Annual Report

GBS MUTUAL BANK
ESTABLISHED 1877

143rd

Annual Report

FOR YEAR ENDED 31 MARCH 2020

www.gbsbank.co.za

Contents

GBS MUTUAL BANK
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GBS Mutual Bank

BOARD OF DIRECTORS

NAME	ROLE OF THE MEMBER	APPOINTED	QUALIFICATIONS	ATTENDANCE
FO Skae	Independent Non-Executive Director (Chairman)	2014	MCom, MBA	11/11
TCS Tagg	Independent Non-Executive Director	1996	BCom, CA (SA)	11/11
KL Wiblin	Independent Non-Executive Director	2004	BAccSc (Hons)	9/11
PG Clayton	Independent Non-Executive Director	2003	PhD, FSAICS	8/11
AM Marriner	Lead Independent Non-Executive Director	2010	BSc (Hons)	9/11
KW Maree	Independent Non-Executive Director	2016	MCom, CA (SA)	11/11
AM Vorster	Managing Director	2007	BCom, MBA	11/11
JM Fincham	Executive Director	2016	BScS, CA (SA)	11/11

MANAGEMENT STRUCTURE

NAME	ROLE OF THE MEMBER	JOINED	QUALIFICATIONS
AM Vorster	Managing Director	2007	BCom, MBA
JM Fincham	Executive Director	2016	BScS, CA (SA)
P Hornby	Company Secretary	1997	BCom
WS Vallance	General Manager: Cape Town	1998	DipAIB
JM Williams	General Manager: Finance	2020	MCom CA (SA)

NOTICE OF THE ANNUAL GENERAL MEETING

The 143rd Annual General Meeting of Shareholders will be held electronically on 23 July 2020, at 17h00. In light of the ongoing COVID-19 pandemic, the AGM will be held as a virtual meeting. Details of how to register to join on-line or as a dial-in participant, as well as details of how to pre-submit questions, will be made available from Monday the 20th of July at the following website address: www.gbsbank.co.za/AGM2020

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 2020.
3. To elect Directors in the place of Messrs F.O. Skae, P.G. Clayton and K.W. Maree, who retire in rotation. Being eligible, they offer themselves for re-election and have been duly nominated.
4. To appoint Auditors and fix their remuneration. PricewaterhouseCoopers Inc., Registered Accountants and Auditors, offer themselves for re-election and have been duly nominated.
5. To fix the remuneration of Directors in terms of Article 21 (vi).
6. To pass a resolution that donations for charitable purposes may be made as the Directors see fit out of available profits.
7. To transact such business as may be brought forward at the Annual General Meeting.

By order of the Board of Directors.

P. Hornby
Company Secretary

The audited annual financial statements and reports thereon will be available for inspection at the Bank's Head Office and branches of the Bank as well as the website www.gbsbank.co.za

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 69 were approved by the Board of Directors on 11 June 2020 and are signed on its behalf by:

FO Skae
Chairman

AM Vorster
Managing Director

Auditor's Report

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

OUR OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of GBS Mutual Bank (the Bank) as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act, 1993.

What we have audited

GBS Mutual Bank's financial statements set out on pages 16 to 69 comprise:

- the Statement of Financial Position as at 31 March 2020;
- the Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled *"GBS Mutual Bank Annual Financial Statements for the year ended 31 March 2020"*, which we obtained prior to the date of this auditor's report, and the other sections of the document titled *"143rd Annual Report of GBS Mutual Bank for the year ended 31 March 2020"*, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act, 1993, 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.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as

Auditor's Report (continued)

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

a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Inc.
Director: AF Puggia
Registered Auditor
Port Elizabeth
11 June 2020

Report of the Directors

"A good banker will have accumulated in ordinary times the reserve he is to make use of in extraordinary times." – Walter Bagehot, Lombard Street, 1873.

The Board report to shareholders and stakeholders on the performance of our Mutual Bank for the year ended 31 March 2020 is presented in the midst of the COVID-19 pandemic.

The above quote from Walter Bagehot sums up the latter part of the 2019/2020 year for the GBS. Fortunately though, our prudent approach over the years has enabled us to build up reserves for unprecedented times such as we now find ourselves in. We have seen capital and equity markets correct and economies contract in the midst of a global health pandemic, the likes of which have not been witnessed in a century and the effects thereof likely to prevail for some time.

The Board of Directors has set aside R37 million as a provision for bad and doubtful debts, an increase of R24 million over last year. The main reason is that following the COVID-19 outbreak, we expect a significant deterioration in the economic outlook and consequently some of our clients' ability to repay loan exposures. In addition, in line with accounting convention, we are required to impair our investments in listed instruments and this resulted in a write-down of some R6.6 million, also as a direct consequence of the impact of COVID-19 on the economy and markets.

Despite these significant items, the core operations of the Bank remain sound, and our liquidity is better than it's ever been. Liquidity is managed in terms of carefully agreed parameters and even through the pandemic, the GBS has seen an improvement in the liquidity position. Thanks to the Bank's accumulated reserves we have been able to absorb these provisions and write-downs. The capital of the Bank is managed in terms of long-term capital plans, and these include a capital buffer above the minimum statutory requirement of 10%. The buffer is there to be used in extraordinary times.

Our business model is to target retail term deposits in the maturity range of 12 months to 5 years, mainly from mature investors, and a range of shorter-term deposits from retail and business investors. Loans and advances are mostly secured with about two thirds of loans being on residential and commercial mortgages and the remainder on rental and instalment sale finance agreements, the majority of which are partly secured by recourse agreements with brokers. The Board has undertaken an exercise in reviewing the business model and considers it resilient and still relevant in the current operating climate.

The Board approved succession plan for senior executives retiring within the next few years remains an important governance priority. The plan required the appointment of a senior finance executive and we are pleased that JoÚ Williams joined the Executive Management team in January 2020, as General Manager: Finance. He has extensive work and academic experience and we look forward to his contribution to the GBS. The objective of the succession plan remains to ensure a smooth operational transition with minimum impact on client relationships and service.

In the coming months the Board and Management will be focused on ensuring that key banking performance metrics are maintained, and that our clients are well supported and serviced through the current crisis.

ECONOMY

The economic outlook has deteriorated significantly and is one of great uncertainty where the effects of the current crisis will be felt for many years. Global and local GDP growth is expected to contract sharply this year, before recovering off a much lower base.

Interest rates were lowered in July last year and again in January, March, April and May of this year, with the most recent change bringing the SARB repo rate to its lowest level in decades. While lower interest rates will assist borrowers, our investors will be negatively impacted as deposit rates re-price lower over time.

The South African Rand weakened from below R14.5/US$ in March last year to around R18/US$ in March this year, while inflation remained in a narrow band between 4% and 4.5%. Sharply lower oil prices and weak demand for goods and services have lowered the inflation outlook for the current year.

PERFORMANCE

The GBS's results for the year to March 2020 were materially affected by the increase in debt provisions and mark-to-market adjustments mentioned earlier. These amounted to R31.2m and resulted in the Bank reporting a loss of R15.6 million after tax against a profit of R12.3 million last year.

The statement of financial position added R85m or 5.5% to R1.619 billion in a tough environment. Loans and advances growth was 5.6%, while share and other deposits grew by 6.9%. The additional funds raised from depositors that were not advanced on loans were invested in cash and other investment instruments as noted in the report.

Report of the Directors (Continued)

PERFORMANCE (CONTINUED)

Excluding the impact of the increase in the IFRS 9 debt provision, and mark-to-market adjustments resulting from the market volatility in March 2020, the above graph reflects a strong operating performance. 2020 Net interest margin and Core operating profits were at historical highs.

The impact of the mark-to-market adjustments was the main reason for the decline in pre-provisioning operating profit ("PPOP") during the current year.

Cash, cash equivalents and investments increased from R349 million to R378 million. Property and equipment included the revaluation of the Makhanda (Grahamstown) land and buildings by R8.8 million as detailed in note 8. The revaluation was done to improve disclosure following the introduction of IFRS16.

Debt provisions are reported in compliance with IFRS9 and as disclosed in notes 2, 3 and 21 of the report. The bulk of the increase in provisions is due to outlook changes following the COVID-19 pandemic outbreak and the consequential deterioration in the economic climate.

The Bank remains well capitalized with a capital adequacy ratio of 12.5% against a required ratio of 10%. Secondary capital, mainly qualifying fixed period shares, increased from R64 million last year to R65 million, R3.2 million of which arose from the revaluation of the Makhanda (Grahamstown) building.

The net interest income for the year was R2 million more than last year despite lower interest rates. Fair value adjustments reversed from a gain of R10.6 million last year to a loss of R6.6 million, mainly as a result of writing down preference shares at 31 March.

Operating expenses were tightly controlled and reduced by 12%. These are monitored by tracking costs to average assets and the ratio improved year on year from 2.7% to 2.3%, the lowest level in a decade. While it is disappointing to report a loss, short term changes in net income or loss do not determine the long-term success of the Bank, and our core operations remain robust. We are focused on ensuring the sustainability of the Bank and maintaining the excellent client service ethic that has ensured our success over the last 143 years.

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 an ethical culture that permeates the Bank.

The Board is committed to the King Code of Corporate Governance™ and is aligned to the King IV principles and practices, on a proportional "apply and explain" basis, as well as the Basel Committee on banking supervision guidelines where possible and practical. In addition, the Bank subscribes to the Code of Banking Practice and its underlying values. The Directors are all members of the Institute of Directors South Africa (IoDSA).

Following an independent review of the Bank's governance principles and practices, recommendations deemed by the Board to be relevant were addressed under the oversight of the Directors' Affairs Committee, where the specific details are provided in its Committee report. The Board is mindful that good governance is an ongoing process of interrogating its fiduciary obligations thereby ensuring requisite integrity, competence, responsibility, accountability, fairness and transparency.

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

The Board comprises eight Directors, six being non-executive, including the Chair. 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.

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

During the year the Board undertook a formal review of the Chairman's performance, via the Lead Independent Non-Executive Director and has also considered the effectiveness of the Committees, many of which saw improvements to their respective terms of reference. The Board is satisfied that each Committee has each met their responsibilities in this regard.

Board meetings are held monthly with additional meetings scheduled to review the budget and determine strategy.

AUDIT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KW Maree (Chair)	4/4
KL Wiblin	4/4
TCS Tagg	4/4

The Audit Committee is chaired by an Independent Non-Executive Director and membership includes two other Independent Non-Executive Directors. The Audit Committee members have collective qualifications and experience in banking, accounting and auditing.

The Audit Committee meets at least quarterly and oversees all matters regarding assurance, compliance and reporting. In fulfilling its mandate the Audit Committee subscribes to a combined assurance model to provide a co-ordinated approach to all assurance activities.

The Committee evaluates auditor independence and audit quality and is satisfied with the quality and effectiveness of assurance services provided to the Bank. The external auditors employ a policy of partner rotation and a new audit partner was appointed during the current financial year. The Audit Committee is also satisfied that the external auditors have considered significant matters in relation to the annual financial statements and that these have been appropriately addressed. All non-audit services are pre-approved by the Audit Committee and the Committee is satisfied that non-audit services are not significant and that the Bank's external auditors are independent. There have not been any significant changes to management personnel of the Bank which may bring the independence of the external auditors into question. The Audit Committee has recommended to the Board the re-appointment of PricewaterhouseCoopers for the 2021 financial year.

The Committee also evaluates the overall control environment and is satisfied with the effectiveness, design and implementation thereof. The Audit Committee is not aware of any significant weaknesses in the design, implementation or execution of internal controls that may result in material financial loss, fraud, corruption or error.

The Committee met four times during the year including an annual meeting with the Prudential Authority's Bank Supervision Department. The external auditors and internal audit were present at three of the meetings and were given opportunities to raise any sensitive matters privately with the Audit Committee. The Managing Director, Executive Director, Company Secretary and General Manager: Finance also attend certain of the Committee meetings by invitation.

The Audit Committee considered the following key focus areas during the year:

- Considered and approved the external and internal audit plans for the year.
- Approved the external auditors' engagement letters and related remuneration.
- Evaluated auditor independence and audit quality with reference to a number of external and internal indicators.
- Considered the impact of COVID-19 on the Annual Report and ensured that the effects of the pandemic were appropriately recognized, disclosed and reported on.
- Specifically considered the impact of COVID-19 on the measurement of the Bank's provisions for expected credit losses, capital adequacy and general financial health. In all instances, the Committee was satisfied that the Bank had addressed the effects of the pandemic appropriately and remains financially sound and recommended the effects as reported to the Board for approval.
- Considered the Annual Financial Statements as part of the Annual Report and recommended these to the Board for approval.
- Considered the external auditors' report and the key audit matters contained therein.
- Reviewed the external auditors' reports to management and the Bank's responses to findings.
- Reviewed the internal auditor's reports to management and the Bank's responses to findings.
- Reviewed the external auditors' report relating to regulatory submissions to the Prudential Authority.
- Considered the Bank's ability to continue operating as a going concern and concluded that this was the case.
- Concluded that the system of internal controls was operating effectively.
- Considered and implemented the disclosure requirements of King IV.

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

- Considered matters of compliance as referred from the Compliance Committee. In particular, the Audit Committee considered the new Risk Management and Compliance Programme.

The role of the Audit Committee is constituted in terms of Board approved terms of reference and the Committee is satisfied that it fulfilled its responsibilities in accordance with these terms of reference for the reporting period.

REMUNERATION COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KL Wiblin (Chair)	4/4
AM Marriner	3/4
FO Skae	4/4

The Remuneration Committee is responsible for setting the remuneration policy for all Executive Directors, to recommend and monitor the level and structure of remuneration for senior management and overseeing any major changes to employee benefit structures.

The Committee is chaired by an Independent Non-Executive Director and membership includes two other Independent Non-Executive Directors. The Managing Director and Company Secretary are standing invitees to Committee meetings. No Executive Director or Senior Manager is involved in any decisions regarding their own remuneration.

The Remuneration Committee members have collective qualifications and experience in banking, accounting and human resource management.

The Remuneration Committee considered and recommended for approval by the Board the following key focus areas during the year under review:

- Annual salary increments taking into consideration inflation factors, cost of living indices and salary adjustments applied by organisations that it benchmarks against.
- A further increase in the Bank's contribution to the provident fund after undertaking a net replacement ratio review.
- The long service awards and notification of staff retiring within the next ten years.
- Amended the Family Responsibility Leave policy of the Bank.
- In light of the economic uncertainty caused by COVID-19 and heeding the request by the Prudential Authority that no bonuses be paid, no profit share bonus allocation was made.

The self-evaluation undertaken by the Committee confirmed that it had fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

IT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
AM Marriner (Chair)	4/4
KL Wiblin	4/4
PG Clayton	4/4

The IT Committee is primarily responsible for the governance of all IT projects in the Bank, as well as other initiatives which include a significant IT component. The Committee reviews the monitoring and reporting of all IT risks and audit findings; ensures that IT priorities are in line with those of the Board; evaluates resilience projects; monitors the annual IT budget; and revises all IT policies on a regular basis.

The IT Committee is chaired by an Independent Non-Executive Director. Membership of the Committee includes a non-executive representative of the Audit Committee, and an additional non-executive representative from the Board of Directors with suitable IT expertise. The Managing Director, Executive Director, General Manager: Finance, Company Secretary, Compliance Officer, Accountant, and the Head of IT are all standing invitees to the meetings.

The Committee met four times during the past year to discuss the following key focus areas:

- Prioritisation and progress of IT projects.
- Monitoring of the IT budget against actual expenses and capital expenditure.
- Reviewing ongoing staffing requirements, including commitment to the employment of a fulltime staff member to administer network and server issues, and the contractual appointment of the Insight team to provide additional infrastructural support.
- Regular review of the stability of the production environment.
- Overview of the IT requirements for the successful implementation of several compliance projects, including SACRRA.
- Review of enhancements to, and testing of, the Bank's disaster recovery site through a controlled offsite test.

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

- Review and approval of all IT-related policies.
- Oversight of the IT risk register, and the management of issues reported in the external IT audit reports.
- Review of any reported cyber security threats as a standing item on the agenda.
- Analysis of any IT incidents reported, including the remediation steps that were taken to resolve the incidents, and preventative methods to be put in place to ensure the incidents do not re-occur.
- Oversight of various resilience initiatives, including approval for the expenditure on a solar inverter and lithium-ion batteries to replace the Bank's old UPS system.

The IT Committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

OPERATIONS COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
PG Clayton (Chair)	4/4
AM Marriner	3/4
KL Wiblin	4/4

The Operations Committee is primarily responsible for the governance of business operational activities, oversight of any change management within the organisation, and of business processes and initiatives that have significant operational components. The Committee is responsible for the monitoring and reporting of operational risks and audit findings, ensuring that operational priorities are in line with those of the Board, and reviewing operational policies on a regular basis.

The Operations Committee is chaired by an Independent Non-Executive Director and membership of the Committee includes non-executive representatives of the Audit and IT Committees. Membership of the Operations Committee is deliberately overlapped with the IT Committee, and joint meetings of the two Committees are held on occasion. The Managing Director, Executive Director, Company Secretary, General Manager: Finance, Compliance Officer and Operations Supervisor are all standing invitees to the meetings.

The Committee met four times during the past year to discuss daily operational issues in addition to the following key focus areas:

- Business continuity.
- Document management.
- External Audit reports relating to operations.
- Financial Intelligence Centre (FIC) compliance.
- Head Office and Branch Security.
- Implementation of the Home Loan and Mortgage Disclosure Act (HLAMDA).
- Legal Practitioners Fidelity Fund support system.
- Modernisation of in-branch transaction forms.
- Operational compliance.
- Operationalisation of International Financial Reporting Standard 9 (IFRS 9) reporting.
- Operationalisation of SACRRA submissions - shared database of credit & risk information.
- Port Elizabeth branch relocation.
- Resourcing of the Internal Audit function.
- Review of the Operational Risk Register.
- Solar and backup power upgrades.
- Staffing of operational functions.

The Operations Committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

DIRECTORS & EXECUTIVES AFFAIRS COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
AM Marriner (Chair)	2/2
KL Wiblin	2/2
FO Skae	2/2

The Directors and Executive Affairs Committee is chaired by an Independent Non-Executive Director, and membership of the Committee includes two Non-Executive Directors. The Managing Director attends the meetings.

The Directors and Executive Affairs Committee is responsible for the governance of matters pertaining to the Directors of the Board, the structure of the executive management team and succession planning for key positions within GBS Mutual Bank.

The Committee met twice during the past year to discuss the following key focus areas:

- The implementation of a performance review process of the Chairman and the Non-Executive Directors of the Board which took the form of a self-evaluation questionnaire.
- The implementation of an independent review of the Board, based on the King IV ReportTM which encapsulates the challenges of the business world into 17 principles of good corporate governance, and thereafter provides recommended practices within each principle. The outcome of the review was in the form of a document presented to Board,

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

highlighting the degree to which the Board currently complies with the principles, and providing recommendations to enhance the overall governance for the Board's consideration.

- A review of the current structure of the senior management team, and the succession plan.
- A review of the terms of reference documents of all the Board Committees.
- A review of the current Non-Executive Director membership of the various Board Committees, and a discussion of the agenda for Board meetings.
- Agreement that the Directors should become members of the Institute of Directors South Africa (IoDSA).

The Directors and Executive Affairs Committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

BUSINESS DEVELOPMENT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
FO Skae (Chair)	4/4
KC Breetzke	1/1
JM Fincham	4/4
AM Marriner	3/4
WS Vallance	4/4
AM Vorster	4/4

The Business Development Committee is responsible for advising and making recommendations to the Board on the implementation and monitoring of the strategy as formulated and agreed to by the Board. It also assesses product and service offerings, more specifically in relation to maintaining financial health, considering risk measures, developing and enhancing the GBS brand, enhancing the operational environment, compliance with mandatory statutory and regulatory requirements, human resource management and governance architecture.

It is chaired by an Independent Non-Executive Director and membership includes one other Independent Non-Executive Director, the Managing Director, Executive Director and the General Manager: Cape Town.

The Committee met four times during the year and considered the following key focus areas:

- Strategic Matters: Review of implementation of the Strategic Plan according to a Time/Impact matrix; the Business Model of the Bank; Loan and Deposit Portfolio analysis.
- Branch Analysis: Branch performance and trends; local market conditions that impact on branches; Relocation of the Port Elizabeth branch to a more suitable location and the appointment of a regional sales manager based full time in Port Elizabeth.
- Product/Market Analysis: Concentration risk in product and market categories; new product and market opportunities.
- Marketing and Communication: Review of investor presentations; marketing and promotion campaigns of the Bank.

The Business Development Committee undertook an evaluation of the Committee Chair as well as its own performance and is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period, although it acknowledged that due to dynamic business conditions, an update to its terms of reference was required. This is to be actioned in the forthcoming financial year.

COMPLIANCE COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KW Maree (Chair)	6/6
KL Wiblin	6/6
AM Vorster	4/6
JM Fincham	5/6
P Hornby	5/6
B MacKenzie	6/6

The Compliance Committee is chaired by an Independent Non-Executive Director. Committee membership includes one other Independent Non-Executive Director, the Managing Director, Executive Director, Company Secretary and Compliance Officer. The Compliance Committee members have collective qualifications and experience in banking, accounting, auditing and compliance.

The Compliance Committee is responsible for considering and monitoring the Bank's compliance with regulatory and other relevant legislation.

The Compliance Committee meets bi-monthly and considered the following key focus areas during the year:

- Compliance with regulatory requirements.
- Monitored the development and implementation of a new Risk Management and Compliance Programme required in terms of amendments made to the Financial Intelligence Centre Act.

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

- Monitored the development of policies for managing compliance and recommended these to the Board for approval.
- Monitored the development and implementation of new reporting requirements of the South African Credit and Risk Reporting Association (SACRRA) and the Legal Practices Fidelity Fund (LPFF).
- Considered and monitored current and future compliance requirements related to the National Credit Act (NCA), Financial Intelligence Centre Act (FICA), the South African Credit and Risk Reporting Association (SACRRA) and the Protection of Personal Information Act (POPIA).

The role of the Compliance Committee is constituted in terms of Board approved terms of reference and the Committee is satisfied that it fulfilled its responsibilities in accordance with these terms of reference for the reporting period.

RISK MANAGEMENT

The effective management of risk is critical to the sustainability and 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.

Our approach to risk management, and in particular to capital, credit and liquidity, has remained extremely conservative in the current economic conditions, which were severely impacted by COVID-19. While our provision for losses has been substantially increased, this is in line with the banking industry.

RISK MANAGEMENT COMMITTEE

The Committee is mandated to meet twice a year, and is chaired by the Board Chair, with all Directors present and other key Senior Managers, the Compliance Officer and Internal Auditor in attendance. This ensures that the risk management policies and procedures are reviewed periodically and that banking risks are understood at all relevant levels within the Bank.

The Bank considers the following risks:

- Strategic risk: Political, Economic, Social, Legal, TecÚological, Environmental, Global and Ethical.
- Business risk: business model, competition, changes in market conditions, fraud, business and trading practices.
- Financial risk: capital adequacy, solvency, liquidity, credit and interest.
- Operational risk: information security, cyber-security, tecÚology, systems and processes.
- People risk: Health and safety, working conditions, employment conditions and benefits.
- Compliance risk: statutory, regulatory, Board & executive management mandated compliance and reporting.
- Governance risk (includes conduct risk): governance outcomes, principles and practices.
- Reputation risk: standing in community, stakeholder needs, interests and expectations.

Oversight functions that pertain to these are delegated to the Risk Management Sub-Committee which meets on a weekly basis and is chaired by a Non-Executive Director on a rotational basis.

The Committee's oversight responsibilities with regards to business risk, operational risk and compliance risk pertain to the financial and capital implications of these risks. Management of risk is also undertaken through other

Report of the Directors (Continued)

RISK MANAGEMENT (CONTINUED)

Committees of the Board, ensuring that an appropriate risk culture permeates through all governance and operating structures of the Bank.

STAFF DEVELOPMENT

We actively encourage staff to upgrade their knowledge and skills through incentives and this has proved to be beneficial to the Bank. Training, including the Board of Directors, has been ongoing relating to anti money laundering (AML), combating the financing of terrorism (CFT) and staying abreast of changes in the Banking sector.

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 is one of considerable uncertainty relating to both the pandemic outcomes and the economic consequences of the lock-down stages. As we are an interest margin bank, the next year or two will be challenging, not only for us, but for our investors earning lower returns, and our borrowers facing an uncertain recovery. We expect negative growth in the loans and advances portfolios in the coming year, and a sharp contraction in the interest margin.

Despite the medium-term challenges, we will continue to serve our clients and members and remain well placed in terms of capital, liquidity and intellectual equity to serve long-term investors and borrowers.

Every year we conclude by thanking our loyal clients for their continued trust in us. A measure of this is most certainly that we have seen this maintained despite the challenging times and hence we wish to give the assurance that the values which have sustained this Bank over its fourteen decades of existence are still paramount in everything we do.

We have also learnt that experience can never be taken for granted. We are grateful for the collective wisdom of the Board, who have worked tirelessly to ensure that the stability of the Bank is maintained.

Departing from prior years though we are sure our clients will not begrudge us in concluding by thanking the staff of GBS Mutual Bank for maintaining composure and commitment as we live and work through these extraordinary times. They work every day to ensure that your faith is maintained in us and for that we are most grateful.

FO Skae
Chairman
11 June 2020

AM Vorster
Managing Director
11 June 2020

Report of the Directors (Continued)

FIVE YEAR REVIEW

YEAR ENDED 31 MARCH (R 000)	2020	2019	2018	2017	2016
Statements of Financial Position					
Reserves	**114 881**	122 702	108 715	102 177	91 423
Share deposits	**264 998**	258 604	275 562	265 875	274 816
Deposits	**1 215 399**	1 126 615	984 891	875 191	765 677
Other liabilities	**24 123**	26 638	23 327	21 611	20 434
	1 619 401	1 534 559	1 392 495	1 264 854	1 152 350
Cash & short term securities	**223 554**	177 163	166 146	143 870	150 176
Investments	**154 319**	172 214	134 581	118 779	82 875
Loans and advances	**1 219 678**	1 178 015	1 085 106	995 752	911 054
- Mortgages and other	**793 569**	766 712	713 978	660 574	607 739
- Instalment sales, rentals	**463 341**	424 260	389 478	348 935	311 968
- Less: Risk provisions	**37 232**	12 957	18 350	13 757	8 653
Other	**21 850**	7 167	6 662	6 453	8 245
	1 619 401	1 534 559	1 392 495	1 264 854	1 152 350

Report of the Directors (Continued)

FIVE YEAR REVIEW (CONTINUED)

YEAR ENDED 31 MARCH (R 000)	2020	2019	2018	2017	2016
Income Statements					
Net interest margin	**40 008**	38 006	36 155	36 855	29 321
Other income	**5 464**	5 309	4 981	4 199	4 046
	45 472	43 315	41 136	41 054	33 367
Operating expenses	**(35 545)**	(40 216)	(32 657)	(32 723)	(27 481)
Core operating profit	**9 927**	3 099	8 479	8 331	5 886
Fair value adjustments	**(6 647)**	10 567	5 013	8 579	2 366
Pre-provisioning operating profit	**3 280**	13 666	13 492	16 910	8 252
Impairments & provisions	**(24 609)**	(1 030)	(5 792)	(5 924)	(2 025)
Pre-tax (loss)/profit before tax	**(21 329)**	12 636	7 700	10 986	6 227
Tax	**5 703**	(245)	(619)	(373)	(787)
(Loss)/profit for the year	**(15 626)**	12 391	7 081	10 613	5 440
Other comprehensive income/(loss)	**7 805**	587	(543)	141	(623)
Comprehensive (loss)/income	**(7 821)**	12 978	6 538	10 754	4 817

	2020	2019	2018	2017	2016
Key Ratios – %					
Capital adequacy at year end	**12.50%**	14.00%	13.30%	13.20%	14.04%
Bad debt provision: advances	**2.96%**	1.09%	1.66%	1.36%	0.94%
Costs to average assets	**2.25%**	2.75%	2.46%	2.71%	2.43%

GBS Mutual Bank

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2020

	NOTES	2020 R'000	2019 R'000
ASSETS			
Cash and cash equivalents	4	**223 554**	177 163
Investments	5	**154 319**	172 214
Advances and loans	6	**1 219 678**	1 178 015
Current income tax asset		**715**	2 362
Other assets	7	**724**	128
Property and equipment	8	**12 307**	3 076
Right-of-use assets	9	**1 446**	-
Deferred income tax asset	10	**6 658**	1 601
Total assets		**1 619 401**	1 534 559
LIABILITIES			
Share deposits	11	**264 998**	258 604
Other deposits	11	**1 215 399**	1 126 615
Other liabilities	12	**9 818**	12 997
Lease liabilities	9	**1 522**	-
Retirement benefit obligations	13	**10 929**	12 130
Other long-term employee benefits	14	**1 854**	1 511
Total liabilities		**1 504 520**	1 411 857
RESERVES		**114 881**	122 702
Total liabilities and reserves		**1 619 401**	1 534 559

GBS Mutual Bank

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	NOTES	2020 R'000	2019 R'000
Interest income	15	**151 485**	140 983
Interest expense	15	**(111 477)**	(102 977)
Net interest income		**40 008**	38 006
Credit impairment losses	16	**(24 609)**	(1 030)
Net interest income after impairment on advances		**15 399**	36 976
Total non-interest income		**5 464**	15 876
Fee and commission income	17	**3 787**	3 849
Fair value adjustments on investments	5	**–**	10 567
Dividend income		**1 536**	1 245
Other operating income		**141**	215
Total expenses		**(42 192)**	(40 216)
Operating expenses	18	**(34 619)**	(39 465)
Commission expense		**(926)**	(751)
Fair value adjustments on investments	5	**(6 647)**	–
(Loss)/Profit before income tax		**(21 329)**	12 636
Income tax credit/(expense)	19	**5 703**	(245)
(Loss)/Profit for the year		**(15 626)**	12 391
Other comprehensive income			
Items that may not be reclassified to profit or loss		**7 805**	587
Remeasurements of retirement benefit obligation	13	**1 918**	815
Revaluation of Office Premises	8	**8 806**	–
Deferred tax	10	**(2 919)**	(228)
Total comprehensive (loss)/income for the year		**(7 821)**	12 978

GBS Mutual Bank

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	RETAINED EARNINGS R'000	GENERAL RESERVE R'000	REVALUATION SURPLUS R'000	STATUTORY CREDIT RISK RESERVE R'000	TOTAL R'000
Balance at 1 April 2018	982	102 211	–	6 531	109 724
Profit for the year	12 391	–	–	–	12 391
Other comprehensive income for the year	–	587	–	–	587
Transfer to statutory credit risk reserve	(589)	–	–	589	–
Transfer to general reserves	(11 784)	11 784	–	–	–
Balance at 31 March 2019	1 000	114 582	–	7 120	122 702
Loss for the year	(15 626)	–	–	–	(15 626)
Other comprehensive income for the year	–	1 381	6 424	–	7 805
Transfer to statutory credit risk reserve	(416)	–	–	416	–
Transfer from general reserves	16 042	(16 042)	–	–	–
Balance at 31 March 2020	**1 000**	**99 921**	**6 424**	**7 536**	**114 881**

Notes

- Retained Earnings: the Bank maintained its Retained Earnings at R1 000 000 (2019: R1 000 000) resulting in a transfer from general reserves (2019: transfer to general reserves).
- General Reserve: represents profits which have been formally appropriated by the Board of Directors, as required by the Mutual Banks Act.
- Revaluation Surplus: relates to the revaluation surplus on the Bank's Head Office premises following the change in accounting policy in the current year (refer notes 2.1 and 8).
- 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 2020

	NOTES	2020 R'000	2019 R'000
Cash flows from operating activities			
Interest receipts	15	**151 485**	140 983
Interest payments	15	**(111 477)**	(102 977)
Fee and commission receipts		**3 787**	3 849
Fee and commission payments		**(926)**	(751)
Dividends received		**1 536**	1 245
Other income		**141**	215
Payments to employees and suppliers		**(32 366)**	(37 726)
Income taxes paid		**(626)**	(1 456)
Cash flows from operating activities before changes in operating assets and liabilities		**11 554**	3 382
Changes in operating assets and liabilities			
Net increase in advances		**(66 272)**	(92 538)
Net increase in other assets		**(596)**	(4)
Net increase in share and other deposits		**95 178**	124 766
Net (decrease)/increase in other liabilities		**(2 836)**	3 473
Net decrease in lease liabilities		**(242)**	–
Net cash generated from operating activities		**36 786**	39 079
Cash flows from investing activities			
Acquisition of property and equipment	8	**(1 643)**	(1 001)
Proceeds on disposal of property and equipment		**–**	5
Net decrease/(increase) in investments		**11 248**	(27 066)
Net cash generated from/(used in) investing activities		**9 605**	(28 062)
Net increase in cash and cash equivalents		**46 391**	11 017
Cash and cash equivalents at beginning of year	4	**177 163**	166 146
Cash and cash equivalents at end of year	4	**223 554**	177 163

GBS Mutual Bank

1. SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

The financial position and performance of the Bank were particularly affected by the following events and transactions during the reporting period:

- The revaluation of the Bank's head office premises (refer notes 2.6 and 8);
- The R24 million increase in the IFRS 9 provisions due to an expected significant deterioration in the economic outlook following the COVID-19 outbreak (refer note 16); and
- A R6.6 million impairment in the fair value of investments following the market crash in March 2020 (refer note 5).

For a detailed discussion about the Bank's performance and financial position, please refer to the Report of the Directors on pages 6 to 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GBS Mutual Bank is incorporated in South Africa. The address of its registered office and principal place of business is 18-20 Hill Street, Grahamstown, 6139.

The financial statements are presented in South African Rand, which is the functional and presentation currency of the Bank. All amounts are stated in thousands of Rand, unless otherwise stated.

With the exception of the adoption of IFRS 16: Leases (refer 'New and amended standards adopted' below) and the revaluation of office premises (refer 'Change in accounting policy' below), 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 3).

2.1 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 and office premises which are accounted for in terms of the stated accounting policies.

New and amended standards adopted

The Bank has adopted IFRS: 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted by IFRS 16 and has opted to use the modified retrospective approach. Under this approach, comparative information is not restated and the right-of-use asset at the date of initial application for leases previously classified as operating leases (IAS 17) is equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments relating to the leases. The adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 April 2019. The new accounting policies are disclosed in note 2.13.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 8.0%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019; and
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases. At 1 April 2019, the Bank had two operating leases with a remaining term of less than 12 months.

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

GBS Mutual Bank

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Measurement of lease liabilities

	2020 R'000
Operating lease commitments disclosed as at 31 March 2019	**1 036**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**902**
Less short-term leases not recognised as a liability	**(81)**
Lease liability recognised as at 1 April 2019	**821**
Of which:	
Current lease liabilities	**179**
Non-current lease liabilities	**642**
	821

iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 March 2019.

(iv) Lessor Accounting

The Bank did not need to make any adjustments to the accounting for assets held as a lessor under operating leases as a result of the adoption of IFRS 16.

Several other amendments and interpretations apply for the first time in the current year, but do not have an impact on the financial statements.

Change in accounting policy

With effect from 31 March 2020, the Bank changed is accounting policy relating to property and equipment. Office premises are now measured using the revaluation model whereby office premises are carried at a revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Directors believe that measuring office premises using the revaluation model rather than the historical cost model provides more meaningful disclosure on the true value of office premises.

The change in accounting policy affected the property and equipment balance disclosed in the statement of financial position and the revaluation surplus disclosed in the statement of changes in equity. Given that the revaluation date was 31 March 2020, there was no impact on the depreciation charge. In future years, the change in policy will result in an increase in depreciation expense of R148 000 before taxation and R106 000 after taxation.

Refer to note 8 for further information on the revaluation and a reconciliation of the opening and closing office premises balances before and after the change.

2.2 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 on call with Banks, treasury bills and other short-term liquid investments with maturity periods of less than 91 days from the date of acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 FINANCIAL ASSETS AND LIABILITIES

Measurement methods

(i) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities are adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(ii) Interest income:

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their net carrying amount (i.e. net of the expected credit loss provision).

(iii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and those measured at fair value through other comprehensive income.

2.3.1 FINANCIAL ASSETS

(iv) Classification and subsequent measurement

In accordance with IFRS 9, the Bank classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVPL).

Classification and subsequent measurement of financial assets depends on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows.

Solely Payments of Principal and Interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1 FINANCIAL ASSETS (CONTINUED)

i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 21.4.2. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment reversals or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Fair value adjustments on investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'Fair value adjustments on investments' in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. Examples include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Fair value adjustments on investments' line in the statement of profit or loss and other comprehensive income.

(v) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such expected credit losses at each reporting date.

The measurement of ECL reflects:

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

Note 21.4.2 provides more detail of how the expected credit loss allowance is measured.

GBS Mutual Bank

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.1 FINANCIAL ASSETS (CONTINUED)

(vi) Derecognition
Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (a) the Bank transfers substantially all the risks and rewards of ownership, or (b) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

2.3.2 FINANCIAL LIABILITIES

(i) Classification and subsequent measurement
The Bank recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. 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.

(ii) Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2.4 ADVANCES AND LOANS

Advances and loans are financial assets with fixed or determinable payments and include purchased advances. Advances and loans are initially recognised at fair value when the Bank becomes party to the contractual terms of the instruments. Advances and loans are accounted for at amortised cost using the effective interest rate method and derecognised in accordance with note 2.3 above.

Transaction costs and origination fees received are capitalised to the carrying amount 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 instalment sale 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 21.4.

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.

2.5 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.

2.6 PROPERTY AND EQUIPMENT

Office premises comprise banking halls and offices. With effect from 31 March 2020, office premises are measured using the revaluation model whereby office premises are carried at a revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Increases in the carrying amounts arising on revaluation of office premises are recognised, net of tax, in other comprehensive income and the revaluation surplus in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reallocated from the revaluation surplus to retained earnings.

Property and equipment excluding office premises is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 PROPERTY AND EQUIPMENT (CONTINUED)

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.

Computer software licences are acquired and are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing and maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the creation of identifiable and unique systems controlled by the Bank, and that will generate economic benefits beyond 1 year, are recognised as assets. Other development expenditures are recognised as an expense as incurred.

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. All assets are depreciated on a straight-line basis to write down the cost / carrying amount of assets to their residual values over their estimated lives as follows:

Office premises (excluding land)	4%
Motor vehicles	20%
Furniture and equipment	17%
Solar equipment	10%
Computer equipment	33%
Computer software	20%
Banking software	10%
Software licences	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss. When revalued assets are sold, it's the Bank's policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

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.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation/depreciation are reviewed for impairment at each statement of financial position 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.

2.8 SHARES, OTHER DEPOSITS AND OTHER LIABILITIES

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 at fair value through profit or loss. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or has expired.

2.9 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. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.10 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

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 statement of financial position 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 statement of financial position 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

2.11 RETIREMENT BENEFIT OBLIGATIONS

(i) 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. Remeasurement gains and losses are immediately charged or credited to other comprehensive income in the year in which they arise.

(ii) 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.

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

(iii) 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.

2.12 REVENUE RECOGNITION

(i) Interest income and expense
Interest income and expense are recognised in the statement of profit or loss and other comprehensive income for all instruments measured at amortised cost and at fair value through profit or loss using the effective interest rate method. Interest income and expense are recognised separately from other fair value movements.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The original effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the original effective interest rate, the Bank estimates cash flows considering all contractual terms of the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 REVENUE RECOGNITION (CONTINUED)

financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

(iii) Dividend income
Dividend income is recognised when the right to receive payment is established on the ex-dividend date for equity instruments and is included in "Dividend income".

(iv) Other income
Fair value gains and losses on financial instruments at fair value through profit or loss, are included in "Fair value adjustments on investments". These fair value gains or losses are determined after deducting the interest component, which is recognised separately in interest income and expense. Gains or losses on derecognition of any financial assets or financial liabilities are included under "Fair value adjustments on investments".

2.13 LEASES

Until the 31 March 2019 financial year, leases of property and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

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

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed monthly lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

GBS Mutual Bank

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and amendments issued not yet effective

The following amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 April 2020. These standards have not been early adopted.

- Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material. These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRS use a consistent definition of materiality through IFRS and the Conceptual Framework for Financial Reporting, clarify the explanation of the definition of material; and incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The effective date of the amendments is annual periods beginning on or after 1 January 2020.

There are no other standards, interpretations or amendments that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

3. 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.

The determination of the Expected Credit Losses (ECL) (refer notes 2.3.1, 16 and 21.4.2) on loans and advances represent the most material assumptions, estimates and judgements applied in preparing these financial statements. The recent outbreak of COVID-19 has significantly affected the South African economy and our industry. The uncertain economic outlook for the period of (and post) the lockdown is expected to have a material adverse effect on our clients' ability to meet their repayment obligations. In light of this uncertainty, management reviewed the assumptions relating to:

- A significant increase in credit risk and credit impaired assets: A payment holiday request for a mortgage advance was assumed to represent a significant increase in credit risk. However, due to the short-term nature of asset-based finance advances, a payment holiday request on an asset-based finance advance was assumed to indicate that the underlying asset had become credit impaired.
- Weightings of the base, up turn and down turn scenarios: The weightings applied to the base, up turn and down turn scenarios were changed from 70%, 10% and 20% respectively to 10%, 10% and 80% respectively.
- Probability of default: For the down turn scenario, the probability of default for stage 1 and stage 2 advances were increased from 1.1 times the base scenario to 1.2 times the base scenario.

Other key management assumptions are made and disclosed in the following areas:

Property and equipment	Notes 2.6 & 8
Retirement benefit obligations	Notes 2.11 & 13
Recoverability of deferred income tax assets	Note 2.10
Impairment of non-financial assets	Note 2.7

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

4. CASH AND CASH EQUIVALENTS

	2020 R'000	2019 R'000
Bank balances	**17 717**	15 797
Short-term deposits	**99 563**	60 538
South African Reserve Bank deposit	**31 558**	30 568
Treasury bills	**73 510**	69 441
Cash on hand	**1 206**	819
	223 554	177 163

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 Limited of R10 000 000 (2019: 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.

Cash and cash equivalents are classified as financial instruments held at amortised cost.

5 . INVESTMENTS

	2020 R'000	2019 R'000
(i) Investments classified as financial instruments held at amortised cost		
Fixed deposits	**42 613**	48 044

The fixed deposits were held with Sasfin Bank and Rand Merchant Bank (2019: Sasfin Bank and Rand Merchant Bank). These financial institutions comply with the Bank's risk management policies of investing with sound, reputable entities.

	2020 R'000	2019 R'000
(ii) Investments classified as financial instruments at fair value through profit or loss		
Opening balance	**124 170**	100 848
Additions	**28 007**	78 433
Withdrawals	**(37 000)**	(69 000)
Fair value adjustment through profit or loss	**(6 647)**	10 567
Interest reinvested	**3 104**	3 277
Dividends reinvested	**72**	45
Closing balance	**111 706**	124 170

5 . INVESTMENTS (CONTINUED)

	2020 R'000	2019 R'000
(iii) Investment in equity instrument		
Opening and closing balance after impairment	–	–
Total investments	**154 319**	172 214

Financial instruments at fair value through profit or loss comprise an investment in an endowment policy with Momentum Wealth; investments in unit trust portfolios with Allan Gray Investment Services and Momentum Collective Investments; Nedgroup Investments; and Investec Bank Limited.

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 821 121 (2019: R6 706 238), are held to partially cover the post-retirement medical obligations in note 13. The Nedgroup Investment is in the Nedgroup Investments Corporate Money Market and Core Income Funds. The funds are reinvested mainly in the large commercial Banks in South Africa. The investment in the Investec Bank Limited non-cumulative non-redeemable preference shares bearing dividends at 83.3% (2019: 83.3%) of the prime overdraft rate, is carried at fair value of R8 600 000 (2019: R13 872 000).

The Bank has an equity investment which consists of a 8.65% (2019: 8.65%) interest in Cape Capital Investment and Finance Company Ltd ("Cape Capital"), incorporated in South Africa. The investment in Cape Capital of R665 770 has been fully impaired in prior financial years, based on the Directors' valuation.

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

6. ADVANCES AND LOANS

	2020 R'000	2019 R'000
Mortgages	**782 993**	755 427
General	**10 576**	11 285
Instalment sales and rentals	**463 341**	424 260
	1 256 910	1 190 972
Impairment provisions (Note 16)	**(37 232)**	(12 957)
	1 219 678	1 178 015

Advances and loans are classified as financial instruments held at amortised cost.

Commitment for the aggregate amount of advances and re-advances granted but not yet paid out:

	2020 R'000	2019 R'000
Rentals	**43 319**	32 126
Mortgages	**44 351**	47 303
	87 670	79 429

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.

	2020 R'000	2019 R'000
Gross amounts due under instalment sale and rental agreements	**545 954**	509 425
Less: Unearned finance income	**(82 613)**	(85 165)
	463 341	424 260

Refer to note 21 for further disclosures regarding credit quality and collateral held.

7. OTHER ASSETS

	2020 R'000	2019 R'000
Sundry debtors	**724**	128

8. PROPERTY AND EQUIPMENT

	OFFICE PREMISES R'000	SOLAR EQUIPMENT R'000	FURNITURE, EQUIPMENT & MOTOR VEHICLES R'000	COMPUTER EQUIPMENT & SOFTWARE R'000	TOTAL R'000
Year ended 31 March 2020					
Opening carrying amount	**72**	**–**	**296**	**2 708**	**3 076**
Revaluation surplus	**8 806**	**–**	**–**	**–**	**8 806**
Additions	**–**	**250**	**106**	**1 287**	**1 643**
Depreciation	**–**	**–**	**(90)**	**(1 128)**	**(1 218)**
Closing carrying amount	**8 878**	**250**	**312**	**2 867**	**12 307**
At 31 March 2020					
Cost / revalued amount	**8 878**	**250**	**760**	**6 128**	**16 016**
Accumulated depreciation	**–**	**–**	**(448)**	**(3 261)**	**(3 709)**
Closing carrying amount	**8 878**	**250**	**312**	**2 867**	**12 307**
Year ended 31 March 2019					
Opening carrying amount	72	–	321	2 773	3 166
Additions	–	–	76	925	1 001
Disposals	–	–	–	(5)	(5)
Depreciation	–	–	(101)	(985)	(1 086)
Closing carrying amount	72	–	296	2 708	3 076
At 31 March 2019					
Cost	72	–	783	5 259	6 114
Accumulated depreciation	–	–	(487)	(2 551)	(3 038)
Closing carrying amount	72	–	296	2 708	3 076

The Bank obtains independent valuations for its office premises between every 3 to 5 years. At the end of the reporting period, the Directors update their assessment of the fair value of office premises, taking into account the most recent independent valuations. The Directors determine the value within a range of fair value estimates.

As described in note 2.1, the office premises were revalued to fair value with effect from 31 March 2020. 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 2020. A fair value of R8 878 000 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

8. 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 and a return on investment of 10% was used. The most significant inputs into this valuation approach are price per square metre and the return on investment. A 10% change in the value of either of these inputs results in a corresponding R888 000 change in the fair value valuation.

A portion of the office premises, being Erf 3782 Grahamstown, is currently not used in its highest and best use as part of the premises is used for storage and the remainder used as a car park for staff and clients.

The historical cost and carrying amount of the office premises at 31 March 2020 was R72 000.

9. LEASES

As described in note 2.1, the Bank implemented IFRS16 with effect from 1 April 2019.

(i) Description of leasing activities
As a lessee, the Bank leases various Banking halls and offices. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

(ii) Amounts recognised in the statement of financial position
The statement of financial position shows the following amounts relating to leases:

	2020 R'000	2019 R'000
Right-of-use assets:		
– Office premises	**1 446**	–
Lease liabilities:		
– Current	**355**	–
– Non-current	**1 167**	–
	1 522	–

Additions to the right-of-use assets during the 2020 financial year were R943 000.

Lease liability maturity analysis – contractual undiscounted cash flows:

	2020 R'000	2019 R'000
Within 1 year	**464**	–
1 to 5 years	**1 314**	–
More than 5 years	**–**	–
	1 778	–

(iii) Amounts recognised in the statement of profit or loss

	2020 R'000	2019 R'000
Depreciation charge	**318**	–
Interest expense	**96**	–
Expenses relating to short-term leases	**166**	–

The total cash outflow for leases in the year end 31 March 2020 was R338 000.

10. 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% (2019: 28%).

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

	2020 R'000	2019 R'000
At beginning of year	1 601	1 963
Credited/(Charged) to the profit or loss component of the statement of profit or loss and other comprehensive income (note 19)	7 976	(134)
Charged directly to other comprehensive income	(2 919)	(228)
At end of year	6 658	1 601

Deferred income tax is attributable to the following items:

	2019 R'000	CREDITED/ (CHARGED) TO PROFIT R'000	CHARGED TO OCI A R'000	2020 R'000
Provisions against advances	1 958	7 981	–	**9 939**
Leave pay accrual	407	44	–	**451**
Deferred income	852	16	–	**868**
Retirement benefit obligations	3 397	201	(537)	**3 061**
Other long-term employee benefits	964	(805)	–	**159**
Other provisions	1 145	(92)	–	**1 053**
Right-of-use assets	–	21	–	**21**
S18A donations carried forward	–	74	–	**74**
Deferred capital gains tax	150	562	–	**712**
Deferred income tax asset	8 873	8 002	(537)	**16 338**
Revaluation surplus	–	–	(2 382)	**(2 382)**
Accelerated depreciation	(114)	(171)	–	**(285)**
Deferred capital gains tax	(617)	617	–	**–**
Rental deals	(6 541)	(472)	–	**(7 013)**
Deferred income tax liability	(7 272)	(26)	(2 382)	**(9 680)**
Net deferred income tax asset	1 601	7 976	(2 919)	**6 658**

A – Other comprehensive income

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

11. SHARE AND OTHER DEPOSITS

	2020 R'000	2019 R'000
Share deposits		
Indefinite period shares	**75 173**	86 040
Subscription shares	**66 435**	61 530
Fixed period shares	**123 390**	111 034
	264 998	258 604
Other deposits		
Fixed and call deposits	**1 187 652**	1 102 500
Savings and transmission deposits	**27 747**	24 115
	1 215 399	1 126 615
Total indefinite period paid-up shares under notice of redemption	**4 213**	4 948

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	Fixed and variable respectively
Savings and transmission deposits	Demand	Variable
Tax free savings	Indefinite, minimum of 7 days	Variable

12. OTHER LIABILITIES

	2020 R'000	2019 R'000
Sundry creditors	**223**	445
Accruals and other liabilities	**5 448**	9 473
South African Revenue Services – VAT	**1 046**	35
Deferred income	**3 101**	3 044
	9 818	12 997

GBS Mutual Bank

13. RETIREMENT BENEFIT OBLIGATIONS

	2020 R'000	2019 R'000
The Bank's retirement obligations are summarised as follows:		
Post-retirement healthcare obligation	**10 370**	11 571
Pension liability	**559**	559
	10 929	12 130

	2020	2019
(i) Post-retirement healthcare obligation		
The main actuarial assumptions used in the calculation of the healthcare obligation were:		
– Discount rate	**12.90%**	10.15%
– Medical cost inflation	**8.50%**	7.60%
– Net discount rate	**4.06%**	2.37%
– Normal retirement age	**63**	63

	R'000	R'000
The movement in the defined benefit obligation over the year is as follows:		
At beginning of year	**11 571**	11 733
Current service cost	**243**	260
Interest cost	**1 141**	1 027
Remeasurement gain	**(1 918)**	(815)
Employer benefit payments	**(667)**	(634)
At end of year	**10 370**	11 571
Expected contributions to the retirement benefit obligations for the year ended 31 March 2021 are anticipated to be R720 000.		
Amounts recognised in the statement of profit or loss and other comprehensive income:		
– Interest cost	**1 141**	1 027
– Current service cost	**243**	260
	1 384	1 287

GBS Mutual Bank

13. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2020 R'000	2019 R'000
The remeasurement gain recognised in other comprehensive income is as follows:		
Gain due to changes in financial assumptions	**(2 133)**	(1 486)
Experience loss for the year	**19**	110
Loss due to demographic adjustments	**196**	561
	(1 918)	(815)

Included in investments held at fair value (note 5) is an investment with a carrying amount of R5 821 121 (2019: R6 706 238) 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", "interest income" and "dividend income" in the statement of profit or loss and other comprehensive income.

	2020	2019
Post-retirement mortality tables: PA90-2 (Retired members) and SA 85-90 (Lite) (In-service employees):		
– Average number of members:		
In-service employees	**11**	11
Retired members	**18**	18
	29	29
– Average age of members:		
In-service employees	**56**	55
Retired members	**78**	77

	R'000	R'000
The Bank's retirement obligations are summarised as follows:		
Active members	**4 329**	4 886
Pensioners	**6 041**	6 685
	10 370	11 571

The weighted average duration of the benefit obligation is 10.8 years (2019: 12.4 years).

13. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	INCREASE IN ASSUMPTION AND INCREASE/ (DECREASE) IN OBLIGATION R'000	DECREASE IN ASSUMPTION AND DECREASE/ (INCREASE) IN OBLIGATION R'000
1% change in health cost inflation	1 076	924
1% change in discount rate	(907)	(1 069)
1 year change in retirement age	(438)	(474)
1 year change in average age	(334)	(334)

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 statement of financial position.

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:

- CPI and Health care cost inflation: The risk that CPI and therefore future healthcare cost inflation is higher than expected will lead to higher liabilities.
- Longevity: The employer's subsidy covers the post-employment medical scheme contributions in retirement until the main pensioner's death. The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.
- Cash flow risk: The risk to the employer that, due to unforeseen circumstances, funds may not be available at the time that they are required.
- Changes in bond yields: A decrease in the bond yields used to determine the discount rate will increase the employer's reported post-employment health care liability. High volatility in the bond yields used to determine the discount rate may lead to volatile statement of financial position and statement of profit or loss and other comprehensive income disclosures.
- Future changes in legislation: The Government's stated intention to implement a National Health Insurance system in the near future may lead to a requirement to provide some level of compensation to eligible members or to fund additional amounts into the system. Changes in tax legislation affecting the subsidy may also pose a risk to both the employer and the recipients of the subsidy.

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

13. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(ii) Pension liability
The main assumptions used to calculate the Bank's liability in respect of unfunded pension obligations were a discount rate of 4.85% (2019: 6.93%) and life expectancies based on actuarial life expectancy tables (refer note 2.11). There are 4 former employees and spouses included in this plan, with an average age of 86 years.

There was no movement in the pension liability.

	2020 R'000	2019 R'000
At beginning and end of year	**559**	559

(iii) 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 46 (2019: 42) members and contributions for the year amounted to R1 688 904 (2019: R3 252 169).

14. OTHER LONG-TERM EMPLOYEE BENEFITS

	2020 R'000	2019 R'000
Service awards		
At beginning of year	**1 511**	1 221
Additional provision charged to statement of profit or loss and other comprehensive income	**348**	306
Amount utilised against provision	**(5)**	(16)
At end of year	**1 854**	1 511

The main assumptions used to calculate the Bank's liability in respect of service awards were a discount rate of 9.19% (2019: 9.27%), estimated salary increases of 6.5% (2019: 7%) and staff turnover of 0% (2019: 10%).

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 63 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

15. INTEREST

	2020 R'000	2019 R'000
(i) Interest income		
Mortgages	**78 645**	74 690
General advances	**1 298**	1 410
Instalment sales and rentals	**53 827**	48 328
Investments	**17 424**	16 306
Other	**291**	249
	151 485	140 983
(ii) Interest expense		
Fixed deposits	**88 356**	79 311
Tax free savings	**463**	314
Savings deposits	**1 133**	1 107
Indefinite period paid-up shares	**6 599**	7 120
Subscription shares	**5 019**	4 753
Fixed period shares	**9 811**	10 366
Interest on lease liabilities	**96**	–
Other	**–**	6
	111 477	102 977

16. CREDIT IMPAIRMENT LOSSES

	2020 R'000	2019 R'000
Balance at beginning of year	**(12 957)**	(16 949)
Amount utilised	**334**	5 022
Charge to statement of profit or loss and other comprehensive income	**(24 609)**	(1 030)
Recovery of amounts previously written off / provided for	**162**	3 580
Current year provision	**(24 771)**	(4 610)
Balance at end of year	**(37 232)**	(12 957)
Analysis		
Provisions against non-performing advances	**(29 922)**	(7 336)
Provision against performing advances	**(7 310)**	(5 621)
	(37 232)	(12 957)

GBS Mutual Bank

17. FEE AND COMMISSION INCOME

	2020 R'000	2019 R'000
Fee income	**3 609**	3 690
Commission income	**178**	159
	3 787	3 849

18. OPERATING EXPENSES

	2020 R'000	2019 R'000
Operating expenses totalled R34 619 000 (2019: R39 465 000) and include the following items:		
Auditors' remuneration		
– audit fees	**1 316**	1 520
– fees for other services	**61**	213
	1 377	1 733
Depreciation	**1 536**	1 086
Software development costs expensed	**–**	827
Office rental expense	**166**	447
Computer expenses	**2 201**	1 897
Staff remuneration and related personnel costs	**17 187**	19 105
Directors' emoluments		
Executive Directors		
– salaries and benefits	**3 429**	3 086
Non-Executive Directors		
– for services and consulting fees	**1 547**	1 466
	4 976	4 552

GBS Mutual Bank

19. INCOME TAX CREDIT/(EXPENSE)

South African normal taxation	2020 R'000	2019 R'000
Current tax		
– current year	**(1 910)**	(111)
– prior year	**(363)**	–
Deferred tax		
– current year	**7 596**	(134)
– prior year	**380**	–
	5 703	(245)

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

	2020 R'000	2019 R'000
(Loss)/profit before income tax	**(21 329)**	12 636
Tax calculated thereon at 28% (2019: 28%)	**5 972**	(3 538)
Tax effect of:		
Prior year overprovision	**17**	–
Income not subject to tax	**429**	3 378
Expenses not deductible for tax	**(715)**	(85)
Tax credit/(charge)	**5 703**	(245)

GBS Mutual Bank

20. 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 and key management personnel. The definition of key management includes the close family members of key management personnel. These are limited to their domestic partners.

A number of Banking transactions are entered into with related parties in the normal course of business. These include advances and deposits. Details of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2020 R'000	2019 R'000
Directors and key management		
Advances and loans		
Advances and loans outstanding at end of year	**2 802**	3 280
No specific provision for impairment has been recognised in respect of advances and loans provided to related parties (2019: R Nil).		
Deposits		
Deposits at end of year	**8 657**	7 832
Other expenses		
Key management compensation		
– Short-term employee and consulting benefits	**5 701**	5 073
– Post-employment benefits	**534**	547
Non-executive Directors' fees		
– for services	**1 547**	1 466
	7 782	7 086

GBS Mutual Bank

21. FINANCIAL RISK MANAGEMENT

21.1 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 are consistent with those of the prior year.

21.2 FAIR VALUE ESTIMATION

The carrying amounts less the impairment provisions of all financial assets not carried at fair value, are assumed to approximate their fair values. The carrying amounts 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 R1 506 745 000, compared to a carrying amount of R1 480 397 000, due to the fact that certain share and other deposits (note 11) are issued at a fixed rate lower than current market rates as they were issued in prior years (2019: fair value of R1 412 480 000, compared to a carrying amount of R1 385 219 000).

IFRS 13 requires the disclosure of fair value measurements in accordance with 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 liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
– Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 March 2020:

	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
(i) Financial assets at fair value through profit or loss			
Investments (note 5)	8 600	103 106	–

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 preference shares is determined by reference to the quoted bid price, due to the fact that these investments are listed equities.

The following table presents the Bank's assets and liabilities that are measured at amortised cost at 31 March 2020:

	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
(ii) Financial assets at amortised cost			
Advances and loans (note 6)	–	–	1 256 910

GBS Mutual Bank

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.2 FAIR VALUE ESTIMATION (CONTINUED)

Fair value is determined using a valuation tecÚique 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 credit movement 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 statement of financial position. All rates on advances and loans are variable and were market related at the time of grant.

	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
(iii) Non-financial assets measured at fair value			
Office premises (note 8)	–	–	8 878

Refer to note 8 for a full description of the valuation method used to arrive at the fair value of office premises.

	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
(iv) Liabilities at amortised cost			
Share and other deposits (note 11)	–	–	1 506 745

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.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.3 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 50% of first tier capital. The capital adequacy ratio of all Banks is monitored by the Prudential Authority.

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 13,4% (2019: 14,0%).

21.4 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.

21.4.1 CREDIT RISK MEASUREMENT

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Bank measures credit risk using estimates of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 21.4.2 for more details.

21.4.2 EXPECTED CREDIT LOSS MEASUREMENT

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to note 21.4.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Refer to note 21.4.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Refer to note 21.4.2.3 for a description of inputs, assumptions and estimation tecÚiques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 21.4.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).
- Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 21.4.2.5).

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.2 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

CHANGE IN CREDIT QUALITY SINCE INITIAL RECOGNITION

STAGE 1	STAGE 2	STAGE 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12 month expected credit losses	Life expected credit loss	Life expected credit loss

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

21.4.2.1 SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

(i) Quantitative criteria

The remaining Lifetime PD at the reporting date has increased, compared to the residual Lifetime PD expected at the reporting date when the exposure was first recognised, so that it exceeds the relevant threshold per the table below:

LIFETIME PD AT INITIAL RECOGNITION	INCREASE IN LIFETIME PD AT REPORTING DATE WHICH IS CONSIDERED SIGNIFICANT
Asset-based finance rentals and instalment sales	
7.5%	27.5%
Mortgage loans	
5%	30%

(ii) Qualitative criteria

If the borrower meets one or more of the following criteria:

- In short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted;
- A payment holiday request relating to a mortgage loan has been received (refer note 3); or
- Previous arrears within the last 12 months.

The assessment of SICR incorporates forward-looking information (refer to note 21.4.2.4) and is performed on a quarterly basis at a portfolio level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by management.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.2.1 SIGNIFICANT INCREASE IN CREDIT RISK (SICR) (CONTINUED)

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

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2020.

Refer to note 21.4.2.4 for a sensitivity analysis of the impact on ECL of changing the PDs thresholds.

21.4.2.2 DEFINITION OF DEFAULT AND CREDIT-IMPAIRED ASSETS

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

(i) Quantitative criteria
The borrower is more than 90 days past due on its contractual payments.

(ii) Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty including receipt of a payment holiday request for an asset-based finance loan (refer note 3); or
- It is becoming probable that the borrower will enter bankruptcy.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

21.4.2.3 MEASURING ECL - EXPLANATION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- The EAD is the amount the Bank expects to be owed at the time of default, during the next 12 months (12M EAD) or the remaining lifetime (Lifetime EAD).
- The Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.2.3 MEASURING ECL - EXPLANATION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES (CONTINUED)

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

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment assumptions are also incorporated into the calculation.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 21.4.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed periodically by management.

Except for the changes described in note 3, there have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

21.4.2.4 FORWARD LOOKING INFORMATION INCORPORATED INTO THE ECL MODELS

The assessment of SICR and the calculation of ECL both incorporate forward-looking information.

In addition to the base economic scenario, the Bank has also considered other possible scenarios along with scenario weightings at 1 April 2019 and 31 March 2020.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.2.4 FORWARD LOOKING INFORMATION INCORPORATED INTO THE ECL MODELS (CONTINUED)

(i) Economic variable assumptions
The most significant period-end assumptions used for the ECL estimate relate to the PDs as disclosed below (also refer note 3):

1 APRIL 2019 AND 31 MARCH 2020	BASE SCENARIO	UP-TURN	DOWN-TURN
Asset-based finance rentals and instalment sales			
Stage 1	7.5%	6.75%	9%
Stage 2	35%	31.5%	42%
Mortgages			
Stage 1	5%	4.5%	6%
Stage 2	35%	31.5%	42%

1 APRIL 2018 AND 31 MARCH 2019	BASE SCENARIO	UP-TURN	DOWN-TURN
Asset-based finance rentals and instalment sales			
Stage 1	7.5%	6.75%	8.25%
Stage 2	35%	31.5%	38.5%
Mortgages			
Stage 1	5%	4.5%	5.5%
Stage 2	35%	31.5%	38.5%

The weightings assigned to each economic scenario were as follows:

	BASE SCENARIO	UP-TURN	DOWN-TURN
Whole portfolio: 1 April 2019 and 31 March 2020	10%	10%	80%
Whole portfolio: 1 April 2018 and 31 March 2019	70%	10%	20%

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.2.4 FORWARD LOOKING INFORMATION INCORPORATED INTO THE ECL MODELS (CONTINUED)

The changes to the down-turn PDs and weightings assigned to each economic scenario in the current financial year were as a result of the decline in future economic outlook (refer note 3).

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness periodically.

(ii) Sensitivity analysis
Set out below are the effects on the ECL as at 31 March 2020 that would result from reasonably possible changes in these parameters:

	TOTAL ECL ALLOWANCE	DIFFERENCE TO WEIGHTED ECONOMIC SCENARIO	PERCENTAGE DIFFERENCE TO WEIGHTED AVERAGE SCENARIO
Weighted economic scenario	37 232	–	
Base	36 485	(747)	-2.1%
Up-turn	36 000	(1 232)	-3.5%
Down-turn	37 480	248	0.7%

21.4.2.5 GROUPING OF INSTRUMENTS FOR LOSSES MEASURED ON A COLLECTIVE BASIS

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The characteristics and any supplementary data used to determine groupings are outlined below:

- Credit rating band
- Product type

All stage 3 loans are assessed individually.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.3 MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL HELD

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of the financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
2020	R'000	R'000	R'000	R'000
Rental Agreements				
Gross carrying amount	**325 974**	**6 215**	**101 769**	**433 958**
Loss allowance	**(2 231)**	**(2 358)**	**(24 837)**	**(29 426)**
Carrying amount	**323 743**	**3 857**	**76 932**	**404 532**
Collateral held	**51 271**	**1 166**	**16 323**	**68 760**
Instalment sale agreements				
Gross carrying amount	**20 437**	**1 026**	**7 920**	**29 383**
Loss allowance	**(241)**	**(105)**	**(3 765)**	**(4 111)**
Carrying amount	**20 196**	**921**	**4 155**	**25 272**
Collateral held	**3 951**	**177**	**1 410**	**5 538**
Mortgages				
Gross carrying amount	**506 408**	**256 532**	**20053**	**782 993**
Loss allowance	**(175)**	**(2 200)**	**(1 320)**	**(3 695)**
Carrying amount	**506 233**	**254 332**	**18 733**	**779 298**
Collateral held	**464 548**	**234 553**	**17 999**	**717 100**

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
2019	R'000	R'000	R'000	R'000
Rental Agreements				
Gross carrying amount	374 735	10 887	6 196	391 818
Loss allowance	(3 669)	(952)	(3 993)	(8 614)
Carrying amount	371 066	9 935	2 203	383 204
Collateral held	61 584	1 561	541	63 686
Instalment sale agreements				
Gross carrying amount	30 081	1 428	933	32 442
Loss allowance	(463)	(165)	(717)	(1 345)
Carrying amount	29 618	1 263	216	31 097
Collateral held	6 845	121	109	7 075
Mortgages				
Gross carrying amount	720 262	12 210	22 955	755 427
Loss allowance	(306)	(66)	(2 626)	(2 998)
Carrying amount	719 956	12 144	20 329	752 429
Collateral held	663 733	11 462	20 148	695 343

The Bank analyses its exposure to credit risk of financial instruments for which an ECL is not recognised 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 that have been specifically provided for.

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 depreciated over 10 years and a haircut value of 40% for commercial and 35% for residential mortgages is applied.
- Instalment sales and rentals: the original cost of the asset is depreciated by 30% in each of the first two months and thereafter on a reducing balance over the remaining tax life. A haircut value of 40% is applied.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

	2020 R'000	2019 R'000
Gross	**10 576**	11 285
Performing advances	**10 576**	11 285
Estimated value of collateral held	**(10 576)**	(11 285)
Estimated exposure to credit risk	**–**	–

In the 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, personal and entity sureties;
- Instalment sales and rentals: Assets financed, personal and entity sureties;
- 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.

The Bank is permitted to sell and repledge all collateral it holds as security against advances. During the 2020 and 2019 financial years, the Bank did not recognise any collateral it held as security against advances, as an asset of the Bank.

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

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

21.4.4 LOSS ALLOWANCE

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Write-offs of allowances related to assets that were written off during the period (see note 21.4.5).

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

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
RENTAL AGREEMENTS	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	3 198	555	5 423	9 176
Transfers				
Transfer from Stage 1 to Stage 2	(518)	790	–	272
Transfer from Stage 1 to Stage 3	(437)	–	1 739	1 302
Transfer from Stage 2 to Stage 3	–	(126)	640	514
Transfer from Stage 3 to Stage 2	–	3	(67)	(64)
Transfer from Stage 3 to Stage 1	68	–	(1 064)	(996)
Transfer from Stage 2 to Stage 1	23	(85)	–	(62)
Decrease in allowance with no change in stage	(607)	(113)	(113)	(833)
New financial assets originated	2 159	–	–	2 159
Financial assets de-recognised	(217)	(72)	(2 565)	(2 854)
Loss allowance as at 31 March 2019	3 669	952	3 993	8 614
Adjustment: Change in assumptions	194	(131)	–	63
Transfers				
Transfer from Stage 1 to Stage 2	(200)	2 263	–	2 063
Transfer from Stage 1 to Stage 3	(9 125)	–	22 084	12 959
Transfer from Stage 2 to Stage 3	–	(292)	972	680
Transfer from Stage 3 to Stage 2	–	9	(136)	(127)
Transfer from Stage 3 to Stage 1	5	–	(92)	(87)
Transfer from Stage 2 to Stage 1	59	(340)	–	(281)
Decrease in allowance with no change in stage	(1 351)	(65)	(839)	(2 255)
New financial assets originated	9 301	–	–	9 301
Financial assets de-recognised	(321)	(38)	(1 145)	(1 504)
Loss allowance as at 31 March 2020	**2 231**	**2 358**	**24 837**	**29 426**

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
INSTALMENT SALE AGREEMENTS	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	372	105	5 499	5 976
Transfers				
Transfer from Stage 1 to Stage 2	(49)	161	–	112
Transfer from Stage 1 to Stage 3	(165)	–	448	283
Transfer from Stage 2 to Stage 3	–	(39)	199	160
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 1	15	(46)	–	(31)
Decrease in allowance with no change in stage	(106)	(16)	(27)	(149)
New financial assets originated	431	–	–	431
Financial assets de-recognised	(35)	–	(5 402)	(5 437)
Loss allowance as at 31 March 2019	463	165	717	1 345
Adjustment: Change in assumptions	20	(18)	–	2
Transfers				
Transfer from Stage 1 to Stage 2	(40)	69	–	29
Transfer from Stage 1 to Stage 3	(831)	–	3 235	2 404
Transfer from Stage 2 to Stage 3	–	(31)	140	109
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 1	1	(10)	–	(9)
Decrease in allowance with no change in stage	(155)	(36)	(263)	(454)
New financial assets originated	831	–	–	831
Financial assets de-recognised	(48)	(34)	(64)	(146)
Loss allowance as at 31 March 2020	**241**	**105**	**3 765**	**4 111**

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
MORTGAGES	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	314	118	1 365	1 797
Transfers				
Transfer from Stage 1 to Stage 2	(4)	49	–	45
Transfer from Stage 1 to Stage 3	(2)	–	552	550
Transfer from Stage 2 to Stage 3	–	(118)	1 106	988
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
(Decrease)/Increase in allowance with no change in stage	(65)	17	(397)	(445)
New financial assets originated	68	–	–	68
Financial assets de-recognised	(5)	–	–	(5)
Loss allowance as at 31 March 2019	306	66	2 626	2 998
Adjustment: Change in assumptions	(7)	(10)	–	(17)
Transfers				
Transfer from Stage 1 to Stage 2	(381)	2 142	–	1 761
Transfer from Stage 1 to Stage 3	(222)	–	225	3
Transfer from Stage 2 to Stage 3	–	(15)	147	132
Transfer from Stage 3 to Stage 2	–	34	(395)	(361)
Transfer from Stage 3 to Stage 1	–	–	(685)	(685)
Transfer from Stage 2 to Stage 1	–	–	–	–
Decrease in allowance with no change in stage	(57)	(16)	(316)	(389)
New financial assets originated	547	–	–	547
Financial assets de-recognised	(11)	(1)	(282)	(294)
Loss allowance as at 31 March 2020	**175**	**2 200**	**1 320**	**3 695**

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

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

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
RENTAL AGREEMENTS	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	340 081	5 666	6888	352 635
Transfers				
Transfer from Stage 1 to Stage 2	(10 231)	8 770	–	(1 461)
Transfer from Stage 1 to Stage 3	(3 713)	–	2875	(838)
Transfer from Stage 2 to Stage 3	–	(1 386)	1 273	(113)
Transfer from Stage 3 to Stage 2	–	37	(76)	(39)
Transfer from Stage 3 to Stage 1	975	–	(1 423)	(448)
Transfer from Stage 2 to Stage 1	607	(1 039)	–	(432)
Decrease in carrying amount with no change in stage	(88 462)	(659)	(455)	(89 576)
New financial assets originated	161 069	–	–	161 069
Financial assets de-recognised	(25 591)	(502)	(2 886)	(28 979)
Gross carrying amount as at 31 March 2019	374 735	10 887	6 196	391 818
Transfers				
Transfer from Stage 1 to Stage 2	(4 827)	4 518	–	(309)
Transfer from Stage 1 to Stage 3	(114 552)	–	95 477	(19 075)
Transfer from Stage 2 to Stage 3	–	(3 899)	2 879	(1 020)
Transfer from Stage 3 to Stage 2	–	104	(190)	(86)
Transfer from Stage 3 to Stage 1	70	–	(108)	(38)
Transfer from Stage 2 to Stage 1	3 384	(4 792)	–	(1 408)
Decrease in carrying amount with no change in stage	(81 563)	(444)	(279)	(82 286)
New financial assets originated	178 253	–	–	178 253
Financial assets de-recognised	(29 526)	(159)	(2 206)	(31 891)
Gross carrying amount as at 31 March 2020	**325 974**	**6 215**	**101 769**	**433 958**

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
INSTALMENT SALE AGREEMENTS	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	29 199	774	6 870	36 843
Transfers				
Transfer from Stage 1 to Stage 2	(1 858)	1 333	–	(525)
Transfer from Stage 1 to Stage 3	(719)	–	570	(149)
Transfer from Stage 2 to Stage 3	–	(222)	256	34
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 1	225	(298)	–	(73)
Decrease in carrying amount with no change in stage	(7 374)	(159)	–	(7 533)
New financial assets originated	16 043	–	–	16 043
Financial assets de-recognised	(5 435)	–	(6 763)	(12 198)
Gross carrying amount as at 31 March 2019	30 081	1 428	933	32 442
Transfers				
Transfer from Stage 1 to Stage 2	(722)	627	–	(95)
Transfer from Stage 1 to Stage 3	(9 487)	–	6 963	(2 524)
Transfer from Stage 2 to Stage 3	–	(298)	255	(43)
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 1	44	(123)	–	(79)
Decrease in carrying amount with no change in stage	(6 195)	(174)	(160)	(6 529)
New financial assets originated	10 313	–	–	10 313
Financial assets de-recognised	(3 597)	(434)	(71)	(4 102)
Gross carrying amount as at 31 March 2020	**20 437**	**1 026**	**7 920**	**29 383**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.4 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
MORTGAGES	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	669 546	23 794	9 389	702 729
Transfers				
Transfer from Stage 1 to Stage 2	(12 425)	9 369	–	(3 056)
Transfer from Stage 1 to Stage 3	(8 997)	–	9 452	455
Transfer from Stage 2 to Stage 3	–	(6 799)	7 125	326
Transfer from Stage 3 to Stage 2	–	6	(9)	(3)
Transfer from Stage 3 to Stage 1	87	–	(1 030)	(943)
Transfer from Stage 2 to Stage 1	9 874	(10 508)	–	(634)
Decrease in carrying amount with no change in stage	(13 185)	(275)	(117)	(13 577)
New financial assets originated	95 174	–	–	95 174
Financial assets de-recognised	(19 812)	(3 377)	(1 855)	(25 044)
Gross carrying amount as at 31 March 2019	720 262	12 210	22 955	755 427
Transfers				
Transfer from Stage 1 to Stage 2	(243 337)	246 287	–	2 950
Transfer from Stage 1 to Stage 3	(6 648)	–	6 485	(163)
Transfer from Stage 2 to Stage 3	–	(2 042)	2622	580
Transfer from Stage 3 to Stage 2	–	1 370	(1 401)	(31)
Transfer from Stage 3 to Stage 1	5 674	–	(5 646)	28
Transfer from Stage 2 to Stage 1	675	(720)	–	(45)
Decrease in carrying amount with no change in stage	(24 218)	(446)	(212)	(24 876)
New financial assets originated	95 007	–	–	95 007
Financial assets de-recognised	(41 007)	(127)	(4 750)	(45 884)
Gross carrying amount as at 31 March 2020	**506 408**	**256 532**	**20 053**	**782 993**

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4.5 WRITE-OFF POLICY

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

21.4.6 GEOGRAPHICAL CONCENTRATION OF CREDIT RISK

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

2020	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
Mortgage loans	**74**	**25**	**1**	**100**
General	**95**	**5**	**–**	**100**
Instalment sales and rentals	**21**	**52**	**27**	**100**
ECL stage 3 impairment provision	**32**	**26**	**42**	**100**

2019	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
Mortgage loans	74	24	2	100
General	84	16	–	100
Instalment sales and rentals	24	46	30	100
ECL stage 3 impairment provision	81	4	15	100

21.5 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 (refer note 5).

21.5.1 INTEREST RATE RISK

Interest rate risk is the risk that the Bank's financial performance and 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 R7 176 000 (2019: R6 879 000) per annum and a 1% decrease is expected to reduce pre-tax net margins by R7 250 000 (2019: R6 965 000) 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.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.5.1 INTEREST RATE RISK (CONTINUED)

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

2020	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	**1 364 210**	**71 235**	**25 435**	**111 706**
Liabilities	**(276 776)**	**(248 864)**	**(512 400)**	**(337 658)**
Other	–	–	–	**(196 888)**
	1 087 434	**(177 629)**	**(486 965)**	**(422 840)**

2019	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	1 273 280	68 206	37 909	124 169
Liabilities	(263 691)	(217 454)	(460 562)	(349 767)
Other	–	–	–	(212 090)
	1 009 589	(149 248)	(422 653)	(437 688)

21.5.2 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.

	2020 R'000	2019 R'000
Endowment Policy	**49 886**	50 195
Preference Shares	**8 600**	13 872
Nedgroup Investments Core Income Fund	**21 502**	15 086
Nedgroup Investments Cash Solution	**25 897**	38 311
Medical Investment	**5 821**	6 706
	111 706	124 170

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.5.2 PRICE RISK (CONTINUED)

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.

	2020 %	2019 %
Equities	**71**	84
Cash	**2**	2
Bonds	**6**	5
Property	**19**	6
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 83.3% (2019: 83.3%) 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.

Nedgroup Investments Core Income Fund
The portfolio aims to preserve capital, but provide returns in excess of that offered by a traditional money market portfolio. The mandate is, however, more flexible and the average portfolio duration will be longer than that of traditional money market portfolios. Consequently, the liquidity of this portfolio is less than that of a traditional money market portfolio.

Nedgroup Investments Cash Solution
The fund is a money market fund that invests only in the highest quality paper available with a maximum exposure to any counter-party of 25%. The Nedgroup Investments Corporate Money Market Fund aims to maximize interest income while protecting the initial capital and providing immediate liquidity to investors by investing in short-term money market instruments of the highest quality. The portfolio may be invested in instruments issued by large domestic Banks, namely ABSA, Standard Bank, First National Bank, NedBank and any other domestic Bank that is rated F1+ or better, and local branches of foreign Banks with an AA or better rating. The Corporate Money Market Fund may also invest in South African government debt, instruments explicitly guaranteed by the South African Government and with the South African Reserve Bank.

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 broadly similar to those reflected above in the Endowment Policy.

21.6 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.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

21.6 LIQUIDITY RISK (CONTINUED)

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 our 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 tables in note 23 provide details on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities, using historical data, on a discounted and undiscounted basis.

21.7 FOREIGN EXCHANGE RISK

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

22. COMMITMENTS

(i) Operating lease commitments with the Bank as a lessee
The Bank leased various offices under operating lease agreements. Below are the future minimum lease payments under these non-cancellable operating leases:

	2019 R'000
No later than 1 year	349
Later than 1 year and no later than 5 years	687
	1 036

(ii) Operating lease commitments with the Bank as a lessor
Until 31 January 2020, the Bank leased a portion of the head office premises. The future minimum lease receipts under this non-cancellable operating lease were:

	2020 R'000	2019 R'000
No later than 1 year	–	45

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

23. LIQUIDITY RISK ANALYSIS

The tables on pages 66 to 69 provide detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities.

24. EVENTS AFTER THE REPORTING PERIOD

In terms of IAS 10 Events after the reporting period, adjusting events after the reporting period are those that provide evidence of conditions that existed at the end of the reporting period.

Management have concluded that the receipt of payment holiday requests after 31 March 2020 up until the date these financial statements were authorised for issue represents an adjusting event after the reporting period. Adjustments up to 30 April 2020 have been incorporated in the financial statements. Refer to note 3 for more information on how these requests were accounted for.

25. GOING CONCERN

The Directors have considered the Bank's four-year profit forecasts, the capital adequacy buffer that exists and the extent of the large liquidity surplus to assess the viability of the Bank to continue as a going concern. Based on their assessment the Directors have no reason to believe that the Bank will not continue as a going concern in the foreseeable future.

As part of their assessment the Directors considered the following uncertainties.

- As explained in the Report of the Directors and in note 3, the recent outbreak of COVID-19 has significantly affected the South African economy and our industry. It is anticipated that the COVID-19 pandemic may therefore impact the Bank's profitability for the year ending 31 March 2021. It is however not possible to make an accurate estimate of its full financial effect for the year ahead as the virus's infection rate and impact on macro-economic conditions is fluid.
- The uncertain economic outlook for the period of (and post) the lockdown is expected to have an adverse effect on our clients' ability to meet their repayment obligations. Credit extension may also be impacted by the pandemic due to lower client affordability. The default rates and default recovery rates used in the measurement of expected credit loss provisions and the credit impairment charge could be significantly impacted due to repayment delays and/or requests to extend loan repayments. There is no historic data to relate the predicted stress of the pandemic (low interest rates and inflation with low GDP and higher unemployment) on default rates. The predicted extent of the stress varies widely. There is no reliable or representative credit risk data going back that far for any South African bank.
- Lower credit extension will impact on the funds dispensed to advance loans. However, lower GDP growth and higher unemployment rates could stunt growth in deposits as clients have less money available to save. The Bank may therefore experience fluctuations in the excess cash available to invest. Investment income will be impacted by lower interest rates and interest paid to clients will be affected by the change in savings behaviour and lower interest rates.

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

23. LIQUIDITY RISK ANALYSIS (CONTINUED)

The table below provides detail on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities:

2020 Discounted Maturity	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	–	89 609	27 671	–	–	117 280
Cash: SA Reserve Bank balance	–	–	–	–	31 558	31 558
Cash: Treasury bills	–	29 903	43 607	–	–	73 510
Cash: Cash on hand	1 206	–	–	–	–	1 206
Advances: Mortgage	–	160	352	407	782 074	782 993
Advances: General	–	7 350	1 445	471	1 310	10 576
Advances: Instalment sales and rentals	–	2 683	3 428	12 759	444 471	463 341
Investments: Fixed Deposits	–	–	17 178	25 435	–	42 613
Investments: Other	103 106	–	–	–	–	103 106
Investments: Investec Securities	8 600	–	–	–	–	8 600
Sundry Debtors	–	724	–	–	–	724
	112 912	130 429	93 681	39 072	1 259 413	1 635 507
Financial Liabilities						
Deposits	(16 723)	(272 606)	(280 531)	(397 328)	(513 209)	(1 480 397)
Lease Liabilities	–	(28)	(140)	(187)	(1 167)	(1 522)
Sundry Creditors	–	(2 956)	–	–	–	(2 956)
	(16 723)	(275 590)	(280 671)	(397 515)	(514 376)	(1 484 875)
Total recognised financial instruments	96 189	(145 161)	(186 990)	(358 443)	745 037	150 632
Financial guarantees	–	–	(43 742)	–	–	(43 742)
Irrevocable unutilised facilities	–	(8 175)	–	(37 454)	–	(45 629)
Total unrecognised financial instruments	–	(8 175)	(43 742)	(37 454)	–	(89 371)
Net inflow/(outflow)	96 189	(153 336)	(230 732)	(395 897)	745 037	61 261

GBS Mutual Bank

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

23. LIQUIDITY RISK ANALYSIS (CONTINUED)

2020 Undiscounted (statement of financial position values with impact of future interest)	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	DISCOUNTING EFFECT R'000	TOTAL R'000
Financial Assets							
Cash: Bank balances and deposits	–	89 747	27 926	–	–	(393)	117 280
Cash: SA Reserve Bank balance	–	–	–	–	31 558	–	31 558
Cash: Treasury bills	–	30 000	44 000	–	–	(490)	73 510
Cash: Cash on hand	1 206	–	–	–	–	–	1 206
Advances: Mortgage	–	160	364	442	1 750 570	(968 543)	782 993
Advances: General	–	7 384	1 492	510	1 925	(735)	10 576
Advances: Instalment sales and rentals	–	2 697	3 550	13 908	617 681	(174 495)	463 341
Investments: Fixed Deposits	–	–	17 381	27 000	–	(1 768)	42 613
Investments: Other	103 106	–	–	–	–	–	103 106
Investments: Investec Securities	8 600	–	–	–	–	–	8 600
Sundry Debtors	–	724	–	–	–	–	724
	112 912	130 712	94 713	41 860	2 401 734	(1 146 424)	1 635 507
Financial Liabilities							
Deposits	(16 723)	(272 855)	(287 062)	(420 982)	(619 411)	136 636	(1 480 397)
Lease Liabilities	–	(38)	(188)	(238)	(1 314)	256	(1 522)
Sundry Creditors	–	(2 956)	–	–	–	–	(2 956)
	(16 723)	(275 849)	(287 250)	(421 220)	(620 725)	136 892	(1 484 875)
Total recognised financial instruments	96 189	(145 137)	(192 537)	(379 360)	1 781 009	(1 009 532)	150 632
Financial guarantees	–	–	(43 742)	–	–	–	(43 742)
Irrevocable unutilised facilities	–	(8 175)	–	(37 454)	–	–	(45 629)
Total unrecognised financial instruments	–	(8 175)	(43 742)	(37 454)	–	–	(89 371)
Net inflow/(outflow)	96 189	(153 312)	(236 279)	(416 814)	1 781 009	(1 009 532)	61 261

23. LIQUIDITY RISK ANALYSIS (CONTINUED)

2019

Discounted Maturity	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	–	39 556	36 779	–	–	76 335
Cash: SA Reserve Bank balance	–	–	–	–	30 568	30 568
Cash: Treasury bills	–	19 926	49 515	–	–	69 441
Cash: Cash on hand	819	–	–	–	–	819
Advances: Mortgage	–	129	416	144	754 738	755 427
Advances: General	–	7 291	627	556	2 811	11 285
Advances: Instalment sales and rentals	–	2 315	4 664	12 316	404 965	424 260
Investments: Fixed Deposits	–	–	27 588	20 456	–	48 044
Investments: Other	110 298	–	–	–	–	110 298
Investments: Investec Securities	13 872	–	–	–	–	13 872
Sundry Debtors	–	128	–	–	–	128
	124 989	69 345	119 589	33 472	1 193 082	1 540 477
Financial Liabilities						
Deposits	(14 887)	(261 044)	(204 349)	(382 572)	(522 367)	(1 385 219)
Sundry Creditors	–	(5 976)	–	–	–	(5 976)
	(14 887)	(267 020)	(204 349)	(382 572)	(522 367)	(1 391 195)
Total recognised financial instruments	110 102	(197 675)	(84 760)	(349 100)	670 715	149 282
Financial guarantees	–	–	(31 760)	–	–	(31 760)
Irrevocable unutilised facilities	–	(21 105)	–	(44 654)	–	(65 759)
Total unrecognised financial instruments	–	(21 105)	(31 760)	(44 654)	–	(97 519)
Net inflow/(outflow)	110 102	(218 780)	(116 520)	(393 754)	670 715	51 763

23. LIQUIDITY RISK ANALYSIS (CONTINUED)

2019

Undiscounted (statement of financial position values with impact of future interest)	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	DISCOUNTING EFFECT R'000	TOTAL R'000
Financial Assets							
Cash: Bank balances and deposits	–	39 556	37 020	–	–	(241)	76 335
Cash: SA Reserve Bank balance	–	–	–	–	30 568	–	30 568
Cash: Treasury bills	–	20 000	50 000	–	–	(559)	69 441
Cash: Cash on hand	819	–	–	–	–	–	819
Advances: Mortgage	–	129	429	155	1 611 180	(856 466)	755 427
Advances: General	–	7 325	648	604	3 954	(1 246)	11 285
Advances: Instalment sales and rentals	–	2 347	4 748	12 881	489 449	(85 165)	424 260
Investments: Fixed Deposits	–	–	28 114	21 755	–	(1 825)	48 044
Investments: Other	110 298	–	–	–	–	–	110 298
Investments: Investec Securities	13 872	–	–	–	–	–	13 872
Sundry Debtors	–	128	–	–	–	–	128
	124 989	69 485	120 959	35 395	2 135 151	(945 502)	1 540 477
Financial Liabilities							
Deposits	(14 887)	(261 907)	(209 165)	(405 661)	(611 617)	118 018	(1 385 219)
Sundry Creditors	–	(5 976)	–	–	–	–	(5 976)
	(14 887)	(267 883)	(209 165)	(405 661)	(611 617)	118 018	(1 391 195)
Total recognised financial instruments	110 102	(198 398)	(88 206)	(370 266)	1 523 534	(827 484)	149 282
Financial guarantees	–	–	(31 760)	–	–	–	(31 760)
Irrevocable unutilised facilities	–	(21 105)	–	(44 654)	–	–	(65 759)
Total unrecognised financial instruments	–	(21 105)	(31 760)	(44 654)	–	–	(97 519)
Net inflow/(outflow)	110 102	(219 503)	(119 966)	(414 920)	1 523 534	(827 484)	51 763

Community Projects and Sponsorships

As part of its highly-regarded and recognised corporate social responsibility programme, GBS Mutual Bank supports educational, welfare and a myriad of other organisations annually, having undertaken this voluntary function within the Makhanda (Grahamstown) and Makana communities - and further afield - for many years. The support comes in the form of monetary donations, sponsorships and financial backing to the institutions and organisations.

It will be remembered that in 2017 GBS Mutual Bank celebrated its 140th anniversary amid continued growth. The Bank celebrated in magnanimous style with significant grants to worthy causes, and the trend continues with the Bank making generous, meaningful donations to various entities.

Each year GBS Mutual Bank hosts dinners to which valued clients, staff members, Board members and business associates are invited. These dinners act as forums at which thanks and appreciation are extended to those attending, for their continued support.

An important aspect of the Bank's financial support is the role it plays in serving the children within the communities in which GBS Mutual Bank has offices.

MAJOR RECIPIENTS THIS YEAR

In the 142nd Annual Report, we reported that GBS Mutual Bank had set aside substantial amounts for donations to several Makhanda (Grahamstown) beneficiaries, primarily in child-care programmes, and across all education levels, primary and secondary schools, and tertiary education. During the year under review these donations were handed over to the following recipients:

LIV Lukhanyiso, which provides holistic care for orphans and vulnerable children with the core vision to rescue a child, restore a life, raise a leader, and release a star was given a donation of R200 000.

Whistle Stop School (St Mary's Development and Care Centre), an after-school care centre in Makhanda (Grahamstown) which was piloted in partnership with GADRA Education to address rudimentary early-grade reading backlogs in no-fee schools. The Whistle Stop School offering is supported by isiXhosa experts from Rhodes University, as well as the services of a clinical psychologist.

Amanzi Yimpilo Water Project for Early Childhood Development has the objective of harvesting water by providing water tanks and gutters at the 20-member pre-school centres. However, lack of funds resulted in the provision of only one tank a month. Amanzi Yimpilo found a partner in GBS Mutual Bank which assisted with R200 000 in the project. An Amanzi Yimpilo spokesperson said pre-school teachers could now focus on the education of their learners and not worry about the adverse effects of dirty water on children.

9/10ths Mentoring Programme is a three-year partnership between Rhodes University, GADRA Education and no-fee paying schools in Makhanda (Grahamstown). The purpose of the programme is to improve the accessibility of Rhodes to local disadvantaged students. GBS Mutual Bank provided funding of R200 000 towards the programme.

The Missing Middle assists in the funding of Rhodes University students who are resident in, and were educated in Makhanda (Grahamstown), but who fall outside of the NSFAS funding window. R200 000 was donated by GBS Mutual for this initiative.

Graeme College established and constructed a clubhouse-type facility at its Marais field for the use of learners, parents, friends of the school and the community at large. The school is not only thankful for this generous contribution of R150 000 but is also proud of its long-standing relationship with GBS Mutual Bank.

Kingswood College/Lebone Centre received a donation of R125 000 from GBS Mutual Bank for its Lebone Centre which in turn accommodates the on-site Little Red Dragon multi-lingual pre-school (Grade R) and after-care programme for vulnerable children from Grade 1 to Grade 3.

ADDITIONAL RECIPIENTS IN THE 2020 FINANCIAL YEAR

Rotary Club of Grahamstown Sunset was the recipient of R20 000 from GBS Mutual Bank, this being the 3rd instalment of a three year sponsorship agreement whereby the Bank became the title sponsor of the GBS Mutual Bank Mountain Drive Half-Marathon, an immensely popular road running event held in and around Makhanda (Grahamstown) in August each year, which is important in bringing in visitors to our City.

The 21-kilometre race is part of Eastern Province Athletics' road running league, and attracts several hundred athletes from Port Elizabeth, Uitenhage, Port Alfred, Makhanda (Grahamstown) and other centres. It is a firm favourite with road runners due, in the main, to its challenging course, excellent organisation and hospitality.

GBS Mutual Bank's company branding is very much in evidence at the start and finish venue on Graeme College's Somerset field, subjecting the Bank to invaluable exposure to participants, their families and supporters, as well as the general public.

Salem Crossroads Christian Care Centre received a donation of R10 000 from GBS Mutual Bank towards the purchase of a vehicle. Salem Crossroads, founded almost 40 years ago by Noel Banfield, is a safe haven for men, some of whom are suffering from substance abuse.

The Salem Crossroads farm, situated 11 kilometres from Makhanda (Grahamstown), is run on a kibbutz system where residents assist in generating funds towards running costs.

Other:
For several decades, GBS Mutual Bank has given financial assistance and support to numerous institutions, societies, organisations, clubs and other entities in the form of donations and sponsorships. This financial assistance is effective on an annual basis, alleviating some of the demanding costs involved in the running of these institutions.

The beneficiaries of these donations and financial support include hospitals, retirement centres and homes, primary schools, high schools, health care societies and animal welfare societies.

The support of GBS Mutual Bank reaches far and wide across many communities. Participants in these activities confirm they bring joy and friendship to participants.

FINANCIAL SKILLS PROGRAMME

GBS Mutual Bank initiated its Financial Skills Programme with the objective of providing residents in the Makana district with the necessary skills required to manage their personal finances more efficiently.

The programme is now in its 13th year, with almost 2 000 people having attended workshops to date.

The highly regarded and appreciated course is presented by GBS Mutual Bank staff member, Mr Mfuzo Dyira.

Part of GBS Mutual Bank's Social Responsibility Programme, the Financial Skills Programme was designed by the Bank, and is in line with the Bank's solid values and strong purpose; these are committed to building a society that takes care of its people and their needs, whilst providing a basis for self-empowerment.

Subject matter comprises theoretical and practical modules. These cover the disciplines of budgeting; banking and saving; setting financial goals; and managing and avoiding debt.

ABOVE: RENOVATION CELEBRATION: Members of the GBS Mutual Bank senior management team visited Lebone Centre where they joined staff and pupils in celebrating the recently-completed renovations and improvements at the centre. The renovations were undertaken thanks to a generous donation from GBS. Representing GBS management were, from left in blue shirts, Jonty Fincham, Anton Vorster and Patrick Hornby, and they are seen with overjoyed Lebone staff and young pupils. Renovations included revamping the entrance, laying of paving, building a new wall, and the installation of palisade fencing and gates to improve security. Improvements included enhancing the outdoor play area which is part of a broader overall reconstruction to advance outdoor learning through playschool.

Community Projects and Sponsorships

Another key aspect of the course is the procedural and practical side of availing oneself to automatic teller machines (ATMs).

SUPPORTING SPORT IN THE COMMUNITY

GBS Mutual Bank continues to play a big role in offering financial support to sport in its various forms and codes, something the Bank has committed itself to for many decades. Benefitting from this support are sports clubs and schools in the Makana and Ndlambe (Port Alfred and Kenton-on-Sea) districts.

The Bank is also supportive of tournaments and competitions, as well as other sports-related events. Many of these are organised and hosted with the specific goal of raising funds for charity and other worthy, community-based projects and causes.

GBS Mutual Bank's sponsorship is presented in the form of financial assistance, as well as support-in-kind. The latter includes the provision of prizes and awards.

A myriad of sports tournaments and competitions in Makhanda (Grahamstown) and surrounding districts, plus the Ndlambe district along the Sunshine Coast, benefit from the support of GBS Mutual Bank.

GBS Mutual Bank is the title sponsor of charity golf days at Belmont Golf Club outside Makhanda (Grahamstown) and Royal Port Alfred Golf Club at the coast. In addition, the Bank also sponsors various holes at competitions hosted by clubs in Port Elizabeth.

GBS Mutual Bank is the title sponsor of the prestigious GBS Mutual Bank Grahamstown Ladies' Open competition, an event that has boasted sizeable and illustrious fields, plus sponsorship from the Bank, for many years.
GBS Mutual Bank is the title sponsor of no less than four popular bowls competitions in the Eastern Cape, and specifically in Makhanda (Grahamstown), Kenton-on-Sea, Port Alfred and Port Elizabeth.

They are the GBS Mutual Bank mixed fours tournament in Makhanda, the GBS Mutual Bank mixed fours tournament at Kenton-on-Sea, the GBS Mutual Bank Settlers Plate tournament in Port Alfred, and the GBS Mutual Bank "Festival of Bowls" at the Port Elizabeth Bowling Club in Park Drive. The latter club was the first official bowling club in South Africa, having been established in 1882, five years after the establishment of the Grahamstown Building Society, later to become GBS Mutual Bank.

Heading for the coast, the Bank is the sponsor of the hugely popular GBS Mutual Bank teams-of-three angling competition hosted by Port Alfred River and Ski-Boat Club.

MAKHANDA CIRCLE OF UNITY

The Makhanda Circle of Unity is a forum established for the purpose of mobilising collective energy, creativity and resources towards building a strong, vibrant and sustainable community in Grahamstown (Makhanda).

This provides a platform for the stakeholders to play a positive and constructive role in finding workable and sustainable solutions to the challenges facing the community to help ensure the sustainable development of the community.

The Board Chair is co-chair of the Makhanda Circle of Unity and the Managing Director serves on the Local Economic Development Cluster of the Makhanda Circle of Unity.

LEFT: GBS Mutual Bank handed over a sizeable cheque to representatives from the LIV Lukhanyiso Village as a donation towards the project which will hopefully get underway in 2021. Colin Meyer from Makana Brick donated the land to the north of Makhanda (Grahamstown) where the village will be built. Seen at the handover of the cheque were from left Patrick Hornby, Jonty Fincham, Prof Owen Skae, Anton Vorster, LIV Lukhanyiso CEO Mo Ndlangiso, Angie Marriner, Lara Kruiskamp (LIV) and GBS Board member and LIV Lukhanyiso Board member, Kevin Maree and Colin Meyer (Makana Brick).

GBS Mutual Bank

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