

138TH

ANNUAL REPORT



YOUR LOCAL BANK

www.gbsbank.co.za

FOR YEAR ENDED 31 MARCH 2015.



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GBS MUTUAL BANK

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www.gbsbank.co.za

Serving our communities since 1877



GBS Mutual Bank

BOARD OF DIRECTORS

- T C S Tagg, Chairman
- G H Bloem
- P G Clayton
- H A Long
- A M Marriner
- F O Skae
- K L Wiblin
- A M Vorster, Managing
- P Hornby, Executive

MANAGEMENT STRUCTURE

- A M Vorster, Managing Director
- P Hornby, Executive Director
- K Breetzke, General Manager
- W S Vallance, General Manager, Cape Town

NOTICE OF THE ANNUAL GENERAL MEETING

The hundred and thirty-eighth Annual General Meeting of Shareholders will be held at the Bank's Head Office at 18 – 20 Hill Street, Grahamstown on 23 July 2015, at 17h00.

AGENDA

1. To confirm the minutes of the last Annual General Meeting.
2. To receive and consider the report of the Board of Directors and the Annual Financial Statements for the year ended 31 March 2015.
3. To appoint Auditors and fix their remuneration. PricewaterhouseCoopers Inc., Registered Accountants and Auditors, offer themselves for re-election and have been duly nominated.
4. To fix the remuneration of Directors in terms of Article 21 (vi).
5. To pass a resolution that donations for charitable purposes may be made as the Directors see fit out of available profits.
6. To transact such business as may be brought forward at the Annual General Meeting.

By order of the Board of Directors.

A M Vorster
Managing Director

Statement of Responsibility

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Mutual Banks Act, 1993.

The Directors are also responsible for the Bank's systems of internal financial and operational controls. These systems are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and

maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future.

The attached annual financial statements set out on pages 6 to 47 were approved by the Board of Directors on 19 May 2015 and are signed on its behalf by:



T C S Tagg
Chairman



A M Vorster
Managing Director

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GBS MUTUAL BANK

We have audited the financial statements of GBS Mutual Bank set out on pages 6 to 47, which comprise the balance sheet as at 31 March 2015, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information, and the directors' report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Mutual Banks Act, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of GBS Mutual Bank as at 31 March 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Mutual Banks Act.



PricewaterhouseCoopers Inc.
Director: RD Stanham
Registered Auditor
Port Elizabeth
19 May 2015

Report of the Directors

NATURE OF BUSINESS

- MORTGAGE LOANS
- ASSET BASED FINANCE
- SAVINGS AND INVESTMENTS

DIRECTORS' REPORT TO SHAREHOLDERS

The Bank has delivered a stellar set of results with acceptable growth on the Balance Sheet and a most satisfactory improvement in income and profit for the year.

As in previous years the results have been thanks to a very loyal client base, a committed Board of Directors and hard work from management and staff. We are pleased that the GBS has continued to grow assets and reserves. We recently undertook an exercise to ensure the sufficiency of capital over the next five years and the outlook is positive. The Bank will have sufficient capital under the Mutual Banks Act as well as based on the BASEL III requirements.

The Board remains very committed and we thank them for their dedication in fulfilling their responsibilities. We are sad to advise that Advocate Gerald Bloem has indicated that he will no longer be available to serve as a Board Member as he has been appointed as a Judge in the Eastern Cape Division of the High Court of South Africa. On behalf of the GBS family we heartily congratulate him on his appointment and thank him for his 13 years of service to the Bank.

ECONOMY

In last year's report we expressed the view that South Africa's economic growth would remain sluggish at best. Sadly, but not unexpectedly, this has been so. Prospects for the 2015/2016 period are not any better with growth forecast at around 2%. On one hand world wide commodity prices remain at their lows resulting in a major contraction in the mining industry, one of South Africa's largest employers. While on the other hand South Africa's inflexible labour, administrative red tape and infrastructural problems, most notably power generation, have hampered new investment in the small and medium business sectors of the economy and certainly kept large foreign investment away.

The small increases in interest rates in January and July

2014 were not followed up by the forecasted upward adjustment later in the year. With low economic growth and a low interest rate environment among our trading partners, the Reserve Bank kept any uptick in rates on hold. We expect this policy to remain in force until the rates in the USA start moving upwards which could be in the latter part of 2015.

With all that has been written about our stagnant economy and the lack of jobs there appears to be consensus that the National Development Plan provides the blueprint for a more prosperous South Africa and a better life for all. What is required is a determined effort by Government, with positive assistance of the private sector, to vigorously implement this plan without fear or favour.

PERFORMANCE

Your Local Bank produced an excellent set of results for the year to March 2015. Balance sheet growth, profits and growth in loans and advances exceeded targets. Cash and investments, and the level of capital position the Bank favourably for the year ahead.

The balance sheet grew 6,5% to R1,085 billion and advances added 8,9% to R866 million. Most of the growth was in residential mortgages (up 21%) which carry a lower risk weighting than other categories of loans, and the growth in the rental book was 9%. Specific provisions were R1 million lower than a year ago and the number and percentage of accounts in arrears are lower than last year. The Board also added R500 000 to the general provision.

The Bank remains well capitalized with a capital adequacy ratio of 14.62% against a required ratio of 10%. The Reserve Bank has limited the ratio of secondary capital (mainly fixed period shares) to primary capital to 50%. The Bank is on track to reach the required target ratio within the timeframe provided.

The profit for the year after tax showed a most satisfactory improvement from R6 million to R8,1 million or 35%. However, other comprehensive income went from a positive R507 000 last year to negative R1 125 000 this year. The net interest income and non-interest income increased at satisfactory levels of 10% and 11% respectively, while the net impairment on advances was lower year on year. Expenses were tightly controlled and increased by only 3,4% to R24,1 million. This included an investment impairment of R266 000 as the Board

Report of the Directors (Continued)

considered the particular investment to be fully impaired. Other comprehensive income is detailed in the report and relates to actuarial gains and losses on retirement benefit obligation, and a fair value loss on an investment.

The improved results in a subdued economic environment is most satisfactory.

CORPORATE GOVERNANCE

We recognise that the application of sound corporate governance practices is integral to our operations as a Bank. We do not consider governance to be merely a set of rules but a culture that permeates the Bank.

We are committed to the King Code of Corporate Practices and Conduct and are in the process of aligning the Bank's practices to the revised King III guidelines where possible and practical.

In addition, the GBS Mutual Bank subscribes to the Code of Banking Practice and its underlying values.

THE BOARD OF DIRECTORS

The Board has the ultimate responsibility for the strategic direction of the GBS Mutual Bank and is committed to the ongoing implementation of a culture of good values and sound corporate governance.

The Board is made up of nine directors, seven of whom are non-executive, including the chairman. This ensures that independent thought is brought to bear on Board decisions. Effective control is maintained through a structure of well functioning Board Committees which provide in-depth focus on specific areas.

Board meetings are held monthly with additional meetings scheduled to review the budget and determine strategy. This latter meeting is held with senior management.

AUDIT COMMITTEE

The primary role of the Audit Committee is to review and evaluate the Bank's risk profile and internal controls, the efficacy of our accounting and financial systems and both the internal and external audit processes.

The Committee reviews the audit plans with the external and internal auditors and approves the scope of the internal auditor's work programme. The Committee

also reviews all internal and external audit reports and monitors management's response to the auditors' recommendations.

The Committee, which met twice during the year, is chaired by a non-executive director, Tony Long.

REMUNERATION COMMITTEE

This Committee, chaired by Kerryn Wiblin, is responsible for recommending the Bank's overall remuneration policy.

The remuneration policy is designed to recognise the value of the staff and their role within the Bank and ensures competitive remuneration which is designed to attract, motivate and retain a talented staff complement.

The Committee met twice during the year.

IT COMMITTEE

This Committee has the responsibility of reviewing and monitoring the Bank's information technology operations, needs and IT risk management.

The Bank is in the process of implementing the asset based finance module into the Bank's Core Banking computer system.

The Committee, chaired by Angie Marriner, met nine times during the year.

DIRECTORS & EXECUTIVES AFFAIRS COMMITTEE

The main objectives of this Committee are to identify new Board Members, review Board Committee participants, and the performance of the Board and its members, and considers Management and Board succession planning.

The Committee met twice during the year and is chaired by Angie Marriner.

RISK MANAGEMENT

The effective management of risk is critical to the growth of the Bank. It encourages a sound credit decision making culture which adequately balances risk and reward.

The risk management approach relies both on individual responsibility and collective oversight which is supported by strict and comprehensive reporting.

Report of the Directors (Continued)

RISK MANAGEMENT (CONTINUED)

Our approach to risk management, and in particular to credit and liquidity, has remained conservative in the current economic climate. While our arrear statistics have increased since a year ago, they remain below the industry norm.

RISK MANAGEMENT COMMITTEE

The Committee, which meets twice a year, ensures that the risk management policies and procedures are reviewed periodically and that banking risks are understood at all the relevant levels within the Bank.

The main risks facing the Bank are:

- credit risk, the risk that a counterparty will be unable to pay amounts in full on maturity date;
- liquidity risk arises if the Bank is unable to meet its payment obligations when they fall due;
- interest rate risk is the risk that the Bank's financial condition may be adversely affected as a result of changes in interest rate levels;
- operational risk is the risk of loss suffered as a result of inadequacy of, or failure in internal processes, people, systems and external events;
- compliance risk refers to the risk of failure to comply with applicable laws, regulations and codes of conduct which may result in regulatory sanction, financial loss or damage to the Bank's reputation; and
- reputation risk results from damage to the Bank's image which may impair its ability to operate effectively. Safeguarding the Bank's reputation is paramount and is the responsibility of both the staff and the Board. These risks arise from social and ethical issues as well as the consequence of some operational risks.

Many of these functions are delegated to the Risk Management Sub-Committee, chaired by a non-executive director on a rotational basis and which meets weekly.

STAFF DEVELOPMENT

We actively encourage staff to upgrade their knowledge and skills through incentives and this has proved to be a satisfactory practice.

All staff members who are required to, have met the educational requirements of the Financial Advisory and Intermediary Services Act.

OUTLOOK AND THANKS

The outlook for the next few years is one of optimism. The Bank is well placed to continue on the solid growth path and management will be strengthened in 2015.

On behalf of the Board we again thank our clients for their support. We exist to serve you!

Thanks also to the dedicated staff and management team.



A handwritten signature in blue ink, appearing to read 'T C S Tagg'.

T C S Tagg
Chairman
19 May 2015



A handwritten signature in blue ink, appearing to read 'A M Vorster'.

A M Vorster
Managing Director
19 May 2015

Report of the Directors (Continued)

FIVE YEAR REVIEW

YEAR ENDED 31 MARCH (R 000)	2015	2014	2013	2012	2011
BALANCE SHEETS					
Reserves and Liabilities					
Reserves	86 606	79 623	73 099	67 770	64 975
Risk provisions	7 093	7 639	6 991	8 796	9 638
Share deposits	264 871	264 887	238 872	257 946	239 792
Fixed and other deposits	715 950	658 897	585 146	523 851	480 263
Other liabilities	17 614	15 482	15 741	13 421	12 177
	1 092 134	1 026 528	919 849	871 784	806 845
Assets					
Cash & short term securities	137 575	128 605	91 206	102 510	119 883
Investments	72 370	88 832	53 350	47 185	30 110
Advances - mortgages and other - Instalment sales, rentals	574 350	517 627	497 412	486 206	426 534
Other	9 445	6 626	4 323	5 251	5 645
	1 092 134	1 026 528	919 849	871 784	806 845
Income Statements					
Net interest margin	26 033	23 615	21 969	19 580	17 234
Other income	10 072	9 062	7 306	5 755	4 605
	36 105	32 677	29 275	25 335	21 839
Impairments & provisions	(1 489)	(1 540)	(880)	(2 982)	(2 725)
Operating expenses	(24 110)	(23 327)	(20 333)	(19 045)	(17 842)
Tax	(2 398)	(1 793)	(1 766)	(486)	13
Profit for the year	8 108	6 017	6 296	2 822	1 285
Other comprehensive (loss)/ income	(1 125)	507	(967)	11	(30)
	6 983	6 524	5 329	2 833	1 255
Key Ratios – %					
Capital adequacy at year end	14.6%	15,8%	14,0%	14,1%	15,1%
Bad debt provision: Advances	0.8%	1,0%	0,9%	1,2%	1,5%
Expenses to total income	66.8%	71,4%	69,5%	75,2%	81,7%

GBS Mutual Bank

BALANCE SHEET AT 31 MARCH 2015

	NOTES	2015 R'000	2014 R'000
ASSETS			
Cash and cash equivalents	3	137 575	128 605
Advances and loans	4	865 651	794 826
Investments	5	72 370	88 832
Investment in equity instrument	6	-	266
Property and equipment	7	2 321	1 487
Current income tax asset		4 797	1 393
Other assets	8	484	1 058
Deferred income tax asset	9	1 843	2 422
Total assets		1 085 041	1 018 889
LIABILITIES			
Share deposits	10	264 871	264 887
Other deposits	10	715 950	658 897
Other liabilities	11	5 578	5 357
Retirement benefit obligations	12	11 294	9 425
Other long-term employee benefits	13	742	700
Total liabilities		998 435	939 266
RESERVES			
		86 606	79 623
Total liabilities and reserves		1 085 041	1 018 889

GBS Mutual Bank

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

	NOTES	2015 R'000	2014 R'000
Interest income	14	87 973	77 702
Interest expense	14	(61 940)	(54 087)
Net interest income		26 033	23 615
Net impairment on advances	17	(1 489)	(1 540)
Net interest income after impairment on advances		24 544	22 075
Total non-interest income		10 072	9 062
Fee and commission income	15	3 995	3 747
Fair value adjustments of investments	5	5 427	4 812
Dividend income		370	354
Other operating income		280	149
Total expenses		(24 110)	(23 327)
Operating expenses	16	(23 255)	(22 514)
Commission expenses		(855)	(813)
Profit before income tax		10 506	7 810
Income tax expense	18	(2 398)	(1 793)
Profit for the year		8 108	6 017
Other comprehensive income			
Items that may not be recycled to profit or loss		(859)	584
Actuarial (loss) / gain on retirement benefit obligation	12	(1 193)	811
Deferred tax	9	334	(227)
Items that may be recycled to profit or loss		(266)	(77)
Fair value loss on investments	5	(327)	(95)
Deferred tax	9	61	18
Total comprehensive income for the year		6 983	6 524

GBS Mutual Bank

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	RETAINED EARNINGS R'000	GENERAL RESERVE R'000	REVALUATION RESERVE R'000	STATUTORY CREDIT RISK RESERVE R'000	TOTAL R'000
Balance at 1 April 2013	750	67 296	402	4 651	73 099
Profit for the year	6 017	-	-	-	6 017
Other comprehensive income for the year	-	584	(77)	-	507
Transfer to statutory credit risk reserve	(119)	-	-	119	-
Transfer to general reserves	(5 898)	5 898	-	-	-
Balance at 31 March 2014	750	73 778	325	4 770	79 623
Balance at 1 April 2014	750	73 778	325	4 770	79 623
Profit for the year	8 108	-	-	-	8 108
Other comprehensive income for the year	-	(859)	(266)	-	(1 125)
Transfer to statutory credit risk reserve	(402)	-	-	402	-
Transfer to general reserves	(7 706)	7 706	-	-	-
Balance at 31 March 2015	750	80 625	59	5 172	86 606

Notes

- Retained Earnings: the Bank maintains its Retained Earnings at R750 000 and transfers excess funds to the General Reserve.
- General Reserve: represents profits which have been formally appropriated by the Board of Directors, as required by the Mutual Banks Act.
- Revaluation reserve: relates to the accumulated unrealised gains and losses on available-for-sale investments.
- Statutory Credit Risk Reserve: separate reserve maintained in terms of regulations to the Mutual Banks Act on all advances that have not specifically been provided for.

GBS Mutual Bank

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2015

	2015 R'000	2014 R'000
Cash flows from operating activities		
Interest receipts	87 973	77 702
Interest payments	(61 940)	(54 087)
Fee and commission receipts	3 995	3 747
Fee and commission payments	(855)	(813)
Dividends received	370	354
Other income	280	149
Payments to employees and suppliers	(22 680)	(21 048)
Income taxes paid	(4 828)	(3 718)
<i>Cash flows from operating activities before changes in operating assets and liabilities</i>	2 315	2 286
Changes in operating assets and liabilities:		
Net increase in advances	(72 314)	(32 387)
Net decrease / (increase) in other assets	574	(867)
Net increase in share and other deposits	57 037	99 766
Net increase / (decrease) in other liabilities and provisions	263	(78)
Increase / (decrease) in retirement benefit obligations	676	(181)
<i>Net cash (used in) / generated from operating activities</i>	(11 449)	68 539
Cash flows from investing activities		
Acquisition of property and equipment	(1 143)	(375)
Net decrease / (increase) in investments	21 562	(30 765)
<i>Net cash inflow from / (used in) investing activities</i>	20 419	(31 140)
Net increase in cash and cash equivalents	8 970	37 399
Cash and cash equivalents at beginning of year	128 605	91 206
Cash and cash equivalents at end of year (Note 3)	137 575	128 605

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015

1. ACCOUNTING POLICIES

The principal accounting policies set out below are, in all material respects, consistent with those of the prior year.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Bank's accounting policies (refer to note 2).

1.1 BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with IFRS. The financial statements are prepared under the historical cost convention, except for financial instruments which are accounted for in terms of the stated accounting policies.

a) New and amended standards adopted

The Bank has adopted the following amended standards as of 1 April 2014:

- Amendment to IAS 32 Financial instruments: Presentation. The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- Amendment to IFRS 13 Fair value measurement. The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.

- Amendments to IAS 19 Employee Benefits. Discount rate: regional market issue. The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The effective date of the implementation is for all accounting periods starting on or after 1 January 2016, however this standard was early adopted.

b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Bank

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 April 2015 or later periods. These standards have not been early adopted.

- IFRS 9 Financial Instruments. This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The effective date of the implementation is for all accounting periods starting on or after 1 January 2018.

The standard also introduces a new impairment model which outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The expected credit losses model replaces the incurred loss impairment model used in IAS 39.

The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.

- Amendment to IFRS 13 Fair value measurement. When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. The effective date of the implementation is for all accounting periods starting on or after 1 July 2014.

- IFRS 15 Revenue from contracts with customers. The IASB has issued a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. The effective date of the implementation is for all accounting periods starting on or after 1 January 2017.

■ Amendments to IAS 1 Presentation of financial statements disclosure initiative. In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The effective date of the implementation is for all accounting periods starting on or after 1 January 2016

■ IFRS 7 Financial Instruments: Disclosures. Servicing contracts: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The effective date of the implementation is for all accounting periods starting on or after 1 January 2016.

The Bank is still assessing the full impact of the above changes on the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

1.2 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash held at the South African Reserve Bank, deposits held at call with banks, treasury bills and other short-term liquid investments with maturity periods of less than 91 days.

1.3 ADVANCES AND LOANS

Advances and loans are financial assets with fixed or determinable payments and include purchased advances. Advances and loans are accounted for at amortised cost

using the effective interest rate method. Transaction costs and origination fees received are capitalised to the value of the advance and expensed or taken to interest income over the estimated duration of the advance or loan.

Advances and loans include rental agreements and lease agreements where the Bank is acting as the lessor. The substance of these transactions is that they are financing arrangements by their nature.

Impairment testing of advances is described in note 1.4.

1.4 IMPAIRMENT OF ADVANCES

Advances are stated net of provisions for impairments. Advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any impairment indicators show that it is probable that the Bank will be unable to collect all amounts due, a provision for impairment is made to reduce the carrying amount of the asset to the present value of expected future cash flows.

Provisions for non-performing advances, covering identified doubtful debts, are based on periodic evaluations of advances and take account of past loss experience, economic conditions and changes in the nature and level of risk exposure. Advances and loans are considered to be non-performing when amounts are due and unpaid for three months, or when specific circumstances are indicative of the advance being non-performing.

Portfolio provisions for the impairment of performing advances cover losses which, although not yet specifically identified, are present in any portfolio of bank advances. Portfolio provisions are calculated based on industry historical experience, modified by the Bank's historical experience where different. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Increases in the provisions for advance impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the statement of profit or loss and other comprehensive income.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.4 IMPAIRMENT OF ADVANCES (CONTINUED)

When an advance is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the statement of profit or loss and other comprehensive income.

In addition to impairment provisions, a statutory non-distributable credit risk reserve is maintained in terms of the regulations to the Mutual Banks Act on all advances that have not specifically been provided for.

1.5 INVESTMENTS

Financial assets at fair value through profit or loss are initially recognised at fair value. All other financial assets are initially recognised at fair value plus transaction costs. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets into the following categories on acquisition:

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity, where management has both the intent and the ability to hold the securities to maturity, are classified as held-to-maturity. Financial assets classified as held-to-maturity by the Bank are carried at amortised cost, using the effective interest rate method, less any provisions for impairment.

Interest on held-to-maturity investments is included in the statement of profit or loss and other comprehensive income.

Fair value through profit or loss

Where the Bank has elected in terms of IAS 39 to designate financial assets as held at fair value through profit or loss or where financial instruments are held for trading, these financial assets are classified as assets held at fair value

through profit or loss. All related realised and unrealised gains and losses arising from the change in fair value of these financial assets are included as a separate line item in the statement of profit or loss and other comprehensive income.

These gains and losses are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payment is established.

Available-for-sale

Financial assets that are not held at fair value through profit or loss, originated by the Bank or held-to-maturity, are classified as available-for-sale financial assets. Unrealised gains or losses arising from the changes in the fair value of available-for-sale financial assets are recognised in a revaluation reserve in equity via other comprehensive income.

On disposal of available-for-sale financial assets, the fair value adjustments accumulated in equity are recognised in the statement of profit or loss and other comprehensive income. If available-for-sale financial assets are considered to be impaired, the cumulative unrealised gain or loss previously recognised in equity is included in the statement of profit or loss and other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payment is established.

Fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Considering the nature of the Bank's financial assets, the best evidence of fair value on initial recognition is the transaction price.

Subsequent to initial recognition, fair values of financial assets are based on quoted prices excluding transaction

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.5 INVESTMENTS (CONTINUED)

Fair value (continued)

costs. Where this is not available, fair value is determined using applicable valuation techniques.

Derecognition

Financial Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

1.6 PROPERTIES IN POSSESSION

Properties in possession comprise the amounts outstanding on advances where mortgagors have defaulted and the properties securing the advances have been bought in by the Bank. Until resale, all expenditure and income is allocated to the value of the relevant property in possession. An impairment provision is made where the amount of the property value, or a portion thereof, is considered to be not recoverable.

1.7 PROPERTY AND EQUIPMENT

Land and buildings comprise banking halls and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite useful life. Except for computer mainframes and software, banking software and motor vehicles, depreciation on other property and equipment is calculated on the reducing balance basis to write down the cost of assets to their residual values over their estimated useful lives as follows:

Buildings	4%
Motor vehicles	20% straight line
Furniture and equipment	17%
Computer equipment	33%
Computer mainframes & software	20% straight line
Banking software	10% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss and other comprehensive income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation/depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

1.9 SHARES AND OTHER DEPOSITS

Financial liabilities are recognised initially at fair value, being their issue proceeds, minus transaction costs. They are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest rate method.

No financial liabilities have been classified as financial liabilities through profit or loss.

1.10 PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.11 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit for the year, except to the extent that it relates to items recognised directly in other comprehensive income.

In this case, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date. The Bank periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1.12 RETIREMENT BENEFIT OBLIGATIONS

Healthcare benefits

It is the policy of the Bank to provide post-retirement healthcare benefits to certain employees employed by the Bank prior to 2002 in the form of medical aid contributions. The entitlement to post-retirement healthcare benefits is based on the employee remaining in service up to retirement age. Valuations of these obligations are carried out by independent actuaries. The costs are assessed using the projected unit credit method.

Under this method the cost of providing post-retirement benefits is charged to the statement of profit or loss and other comprehensive income to spread the regular cost over the service lives of employees in accordance with the advice of actuaries. The post-retirement healthcare obligation is measured at the present value of estimated future cash outflows. Actuarial gains and losses are immediately charged or credited to other comprehensive income in the year that it arises.

Pension benefits

The Bank has an obligation to pay fixed pensions to certain retired employees. These payments are funded internally, and not through a formal pension fund. The post-retirement pension liability was measured at the present value of estimated future cash outflows based on the fixed pensions and the life expectancy of the pensioners. The valuation of the liability was performed internally based on actuarial life expectancy tables.

Actuarial gains and losses are charged or credited to other comprehensive income in the year in which they arise.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.12 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Provident fund benefits

In accordance with the Bank's terms of employment, all current employees are required to be members of the GBS Mutual Bank Provident Fund. This fund is a defined contribution plan. The Bank's contributions to this plan are charged to the statement of profit or loss and other comprehensive income in the year to which they relate.

1.13 REVENUE RECOGNITION

Interest income and interest expenses are both recognised in the statement of profit or loss and other comprehensive income on an accrual basis using the effective interest rate method.

Fees and commissions, net of value added tax, are recognised on an accrual basis. Where fees are received in advance, the income is deferred and recognised over the period to which the fees relate.

Dividends are recognised when the right to receive payment is established.

1.14 LEASES

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Operating leases – where the Bank is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

Operating leases – where the Bank is the lessor

Payments received under operating leases (net of any incentives granted to the lessee) are credited to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

2. KEY MANAGEMENT ASSUMPTIONS

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. Key management assumptions are made and disclosed in the following areas:

- Impairment of advances – notes 1.4 and 17
- Property and equipment – notes 1.7 and 7
- Retirement benefit obligations – notes 1.12 and 12
- Recoverability of deferred income tax assets – note 1.11
- Impairment of non-financial assets – note 1.8

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
3. CASH AND CASH EQUIVALENTS		
Bank balances	14 226	17 361
Short-term deposits	52 001	45 246
South African Reserve Bank deposit	21 582	19 204
Treasury bills	48 671	45 701
Cash on hand	1 095	1 093
	137 575	128 605

The bank balances and short-term deposits were held with the following financial institutions at year end, which comply with the Bank's internal risk management policies of only investing with sound, reputable institutions: First National Bank, Investec Bank, Grindrod Bank, Rand Merchant Bank and Sasfin Bank.

The Bank has an overdraft facility at First National Bank of R10 000 000 (2014: R10 000 000). This facility is reviewed annually. A fixed deposit of R10 000 000 with Rand Merchant Bank has been ceded to FirstRand Bank Limited as security for this facility.

Treasury bills are classified as "held to maturity" financial instruments. All other cash and cash equivalents are classified as "loans and receivables" financial instruments.

	2015 R'000	2014 R'000
4 . ADVANCES AND LOANS		
Mortgages	563 446	505 405
General	10 904	12 222
Instalment sales and rentals	298 394	284 838
	872 744	802 465
Impairment provisions (Note 17)	(7 093)	(7 639)
	865 651	794 826

Advances and loans are classified as "loans and receivables" financial instruments.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
4 . ADVANCES AND LOANS (CONTINUED)		
Commitment for the aggregate amount of advances and re-advances granted but not yet paid out:		
Instalment sales and rentals	22 282	17 463
Mortgages	48 834	51 888
	71 116	69 351
The commitment for advances granted but not yet paid out will be funded out of cash and cash equivalents as well as deposits classified as investments in note 5.		
Gross amounts due under instalment sale and rental agreements	350 154	333 606
Less: Unearned finance income	(51 760)	(48 768)
	298 394	284 838

Refer to note 20 for further disclosures regarding credit quality and collateral held.

	2015 R'000	2014 R'000
5 . INVESTMENTS		
Held-to-maturity investments		
Fixed deposits	15 160	33 787
The fixed deposits were held with Sasfin Bank and First National Bank (2014: Grindrod Bank, Investec Bank, Sasfin Bank and Standard Bank). These financial institutions comply with the Bank's risk management policies of investing with sound, reputable entities.		
Financial instruments designated at fair value through profit or loss		
Opening balance	50 545	40 733
Additions	10 000	10 000
Withdrawals	(12 935)	(5 000)
Fair value adjustment through profit or loss	5 427	4 812
Closing balance	53 037	50 545

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
5 . INVESTMENTS (CONTINUED)		
Available-for-sale investments		
Opening balance	4 500	4 595
Fair value loss through other comprehensive income	(327)	(95)
Closing balance	4 173	4 500
Total investments	72 370	88 832

Financial instruments at fair value through profit or loss comprise an investment in an endowment policy with Momentum Wealth and investments in unit trust portfolios with Allan Gray Investment Services, Momentum Collective Investments and Coronation Fund Managers. The endowment policy is an undated instrument with a loan facility. The investments held with Allan Gray Investment Services and Momentum Collective Investments, with a carrying value of R5 284 997 (2014: R4 851 704), are held to partially cover the post-retirement medical obligations in note 12.

Available for sale investments comprise Investec Bank Limited non-cumulative non-redeemable preference shares bearing dividends at 75% of the prime overdraft rate, carried at fair value of R4 172 500 (2014: R4 500 000). These instruments are classified as equity instruments.

	2015 R'000	2014 R'000
6. INVESTMENT IN EQUITY INSTRUMENT		
The investment consists of a 8.65% (2014: 8.65%) interest in Cape Capital Investment and Finance Company Ltd ("Cape Capital"), incorporated in South Africa.		
Reconciliation of carrying amount of investment:		
At beginning of year	266	666
Impairment of investment	(266)	(400)
At end of year	-	266

The investment in Cape Capital of R665 770 has been fully impaired, based on the directors' valuation.

Cape Capital settled their loan account during the year. It carried an interest rate of prime + 1% and had a balance of R1 165 in 2014.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

7. PROPERTY AND EQUIPMENT

	OFFICE PREMISES R'000	FURNITURE EQUIPMENT & MOTOR VEHICLES R'000	COMPUTER EQUIPMENT & SOFTWARE R'000	TOTAL R'000
Year ended 31 March 2015				
Opening carrying amount	72	400	1 015	1 487
Additions	-	39	1 104	1 143
Disposals	-	(21)	-	(21)
Depreciation	-	(67)	(221)	(288)
Closing carrying amount	72	351	1 898	2 321
At 31 March 2015				
Cost	72	785	3 877	4 734
Accumulated depreciation	-	(434)	(1 979)	(2 413)
Closing carrying amount	72	351	1 898	2 321
Year ended 31 March 2014				
Opening carrying amount	72	225	1 070	1 367
Additions	-	228	147	375
Disposals	-	(8)	-	(8)
Depreciation	-	(45)	(202)	(247)
Closing carrying amount	72	400	1 015	1 487
At 31 March 2014				
Cost	72	902	2 828	3 802
Accumulated depreciation	-	(502)	(1 813)	(2 315)
Closing carrying amount	72	400	1 015	1 487

Office premises consist of land and buildings situated in Grahamstown, the details of which are available at the Bank's registered office.

An independent valuation of the Bank's office premises was performed by valuers to determine the fair value of the land and buildings as at 31 March 2015. A fair value of R8 850 000 was established.

Level 3 fair values of office premises have been derived by using the return on investment approach. Level 3 fair values are defined as inputs for the asset that are not based on observable market data (that is, unobservable inputs).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

7. PROPERTY AND EQUIPMENT (CONTINUED)

The fair value was established using an annualised rental income and an expected fair return on investment. The market rental income was established for comparable land and buildings in close proximity to the office premises and was adjusted for differences in key attributes such as property size. The return on investment was determined based on current market and economic conditions. The most significant inputs into this valuation approach are price per square metre and the return on investment.

8. OTHER ASSETS

	2015 R'000	2014 R'000
Sundry debtors	25	40
Payments in advance	459	875
South African Revenue Services – VAT	-	143
	484	1 058

9. DEFERRED INCOME TAX ASSET

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted corporate tax rate of 28% (2014: 28%).

The movement on the deferred income tax account is as follows:

	2015 R'000	2014 R'000
At beginning of year	2 422	2 048
(Charge) / credit to the profit and loss component of the statement of profit or loss and other comprehensive income (note 18)	(974)	583
Credit / (charge) directly to other comprehensive income	395	(209)
At end of year	1 843	2 422

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

9. DEFERRED INCOME TAX ASSET (CONTINUED)

Deferred income tax is attributable to the following items:

	2014 R'000	CREDITED / (CHARGED) TO PROFIT R'000	CREDITED TO OCI ^A R'000	2015 R'000
Provisions against advances	694	155	-	849
Leave pay accrual	207	44	-	251
Deferred income	412	30	-	442
Retirement benefit obligations	2 638	189	334	3 161
Other long-term employee benefits	784	(212)	-	572
Equity investment impairment	75	50	-	125
Deferred income tax asset	4 810	256	334	5 400
Accelerated depreciation	(292)	(13)	-	(305)
Deferred capital gains tax	(466)	(318)	61	(723)
Rental deals	(1 630)	(899)	-	(2 529)
Deferred income tax liability	(2 388)	(1 230)	61	(3 557)
Net deferred income tax asset	2 422	(974)	395	1 843

^A – Other comprehensive income

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
10 . SHARE AND OTHER DEPOSITS		
Share deposits		
Indefinite period shares	96 056	98 147
Subscription shares	46 289	42 495
Fixed period shares	122 526	124 245
	264 871	264 887
Other deposits		
Fixed and call deposits	691 076	635 537
Savings and transmission deposits	24 874	23 360
	715 950	658 897
Total indefinite period paid-up shares maturing within the next 12 months	3 945	2 297

Details of the various deposits offered are as follows:

	TERM	INTEREST METHOD
Indefinite period shares	Indefinite, minimum of 15 months	Variable
Subscription shares	36 months	Variable
Fixed period shares	60 months	Fixed
Fixed and call deposits	Ranges from 1 to 60 months	Variable
Savings and transmission deposits	Demand	Variable

	2015 R'000	2014 R'000
11. OTHER LIABILITIES		
Sundry creditors	1 026	214
Accruals	2 797	3 670
South African Revenue Services - VAT	174	-
Deferred income	1 581	1 473
	5 578	5 357

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
12. RETIREMENT BENEFIT OBLIGATIONS		
The Bank's retirement obligations are summarised as follows:		
Post-retirement healthcare obligation	10 735	8 866
Pension liability	559	559
	11 294	9 425
Post-retirement healthcare obligation		
The main actuarial assumptions used in the calculation of the healthcare obligation were:		
– Discount rate	8,50%	9,50%
– Medical cost inflation	7,00%	7,50%
– Net discount rate	1,40%	1,80%
– Normal retirement age	60	60
The movement in the defined benefit obligation over the year is as follows:		
	R'000	R'000
At beginning of year	8 866	9 047
Current service cost	255	255
Interest cost	820	796
Actuarial loss / (gain)	1 193	(811)
Employer benefit payments	(399)	(421)
At end of year	10 735	8 866
Expected contributions to the retirement benefit obligations for the year ended 31 March 2016 are anticipated to be R471 000.		
Amounts recognised in the statement of profit or loss and other comprehensive income:		
– interest cost	820	796
– service cost	255	255
	1 075	1 051
The actuarial loss / (gain) recognised in other comprehensive income is as follows:		
Loss / (gain) due to changes in financial assumptions	626	(250)
Experience loss for the year	555	-
Loss / (gain) due to demographic adjustments	12	(561)
	1 193	(811)

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Included in investments held at fair value (note 5) is an investment with a carrying value of R5 284 997 (2014: R4 851 704) which the Directors of the Bank have designated to fund the post-retirement medical aid liability. This is not a specific plan asset as defined and has thus been disclosed separately. The movement on the investment account has been included in "fair value adjustments on investments" in the statement of profit or loss and other comprehensive income.

	2015	2014
Post-retirement mortality tables: PA90-1 (Retired members) and SA1956/62 (In-service employees)		
– Average number of members:		
In-service employees	15	16
Retired members	16	15
	31	31
– Average age of members:		
In-service employees	51	50
Retired members	75	75
	2015	2014
	R'000	R'000
The Bank's retirement obligations are summarised as follows:		
Active members	5 648	4 758
Pensioners	5 087	4 108
	10 735	8 866

The weighted average duration of the benefit obligation is 14.2 years (2014: 17.9 years).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions are as follows:

	INCREASE IN ASSUMPTION & INCREASE/ (DECREASE) IN OBLIGATION R'000	DECREASE IN ASSUMPTION & DECREASE/ (INCREASE) IN OBLIGATION R'000
1% change in health cost inflation	1 529	1 259
1% change in discount rate	(1 258)	(1 554)
1 year change in retirement age	(463)	(515)
1 year change in average age	(393)	(399)

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognised within the balance sheet.

Risks Involved in Maintaining the Post-employment Healthcare Obligation:

The risks faced by the Bank as a result of the post-employment healthcare obligation can be summarised as follows:

- Inflation: The risk that future CPI inflation and healthcare cost inflation are higher than expected and uncontrolled.
- Longevity: The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.
- Open-ended, long-term liability: The risk that the liability may be volatile in the future and uncertain.

All risks are managed through the Bank's subsidy policy and are monitored through annual valuations of the liability.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2015 R'000	2014 R'000
<i>Pension liability</i>		
The main assumptions used to calculate the Bank's liability in respect of unfunded pension obligations were a discount rate of 7.39% (2014: 9.31%) and life expectancies based on actuarial life expectancy tables (refer note 1.12). There are 6 former employees and spouses included in this plan, with an average age of 82 years.		
There was no movement in the pension liability.		
At beginning and end of year	559	559

GBS Mutual Bank Provident Fund

This plan is a defined contribution plan registered under the Pension Funds Act and is funded through contributions made by the Bank. The fund has 40 (2014: 37) members and total contributions for the year amounted to R1 501 064 (2014: R1 391 732).

13. OTHER LONG-TERM EMPLOYEE BENEFITS

Service awards

At beginning of year	700	689
Additional provision charged to statement of profit or loss and other comprehensive income	195	132
Amount utilised against provision	(153)	(121)
At end of year	742	700

The benefit relates to long-service awards. Employees are entitled to this benefit provided that:

- they remain in service up to the date of retirement (normally about 60 years of age) or on death of the employee;
- they have worked for the Bank for a minimum of 15 years (unless specifically agreed otherwise by the Board).

Generally, the award is calculated on 3 months cost to company (the Board may however approve additional amounts in exceptional circumstances).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
14. INTEREST		
Interest income		
Mortgages	48 689	41 573
General advances	1 259	1 361
Instalment sales and rentals	30 947	28 317
Investments	6 760	6 134
Other	318	317
	87 973	77 702
Interest expense		
Fixed deposits	41 713	35 757
Savings deposits	686	456
Indefinite period paid-up shares	6 847	5 895
Subscription shares	2 980	2 410
Fixed period shares	9 714	9 569
	61 940	54 087
15. FEE AND COMMISSION INCOME		
Fee income	3 380	2 839
Commission income	615	908
	3 995	3 747

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
16. OPERATING EXPENSES		
Operating expenses totalled R23 255 000 (2014: R22 514 000) and include the following items:		
Auditors' remuneration		
- audit fees	945	895
- prior year (over) / under provision	(235)	5
- fees for other services	79	79
	789	979
Depreciation	288	247
Loss on disposal of property and equipment	21	8
Office rental expense	298	279
Staff remuneration and related personnel costs	14 776	14 550
Impairment of investment in equity instrument	266	400
Directors' emoluments:		
Executive Directors		
- salaries and benefits	2 210	2 043
Non-Executive Directors		
- for services and consulting fees	953	813
	3 163	2 856

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

	2015 R'000	2014 R'000
17. IMPAIRMENT PROVISIONS AGAINST ADVANCES AND LOANS		
Balance at beginning of year	(7 639)	(6 991)
Amount utilised	2 035	892
Charge to statement of profit or loss and other comprehensive income	(1 489)	(1 540)
Recovery of amounts previously written off	590	234
Current year provision	(2 079)	(1 774)
Balance at end of year	(7 093)	(7 639)
Analysis:		
Provisions against non-performing advances	(4 093)	(5 139)
Provision against performing advances	(3 000)	(2 500)
	(7 093)	(7 639)
18. INCOME TAX EXPENSE		
South African normal taxation		
Current tax		
– current year	(1 602)	(2 361)
– prior year	178	(15)
Deferred tax		
– current year	(754)	583
– prior year	(220)	-
	(2 398)	(1 793)

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

18. INCOME TAX EXPENSE (CONTINUED)

The tax on the Bank's profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2015 R'000	2014 R'000
Profit before income tax	10 506	7 810
Tax calculated thereon at 28% (2014 : 28%)	(2 942)	(2 187)
Tax effect of:		
Income not subject to tax	1 745	977
Expenses not deductible for tax	(137)	(29)
Tax effect of capital gains	(528)	17
Recoupments of settled rental and leasing deals	(494)	(556)
Prior year current and deferred tax	(42)	(15)
Tax charge	(2 398)	(1 793)

19. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The Bank's related parties are the Bank's directors, key management personnel and the Bank's subsidiary.

A number of banking transactions are entered into with related parties in the normal course of business. These include advances and deposits. These transactions were carried out on commercial terms and conditions and at market rates. Details of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2015 R'000	2014 R'000
Directors and key management		
Advances and loans		
Advances and loans outstanding at end of year	2 253	2 389
No provision for impairment has been recognised in respect of advances and loans provided to related parties (2014: R Nil).		
Deposits		
Deposits at end of year	5 768	5 651

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management has been defined as the Board of Directors and other members of management who are considered to be key to the operation of the Bank. The definition of key management includes the close family members of key management personnel. These are limited to their domestic partners.

Other expenses	2015 R'000	2014 R'000
Key management compensation		
– Short-term employee and consulting benefits	3 432	3 525
– Post-employment benefits	462	462
Non-executive directors' fees		
– for services as directors	923	813
– for consulting services	30	-
	4 847	4 800

Related Entities: Grahamstown Brokering Services (Subsidiary)

In the 2012 financial year, a shelf company was acquired at a cost of R100. The company had not engaged in any trading activities and was disposed of during the current financial year.

20. FINANCIAL RISK MANAGEMENT

20.1 STRATEGY IN USING FINANCIAL INSTRUMENTS

By its nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest rates by investing these funds in high quality assets. The Bank does not trade in derivative financial instruments.

The Bank's objectives, policies and processes for managing financial risks is consistent with that of the prior year.

20.2 FAIR VALUE ESTIMATION

The carrying amount less the impairment provision of all financial assets not carried at fair value, are assumed to approximate their fair values.

The carrying amount of all financial liabilities not carried at fair value, are assumed to approximate their fair values, other than share and other deposits which have a fair value of R971 352 000, compared to a carrying amount of R980 821 000, due to the fact that certain share and other deposits (note 10) are issued at a fixed rate lower than current market rates as they were issued in prior years (2014: fair value of R912 102 000, compared to a carrying amount of R923 784 000).

IFRS 13 requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.2 FAIR VALUE ESTIMATION (CONTINUED)

The following tables present the Bank's assets and liabilities that are measured at fair value at 31 March 2015:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Financial assets at fair value through profit or loss			
– Investments (note 5)	-	53 037	-
Available-for-sale investments			
– Investments (note 5)	4 173	-	-

The fair values of financial assets at fair value through profit or loss are provided by the manager or the administrator of the respective funds, and are determined using observable inputs. The fair value of the available-for-sale financial asset is determined by reference to the quoted bid price, due to the fact that these investments are listed equities.

The following tables present the Bank's assets and liabilities that are measured at amortised cost at 31 March 2015:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Advances and loans (note 4)	-	-	872 744

Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. This category includes loans and advances to customers.

Although the fair value of credit is not significant year-on-year, it may become significant in future. For this reason, together with the fact that the majority of South African counterparties do not have actively traded or observable credit spreads, the Bank has classified loans and advances to customers in level 3 of the fair value hierarchy. In the event that credit spreads are observable for a counterparty, advances and loans to customers are classified as level 2 of the fair value hierarchy.

No information has come to the Bank's attention that would lead us to conclude that the fair values of advances and loans are materially different to the values disclosed on the balance sheet. All rates on advances and loans are variable and were market related at the time of grant.

Liabilities	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Share and other deposits (note 10)	-	-	971 352

The level 3 debt instruments are valued at the net present value of estimated future cash flows. The Bank also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.3 CAPITAL ADEQUACY

The Bank's capital requirement is made up of both first tier capital, the reserves, and second tier capital, being a portion of the fixed period share capital. The amount of second tier capital cannot exceed that of first tier capital. The capital adequacy ratio of all banks is monitored by the South African Reserve Bank.

The Bank has a statutory capital requirement, in terms of the Mutual Banks Act, which sets a minimum amount of capital and reserves to be held. This amount, termed the capital adequacy ratio, is set at 10% of risk weighted assets. This ratio in effect determines the amount the Bank may lend out on advances. The average capital adequacy ratio for the year under review was 14.66% (2014: 15.29%).

20.4 CREDIT RISK

Credit risk is the risk that the counterparty will be unable to pay amounts in full on maturity date. The Bank manages the levels of credit risk by placing limits on the amount of risk accepted in relation to any one counterparty.

In the management of credit risk, the Bank limits its lending to those products in which it has knowledge of the market and has the relevant expertise. New product approval is a high level management decision. Credit risk management is conducted in terms of documented policies and procedures which includes credit granting, arrears management and management reporting systems.

Credit risk management is consistent with that of previous years.

20.4.1 MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL HELD

For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals the carrying amount. The Bank analyses its exposure to credit risk relating to advances based on past due and impaired advances, less collateral held or other credit enhancements.

Past due and impaired advances are defined as those advances that are in arrears, or have been specifically provided for.

The following table calculates the Bank's exposure to credit risk in relation to advances:

2015	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Gross	563 446	298 394	10 904	872 744
Performing advances	538 716	291 663	10 893	841 272
Estimated value of collateral held	(538 716)	(273 782)	(10 893)	(823 391)
Estimated exposure to credit risk	-	17 881	-	17 881
Past due and impaired advances	24 730	6 731	11	31 472
Estimated value of collateral held	(24 100)	(3 310)	(11)	(27 421)
Estimated exposure to credit risk	630	3 421	-	4 051

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.4.1 MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL HELD (CONTINUED)

2014	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Gross	505 405	284 838	12 222	802 465
Performing advances	481 738	277 752	12 181	771 671
Estimated value of collateral held	(481 738)	(260 662)	(12 181)	(754 581)
Estimated exposure to credit risk	-	17 090	-	17 090
Past due and impaired advances	23 667	7 086	41	30 794
Estimated value of collateral held	(22 230)	(3 012)	(41)	(25 283)
Estimated exposure to credit risk	1 437	4 074	-	5 511

In the 2015 and 2014 tables above, if the collateral held against an advance exceeded the outstanding amount, the value of the collateral was limited to the outstanding amount.

The Bank holds the following types of collateral within the following classes:

- Mortgages: First mortgage bonds and personal sureties;
- Instalment sales and rentals: Assets financed, and personal and entity sureties; and
- General: Hard collateral, such as cession of bank deposits, and personal sureties.

For most forms of security, the collateral given is valued only on origination of the advance or in the course of enforcement actions. The value of security is not updated except where an advance is individually assessed as impaired.

In cases where an advance is not individually assessed as impaired, the collateral value is determined as follows:

- Mortgages: the original valuation of the property;
- Instalment sales and rentals: the original cost of the asset is depreciated. In instances where the asset financed is a motor vehicle, the trade-in value, net of repossession costs, is used as the value of the security.

The Bank is permitted to sell and repledge all collateral it holds as security against advances.

During the 2015 and 2014 financial years, the Bank did not recognise any collateral it held as security against advances, as an asset of the Bank.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.4.2 CREDIT QUALITY

The credit quality of advances is managed in terms of the Bank's credit risk policies which include credit granting mandates. Each application is individually assessed, initially by management and thereafter, if needed in terms of mandates, by the risk management sub-committee and the Board.

The credit quality of advances can be summarised as follows:

2015	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Performing advances	538 716	291 663	10 893	841 272
Past due and impaired advances	24 730	6 731	11	31 472
Impaired advances	3 080	4 195	-	7 275
Unimpaired advances: 0 – 3 months in arrears	18 799	1 918	11	20 728
Unimpaired advances: more than 3 months in arrears	2 851	618	-	3 469
Total	563 446	298 394	10 904	872 744
Impaired advances (as above)	3 080	4 195	-	7 275
Security against impaired advances	(2 450)	(732)	-	(3 182)
Net impaired advances	630	3 463	-	4 093

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.4.2 CREDIT QUALITY (CONTINUED)

2014	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Performing advances	481 738	277 752	12 181	771 671
Past due and impaired advances	23 667	7 086	41	30 794
Impaired advances	3 987	4 011	-	7 998
Unimpaired advances: 0 – 3 months in arrears	18 451	2 729	41	21 221
Unimpaired advances: more than 3 months in arrears	1 229	346	-	1 575
Total	505 405	284 838	12 222	802 465
Impaired advances (as above)	3 987	4 011	-	7 998
Security against impaired advances	(2 550)	(309)	-	(2 859)
Net impaired advances	1 437	3 702	-	5 139

Advances and loans are considered to be non-performing when amounts are due and unpaid for three months, or when specific circumstances are indicative of the advance being non-performing.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.4.3 GEOGRAPHICAL CONCENTRATION OF CREDIT RISK

Geographical sector risk concentrations within the customer advances portfolio were as follows:

	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
2015				
Mortgage loans	66	30	4	100
General	87	11	2	100
Instalment sales and rentals	27	14	59	100
Specific impairment provision	40	20	40	100
2014				
Mortgage loans	66	29	5	100
General	89	10	1	100
Instalment sales and rentals	26	23	51	100
Specific impairment provision	35	51	14	100

20.5 MARKET RISK

The Bank is exposed to market risk, which is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates and equity prices.

Market risk arises from the Bank's holding of assets that are exposed to general and specific market movements. Essentially they comprise treasury bills, which are held to maturity and thus limits the Bank's exposure, and an investment in preference shares, an endowment policy and unit trusts (note 5).

20.5.1 INTEREST RATE RISK

Interest rate risk is the risk that the Bank's financial condition may be adversely affected as a result of changes in interest rate levels. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position, financial performance and cash flows. Interest rate margins are monitored as part of the Bank's normal risk management processes.

In order to preserve the Bank's liquidity and provide an adequate second tier capital base, fixed period shares having a fixed interest rate and redemption date are issued, as considered necessary. In a declining or low interest rate environment this has a negative impact on the Bank's net interest margin.

A 1% increase in the prime rate is expected to increase pre-tax net margins by R4 043 000 (2014: R3 681 000) per annum and a 1% decrease is expected to reduce pre-tax net margins by R4 119 000 (2014: R3 762 000) per annum. In order to determine the sensitivity of the pre-tax net margins to interest rate repricing, an assessment was made of the effect of an increase or decrease in the prime interest rate on all variable advances and loans and deposits to determine the impact on interest income and interest expense.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.5.1 INTEREST RATE RISK (CONTINUED)

The following demonstrates the Bank's interest rate repricing mismatch at 31 March 2015:

2015	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	946 395	42 059	10 114	57 209
Liabilities	(238 995)	(217 903)	(254 535)	(207 357)
Other	-	-	-	(136 987)
	707 400	(175 844)	(244 421)	(287 135)

2014	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	884 048	55 897	-	55 312
Liabilities	(215 423)	(204 492)	(251 228)	(184 795)
Other	-	-	-	(139 319)
	668 625	(148 595)	(251 228)	(268 802)

20.5.2 PRICE RISK

The table below lists financial instruments accounted for at fair value, the values of which fluctuate with a combination of changes in stock market indices, interest rate cycles and exchange rate fluctuations. As there are no published indices to benchmark these investments against, it is not possible to quantify possible gains or losses on these investments with the movement in the equity market, fixed interest market or currency fluctuations.

	2015 R'000	2014 R'000
Cadiz Absolute Yield Fund	-	12 787
Endowment Policy	26 005	22 785
Preference Shares	4 173	4 500
Coronation Capital Plus Fund	21 747	10 121
Medical Investment	5 285	4 852
	57 210	55 045

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.5.2 PRICE RISK (CONTINUED)

Absolute Yield Fund

The fund invests in a range of fixed interest instruments and listed property stock. It is a low risk fund which aims to preserve capital and maximise total return over the long-term. The fund aims to provide investors with a return of three percent in excess of CPI inflation over a rolling three years and a positive return over any rolling twelve month period.

Endowment Policy

This is a tax free, liquid investment which is and has been held for the long-term to enhance the yield on surplus cash. The investment is held in a policy of insurance whose assets are invested in equities, cash, bonds, property and commodity investments. The asset allocation largely resembles that of a balanced unit trust:

	2015 %	2014 %
South African Equities	64	67
Cash	16	15
Bonds	7	5
Property	8	9
Inflation linked bonds	1	1
Commodities	2	-
Other	2	3

The policy is a smooth bonus investment declaring an interim bonus rate at the beginning of each year and a final bonus shortly after the year end. The year end of the policy is however not co-terminus with that of the Bank. The objective is to smooth out investment gains over a period of time thereby enabling bonus declarations in periods of poor or even negative returns.

Preference Shares

These preference shares are long-term liquid investments held to enhance the yield on our surplus cash. The yield is set at 75% of the prime overdraft rate. As the rate attached to the preference shares is not a fixed coupon rate, the capital value should not react to rises and falls in interest rates in the same manner as bonds. Share price fluctuations rather reflect investor sentiment which could be driven by potential changes in tax or bank legislation, and/or other fixed interest investments available in the market.

Coronation Capital Plus Fund

The fund invests in a range of domestic and international equities, real estate, bonds, commodities and cash. It is a moderate risk fund. The fund intends to preserve capital over any twelve month period, while maintaining the potential to produce a long-term return of 4% in excess of inflation.

Medical Investment

The medical investment was created as partial funding for the post-retirement healthcare obligation. This long-term investment is made up of unit trust investments, spread over two asset managers, with the asset allocation largely reflecting a balanced portfolio of equities, cash, bonds, property and offshore investments. Their percentage allocations are similar to those reflected above in the Endowment Policy.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

20.6 LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The risk that it will be unable to do so is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

The Bank is exposed to liquidity risk relating to daily calls on its cash resources from call accounts, savings accounts, maturing deposits and loan drawdowns. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in controlling the Bank's exposure to liquidity risk.

The Bank's policy with respect to managing liquidity risk is conservative in that policies dictate that approximately twenty percent of deposits maturing within twelve months must be held in cash or liquid investments, which comfortably exceeds the statutory minimum liquid asset requirements. In addition we meet annually with our bankers to ensure credit lines are in place. Liquidity is reviewed weekly by the risk management sub-committee. Liquidity risk management is consistent with that of the previous year.

No assets of the Bank have been pledged as collateral for financial liabilities.

The table in note 22 summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows, and the expected inflows, based on historical data, of the corresponding financial assets. Using the same principles for expected outflows on financial liabilities, short-term liquidity mismatches would not occur.

20.7 FOREIGN EXCHANGE RISK

The Bank is not exposed to any foreign exchange risk through the Bank's normal operations.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

21. COMMITMENTS

(a) Operating lease commitments

With the Bank as lessee

The Bank leases various offices under operating lease agreements. Below are the future minimum lease payments under these non-cancellable operating leases:

	2015 R'000	2014 R'000
No later than 1 year	61	100
Later than 1 year and no later than 5 years	-	61
	61	161

With the Bank as lessor

The Bank leases a portion of the head office building. Below are the future minimum lease receipts under this non-cancellable operating lease:

	2015 R'000	2014 R'000
No later than 1 year	43	39
Later than 1 year and no later than 5 years	-	-
	43	39

(b) Guarantees

The Bank has provided a guarantee in respect of Go Travel.

	2015 R'000	2014 R'000
	335	335

The guarantee is secured by a mortgage bond in favour of the Bank. No losses are thus expected in respect of this guarantee.

22. LIQUIDITY RISK ANALYSIS

The table on the next page summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows, and the expected inflows, based on historical data, of the corresponding financial assets:

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

22. LIQUIDITY RISK ANALYSIS (CONTINUED)

2015	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	TOTAL R'000
Financial Assets						
Cash: Bank balances and deposits	-	41 949	24 376	-	-	66 325
Cash: SA Reserve Bank balance	-	-	-	-	21 582	21 582
Cash: Treasury bills	-	17 000	32 000	-	-	49 000
Cash: Cash on hand	1 095	-	-	-	-	1 095
Advances: Mortgage	-	4 961	25 382	31 712	932 682	994 737
Advances: General	-	1 304	6 689	3 359	-	11 352
Advances: Instalment sales and rentals	-	11 210	56 050	67 260	215 233	349 753
Investments: Fixed Deposits	-	-	15 444	-	-	15 444
Investments: Other	53 037	-	-	-	-	53 037
Investments: Investec Securities	4 173	-	-	-	-	4 173
	58 305	76 424	159 941	102 331	1 169 497	1 566 498
Financial Liabilities						
Deposits	(17 650)	(232 470)	(192 275)	(190 241)	(393 439)	(1 026 075)
Sundry Creditors	-	(1 613)	-	-	-	(1 613)
	(17 650)	(234 083)	(192 275)	(190 241)	(393 439)	(1 027 688)
Total recognised financial instruments	40 655	(157 659)	(32 334)	(87 910)	776 058	538 810
Financial guarantees	-	(335)	-	-	-	(335)
Irrevocable unutilised facilities	-	(29 372)	-	(64 600)	-	(93 972)
Total unrecognised financial instruments	-	(29 707)	-	(64 600)	-	(94 307)
Net inflow / (outflow)	40 655	(187 366)	(32 334)	(152 510)	776 058	444 503

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (CONTINUED)

22. LIQUIDITY RISK ANALYSIS (CONTINUED)

2014	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	TOTAL R'000
Financial Assets						
Cash: Bank balances and deposits	-	48 714	13 926	-	-	62 640
Cash: SA Reserve Bank balance	-	-	-	-	19 204	19 204
Cash: Treasury bills	-	16 000	30 000	-	-	46 000
Cash: Cash on hand	1 093	-	-	-	-	1 093
Advances: Mortgage	-	4 476	22 873	28 531	829 328	885 208
Advances: General	-	1 705	8 753	2 201	-	12 659
Advances: Instalment sales and rentals	-	11 130	55 652	66 782	200 346	333 910
Investments: Fixed Deposits	-	15 431	18 535	-	-	33 966
Investments: Other	50 545	-	-	-	-	50 545
Investments: Investec Securities	4 500	-	-	-	-	4 500
	56 138	97 456	149 739	97 514	1 048 878	1 449 725
Financial Liabilities						
Deposits	(18 639)	(206 604)	(188 967)	(178 882)	(386 674)	(979 766)
Sundry Creditors	-	(1 033)	-	-	-	(1 033)
	(18 639)	(207 637)	(188 967)	(178 882)	(386 674)	(980 799)
Total recognised financial instruments	37 499	(110 181)	(39 228)	(81 368)	662 204	468 926
Financial guarantees	-	(335)	-	-	-	(335)
Irrevocable unutilised facilities	-	(31 603)	-	(60 722)	-	(92 325)
Total unrecognised financial instruments	-	(31 938)	-	(60 722)	-	(92 660)
Net inflow/(outflow)	37 499	(142 119)	(39 228)	(142 090)	662 204	376 266

Community Projects and Sponsorships

COMMUNITY SUPPORT

Tradition has it that the first donation to find its way into the Christmas Cheer Fund administered each year by Grocott's Mail is that of GBS Mutual Bank. It is a well-known fact that the proceeds of this fund reach far and wide within the Makana community, and have done so for decades.

Besides the generous annual grant to the Christmas Cheer Fund, annual financial assistance is also provided to a myriad of institutions that range from retirement centres and hospitals to animal care centres and health care institutions. The latter includes Grahamstown Hospice and the Child Welfare Society. GBS Mutual Bank once again sponsored the annual fun run with all proceeds going to Kenton/Bushmans Child Welfare.

As far as Hospice is concerned, GBS Mutual Bank is very supportive of the organisation. It has committed itself to sponsoring a fund-raising campaign over three years, the annual *Stride with Pride* fund-raiser, with sponsorship amounting to R180 000 over this period. This sponsorship



is used for the *Stride with Pride* initiatives of both the Grahamstown Hospice and Sunshine Coast Hospice.

The Bank exudes a caring and supportive role through its social responsibility programmes, believing this investment will secure a better future for members of the community.

In short, the Bank continues to make special efforts to care for the more vulnerable members of the community by supporting a wide range of organisations that care for, and support, children, the ill and the aged.

EDUCATION

GBS Mutual Bank has supported education in Grahamstown and district for numerous years, and it continues to do so, donating to local schools, the GADRA matric school and tertiary institutions. The support that the Bank offers to many local schools is utilised for both academic purposes and sporting events.

So too does Rhodes University's "Commerce Extended Studies Programme" that has assisted in the education of disadvantaged Grahamstown school leavers with the potential of succeeding at university. GBS Mutual Bank values its partnership with Rhodes in this regard.

The course nurtures and develops the potential of students with additional support. The Bank is proud to be associated with the programme that has, over the years, produced a good number of outstanding employees in the corporate sector.



ABOVE: Staff members from GBS Mutual Bank Head Office at the start of the 5km *Stride with Pride* walk in aid of Hospice.

TOP, RIGHT: Andrew Marshall and Bessie Mears (left) from GBS Mutual Bank hand a sponsorship cheque to Sunshine Coast Hospice Manager, Zelda Elliott, and Fundraiser, Karen Long.

FINANCIAL SKILLS

The "Financial Skills Programme" introduced by GBS Mutual Bank has seen in excess of 1224 people attending to date, and is now in its seventh year. The programme aims to provide residents with the skills required to manage their finances in a more effective manner.

The programme forms part of GBS Mutual Bank's "Social Responsibility Programme", having been designed by the Bank, whose solid values and strong purpose are committed to building a society that takes care of its people and their needs.

GBS Mutual Bank staff member Mr Mfuzo Dyira presents the course, one that comprises theoretical and practical modules that cover the applications of saving, budgeting, managing and avoiding debt, setting financial goals and banking.

Also forming part of the course is the important procedural and practical aspects of using ATM's.

GRAHAMSTOWN LIBRARY

GBS Mutual Bank donated a set of children's books and CDs to the Grahamstown Public Library. This was done in association with Rotary.

SPORT

GBS Mutual Bank continues its support of sport at local club and school level. It is also supportive of certain sporting events, many of these raising funds for charity. The Bank offers financial support, or support in kind, and this includes the provision of prizes.

It has been encouraging and pleasing to note the reciprocal support for the Bank from these clubs and their members.

Among the sports events and tournaments on the receiving end of support from GBS Mutual Bank in Grahamstown and along the Sunshine Coast are:

- GBS mixed fours bowls tournament in Grahamstown and Kenton-on-Sea;
- GBS Grahamstown ladies' open golf day which the Bank has sponsored for over 10 years;
- GBS teams-of-three angling competition hosted by the Port Alfred River and Ski Boat Club;
- GBS Settlers Plate bowls tournament in Port Alfred;
- Rapportryers/PJ Olivier fun run that annually draws in excess of 500 entrants;
- Veterans' Tennis Tournament hosted by the Kenton Tennis Club; and
- various charity golf days held at Grahamstown, Port Alfred and Port Elizabeth courses.



The GBS Mutual Bank Cape Town office supported the Animal Care Organisation. Bill Vallance, General Manager, Cape Town hands over a cheque to Sue Wood from the Animal Care Organisation.

Offices, Branches and Agencies

HEAD OFFICE

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P.O. Box 5086, 8000 Cape Town

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e-mail: b.vallance@gbsbank.co.za
General Manager: W.S. Vallance

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P.O. Box 100, 6170 Port Alfred

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Manager: Bessie Mears

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P.O. Box 7648, Newton Park, 6055 Port Elizabeth

Tel: 041 365 4062
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Fax: 041 365 4486

e-mail: k.muller@gbsbank.co.za
Manager: Karin Muller

AGENCIES

EASTERN CAPE

Kenton-on-Sea:

Pam Golding Properties, 45 Kenton Road, 6191 Kenton-on-Sea
P.O. Box 179, 6191 Kenton-on-Sea

Tel: 046 648 1203
Fax: 046 648 1016

FREE STATE

Bloemfontein:

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P.O. Box 300, 9300 Bloemfontein

Tel: 051 448 9431
Fax: 051 430 8815

GAUTENG

Vereeniging:

Chase & Sons (Pty) Ltd, Chase House, 16 Leslie Street, 1930 Vereeniging
P.O. Box 178, 1930 Vereeniging

Tel: 016 421 3170
Fax: 016 421 1101

Vanderbijlpark:

Chase & Sons (Pty) Ltd, Colosseum Centre, Cnr Chopin & Delius Streets SW5,
1911 Vanderbijlpark
P.O. Box 1033, 1900 Vanderbijlpark

Tel: 016 982 3750
Fax: 016 982 3757

Three Rivers:

Chase & Sons (Pty) Ltd, 11 Nile Gate, General Hertzog Road, 1929 Three Rivers
P.O. Box 178, 1930 Vereeniging

Tel: 016 423 2009
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KWAZULU-NATAL:

Tongaat:

Vijay Agencies, Khandhai Building, 336E Main Road, 4400 Tongaat
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