost incurred for Section 12 banking licence application, legal fees and other regulatory requirements. Ithala has implemented cost containment and cost reduction measures in the new financial year to ensure Ithala returns to profitability.

ACCOUNTING POLICIES

Ithala's liquidity continues to remain strong. This is evident in the growth in surplus funds and Ithala's key liquidity ratios which remaining well above prudential requirements.

Ithala continues to receive financial support from the shareholder and KZN Government. The KZN Department of Economic Development Tourism and Environmental Affairs's (EDTEA's) has committed for fund Ithala for the next two financial years, as it has done historically.

Ithala SOC has prepared a turnaround strategy, however, this had to be put on hold when the Repayment Administrator was appointed in December 2023. Ithala will continue to implement this strategy once certainty on it future is decided.

Despite posting a net loss, the expiry of the banking licence exemption and the suspension of the FSP licence which creates a material uncertainty on Ithala's going concern status, management, with the support of the shareholder and Government of KwaZulu Natal and affirmed in the letter from the Minister of Finance which states a long-term solution must be found for Ithala, is certain that Ithala will continue to exist in the foreseeable future. It is expected that all obligations will be settled in the normal course of business and Ithala will implement its alternative option available and accordingly the going concern basis of accounting has been adopted in the preparation of the Annual Financial Statements.

1.3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The Company makes estimates and assumptions concerning the future that affect the reported amounts of assets and liabilities within the next financial year. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

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

Going Concern

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

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

ACCOUNTING POLICIES

Measurement of the expected credit loss allowance – IFRS 9

The measurements of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 28, which also sets out key sensitivities of the ECL and to changes in these elements.

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

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

Measurement of post-retirement obligations and long service awards

The cost of the defined benefit pension plan and long service awards are determined using an actuarial valuation. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.
Refer to Note 16 for the assumptions used.

Measurement of leased asset and leased liability - IFRS 16 (Note 30)

Extension and termination options

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

1.4 TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

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

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

ACCOUNTING POLICIES

Recognition and measurement

An item of tangible assets is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Tangible assets and capital work-in-progress are initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets.The cost relating to testing the asset to determine that it is functioning properly and any proceeds of selling any items which were produced during the testing phase is included in profit and loss.

Expenditure incurred subsequently for major services, additions to or replacements of parts of tangible assets are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in the statement of comprehensive income in the year in which they are incurred.

Subsequent measurement

Tangible assets are subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using the straight-line method. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset

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Tangible assets are depreciated over the following periods:
- Computer equipment: 3-10 years
- Furniture and fittings: 1-15 years
- Leasehold improvements: 1-10 years
- Office equipment: 2-5 years
- Motor vehicles: 5 years
- Leased property: 1-10 years
- Leased equipment: 1-10 years

ACCOUNTING POLICIES

Retirement and disposals of tangible assets

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

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

1.5 INTANGIBLE ASSETS

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

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

Computer software and licences

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

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

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

Direct software development costs that enhance the benefits of computer software programmes and are clearly associated with an identifiable and unique software system, which will be controlled by the company and has a probable benefit exceeding one year, are recognised as intangible assets. These costs are initially capitalised as work-in-progress up to the date of completion of projects after which the asset is transferred to computer software and accounted for as per the computer software and licences policy. Management reviews the carrying value of capitalised work-in-progress on an annual basis, irrespective of whether there is an indication of impairment. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

ACCOUNTING POLICIES

System development costs

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is an ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Retirement and disposals of intangible assets

An intangible asset shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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

Impairment of tangible, Intangible and right of use assets

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

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

A reversal of an impairment loss of assets carried at cost or cost less accumulated depreciation or amortisation is recognised immediately in profit or loss. The increased carrying amount of an asset or CGU attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS

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

Initial recognition and measurement

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the financial instrument except for loans and advances which is recognised when the funds are transferred. All financial instruments are measured initially at fair value adjusted for directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss (FVTPL) where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Company commits to purchase (sell) the instruments (trade date accounting).

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net operating income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Financial assets classification and subsequent measurement

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

Amortised Cost which consists of the following classes:

- Cash and cash equivalents;
- Loans and advances to customers;
- Investment and deposits with banks;
- Receivables; and
- Statutory investments and reserves

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

Business Model

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

ACCOUNTING POLICIES

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

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

Amortised Cost

Assets that are held for collection of contractual cash flows where those cash flows represented SPPI and that are not designated at FVTPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured in terms of the Company's expected credit loss policy. A gain or loss from a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income in profit or loss using the effective interest rate method.

Effective interest rate method

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

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

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

In applying the effective interest method, the company identifies fees that are an integral part of the effective interest rate of loans granted. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. These include origination fees received by the company relating to the creation or acquisition of loans such as compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction.

ACCOUNTING POLICIES

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with financial assets carried at amortised cost and with the exposures arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company recognises a loss allowance at an amount equal to the lifetime ECL, except for financial assets on which credit risk has not increased significantly since their initial recognition. The loss allowance on financial assets on which credit risk has not increased significantly since their initial recognition are at an amount equal to the 12-month ECL. The loss allowance on receivables are always measured at an amount equal to the lifetime ECL.

Significant increase in credit risk

The Company assesses at each reporting date, whether the credit risk of a financial instrument has increased significantly since initial recognition. This is based on the comparison of the risk of default occurring on the financial instrument as at each reporting date to initial recognition over the expected life of the financial instrument. It considers available reasonable and supportable forward-looking information, including movement in the credit score since initial recognition or the last reporting date.

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

Impairment of financial assets: Definition of default

The Company defines a default consistent to the internal risk for internal credit risk management purposes for the relevant financial instruments and considers qualitative factors when appropriate.

The Company's criteria in the determination of impairment of a financial asset or group of assets include observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the customer or borrower;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrowers' financial difficulty, granting the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the lender is over indebted; and
- Observable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets that may have arisen from global economic conditions that correlate with defaults on the assets because of adverse changes in the financial services sector, which has impacted on borrowers.

ACCOUNTING POLICIES

A backstop is applied and the financial instrument is considered to be in default if the borrower is more than 90 days outstanding on its contractual payments.

Financial assets subject to re-negotiated terms.

The Company sometimes re-negotiates or otherwise modifies the contractual cash flow of loans to customers. When this happens, the Company assesses whether the new terms are substantially different to the original term.

Loans with re-negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. These loans are not considered to be past due. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Restructuring activities include extended payment arrangements, and deferral of payments, amongst others.

Following restructuring, a previously overdue advance is managed together with other similar accounts once the customer demonstrates the ability to make contractual payments for a specific period. Restructuring policies and procedures are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue.

If the terms are substantially different, the Company derecognises the original asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the financial asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

Write off of financial assets

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Loan commitments are measured at fair value, alternatively, measured at amortised cost if both of the following conditions are met:
- The asset held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ACCOUNTING POLICIES

Derecognition of financial assets

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

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

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

Financial liabilities

Classification and measurement

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

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

ACCOUNTING POLICIES

Receivables

Classification

Other receivables are deferred assets which arise as a result of the Company having paid an amount in advance, for which the benefit of the corresponding goods and/or services will only be received within the course of the next 12 months from reporting date. These are not included as financial assets.

Trade and other payables

Classification

Trade and other payables (note 12), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

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

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability. If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of an interest expense, then it is included in profit or loss as interest expenditure calculated with an effective interest rate (note 19).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to note 28 for details of risk exposure and management thereof.

Cash and cash equivalents

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

ACCOUNTING POLICIES

1.7 TAX

Taxation

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

1.8 LEASES

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

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

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

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

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

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

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

- fixed payments, including in-substance fixed payments;

ACCOUNTING POLICIES

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

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

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

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

Short-term leases and leases of low-value assets

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

1.9 INVENTORIES

Inventories consist of debit cards and consumables. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula.

1.10 SHARE CAPITAL

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

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

ACCOUNTING POLICIES

1.11 EMPLOYEE BENEFITS

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Post-retirement medical aid benefits

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

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

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

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

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

ACCOUNTING POLICIES

Pension fund and provident fund

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

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

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

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

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

Long service award

The Company amended the long service award policy during the financial year ended 31 March 2023. Based on the new policy, the employee receives a cash reward for every 5 years of continuous service up to 25 years of service. Prior to the new policy, the employee received a certain percentage of the total cost to company in the year the payment is made based on the number of years the employee has rendered services to the company, which should be a minimum of 10 years. The payment of the award is the cost of providing the benefits which is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for the long service award.

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

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

ACCOUNTING POLICIES

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

Termination benefits

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

1.12 PROVISIONS AND CONTINGENCIES

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the expenditure expected to be required to settle the obligation at the end of the reporting period.

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

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

1.13 GOVERNMENT GRANTS

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

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

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

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

1.14 INTEREST INCOME

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

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

Financial assets that have become credit impaired subsequent to initial recognition, the interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. If the financial asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

1.15 INTEREST EXPENSE

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

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

1.16 NON-INTEREST REVENUE

Fee and commission income

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

Other Income

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

1.17 PROPERTIES IN POSSESSION

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

The Company's properties in possession includes properties registered and available for sale, and properties sold for which transfer to a purchaser is in progress. Properties in possession are classified as other assets upon foreclosure of the loan and they have met the reclassification criteria. The properties are initially recognised at cost, which is the lower of the outstanding loan balance and valuation of the property.

The properties are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses

NOTES TO THE FINANCIAL STATEMENTS

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2

The Company only discloses material accounting policy information in the financial statements. There has been no material impact.

Definition of accounting estimates: Amendments to IAS 8

The new definition of a change in accounting estimate has been applied by the Company, refer to accounting policy 1.3 Critical Accounting Judgements and Estimates. There has been no material impact.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The Company assessed the requirements to classify a liability as current or non-current based on whether the Company has the right at the end of the reporting period to defer settlement of a liability for at least twelve months after the reporting period. The Company concluded that they do not have the right to defer settlement for at least twelve months after the reporting period. There has been no material impact.

IFRS 17 Insurance Contracts

The Company assessed the implications of IFRS 17 to its financial reporting. With consideration to the role of the Company as an intermediary in particular the collection of premiums from policyholders for a brief period before funds are paid onward to the insurers, the activity falls outside the scope of IFRS 17 as the Company is not, as a result of this activity, accepting a transfer of insurance risk. Therefore, the requirements of IFRS 17 is not applicable to the Company. There has been no impact.

2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants: Amendments to IAS 1

In January 2020 and October 2022, the Board issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer settlement must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has done an initial impact assessment and the Company confirmed that they do not have a right to defer settlement. A detailed assessment will still need to be done on all contracts.

Lease Liability in a Sale and Leaseback: Amendments to IFRS 16

The narrow scope amendment requires a seller-lessee in a sale and leaseback transaction to determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognise any amount of a gain or loss relating to the right of use retained by the seller-lessee. The new requirement does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has assessed the impact and the Company does not have any sale and leaseback agreements.

Disclosures: Supplier Finance Arrangements: Amendments to IAS 7 and IFRS 7

The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows and exposure to liquidity risk.

The effective date of the amendment is for years beginning on or after 01 January 2024. Management has done an initial assessment and established that Company does not utilise finance providers to settle supplier accounts on their behalf

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
3. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Cash on hand	54 183	70 628
Bank balances	129 851	118 156
Call and money market funds	198 585	100 290
Short-term investments and deposits with bank	37 338	30 976
	419 956	**320 050**

Included in cash is an amount of R15.2 million (2023: R 16.0 million) relating to cash in transit at year-end.

The ECL on cash and cash equivalents have not been raised as it was considered immaterial.

4. STATUTORY INVESTMENTS AND RESERVES

	2024 R '000	2023 R '000
Treasury bills	205 588	187 553
Balances with Central Bank	58 807	58 437
Impairment of statutory investments and reserves	(65)	(62)
Total	**264 330**	**245 928**
Cash flow movement in statutory investments and reserves		
(Increase)/Decrease in statutory investments and reserves	(18 402)	26 473
(Decrease)/Increase in impairment of statutory investments and reserves	(3)	133
	(18 405)	**26 606**

The Company invests in statutory investments to ensure that the minimum reserve requirements are met. These funds are not available for use in operational activities. Amounts held as at 31 March 2024 exceed the minimum reserve requirements by R30.5 million (2023: R 16.8 million), and are invested in terms of the Company's capital management policy.

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
5. INVESTMENTS AND DEPOSITS WITH BANKS		
Investments and deposits with banks are analysed, as follows:		
Fixed-term funds	163 128	204 318
Investments in state-owned company	25 877	34 478
	189 005	**238 796**
Impairment of investments	(6 167)	(10 926)
Modification loss of investments	(2 642)	(1 331)
	180 196	**226 539**
Maturity analysis of investments and deposits with banks		
Maturing up to 1 month	87 275	63 769
Maturing after 1 month but within 3 months	71 753	86 490
Maturing after 3 months but within 6 months	2 656	31 422
Maturing after 6 months but not exceeding 1 year	27 321	57 115
Total	**189 005**	**238 796**
Credit impairments for investments and deposits		
Balance at the beginning of the year	10 926	14 017
Impairments reversed	(4 759)	(3 091)
Balance at the end of the year	**6 167**	**10 926**
Comprising:		
Impairments for performing investments (stage 1 and stage 2)	6 167	10 926
Total credit impairments for investments and deposits with bank	**6 167**	**10 926**
Cash flow movement in investments and deposits with banks		
Decrease/(increase) in investments and deposits with banks	45 034	(33 679)
Decrease in impairments	4 759	3 091
	49 793	**(30 588)**

NOTES TO THE FINANCIAL STATEMENTS

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

Funds on fixed deposit at ABSA Bank Limited are subject to a general cession in its favour up to an amount of R 60 million (2023: R60 million) for electronic banking facilities granted to the Company. At year-end, funds on fixed deposit with ABSA Bank Limited totalled R 61.4 million (2023: R 150.3 million). In the prior year a R3 million guarantee was issued on behalf of the Company in favour of the South African Insurance Association and was cancelled in the current year.A guarantee of R4.1 million was issued in the current year on behalf of the Company in favour of Guardrisk Life Limited.

At March 2024 the gross carrying value of investments was R189 million (March 2023: R239 million) against which ECL of R6.2 million (March 2023: R10.9 million) was held. Of the ECL, R5.9 million (March 2023: R10.5 million) is from a single investment in Land Bank. The gross carrying value of this investment at 31 March 2024 was R25.9 million (March 2023: R34.0 million). The reduction in the gross carrying value was due to a capital settlement of R8.6 million (2023:R8.5 million). The capital reduction and improved prospects of recovering the investment has reduced the ECL from R10.5 million (March 2023: R13.8 million) to R8.6 million (March 2023:10.5 million). Refer to note 29 for further details.

A modification loss has been recognised on the Landbank instrument due to Landbank defaulting on the settlement of the investment and paying interest at a lower rate than when the investment was initially purchased.

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

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Investments - 2024				
Credit Risk Rating Grades				
Investment Grade	-	-	-	-
Standard Grade	163 128	-	-	163 128
Low Grade	-	25 877	-	25 877
Default	-	-	-	-
Gross carrying amount	**163 128**	**25 877**	**-**	**189 005**
Modification loss	-	(2 642)	-	(2 642)
Loss Allowance	(240)	(5 927)	-	(6 167)
Carrying amount	**162 888**	**17 308**	**-**	**180 196**

NOTES TO THE FINANCIAL STATEMENTS

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Investments - 2023				
Credit Risk Grades				
Investment Grade	-	-	-	-
Standard Grade	204 318	-	-	204 318
Low Grade	-	34 478	-	34 478
Gross carrying amount	**204 318**	**34 478**	**-**	**238 796**
Modification loss	-	(1 331)	-	(1 331)
Loss allowance	(432)	(10 494)	-	(10 926)
Carrying amount	**203 886**	**22 653**	**-**	**226 539**

6. INVENTORIES

	2024 R '000	2023 R '000
Debit cards on hand	2 024	1 086
Stationery	1 376	219
	3 400	**1 305**

Inventories to the value of R3.9 million have been expensed during the current year (2023: R1.7 million)

7. RECEIVABLES

Receivables	8 220	7 921
Non-financial instruments:		
Prepayments	13 398	10 839
Total trade and other receivables	**21 618**	**18 760**

Receivables include accruals for service fees receivable, deposits placed and other recoverables.

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
8. LOANS AND ADVANCES		
Mortgage loans	1 504 279	1 584 564
Housing loans	12 533	15 983
Micro finance - secured loans	737 479	710 551
Gross carrying amount	**2 254 291**	**2 311 098**
Initiation fees EIR adjustment	(10 263)	(10 873)
Credit impairments for loans and advances	(116 120)	(92 356)
Net loans and advances	**2 127 908**	**2 207 869**
Maturity analysis		
Maturing:		
Up to 1 month	103 550	91 829
From 1 month to 6 months	76 596	73 143
From 6 months to 1 year	81 010	81 865
From 1 year to 5 years	550 771	572 927
After 5 years	1 442 365	1 491 334
	2 254 292	**2 311 098**

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

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

Expected credit loss for loans and advances

	2024 R '000	2023 R '000
Balance at beginning of the year	92 356	78 532
Charge to income statement		
Amounts written off against specific credit impairment	(19 149)	(4 311)
Impairments raised/(reversed)	42 913	18 135
Balance at end of the year	**116 120**	**92 356**

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
Comprising:		
Impairment for performing loans	34 687	31 631
Impairment for non-performing loans	81 433	60 725
Impairment for loans and advances	**116 120**	**92 356**
Credit impairment analysis of non performing loans		
Balance at beginning of the year	60 725	45 475
Impairment accounts written off	(19 149)	(4 311)
Net impairments reversed	39 857	19 561
	81 433	**60 725**
Credit impairments analysis of performing loans		
Balance at beginning of the year	31 630	33 056
Net impairments raised	3 057	(1 426)
	34 687	**31 630**
Segmental analysis of impairments in respect of non-performing loans		
Retail - Mortgage	55 637	44 495
Retail - Other	25 796	16 230
	81 433	**60 725**

Non-performing loans and advances - IFRS9

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

At March 2024 the value of non-performing loans was R227 million (March 2023: R204 million) against which credit impairments of R81 million (March 2023: R61 million) were held. There was no individual loan or advance included above that exceeds 10% of the Company's qualifying capital reserves as at 31 March 2024.

NOTES TO THE FINANCIAL STATEMENTS

Impaired loans and advances, and specific credit impairments

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

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

Portfolio credit impairment

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

Qualitative criteria

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

Impact of Interest Rate Hiking Cycle

The start of the repo interest rate hike cycle by the SARB in at attempt to manage inflation saw a 6.75% total increase over consecutive periods until late 2023 where the prime remains unchanged at 11.75%. In response to the consecutive increases, clients succumbed to other pockets of income such as savings, overdrafts and revolving facilities to meet growing credit obligations as salaries remains largely unchanged or flat increases in 2022 and 2023. The incumbent effect saw our clients falling short on the ability to meet repayments and fall into arrears. Arrears grew to greater than 90 days pushing clients into Stage 3. Aggressive collections strategy, payment holidays and debt restructure credit solutions were provided to clients. The impact of these strategies yielded positive results however the continued negative macro-economic impacts continues to put pressure on the credit performance by clients. The continued inflationary pressures compounded by load shedding, petrol price increases and high unemployment levels requires a cautious approach which as been effected in credit granting, agile collections and conservative provision over the 12-month horizon.

NOTES TO THE FINANCIAL STATEMENTS

High Risk Taxi Portfolio

Aggressive credit growth in this identified client need sector was adopted by Ithala SOC over the 2021 period onwards. Efforts to optimise the performance of this portfolio has remained under pressure where unlike the majority of the remaining portfolio falls within a payroll deduction collection, the self-employed clients remain most vulnerable to the negative macro-economic factors such as fuel price increases and loss of clients enroute (due to higher unemployment) levels. As such, necessary efforts to optimise performance such as de-risking via insurance (short-term and long-term) has been actively pursued. Nonetheless a cautious approach remains on this portfolio over the 12-month horizon via the ECL model.

Expected credit Loss Allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in Probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

NOTES TO THE FINANCIAL STATEMENTS

Mortgage loans and Housing loans

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

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Mortgage loans and Housing loans 2024				
Loss allowance as at 31 March 2023	1 804	19 686	46 859	68 349
Recalibration of model	(155)	(5 486)	(555)	(6 196)
Loss allowance as at March 31, 2023 after recalibration	1 649	14 200	46 304	62 153
Excluding manual overrides as at 31 March 2023	-	(159)	-	(159)
Transfers:				
Transfer from Stage 1 to Stage 2	(335)	2 265	-	1 930
Transfer from Stage 1 to Stage 3	(46)	-	2 420	2 374
Transfer from Stage 2 to Stage 3	-	(2 345)	5 407	3 062
Transfer from Stage 2 to Stage 1	1 017	(2 359)	-	(1 342)
Transfer form Stage 3 to Stage 1	9	-	(423)	(414)
Transfer from Stage 3 to Stage 2	-	345	(1 276)	(931)
New financial assets originated or purchased	68	364	573	1 005
Change in PDs/LGDs/EADs	(3 725)	6 774	11 862	14 911
Changes to model assumptions	3 046	2 465	(352)	5 159
Macroeconomic forecasts	(31)	(9)	-	(40)
Financial assets derecognised during the period	(46)	(269)	(6 677)	(6 992)
Total net P&L charge during the period	**(43)**	**7 072**	**11 534**	**18 563**
Loss allowance as at 31 March 2024	**1 606**	**21 272**	**57 838**	**80 716**
Write offs	-	-	7 525	7 525

NOTES TO THE FINANCIAL STATEMENTS

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Mortgage loans and Housing loans 2023				
Loss allowance as at 31 March 2022	2 350	19 588	38 639	60 577
Recalibration of model	(553)	(3 500)	(1 315)	(5 368)
Loss allowance as at March 31, 2022 after recalibration	1 797	16 088	37 324	55 209
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(364)	2 295	-	1 931
Transfer from Stage 1 to Stage 3	(52)	-	2 334	2 282
Transfer from Stage 2 to Stage 3	-	(2 109)	6 053	3 944
Transfer from Stage 2 to Stage 1	1 208	(2 761)	-	(1 553)
Transfer from Stage 3 to Stage 1	-	-	(45)	(45)
Transfer from Stage 3 to Stage 2	-	143	(558)	(415)
New financial assets originated or purchased	340	1 532	474	2 346
Change in PDs/LGDs/EADs	(2 623)	6 546	10 694	14 617
Changes to model assumptions	1 592	(1 535)	(6 228)	(6 171)
Macroeconomic forecasts	(49)	(170)	-	(219)
Applying overrides as at 31 March 2020	-	-	-	-
Financial assets derecognised during the period	(47)	(343)	(3 295)	(3 685)
Total net P&L charge during the period	**6**	**3 598**	**9 536**	**13 140**
Loss allowance as at 31 March 2023	**1 804**	**19 686**	**46 859**	**68 349**
Write-offs	-	-	2 443	2 443

NOTES TO THE FINANCIAL STATEMENTS

The following table further explains changes in the gross carrying loan amount of the housing loans portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Mortgage loans and Housing loans - 2024				
Gross carrying amount as at 31 March 2023	932 279	497 133	171 134	1 600 546
Recalibration of the model	142 887	(142 887)	-	-
Gross carrying amount as at 31 March 2023	1 075 166	354 246	171 134	1 600 546
Transfers:				
Transfer from Stage 1 to Stage 2	(163 664)	163 664	-	-
Transfer from Stage 1 to Stage 3	(15 170)	-	15 170	-
Transfer from Stage 2 to Stage 1	68 089	(68 089)	-	-
Transfer from Stage 2 to Stage 3	-	(30 243)	30 243	-
Transfer from Stage 3 to Stage 1	5 756	-	(5 756)	-
Transfer from Stage 3 to Stage 2	-	13 368	(13 368)	-
Financial assets derecognised during the period other than write-offs	(42 135)	(11 983)	(18 340)	(72 458)
New financial assets originated or purchased	25 327	3 953	1 818	31 098
Interest accruals and payments received	(34 165)	(10 042)	1 843	(42 364)
Gross carrying amount as at 31 March 2024	**919 204**	**414 874**	**182 744**	**1 516 822**
Write offs	-	-	9 051	9 051

NOTES TO THE FINANCIAL STATEMENTS

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Mortgage loans and Housing loans - 2023				
Gross carrying amount as at 31 March 2022	975 220	473 363	147 143	1 595 726
Recalibration of model	18 777	(18 729)	(48)	-
Gross carrying amount as at 31 March 2022	993 997	454 634	147 095	1 595 726
Transfers:				
Transfer from Stage 1 to Stage 2	(164 675)	164 675	-	-
Transfer from Stage 1 to Stage 3	(14 031)	-	14 031	-
Transfer from Stage 2 to Stage 1	101 995	(101 995)	-	-
Transfer from Stage 2 to Stage 3	-	(30 480)	30 480	-
Transfer from Stage 3 to Stage 1	2 162	-	(2 162)	-
Transfer from Stage 3 to Stage 2	-	10 057	(10 057)	-
Financial assets derecognised during the period other than write-offs	(42 902)	(15 308)	(11 885)	(70 095)
New financial assets originated or purchased	96 354	33 103	1 474	130 931
Interest accruals and payments received	(40 622)	(17 550)	2 157	(56 015)
Gross carrying amount as at 31 March 2023	**932 279**	**497 133**	**171 134**	**1 600 546**
Write-offs	-	-	3 302	3 302

NOTES TO THE FINANCIAL STATEMENTS

Micro finance - secured

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

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro financed - secured 2024				
Loss allowance as at 31 March 2023	2 357	7 783	13 865	24 005
Recalibration of the model	169	1 615	2 032	3 816
Loss allowance as at March 31, 2023 after calibration	2 526	9 398	15 897	27 821
Movements with P&L impact				
Excluding manual overrides as at 31 March 2023	-	(164)	89	(75)
Transfers:				
Transfer from Stage 1 to Stage 2	(527)	1 324	-	797
Transfer from Stage 1 to Stage 3	(159)	-	2 525	2 366
Transfer from Stage 2 to Stage 1	650	(1 319)	-	(669)
Transfer from Stage 2 to Stage 3	-	(3 633)	8 534	4 901
Transfer from Stage 3 to Stage 1	15	-	(514)	(499)
Transfer from Stage 3 to Stage 2	-	371	(1 377)	(1 006)
New financial assets originated or purchased	608	1 486	1 463	3 557
Change in PDs/LGDs/EADs	(2 265)	2 233	8 801	8 769
Macroeconomic forecasts	(51)	(80)	-	(131)
Changes to model assumptions and methodologies	1 396	364	(6 992)	(5 232)
Financial assets derecognised during the period	(82)	(282)	(4 831)	(5 195)
Total P&L charge during the period	**(415)**	**300**	**7 698**	**7 583**
Loss allowance as at 31 March 2024	**2 111**	**9 698**	**23 595**	**35 404**
Write offs	-	-	8 359	8 359

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro finance - secured 2023				
Loss allowance as at 31 March 2022	2 142	8 831	6 665	17 638
Recalibration of model	(278)	(2 196)	(433)	(2 907)
Loss allowance as at March 31, 2022 after calibration	1 864	6 635	6 232	14 731
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(395)	1 428	-	1 033
Transfer from Stage 1 to Stage 3	(59)	-	938	879
Transfer from Stage 2 to Stage 1	624	(956)	-	(332)
Transfer from Stage 2 to Stage 3	-	(2 287)	5 167	2 880
Transfer from Stage 3 to Stage 1	10	-	(180)	(170)
Transfer from Stage 3 to Stage 2	-	282	(750)	(468)
New financial assets originated or purchased	1 282	2 242	1 078	4 602
Change in PDs/LGDs/EADs	(1 329)	1 060	5 919	5 650
Macroeconomic forecasts	(56)	69	-	13
Applying overrides as at 31 March 2023	-	-	(31)	(31)
Changes to model assumptions and methodologies	502	(565)	(3 759)	(3 822)
Financial assets derecognised during the period	(86)	(124)	(749)	(959)
Total net P&L charge during the period	**492**	**1 149**	**7 634**	**9 275**
Loss allowance as at 31 March 2023	**2 357**	**7 783**	**13 865**	**24 005**
Write-offs	-	-	528	528

NOTES TO THE FINANCIAL STATEMENTS

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

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro financed - Secured Loans 2024				
Gross carrying amount as at 31 March 2023	565 257	111 534	33 760	710 551
Recalibration of model	10 619	(10 619)	-	-
Gross carrying amount as at 31 March 2023	575 876	100 915	33 760	710 551
Transfers:				
Transfer from Stage 1 to Stage 2	(41 554)	41 554	-	-
Transfer from Stage 1 to Stage 3	(10 234)	-	10 234	-
Transfer from Stage 2 to Stage 1	33 228	(33 228)	-	-
Transfer from Stage 2 to Stage 3	-	(20 560)	20 560	-
Transfer from Stage 3 to Stage 1	3 037	-	(3 037)	-
Transfer from Stage 3 to Stage 2	-	4 311	(4 311)	-
Financial assets derecognised during the period other than write offs	(38 340)	(3 904)	(8 103)	(50 347)
New financial assets originated or purchased	122 117	9 695	3 205	135 017
Interest accruals and payments received	(34 818)	(16 242)	(6 691)	(57 751)
Gross carrying amount as at 31 March 2024	**609 312**	**82 541**	**45 617**	**737 470**
Write-offs	-	-	10 097	10 097

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro financed - Secured Loans 2023				
Gross carrying amount as at 31 March 2022	424 801	94 310	20 722	539 833
Recalibration of model	13 438	(13 438)	-	-
Gross carrying amount as at 31 March 2022	438 239	80 872	20 722	539 833
Transfers:				
Transfer from Stage 1 to Stage 2	(38 034)	38 034	-	-
Transfer from Stage 1 to Stage 3	(4 412)	-	4 412	-
Transfer from Stage 2 to Stage 1	14 752	(14 752)	-	-
Transfer from Stage 2 to Stage 3	-	(15 292)	15 292	-
Transfer from Stage 3 to Stage 1	3 265	-	(3 265)	-
Transfer from Stage 3 to Stage 2	-	2 886	(2 886)	-
Financial assets derecognised during the period other than write-offs	(34 192)	(2 519)	(2 706)	(39 417)
New financial assets originated or purchased	201 188	35 210	4 046	240 444
Interest accruals and payments received	(15 922)	(12 905)	(1 482)	(30 309)
Applying overrides as at 31 March 2023	373	-	(373)	-
Gross carrying amount as at 31 March 2023	**565 257**	**111 534**	**33 760**	**710 551**
Write-offs	-	-	669	669

NOTES TO THE FINANCIAL STATEMENTS

Micro finance - unsecured

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period.There are no changes in the current year.

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro finance - unsecured 2023				
Loss allowance as at 31 March 2022	-	146	171	317
Recalibration of model	-	(20)	-	(20)
Loss allowance as at March 31, 2022 after calibration	-	126	171	297
Movements with P&L impact				
Transfers:				
Change in PDs/LGDs/EADs	-	(50)	(54)	(104)
Financial assets derecognised during the period	-	(76)	(117)	(193)
Total net P&L charge during the period	**-**	**(125)**	**(172)**	**(297)**
Loss allowance as at 31 March 2023	**-**	**-**	**-**	**-**
Write-offs	-	-	311	311

The following table further explains changes in the gross carrying loan amount of the micro finance - unsecured portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above: There were no changes in the current year.

	Stage 1: 12 month ECL R '000	Stage 2: Lifetime ECL R '000	Stage 3: Lifetime ECL R '000	Total R '000
Micro Financed - Unsecured Loans - 2023				
Gross carrying amount as at 31 March 2022	-	176	176	352
Transfers:				
Financial assets derecognised during the period other than write-offs	-	(97)	(121)	(218)
Interest accruals and payments received	-	(78)	(55)	(133)
Gross carrying amount as at 31 March 2023	**-**	**-**	**-**	**-**
Write-offs	-	-	343	343

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

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

2024	Stage 2		Stage 3	
	Gross amortised cost before the modification R '000	Net modification gain or loss R '000	Gross amortised cost before the modification R '000	Net modification gain or loss R '000
Housing loans	16 988	-	6 537	-
Micro finance - secured	2 839	-	1 791	-
Total	**19 827**	**-**	**8 328**	**-**

2023	Stage 2		Stage 3	
	Gross amortised cost before the modification R '000	Net modification gain or loss R '000	Gross amortised cost before the modification R '000	Net modification gain or loss R '000
Housing loans	12 917	-	1 678	-
Micro finance - secured loans	1 876	-	2 626	-
	14 793	**-**	**4 304**	**-**

Mortgage and Housing Loans

The table below shows the credit quality and the maximum exposure to credit risk based on empirical scores used by the Company, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 28 and the entity's impairment assessment and measurement approach is also set out in Note 28.

31 March 2024	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range				
Performing				
0.00%-0.50%	221	4	-	225
0.51%-11.70%	918 983	307 909	-	1 226 892
11.71%-29.50%	-	65 530	-	65 530
29.51%-100%	-	41 431	-	41 431
Non-performing				
100%	-	-	182 744	182 744
Gross Carrying amount	**919 204**	**414 874**	**182 744**	**1 516 822**

NOTES TO THE FINANCIAL STATEMENTS

31 March 2023	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range				
Performing				
0.00%-0.50%	90	3	-	93
0.51%-11.70%	932 189	419 007	-	1 351 196
11.71%-29.50%	-	52 394	-	52 394
29.51%-100%	-	25 729	-	25 729
Non-performing				
100%	-	-	171 134	171 134
Gross carrying amount	**932 279**	**497 133**	**171 134**	**1 600 546**

Secured Loans

The table below shows the credit quality and the maximum exposure to credit risk based on empirical scores used by the Company, 12 month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the credit scoring methodology are explained in Note 28 and the entity's impairment assessment and measurement approach is also set out in Note 28.

31 March 2024	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range				
Performing				
0.00%-0.50%	19 624	-	-	19 624
0.51%-11.70%	589 687	38 944	-	628 631
11.71%-29.50%	-	6 653	-	6 653
29.51%-100%	-	36 946	-	36 946
Non-performing				
100%	-	-	45 616	45 616
Gross carrying amount	**609 311**	**82 543**	**45 616**	**737 470**

31 March 2023	Stage 1	Stage 2	Stage 3	Total
12 Month PD Range				
Performing				
0.00%-0.50%	19 040	815	-	19 855
0.51%-11.70%	545 843	67 256	-	613 099
11.71%-29.50%	-	11 348	-	11 348
29.51%-100%	374	32 115	-	32 489
Non-performing				
100%	-	-	33 760	33 760
Gross carrying amount	**565 257**	**111 534**	**33 760**	**710 551**

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
9. PROPERTIES IN POSSESSION		
Properties in possession	148	148

Properties in possession expensed during the current year was nil (2023: R 0.4 million).

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

10. TANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

	2024			2023		
	Cost or revaluation R '000	Accumulated depreciation R '000	Carrying value R '000	Cost or revaluation R '000	Accumulated depreciation R '000	Carrying value R '000
Furniture and fixtures	23 996	(18 768)	5 228	24 485	(18 773)	5 712
Motor vehicles	1 026	(442)	584	1 026	(271)	755
Office equipment	40 377	(24 240)	16 137	38 146	(23 159)	14 987
Computer equipment	48 440	(29 643)	18 797	42 254	(27 063)	15 191
Leasehold improvements	51 252	(43 871)	7 381	50 570	(42 980)	7 590
Leased property Note 30	128 086	(57 056)	71 030	87 385	(38 124)	49 261
Leased equipment Note 30	7 037	(6 647)	390	7 037	(4 301)	2 736
Total	**300 214**	**(180 667)**	**119 547**	**250 903**	**(154 671)**	**96 232**

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation of tangible assets and right-of-use assets - 2024

	Opening balance R '000	Additions/ Modification R '000	Disposals R '000	Depreciation/ impairment R '000	Total R '000
Furniture and fixtures	5 712	275	(19)	(740)	5 228
Motor vehicles	755	-	-	(171)	584
Office equipment	14 987	6 191	(568)	(4 473)	16 137
Computer equipment	15 191	7 127	-	(3 521)	18 797
Leasehold improvements	7 590	1 326	-	(1 535)	7 381
Leased property	49 261	45 853	-	(24 084)	71 030
Leased equipment	2 736	-	-	(2 346)	390
	96 232	**60 772**	**(587)**	**(36 870)**	**119 547**

Reconciliation of tangible assets and right-of-use assets - 2023

	Opening balance R '000	Additions/ Modification R '000	Disposals R '000	Depreciation/ impairment R '000	Total R '000
Furniture and fixtures	3 397	3 050	(38)	(697)	5 712
Motor vehicles	102	713	-	(60)	755
Office equipment	10 460	8 234	(356)	(3 351)	14 987
Computer equipment	7 397	9 233	(47)	(1 392)	15 191
Leasehold improvements	4 651	4 590	(311)	(1 340)	7 590
Leased property	49 533	15 857	-	(16 129)	49 261
Leased equipment	5 082	-	-	(2 346)	2 736
	80 622	**41 677**	**(752)**	**(25 315)**	**96 232**

Depreciation of R36.9 million (2023: R25.3 million) are included in the Statement of Comprehensive Income.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

	2024			2023		
	Cost or revaluation R '000	Accumulated amortisation/ impairment R '000	Carrying value R '000	Cost or revaluation R '000	Accumulated amortisation/ impairment R '000	Carrying value R '000
Computer software	17 569	(16 524)	1 045	16 514	(16 005)	509
Software work in progress	51 965	(41 082)	10 883	44 393	(41 082)	3 311
Total	**69 534**	**(57 606)**	**11 928**	**60 907**	**(57 087)**	**3 820**

Reconciliation of intangible assets - 2024

	Opening balance R '000	Additions R '000	Disposals R '000	Transfers R '000	Amortisation R '000	Total R '000
Computer software	509	976	-	80	(520)	1 045
Software work in progress	3 311	8 363	(711)	(80)	-	10 883
	3 820	**9 339**	**(711)**	**-**	**(520)**	**11 928**

Reconciliation of intangible assets - 2023

	Opening balance R '000	Additions R '000	Disposals R '000	Amortisation R '000	Total R '000
Computer software	916	-	-	(407)	509
Software work in progress	2 383	928	-	-	3 311
	3 299	**928**	**-**	**(407)**	**3 820**

Amortisation of R0.5 million (2023: R0.4 million) included in the Statement of Comprehensive Income.

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

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

NOTES TO THE FINANCIAL STATEMENTS

In 2018 the Company initiated a new banking system project for implementation of an integrated enterprise-wide core banking platform with a digital customer centric paradigm expected to modernise the Company's technology as well as close various risk and compliance exceptions. Work-in-progress incurred to the value of R26 million which was funded by a R40 million grant received from the KZN government for the purpose of funding the project. System development has halted and legal action has been taken against the service provider.The R26 million carrying value has been reduced by the corresponding R40 million grant funding received, thus no impairment was required.

	2024 R '000	2023 Restated R '000
12. TRADE AND OTHER PAYABLES		
Trade payables	22 344	14 709
Accruals*	8 572	14 231
Accrued audit fees*	5 378	4 948
Accrued leave pay	11 886 1	1 132
Accrued 13th cheques	2 130	2 042
Loans and advances reflecting credit balances	3 966	3 134
Deferred Income-Government income	9 304	9 304
Lease liability	83 476	60 054
Sundry Payables	26 026	13 099
	173 082	**132 653**

Grant deferred income relates to a government grant received by the Company for the purposes of assisting it in developing its new banking system. System development has been halted and the full grant funding was not utilised.

Sundry payables include debit card funds due to clients, unallocated deposits received and dormant funds.

*Refer to note 37 for the restatement of Accrual and Audit fees.

Lease liability reconciliation

Opening balance	60 054	61 053
Additions	45 853	15 857
Interest	9 545	5 284
Repayments and other movements	(31 976)	(22 140)
	83 476	**60 054**

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

13. PROVISIONS

Reconciliation of provisions - 2024

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

Reconciliation of provisions - 2023

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

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

The Company has offered to settle Mr. Mthembu the R0.5 million which has been rejected. This matter is currently ongoing and there is uncertainty on the settlement value.

14. LOAN ACCOUNT WITH HOLDING COMPANY

Holding company

	2024 R '000	2023 R '000
Loan account with holding company	95 427	56 493

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

Maturity analysis

Within 1 year	95 427	56 493

NOTES TO THE FINANCIAL STATEMENTS

15. CUSTOMER DEPOSITS

	2024 R '000	2023 R '000
Call deposit accounts	82 884	77 004
Savings accounts	1 080 192	1 065 132
Term deposits	1 310 690	1 343 216
	2 473 766	**2 485 352**
Maturity analysis:		
On demand	1 170 434	1 144 787
Up to 1 month	153 136	186 303
From 1 month to 6 months	750 734	701 393
From 6 months to 1 year	368 219	415 119
From 1 year to 5 years	31 243	37 750
	2 473 766	**2 485 352**
Savings accounts are further analysed as follows:		
Savings	713 103	656 876
Trust accounts	53 984	53 922
Debit Card	302 519	339 617
Corporate	10 586	14 717
Total Savings	**1 080 192**	**1 065 132**
Term deposits are further analysed as follows:		
Retail accounts	909 107	844 249
Corporate accounts	401 583	498 967
Total Term deposits	**1 310 690**	**1 343 216**

Savings accounts, as disclosed in the table above, have no fixed terms and are available to customers on demand.

Term deposits are available to customers upon maturity.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

16. RETIREMENT BENEFIT OBLIGATIONS

Post-retirement medical obligations

The Company provides post-retirement medical benefits to employees who commenced employment prior to 1 August 2000. These actuarial valuations are conducted annually at statement of financial position date.

92 current and retired employees (2023: 93) are currently covered under the scheme.

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

The principal actuarial assumptions used included a discount rate of 13.60% (2023: 12.20%) and a healthcare cost inflation rate of 9.00% (2023: 8.10%). The movement in the liability annualised in the statement of financial position is as follows:

	2024 R '000	2023 R '000
Movement in the defined benefit obligation, is as follows :		
Balance at beginning of the year	46 829	42 428
Current service costs	654	673
Interest costs	5 536	4 586
Net actuarial (gain)/loss recognised during the year	(1 614)	1 274
Benefit payment	(2 749)	(2 132)
Balance at end of the year	**48 656**	**46 829**
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	48 656	46 829
Post retirement medical benefits		
Actuarial (loss)/gain		
The actuarial loss arose as a result of the following :		
Change in real discount rate	2 357	3 675
Higher than expected healthcare cost inflation including changes in members' benefit options	(5)	(1 130)
Unexpected changes in membership	(738)	(3 819)
Total	**1 614**	**(1 274)**

NOTES TO THE FINANCIAL STATEMENTS

Actuarial assumptions used and sensitivity analysis

Sensitivity Analysis - unfunded accrued liability

	Assumptions	Change	2024 R '000	2023 R '000
Present value of obligation			48 656	46 829
Health care cost inflation	9.00%	+1%	54 087	52 428
		-1%	44 027	42 097
Discount rate	13.60%	+1%	44 214	42 275
		-1%	51 919	52 272
Expected retirement age	60 years	+1 year	50 173	45 506
		-1 year	46 968	48 619

Pension and Provident Fund Schemes

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

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

Actuarial valuations of the defined benefit pension and provident funds were conducted as at the end of each of the three preceding financial years and the actuary found the funds to be in a sound financial position. An actuarial review conducted as at 31 March 2024 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 and as per the signed report. The present value of the defined benefits obligations and the related current service cost were measured using the Projected Unit Credit Method.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
Defined benefit provident fund		
Fair value of plan assets	(5 240)	(4 759)
Surplus	(5 240)	(4 759)
Amount allocated to employer surplus account	5 240	4 759
Asset not recognized due to asset ceiling	**-**	**-**
The movement in the fair value of plan assets over the year, is as follows:		
Balance at beginning of the year	4 759	4 406
Benefits paid	(40)	-
Actuarial gain	521	353
Balance at end of the year	**5 240**	**4 759**
Actuarial (loss)/gain		
The actuarial gains arose as a result of the following:		
Actuarial gain arising changes in demographic assumptions	114	-

The Company has not made any contributions to both the Company's defined benefit provident fund and the Old Mutual Superfund defined benefit provident fund (2023: nil on both funds), neither do we expect to make any contributions during the next financial year due to the payment holiday.

	2024 R '000	2023 R '000
Actuarial gains and losses analysis		
Pension and provident fund	481	352
Post retirement medical	1 614	(1 274)
	2 095	**(922)**
Actuarial reserve movement		
Opening balance	12 426	13 348
Actuarial movement	2 095	(922)
	14 521	**12 426**

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
Long service obligation		
Balance at beginning of the year	3 761	4 154
Expensed during the year	552	574
Contributions paid	(871)	(967)
Balance at end of the year	**3 442**	**3 761**
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	3 442	3 761
Amounts recognised in the statement of comprehensive income are as follows:		
Current service cost	399	427
Interest cost	330	335
Net actuarial gain recognised in the year	(177)	(188)
	552	**574**

Sensitivity analysis

Assumptions	Change	2024 R '000	2023 R '000
Present value obligations		3 442	3 761
Average salary inflation	+1%	3 442	3 761
	-1%	3 442	3 761
Average retirement age	+2 years	3 564	3 864
	-2 years	3 279	3 605

The policy states that the calculation will be based on a cash reward for every 5 years of continuous service up to 25 years of service.

An actuarial valuation of the provision for long service awards at 31 March 2024 quantified the present value of obligations at R3.4 million (2023: R3.8 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. The present value of the liability was measured using the Projected Unit Credit Method.

The principal actuarial assumptions used included a discount rate of 11.20% (2023: 10.20%) and an average salary inflation of 6.90% (2023: 6.10%).

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
17. SHARE CAPITAL		
Authorised		
191 000 000 Ordinary shares of 0.1 cent each	191	191
Reconciliation of number of shares issued:		
Reported as at 01 April 2023	788 571	723 571
Issue of shares – ordinary shares	51 142	65 000
	839 713	**788 571**
Issued		
Ordinary	190	190
190 064 970 (2023: 190 059 856) ordinary shares of 0.1 cent each issued and fully paid for		
Share premium	839 523	788 381
	839 713	**788 571**

18. INTEREST INCOME FROM AN EFFECTIVE INTEREST RATE

	2024 R '000	2023 R '000
Interest income on call accounts	23 488	15 916
Interest income on fixed deposit accounts	23 400	17 265
Interest income on treasury bills	16 912	13 056
Interest earned on loans and advances to customers	263 670	211 594
Loan origination fees	9 605	6 213
Total interest on loans and advances and surplus funds	**337 075**	**264 044**

19. INTEREST EXPENDITURE FROM AN EFFECTIVE INTEREST RATE

	2024 R '000	2023 R '000
Interest paid on customer deposits	108 939	67 613
Interest arising from post-employment benefits	5 866	4 921
Interest arising from leased liabilities	9 545	5 284
Total	**124 350**	**77 818**

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
20. NON-INTEREST REVENUE		
Revenue from contracts with customers		
Revenue generated by Insurance division		
Commission income	10 876	12 146
Administration fee	4 603	1 026
Funeral cover commission and other fees	489	572
Commission and fee income from banking activities		
Fee income from loans and advances	7 628	4 638
Service fees from customer deposits	170 414	152 742
Other fee income	646	544
	194 656	**171 668**

The Company earns revenue from contracts with customers for rendering banking services and administrating loans. Commissions received are from insurance services rendered to various clients.

21. OTHER INCOME

	2024 R '000	2023 R '000
Dormant account balances recognised in income	9 995	10 051
Bad debts recovered	338	2 107
Recovery of operating expenses from holding company	446	439
Sundry income	8 299	7 297
	19 078	**19 894**

Sundry income mainly includes insurance proceeds of R7.0 million received in respect of the July 2021 unrest.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

22. OPERATING EXPENSES

Operating expenses amounting to R492.1 million (2023: R425.0 million) is stated after the following items:

	2024 R '000	2023 R '000
Auditor's remuneration		
Audit fees*	6 376	6 891
Bilateral audit request by the Prudential Authority	-	2 322
	6 376	**9 213**

*Refer to note 37 for audit fees restatement.

	2024 R '000	2023 R '000
Amortisation and impairment of intangible assets	520	407
Depreciation and impairment of tangible assets and right of use asset	36 875	25 315
Professional fees	13 871	10 108
Short-term leases and other cost*	2 783	6 846
Personnel costs (excluding Director's and key management remuneration)	210 092	185 429
Included in personnel costs above are contributions to retirement benefit schemes:		
Defined benefit plans	6 137	4 939
Defined contribution plans	9 541	9 075
	15 678	**14 014**

*Included in other costs are marketing costs and operational costs paid to lessors on certain properties.

Non-executive Directors' emoluments

	2024 R '000	2023 R '000
G Sibiya	863	771
M Pupuma	1 335	966
Y Mjiako (appointed 01 September 2022)	850	394
INkosi SN Mkhize	1 148	996
S Mnguni	-	-
N Simelane	654	692
	4 850	**3 819**

NOTES TO THE FINANCIAL STATEMENTS

2024

Executive Directors' remuneration

	Short-term employee benefits R '000	Post-employment benefits R '000	Total R '000
T Vilakazi - Chief Executive Officer	3 237	438	3 675
M Gafoor - Chief Finance Officer (appointed 12 July 2023)	2 307	280	2 587
	5 544	**718**	**6 262**

Appointed Prescribed Officers remuneration

	Short-term employee benefits R '000	Post-employment benefits R '000	Termination benefits R '000	Total R '000
N Ngobese - Head Business Operations (appointed 01 October 2023)	882	78	-	960
S Xolo - Head Marketing and Communication	1 898	160	-	2 058
S Moodley - Head Retail and Business Banking	1 812	156	-	1 968
A Pather - Head Insurance	1 798	160	-	1 958
T Nell - Head HR	1 798	160	-	1 958
K Nkambule - Compliance Officer	1 898	160	-	2 058
B Van der Lingen - Chief Risk Officer (resigned 31 August 2023)	755	65	201	1 021
N Masuku - Company Secretary	1 334	122	-	1 456
R Jugoo - Head Credit (appointed 03 August 2023)	1 057	88	-	1 145
S Nsele - Chief Audit Executive	1 859	155	-	2 014
S Phakathi - Chief Information Officer	2 039	176	-	2 215
	17 130	**1 480**	**201**	**18 811**

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

2023

Executive Directors' remuneration

	Short-term employee benefits R '000	Post-employment benefits R '000	Total R '000
T Vilakazi - Chief Executive Officer	2 889	379	3 268

Appointed Prescribed Officers remuneration

	Short-term employee benefits R '000	Post-employment benefits R '000	Termination benefits R '000	Total R '000
S Gwala - Head: HR (resigned 24 June 2022)	392	35	191	618
S Xolo - Head Marketing and Communication	1 646	140	-	1 786
T Nell - Head: HR (appointed 16 September 2022)	929	71	-	1 000
S Moodley - Head Retail and Business Banking	1 709	145	-	1 854
A Pather - Head Insurance	1 557	140	-	1 697
S Nsele - Chief Audit Executive	1 650	137	-	1 787
K Nkambule - Compliance Officer	1 646	140	-	1 786
X Khumalo - Head Credit (resigned 31 January 2023)	1 401	122	174	1 697
B Van 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
	16 956	**1 448**	**365**	**18 769**

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
23. OPERATING ACTIVITIES		
Non-cash items included in loss for the year		
Depreciation of tangible assets and ROUA	36 870	25 315
Amortisation of intangible assets	520	407
Loss on disposal of equipment	586	752
Credit impairment in loans and advances	23 764	13 824
Credit impairments reversals on investments and statutory investments	(4 756)	(3 223)
Modification loss	1 311	1 331
	58 295	**38 406**

24. CHANGES IN OPERATING FUNDS

	2024 R '000	2023 R '000
Increase in operating liabilities		
(Decrease)/Increase in customer deposits	(11 586)	18 247
Increase in trade and other payables *	17 007	7 054
Decrease in long service obligation	(319)	(393)
Increase in retirement benefit obligations	3 922	3 479
Increase in loan account with holding company	38 934	38 594
	47 958	**66 981**
Increase in operating assets		
Decrease/(Increase) in loans and advances	56 197	(174 365)
Decrease in properties in possession	-	387
(Increase)/Decrease in receivables	(2 858)	577
(Increase)/Decrease in inventory	(2 095)	194
	51 244	**(173 207)**

*Refer to note 37 for restatement details.

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
25. COMMITMENTS		
Capital commitment		
• Acquisition of equipment	4 031	3 332
• Intangible assets	17 206	475
	21 237	**3 807**

Capital expenditure will be financed from internal resources.

Unutilised facilities on advances at statement of financial position date were R5.4 million (2032: R11.6 million).

All commitment figures are VAT inclusive.

Intangible assets have increased to R17.2 million (March 2023: R0.5 million) in development costs since the Company has started multiple IT projects in the current year.

26. RELATED PARTIES

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

The Company does not deem Government wide entities with no significant influence in terms of governance and operations as related entities.

The following are identified as related parties of the company:

Ithala Development Finance Corporation Limited

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

The outstanding balance of the current loan accounts is disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
Outstanding balances with the holding company		
Outstanding balance on savings and fixed deposits	(13 734)	(13 537)
Loan account with holding company	(95 427)	(56 493)

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

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

	2024 R '000	2023 R '000
Transactions with the holding company		
Interest paid on customer deposits	340	384
Shared services	9 168	6 677
Recovery of operating expenses	(448)	(439)
Rental paid	5 575	4 904
Deposits due to property tenants	55 603	53 885
Administration fees received	(3 600)	-
Total	**66 638**	**65 411**

Transactions with the holding company's subsidiaries

	2024 R '000	2023 R '000
Rental paid	407	800
Deposits due to property tenants	1 917	1 793
	2 324	**2 593**

KwaZulu-Natal Provincial Government

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

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

	2024		2023	
	Deposits due R '000	Interest expense R '000	Deposits due R '000	Interest expense R '000
KwaZulu-Natal Growth Fund Trust	82 590	10 840	107 590	7 493

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

The Company provides intermediary and binder services to KZN Growth Fund. Premiums collected from KZN Growth funds are paid over to the underwriter.

Key management personnel - Directors of the Company and/or holding company

Directors of the Company and holding company are the individuals responsible for planning, directing and controlling the activities of the Company.

The related party transactions detailed below refer to loans which were granted to key management personnel. Key management personnel compensation is disclosed in Note 22.

	Outstanding balance R '000	Net realised amount of security R '000	Interest and fees received R '000
Loans granted to executive management of the holding company			
2024	1 470	4 165	169
2023	1 563	2 630	124

	Outstanding balance R '000	Net realised amount of security R '000	Interest and fees received R '000
Loans granted to executive management of the Company			
2024	19 564	22 486	1 874
2023	12 465	17 325	734

Impairment and terms of business relating to related party loans

Loans to Executive Management are secured by mortgage bonds over properties for housing loans and the market value of the asset for vehicle and asset finance. The Company, in the ordinary course of business, entered into various transactions with related parties. These transactions occur under terms that are no more favourable to those entered into with third parties at arm's length except for housing loans where all full time employees qualify for the prime lending rate less 1.75% and vehicle and asset finance where all full time employees qualify for the prime lending rate less 1.00% .

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

NOTES TO THE FINANCIAL STATEMENTS

27. UNAUTHORISED, IRREGULAR EXPENDITURE, FRUITLESS AND WASTEFUL EXPENDITURE AND MATERIAL LOSSES

	2024 R '000	2023 R '000
Unauthorised expenditure	-	-
Irregular expenditure	1 366	4 474
Fruitless and wasteful expenditure	-	-
	1 366	**4 474**

Unauthorised expenditure

There was no unauthorised expenditure incurred in the current year (2023: R0).

Irregular expenditure

An amount of R1.4 million (2023: R4.5 million) which relates to irregular expenditure was incurred in the current financial year as a result of not complying with Supply Chain Management Policy. Irregular expenditure is being investigated.

Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred in the current year (2023: R0).

Material losses

As disclosed in Note 8, loans and advances to the amount of R19.2 million (2023: R4.3 million) was written-off during the financial year. The Company suffered losses due to fraud of R4.2 million in the current financial year (2023: R3.5 million was identified relating to theft occurring in prior periods). The fraud case is currently under forensic investigations and is also being investigated by the Hawks. The Company did not suffer any losses as a result of a branch robbery in the current year (2023: R0.9 million). In July 2021 Kwazulu-Natal experienced social unrest and rioting. The Company suffered losses of R9.4 million which included the cost to bring affected branches and ATM's back to operation. The Company has put in a claim of R13,7 million from The South African Special Risk Association ('SASRIA). In the 2024 financial year, proceeds of R7.0 million (2023:R6.7 million) have been received against this claim (refer to note 36 for more details).

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL RISK MANAGEMENT

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

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

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

The Company's primary financial risks are:
- Credit risk
- Liquidity risk
- Market risk

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

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

2024

	Note(s)	Financial assets and liabilities at amortised cost R '000	Non-financial instruments R '000	Total R '000
Cash and cash equivalents	3	419 956	-	419 956
Statutory investments and reserves	4	264 395	-	264 395
Investments and deposits with banks	5	189 005	-	189 005
Loans and advances to customers	8	2 254 291	-	2 254 291
Receivables	7	8 220	13 398	21 618
Customer deposits	15	(2 473 766)	-	(2 473 766)
Trade and other payables	12	(77 720)	(95 362)	(173 082)
Loan account with holding company	14	(95 427)	-	(95 427)
		488 954	**(81 964)**	**406 990**

NOTES TO THE FINANCIAL STATEMENTS

2023

	Note(s)	Financial assets and liabilities at amortised cost R '000	Non-financial instruments R '000	Total R '000
Cash and cash equivalents	3	320 050	-	320 050
Statutory investments and reserves	4	245 990	-	245 990
Investments and deposits with banks	5	238 796	-	238 796
Loans and advances to customers	8	2 311 098	-	2 311 098
Receivables	7	7 921	10 839	18 760
Customer deposits	15	(2 485 352)	-	(2 485 352)
Trade and other payables	12	(61 467)	(71 186)	(132 653)
Loan account with holding company	14	(56 493)	-	(56 493)
		520 543	**(60 347)**	**460 196**

The values above are considered to approximate the fair values due to the short-term nature and market related interest rates of the financial instruments.

Credit risk

Credit risk is the risk of financial loss, should any customers or market counterparties fail to fulfil their contractual obligations to the company. Credit risk arises mainly from commercial and consumer loans and advances. Credit risk is a significant risk requiring management to carefully manage its exposure. Credit risk management and control are centralised within a credit risk management team, which reports to the Chief Executive Officer.

Maximum exposure to credit risk

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

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

	Note(s)	2024 R '000	2023 R '000
Credit risk exposures relating to statement of financial position assets:			
Cash and cash equivalents	3	365 774	249 422
Statutory investments and reserves	4	264 395	245 990
Investments and deposits with banks	5	189 005	238 796
Loans and advances to customers	8	2 254 291	2 311 098
Receivables	7	21 618	18 760
Total assets subject to credit risk		**3 095 083**	**3 064 066**
Letters of undertaking issued		5 400	11 599

Maturity analysis of credit risk exposures

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

31 March 2024

	Note(s)	Up to 1 month R '000	From 1 to 6 months R '000	From 6 months to 1 year R '000	From 1 year to 5 years R '000	After 5 years R '000	Total R '000
Credit risk exposure relating to statement of financial position assets:							
Cash and cash equivalents	3	328 436	37 338	-	-	-	**365 774**
Statutory investments and reserves	4	108 634	155 761	-	-	-	**264 395**
Investments and deposits with banks	5	87 275	74 409	27 321	-	-	**189 005**
Loans and advances to customers	8	103 550	76 596	81 010	550 771	1 442 365	**2 254 292**
Receivables	7	-	21 618	-	-	-	**21 618**
Letters of undertaking issued		5 400	-	-	-	-	**5 400**

NOTES TO THE FINANCIAL STATEMENTS

31 March 2023

	Note(s)	Up to 1 month R '000	From 1 to 6 months R '000	From 6 months to 1 year R '000	From 1 year to 5 years R '000	After 5 years R '000	Total R '000
Credit risk exposure relating to statement of financial position assets:							
Cash and cash equivalents	3	218 415	17 192	13 784	-	-	**249 391**
Statutory investments and reserves	4	108 185	137 805	-	-	-	**245 990**
Investments and deposits with banks	5	63 769	117 912	57 115	-	-	**238 796**
Loans and advances to customers	8	91 829	73 143	81 865	572 927	1 491 334	**2 311 098**
Receivables 7		-	18 760	-	-	-	**18 760**
Letters of undertaking issued		11 599	-	-	-	-	**11 599**

Individually assessed exposures

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

Management of credit risk

Loans and advances

Credit risk

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

Bank and investment balances

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

NOTES TO THE FINANCIAL STATEMENTS

Credit risk measurement

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

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

The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purposes of measuring ECL under IFRS 9.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument in then moved to 'stage 3'.

Stage 1

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

Stage 2 and 3

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

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

NOTES TO THE FINANCIAL STATEMENTS

The following diagram summarises the impairment requirements under IFRS 9:

31 March 2024

Stage 1 (Initial recognition) 12-month expected credit loss	Stage 2 (Significant increase in credit risk since initial recognition) Lifetime expected credit loss	Stage 3 (Credit-impaired assets) Lifetime expected credit losses
3 717	30 970	81 433

31 March 2023

Stage 1 (Initial recognition) 12-month expected credit loss	Stage 2 (Significant increase in credit risk since initial recognition) Lifetime expected credit loss	Stage 3 (Credit-impaired assets) Lifetime expected credit losses
4 161	27 469	60 725

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

SICR

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

Probability of Default

From origination of the facility and as at the impairment date, an assessment of the credit risk of the facility is performed and compared to the expectation of the credit risk as at origination of the loan. Historical data were used to estimate the 12-month PD per product and credit score bucket. Credit scores were segmented into buckets of similar default risk. If the current credit score falls into a worse PD bucket than at origination, subject to a minimum 15-point credit score deterioration, the account is moved to stage 2.

31 March 2024	Performing PD	Arrears PD	Absolute increase	Relative increase
Arrears SICR				
Home loans	1.9 %	23.1 %	21.2 %	1 090.4 %
Pension_b	1.1 %	4.7 %	3.6 %	325.0 %
Unsecured	12.1 %	61.1 %	49.0 %	406.5 %
VAF	5.6 %	29.2 %	23.6 %	419.1 %

NOTES TO THE FINANCIAL STATEMENTS

31 March 2023	PD	SICR PD threshold	Absolute increase	Relative increase
Credit Score SICR				
580-600	10.4 %	11.6 %	1.2 %	11.8 %
600-625	6.5 %	8.5 %	1.9 %	29.5 %
625-650	5.3 %	6.8 %	1.6 %	29.5 %
650-675	4.0 %	5.2 %	1.2 %	29.5 %
675-700	2.9 %	3.7 %	0.9 %	29.5 %
700-725	2.0 %	2.5 %	0.6 %	29.5 %
725-750	1.2 %	1.6 %	0.4 %	29.5 %
750-775	0.7 %	0.9 %	0.2 %	29.5 %
775-800	0.4 %	0.6 %	0.1 %	29.5 %
800+	0.4 %	0.5 %	0.1 %	29.5 %

31 March 2023	Performing PD	Arrears PD	Absolute increase	Relative increase
Arrears SICR				
Home loans	1.9 %	23.3 %	21.3 %	1 116.4 %
Pension_b	1.2 %	5.9 %	4.7 %	403.3 %
Unsecured	12.0 %	45.0 %	33.0 %	274.2 %
VAF	5.5 %	28.6 %	23.0 %	415.0 %

Days past due

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

The Company has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2024. The following table shows the impact on the 31 March 2024 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised:

NOTES TO THE FINANCIAL STATEMENTS

Lifetime PD band at initial recognition	Actual threshold applied	Change in threshold	Lower threshold	Higher threshold
Housing loans				
31 March 2024				
<=545	<=545	(87)	27 400	27 314
545-570	545-570	(10)	12 286	12 275
570-605	570-605	600	19 319	19 919
605-625	605-625	443	8 942	9 385
625-650	625-650	177	7 396	7 573
650-675	650-675	631	2 686	3 317
675-999	675-999	2 564	2 687	5 252
31 March 2023				
<=545	<=545	47	22 383	22 430
545-570	545-570	130	8 380	8 510
570-605	570-605	837	16 082	16 919
605-625	605-625	507	10 981	11 488
625-650	625-650	809	5 619	6 428
650-675	650-675	302	2 574	2 875
675-999	675-999	827	2 223	3 050
Micro-finance secured loans				
31 March 2024				
<=600	<=600	1 056	24 247	25 303
600-699	600-699	1 177	11 157	12 333
31 March 2023				
<=600	<=600	1 265	13 483	14 748
600-699	600-699	1 653	10 522	12 176

Definition of default and credit-impaired assets

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

Days past due

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

NOTES TO THE FINANCIAL STATEMENTS

Status codes

Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the Company uses status codes to indicate distressed accounts to be moved to Stage 3. The quantitative criteria are:

The borrower meets 'unlikeliness to pay' criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of a financial covenant(s)
- Concessions have been made by the lender relating to the borrower's financial difficulty.

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

Transition due to manual override

Further to the use of the 90 days past due assumption defined in the IFRS 9 standard, the model incorporates the use of manual overrides in order to allow management to transfer exposures to Stage2 and Stage 3 of the impairment model. This can be done on the basis of an individual assessment that indicates a change from management as an active client to a legal collections and rundown process.

Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:
- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (lifetime EAD).
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12M or lifetime basis, where 12M LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

NOTES TO THE FINANCIAL STATEMENTS

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a profile from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12M and Lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products this is based on the contractual repayments owed by the borrower over a 12M lifetime basis.This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

The 12M and lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking information incorporated in the ECL models

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

Forecasts of these economic variables (the "base economic scenario") are provided by Econometrix (prior year: Bureau of Economic Research "BER") on a quarterly basis and provide the best estimate view of the economy over the next three years.

NOTES TO THE FINANCIAL STATEMENTS

The economic variables are reassessed at each reporting date. At 1 April 2023 and 31 March 2024 the Company concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12M lifetime ECL should be recorded. Following this assessment, the Company measures ECL as either a probability weighted 12M ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihood of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linarite and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 March 2024 are set out below. The scenario 'base', 'Optimistic' and 'Downturn' were used for all portfolios.

		2025	2026	2027
31 March 2024				
Household income to disposable income	Base	65	65	65
	Optimistic	68	71	72
	Downturn	61	60	59
Unemployment	Base	32.7	33.0	33.0
	Optimistic	30.7	30.7	28.6
	Downturn	38.1	39.0	41.1
Gross Domestic Product (GDP)	Base	4,729,595	4,802,736	4,879,832
	Optimistic	4,993,310	5,159,693	5,369,755
	Downturn	4,307,235	4,267,020	4,183,754
Consumer Price Index (CPI)	Base	120.97	126.48	132.17
	Optimistic	119.96	124.78	129.64
	Downturn	124.77	133.16	142.51
Private Consumption	Base	3,153,152	3,212,572	3,281,931
	Optimistic	3,326,590	3,449,598	3,591,906
	Downturn	2,926,985	2,889,376	2,842,367

NOTES TO THE FINANCIAL STATEMENTS

31 March 2023

		2024	2025	2026
Household income to disposable income	Base	64	65	65
	Optimistic	67	66	65
	Downturn	61	60	58
Unemployment	Base	35.0	35.5	35.8
	Optimistic	31.4	31.5	29.5
	Downturn	38.3	39.2	40.2
Gross Domestic Product (GDP)	Base	4,732,837	4,825,430	4,916,060
	Optimistic	5,019,060	5,206,917	5,394,920
	Downturn	4,202,723	4,170,180	4,152,795
Consumer Price Index (CPI)	Base	116,58	121,89	127,45
	Optimistic	115,44	119,56	123,31
	Downturn	119,2	126,12	133,74
Repo rate	Base	6,75	6,00	5,75
	Optimistic	6.00	5,50	5,25
	Downturn	8,25	8,50	8.50

The weightings assigned to each economic scenario at 31 March 2024 were as follows:

	Base	Optimistic	Downturn
31 March 2024			
All portfolios	77 %	5 %	18 %
31 March 2023			
All portfolios	77 %	5 %	18 %

Scenario Sensitivity

The most significant assumptions affecting the ECL are as follows – 31 March 2024:

- Gross Domestic Product (GDP)
- Unemployment
- Consumer Price Index
- Private Consumption
- Household income to disposable income

Set out below are the changes to the ECL as at 31 March 2024 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Company's economic variable assumptions (for example, the impact on ECL of increasing the estimated Domestic GDP by in each of the base, Optimistic, Downturn scenarios).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2024		Unemployment R '000	Gross Domestic Products (GDP) R '000	Consumer Price Index R '000	Household income to disposable income R '000	Private Consumption R '000
Domestic GDP	[-0.50%]	116 118	116 121	116 086	116 114	116 540
	No change	116 120	116 120	116 120	116 120	116 120
	[+0.50%]	116 121	116 119	116 154	116 126	115 697

31 March 2023		Unemployment R '000	Gross Domestic Products (GDP) R '000	Consumer Price Index R '000	REPO R '000
Domestic GDP	[-0.50%]	92 356	92 356	92 352	92 356
	No change	92 356	92 356	92 356	92 356
	[+0.50%]	92 356	92 356	92 351	92 356

Forward-looking information incorporated in the ECL models continued.

IFRS 9 models use the following three parameters in ECL allowance calculations: probability of default (PD), loss given defaults (LGD) and exposure at default (EAD). Judgement and estimates are applied when quantifying the ECL allowance on loans and advances, and even more so now as credit models were not calibrated for events such as the Covid-19 crisis. Post the event, the impacts of economic effects of Covid-19 have filtered through the Company's experience, the model assumptions have been recalibrated to include the deteriorating experience. Adjustments have been made to the PDs through forward-looking information.

As further distinct economic challenges arise, particularly relating to rising interest rates and inflation, predicting the economic and credit impacts of such an environment becomes increasingly challenging. Management adjustments may therefore be required, in addition to the model outputs, to provide a more appropriate assessment of risk. These additional management adjustments require greater governance across the Company and will be robustly reviewed by the Credit Impairment Committee. Even though the economy has shown signs of recovery to pre-Covid-19 levels, a new affordability strain is emerging due to rising inflation and interest rates. These factors remained at low levels during the course of the pandemic and did not contribute to the initial downturn. These new risks present additional uncertainty and a distinct economic strain than what was experienced during the initial Covid-19 contraction. A revised selection of variables, which includes CPI and repo rates, has been employed as part of the forward looking scenarios in financial year 2022/2023, which are being used to adjust PDs for forward-looking information, these variables still remain relevant in financial year 2023/2024.

Estimation of PD, LGD, and SICR

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

PDs and LGDs

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

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

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

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

SICR events

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

NOTES TO THE FINANCIAL STATEMENTS

Impairment losses pre- and post-management adjustments

The table below provides a breakdown of the total ECL recognised at 31 March 2024 to reflect the impairment charge calculated using the Company's approved model together with the management adjustments raised to incorporate the effects of Covid-19.

31 March 2024

	Impairment losses pre-management adjustments R '000	Management adjustments R '000	Impairment losses R '000
Home loans	80 716	-	80 716
Micro finance - secured	35 404	-	35 404
	116 120	**-**	**116 120**

31 March 2023

	Impairment losses pre-management adjustments R '000	Management adjustments R '000	Impairment losses R '000
Home loans	68 349	-	68 349
Micro finance - secured	24 005	-	24 005
	92 354	**-**	**92 354**

Grouping of instruments for losses measured on a collective basis

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Maximum exposure to credit - financial instruments subject to impairment

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

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

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

Credit impaired assets - 31 March 2024

	Gross exposure R '000	Impairment allowance R '000	Carrying amount R '000	Fair value of collateral held R '000
Housing loans	1 516 822	80 716	1 436 106	2 517 237
Micro finance - secured	737 470	35 404	702 066	1 013 629
	2 254 292	**116 120**	**2 138 172**	**3 530 866**

Credit impaired assets - 31 March 2023

	Gross exposure R '000	Impairment allowance R '000	Carrying amount R '000	Fair value of collateral held R '000
Housing Loans	1 584 567	65 350	1 519 218	2 682 755
Micro finance - secured	710 547	24 005	686 542	954 650
	2 295 114	**89 355**	**2 205 760**	**3 637 405**

The nature of security that is held by the Company in respect of loans and advances to customers is set out below:

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

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

Valuation of security

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

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

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

Enforcement of security

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

Write-off policy

The company writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation (i) ceasing enforcement activity and (ii) where the company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written-off during the year ended 31 March 2024 was R19.2 million (2023: 4.3 million). The Company still seeks to recover amounts it is legally owed in full, but which have been partially written-off due to no reasonable expectation of full recovery.

Credit risk concentration

	2024 R '000	2023 R '000
Concentration of credit risk		
Loans granted within the boundaries of KwaZulu-Natal	2 229 011	2 283 692
Loans granted outside the boundaries of KwaZulu-Natal	25 281	27 406
Total	**2 254 292**	**2 311 098**

NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

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

Liquidity risk management

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

Contractual maturity analysis of financial liabilities as at 31 March 2024

		On demand R '000	Up to one month R '000	1 - 6 months R '000	6 - 12 months R '000	More than one year R '000	Total R '000
Deposits due to customers	15	1 170 434	153 136	750 734	368 219	31 243	2 473 766
Trade creditors and other payables	12	26 935	35 031	8 036	7 719	-	77 721
Loan account with holding company	14	95 427	-	-	-	-	95 427
Total		**1 292 796**	**188 167**	**758 770**	**375 938**	**31 243**	**2 646 914**
% of weighting		**49%**	**7%**	**29%**	**14%**	**1%**	**100%**

Contractual maturity analysis of financial liabilities as at 31 March 2023

		On demand R '000	Up to one month R '000	1 - 6 months R '000	6 - 12 months R '000	More than one year R '000	Total R '000
Deposits due to customers	15	1 144 787	186 303	701 393	415 119	37 750	2 485 352
Trade creditors and other payables	12	23 917	31 416	4 091	2 043	-	61 467
Loan account with holding company	14	56 493	-	-	-	-	56 493
Total		**1 225 197**	**217 719**	**705 484**	**417 162**	**37 750**	**2 603 312**
% of weighting		**47%**	**9%**	**27%**	**16%**	**1%**	**100%**

NOTES TO THE FINANCIAL STATEMENTS

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

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Company held deposits at call of R 198.6 million (2023: R 100.3 million) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Market risk

Interest rate risk

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

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

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

The table below demonstrates the re-pricing gap between the Company's assets and liabilities upon the application of a change in market interest rates. The table shows the impact of a 4% (2023: 4%) increase/decrease in interest rates on the interest income of the Company. The scenario analysis is limited to the impact on interest income and expenditure over the period of 12 months. The application of the change in interest rates is applied to a static statement of financial position and is in accordance with Regulation 30 of the Banks Act, 1990.

The sensitivity analysis below has been presented on a net interest income basis to reflect the operations of the Company. The projected impact on the statement of comprehensive income for 12 months due to a 200 basis points increase/(decrease) in interest rates is as follows:

	2024 R '000	2023 R '000
Increase:		
Impact of increase in yield on assets on comprehensive income	101 274	101 726
Increased net interest income percentage	44 %	53 %
Impact of increase in cost of funds on comprehensive income	(35 650)	(55 189)
Increased net interest income percentage	(15) %	(29) %
Decrease:		
Impact of decrease in yield on assets on comprehensive income	(101 274)	(101 726)
Increased net interest income percentage	(44) %	(53) %
Impact of decrease in cost of funds on comprehensive income	47 710	44 591
Increased net interest income percentage	21 %	23 %

As the Company has no assets or liabilities subject to adjustments resultant from market rate fluctuations, equity change is limited to the above changes.

Changes from the previous year to this forecast are mainly due to changes in interest rates and the related strategy in application, changes to volume, differing maturities and hence terms of re-pricing.

29. CREDIT IMPAIRMENT CHARGES/(REVERSALS)

Net expected credit loss/credit impairments raised and released for loans and advances to customers	33 307	11 924
Net expected credit loss raised and released for statutory investments	3	(133)
Net expected credit loss raised and released for investments and deposits with banks	(4 759)	(3 091)
Total	**28 551**	**8 700**

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

Included in the release of credit losses for investments and deposits with banks is the release of ECL of R4.6 million (2023: 3.3 million) on the Land Bank investment. The Company raising ECL on the investment when Land Bank was experiencing liquidity constraints and defaulted on interest and capital obligations. Since then, Land Bank has honoured all interest payments, including arrear interest due. In addition, the Land Bank has also settled capital balances R8.6 million (2023: R8.5 million) during the financial year .The above together with the proposed settlement solution being drafted by the Land Bank has contributed to the release of ECL.

30. LEASES (COMPANY AS LESSEE)

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

Extension options

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

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

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

Short-term leases and leases of low-value assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000
Net carrying amounts of right-of-use assets		

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note 10).

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

Leased property	71 030	49 261
Leased equipment	390	2 736
	71 420	**51 997**

Additions to right-of-use assets

Leased property	45 853	15 857

Depreciation recognised on right-of-use assets

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

Leased property	24 084	16 129
Leased equipment	2 346	2 346
	26 430	**18 475**

Other disclosures

Interest expense on lease liabilities	9 545	5 284
Total capital cash outflow from leases	22 432	16 857

Lease liabilities have been included in the trade and other payables line item on the statement of financial position. Refer to note 12 trade and other payables.

Maturity Analysis - contractual undiscounted cash flows are as follows:

Within one year	33 120	25 031
Two to five years	62 438	68 894

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000

31. CURRENT TAX PAYABLE (RECEIVABLE)

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

32. CONTINGENT LIABILITIES

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

Former employees	11 112	3 000
South African Insurance Association	-	3 000
Guardrisk Life Limited	4 100	-
Nkosini Investments CC	612	-
Tech Mahindra	1 600	1 600
	17 424	**7 600**

Former employees

Claims were instituted against the Company by former employees. The claims are for alleged unfair retrenchment/dismissal. The claims have been quantified at an amount of R11.1 million (2023: R3.0 million). As at year end the matters are still pending.

South African Insurance Association Guarantee

In the current year the Company has cancelled a guarantee (2023: R3.0 million) in favour of the South African Insurance Association.

Guardrisk Life Limited

The Company has issued a guarantee of R4.1 million in favour of Guardrisk Life Limited.

Nkosini Investments CC

Nkosini Investments CC is suing the Company for specific performance, alternatively payment of damages because of Ithala's alleged breach of contract. The damages have been quantified at an amount of R0.6 million. As at year end the matter is still in progress.

NOTES TO THE FINANCIAL STATEMENTS

	2024 R '000	2023 R '000

Tech Mahindra

In the financial year 2020 Tech Mahindra submitted invoices for R2.7 million in respect of licence fees and R18.6 million in respect of system implementation. These invoices have not been settled as there is a dispute regarding the work completed. The Company has received a summons to settle R1.6 million for services they claim were rendered.

33. EVENTS AFTER THE REPORTING PERIOD

No events occured between the balance sheet date and the date of this report that materially affect the reported results and the position of the Company

34. CHANGE IN ESTIMATE

Asset Lives

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

	2024 R '000	2023 R '000
Decrease in depreciation	376	650
Increase in net book value	376	650

The future impact of the change in estimate will result in additional depreciation of R0.4 million (2023: R0.7 million) being recognised over the remaining life of the asset.

35. LOAN COMMITMENT

At 31 March 2024, the company had loan commitments amounting to R5.4 million (2023: R11.6 million). The loss allowance was estimated using the same impairment modelling methodology as that of loans and advances (refer Risk Management Note 28). Based on actual credit loss experience from previous years and the quantum of the loan commitments, management concluded that the loss allowance on loan commitments is immaterial and as such no loss allowances have been recognised.

NOTES TO THE FINANCIAL STATEMENTS

36. CONTINGENT ASSETS

Civil unrest broke out in KZN, during the period 9 to 12 July 2021, resulting in extensive damage to Ithala SOC Limited's branch infrastructure, whereby buildings and infrastructure was vandalised and some buildings set alight.

In summary, the following properties were affected by the unrest:

- 16 Branches damaged/vandalised, of which 4 were torched.
- 22 Auto Teller Machines

Claims for damages and loss of income had been submitted to SASRIA, which is a state-owned insurer that provides special risk cover to individuals, businesses and government entities that own assets in South Africa. This is a unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism.

Claims amounting to R13.7 million were submitted to SASRIA as at March 2023 of which R7.0 million (2023: R6.7 million) was received during the financial year. In the current year additional claims for re-instatement of branches were submitted to SASRIA amounting to R5.2 million. As at year end these proceeeds have not been received.

37. CORRECTION OF PRIOR YEAR ERRORS

Effects on statement of financial position

	Adjustment as at 2023 R '000	Adjustment as at 2022 R '000
Decrease in accrual for municipality charges*	5 207	17 237
Increase in provision for audit fees**	(1 516)	-
	3 691	**17 237**

Effects on statement of changes in equity		
Accumulated loss as previously reported	(426 812)	(367 223)
Decrease in accumulated loss as at March 2022	17 237	17 237
Decrease in accumulated loss as at March 2023	3 691	-
	(405 884)	**(349 986)**

NOTES TO THE FINANCIAL STATEMENTS

Effect on statement of cash flows

	March 2023 previously reported R '000	Restatements R '000	March 2023 Restated R '000
Accumulated loss	(59 589)	3 691	(55 898)
Operating liabilities	70 672	(3 691)	66 981

The March 2023 impact of prior period errors on operating expenses in the statement of profit and loss is R3.7 million.

***Accrual of municipality charges**

Ithala incurs monthly municipal charges on its head office property, branches and on properties in possession (refer accounting policy 1.17 Properties in Possession). The municipal charges consist of sewage charges, refuse removal, water and electricity. At the end of every month, the Company raises an accrual for the municipal charges (which forms part of Trade and Other Payables) and at the beginning of the following month, the accrual is usually reversed.

When the Company analysed the municipal charges accrual balance at the end of the current year and compared this balance to the latest municipal charges statement, the Company noted that the municipal charges accrual balance as at 31 March 2024 was significantly overstated. Further investigations revealed the error emanated from the prior years. The overstatement was due to the prior months/periods accruals being incorrectly reversed, and additional accruals being raised and in some cases resulted in a duplication of cost. A restatement adjustment was processed to correct the prior years municipality accruals. Management have implemented controls where balances are verified against third party statements as part of the reconciliation process.

****Audit fee provision**

In the prior year, the audit fees provision was correctly recognised for the statutory audits. The under provision of audit fees stems from other assurance services that are provided by the auditors on an adhoc basis, and these expenses were allocated against the provision account and not statement of profit and loss. The restatement of audit fees in 2023 was due mainly to the bi-lateral audit work completed during 2023.

Ithala SOC Limited
Financial Statements for the year ended 31 March 2024

NOTES TO THE FINANCIAL STATEMENTS

38. CAPITAL MANAGEMENT - UNAUDITED SCHEDULE

Capital requirements

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

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

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

As at statement of financial position date the capital adequacy ratio was 15.14% (2023: 18.12%). This level is above the minimum capital adequacy ratio stipulated by the South African Reserve Bank. The capital adequacy ratio is also above the Memorandum of Agreement requirement of 15%.

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

Capital adequacy

	Regulatory limit		Actual	
	2024	2023	2024	2023
Capital adequacy ratio	>=15.00%	>=15.00%	15.14 %	18.12 %
Primary share capital and reserve funds adequacy ratio	>=11.875%	>=11.875%	14.37 %	17.30 %
Total risk weighted assets (R'000)			2 245 706	2 158 832
Risk weighted assets				
Credit risk weighted assets			1 379 176	1 423 944
Other risk weighted assets			147 129	101 972
Operational risk			719 401	632 916
Total			**2 245 706**	**2 158 832**

NOTES TO THE FINANCIAL STATEMENTS

	Notes	2024 R '000	2023 R '000
Capital structure			
Share capital	17	190	190
Share premium	17	839 523	788 381
Reserves		(504 934)	(411 208)
Prescribed deductions against capital and reserve funds		(11 923)	(3 820)
Total tier I capital		**322 856**	**373 543**
General provisions		17 239	17 799
Total tier II capital		**17 239**	**17 799**
Total qualifying capital		**340 095**	**391 342**

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