140th

ANNUAL REPORT

GBS MUTUAL BANK
ESTABLISHED 1877

www.gbsbank.co.za

FOR YEAR ENDED 31 MARCH 2017.

Contents

GBS MUTUAL BANK
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GBS Mutual Bank

BOARD OF DIRECTORS

NAME	ROLE OF THE MEMBER	APPOINTED	QUALIFICATIONS	ATTENDANCE
TCS Tagg	Independent Non-Executive Director (Chairman)	2009	BComCA (SA)	11/11
FO Skae	Independent Non-Executive Director (Deputy-Chairman)	2014	MCom, MBA	11/11
KL Wiblin	Independent Non-Executive Director	2004	BAccSci (Hons)	10/11
PG Clayton	Independent Non-Executive Director	2003	PhD, FSAICS	8/11
AM Marriner	Independent Non-Executive Director	2010	BSc (Hons)	10/11
KW Maree	Independent Non-Executive Director	2016	MComCA (SA)	4/4
AM Vorster	Managing Director	2007	BCom; MBA	11/11
JM Fincham	Executive	2016	BScS; CA (SA)	4/4
P Hornby	Executive	2000	BCom	7/7

Hornby - appointed as company secretary in November 2016. Maree & Fincham - appointed 1 December 2016.

MANAGEMENT STRUCTURE

NAME	ROLE OF THE MEMBER	JOINED	QUALIFICATIONS
AM Vorster	Managing Director	2007	BCom, MBA
JM Fincham	Executive Director	2015	BScS, CA (SA)
P Hornby	Company Secretary	1997	BCom
WS Vallance	General Manager, Cape Town	1998	DipAIB
KC Breetzke	General Manager	2014	BCom

NOTICE OF THE ANNUAL GENERAL MEETING

The 140th Annual General Meeting of Shareholders will be held at the Bank's Head Office, 18–20 Hill Street, Grahamstown, on 27 July 2017, at 17h00.

AGENDA

1. To confirm the minutes of the last Annual General meeting.
2. To receive and consider the report of the Board of Directors and the Annual Financial Statements for the year ended 31 March 2017.
3.1 To elect Directors in the place of Messrs F.O. Skae and P.G. Clayton who retire in rotation. Being eligible, they offer themselves for re-election and have been duly nominated.
3.2 To ratify the appointment of Mr. K.W.Maree as Director, notwithstanding the fact that he is not eligible to be appointed as such in terms of Article 20 (viii) (a) of the Bank's Articles of Association.
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.
AM Vorster
Managing Director

Statement of Responsibility

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The Directors are also responsible for the Bank's systems of internal financial and operational controls. These systems are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

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

The attached annual financial statements set out on pages 6 to 47 were approved by the Board of Directors on 30 May 2017 and are signed on its behalf by:

T C S Tagg
Chairman

A M Vorster
Managing Director

Independent 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 as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act.

What we have audited
GBS Mutual Bank's financial statements set out on pages 10 to 47 comprise:

- the balance sheet as at 31 March 2017;
- 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 in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Board of Directors and Management Structure composition, Notice of the Annual General Meeting, Statement of Directors' Responsibility for Financial Statements, Report of the Directors and Community Projects and Sponsorships. 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, 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, 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 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.

Independent Auditor's Report (continued)

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: RD Stanham
Registered Auditor
Port Elizabeth
30 May 2017

Report of the Directors

NATURE OF BUSINESS

- MORTGAGE LOANS
- ASSET BASED FINANCE
- SAVINGS AND INVESTMENTS

DIRECTORS' REPORT TO SHAREHOLDERS

In 2017 the Bank celebrates its 140th year of successfully providing financial services. We are proud of our contribution to the economy and social infrastructure of the regions where we operate. We also celebrate the achievement of another financial milestone being that Reserves now exceed R100m.

The Bank has delivered a record set of results with admirable Balance Sheet growth and an outstanding level of operating income and profit for the year. The results include exceptional items which are unlikely to recur at the same rate in future years.

The compliance function remains an integral part of the Bank's effective risk management framework. One of the objectives is to facilitate the management of regulatory risks, which is the risk that the Bank does not comply with applicable laws and regulations or supervisory requirements. The Bank has continued to invest heavily in staff training and IT system enhancements to ensure compliance with FICA requirements. The Board has approved various compliance policies and continues to monitor progress in this regard.

With Tom Tagg approaching retirement age he has indicated that he will step down as Chairman at the end of the current calendar year. He will be succeeded by Owen Skae, but has agreed to remain on the Board for a minimum of a year to ensure a smooth hand over.

Patrick Hornby, having served the Board since 2000, was appointed Company Secretary on 1 November 2016. The Board thanks Patrick for his many years of service and is pleased that he continues to serve the Bank in his new position.

Jonty Fincham was appointed to the Board on 1 December 2016 and we look forward to his continued contribution at Board and Management levels.

Kevin Maree, a Professor of Accounting at Rhodes University, was appointed to the Board on 1 December 2016, and has taken on the role of Chairing the Audit Committee. We look forward to his input at Board level.

ECONOMY

South Africa's economic growth continues to disappoint and has in recent times been influenced by a lack of economic direction and leadership plus political actions which resulted in the internationally respected Finance Minister and his deputy being replaced. These were central to recent sovereign rating downgrades by two of the rating agencies while the third has put South Africa on watch. GDP growth of less than 1% is well below what is needed to deal with unemployment and to inject confidence back into the economy.

Following a protracted period of currency depreciation, the South African Rand appreciated for most of the last year. The South African Reserve Bank and the Monetary Policy Committee have held the prime interest rate unchanged since March 2016.

The higher interest rates and low level of economic activity, combined to create a tough economic climate and the loss of both business and consumer confidence. As a result, private sector businesses are less willing to invest in property assets, or indeed in the economy at all, while consumers also delay purchases of homes, semi-durable goods and motor vehicles.

It is against this economic back drop that we, like many businesses in our country, are forecasting a difficult trading year ahead which will see a slowdown in our growth with a concomitant decrease in profitability. We must stress though that we are very well placed in terms of liquidity, reserves and human resources to face the challenges ahead.

PERFORMANCE

The GBS's results for the year to March 2017 were exceptional in a tough environment. Asset growth was the best in a number of years and the Bank continues to hold surplus cash and has provided prudently for potential bad debts. The results include an exceptional return on the Momentum investment.

The balance sheet grew 9,8% to R1,265 billion with growth in mortgage loans of 8,6% and the asset based finance portfolio growing by 11,8%. Specific provisions were R6,3 million at year end against R4,7 million a year ago, and the provision against performing loans was increased from R4 million to R7,5 million.
The Bank remains well capitalised with a capital adequacy ratio of 13,2% at 31 March 2017 against a required ratio of 10%. The capital ratio is lower than last year due to more stringent qualifying requirements introduced by the Reserve Bank during the year. Consequently the Bank has less secondary capital in the form of qualifying fixed period shares and the Board is comfortable with the current level of secondary capital.

The profit for the year was enhanced by the out-performance of the Momentum investment which yielded R8,5 million against R1,9 million last year.

Due to a wider interest margin, the net interest income increased by 26% while non-interest income, excluding the Momentum Investment, was 6% lower than last year. Operating expenses were higher year on year and include the additional costs associated with compliance, a non-recurring write-off of redundant software of R1 022 000, and Corporate Social Investment contributions totaling R560 000 to GADRA Education and Child Welfare. Other comprehensive income is detailed in the report and relates to remeasurements of the retirement benefit obligation and a fair value gain on the investment in preference shares.

The results for the year are most pleasing but are unlikely to be repeated in the coming year. Interest margins have narrowed and investment returns are expected to normalise. Results for the coming year are budgeted to be materially lower but still in line with the strategic plan.

Report of the Directors (Continued)

CORPORATE GOVERNANCE

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

We are committed to the King Code of Corporate Practices and Conduct and the Basel Committee on Banking Supervision Guidelines: Corporate Governance Principles for Banks dated July 2015. We are in the process of aligning the Bank's practices to the revised King IV Guidelines and the Basel Committee on Banking Supervision Guidelines where possible and practical.

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

THE BOARD OF DIRECTORS

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

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

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

AUDIT COMMITTEE

The primary role of the audit committee is to review and evaluate the Bank's risk profile and internal controls, compliance with relevant legislation, the efficacy of our accounting and financial systems and both the internal and external audit processes. The committee reviews the audit plans with the external and internal auditors and approves the scope of the internal auditor's work programme. The committee also reviews all internal and external audit reports and monitors management's response to the auditors' recommendations.

The committee, which met three times during the year, was chaired by Kerryn Wiblin until November 2016 and is now chaired by Kevin Maree.

REMUNERATION COMMITTEE

This committee, chaired by Kerryn Wiblin, is responsible for recommending the Bank's overall remuneration policy. This is designed to recognise the value of the staff and their role within the Bank and ensures competitive remuneration which is designed to attract, motivate and retain a talented staff complement.

The committee met once during the year.

IT COMMITTEE

This committee has the responsibility of reviewing and monitoring the Bank's information technology operations, needs and IT risk management. In addition to ongoing infrastructure and systems enhancements, the Bank's IT agenda has been dominated by our efforts to bolster our resilience to IT threats, our ability to recover from disasters, and enhancing our systems to support our Compliance agenda.

The committee, chaired by Angie Marriner, met 11 times during the year.

Report of the Directors (Continued)

DIRECTORS & EXECUTIVES AFFAIRS COMMITTEE

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

The committee met once during the year and is chaired by Angie Marriner.

DEVELOPMENT COMMITTEE

The Strategy and Business Development Committee's Charter is to advise and make recommendations to the Board on the implementation and monitoring of the strategy as formulated and agreed to by the Board and assess product and service offerings.

The Development Committee is chaired by Owen Skae and met four times during the year.

RISK MANAGEMENT

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

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

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

RISK MANAGEMENT COMMITTEE

This committee, chaired by Tom Tagg, meets twice a year and ensures that the risk management policies and procedures are reviewed periodically and that banking risks are understood at all the relevant levels within the Bank.

The main risks facing the Bank are:

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

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

STAFF DEVELOPMENT

The Bank remains committed to the training and advancement of its staff and continues to assist with the enrolment for suitable courses. During the course of the year in-house training was provided to staff on IT topics – including relevant desktop productivity software and Cyber Security. Training pertaining to AML and CFT was undertaken by all staff and the Board of Directors.

OUTLOOK AND THANKS

The year past was a year of outperformance with record profit and asset and liability growth ahead of targets.

We remain humbled by the continued support we receive from our clients and thanks must go to all staff who went above and beyond in providing excellent service in a challenging regulatory and economic climate.

The GBS strategic plan for the years ahead reflects lower but stable income and targets growth ahead of inflation.

The Bank retains surplus cash and capital and we remain confident that we are well positioned to serve our clients.

T C S Tagg
Chairman
30 May 2017

A M Vorster
Managing Director
30 May 2017

Report of the Directors (Continued)

FIVE YEAR REVIEW

YEAR ENDED 31 MARCH (R 000)	2017	2016	2015	2014	2013
BALANCE SHEETS					
Reserves	**102 177**	91 423	86 606	79 623	73 099
Share deposits	**265 875**	274 816	264 871	264 887	238 872
Deposits	**875 191**	765 677	715 950	658 897	585 146
Other liabilities	**21 611**	20 434	17 614	15 482	15 741
	1 264 854	1 152 350	1 085 041	1 018 889	912 858
Cash & short term securities	**143 870**	150 176	137 575	128 605	91 206
Investments	**118 779**	82 875	72 370	88 832	53 350
Loans and advances	**995 752**	911 054	865 651	794 826	763 979
- Mortgages and other	**660 574**	607 739	574 350	517 627	512 148
- Instalment sales, rentals	**348 935**	311 968	298 394	284 838	258 822
- Less: Risk provisions	**13 757**	8 653	7 093	7 639	6 991
Other assets	**6 453**	8 245	9 445	6 626	4 323
	1 264 854	1 1 52 350	1 085 041	1 018 889	912 858
Income Statements					
Net interest margin	**36 855**	29 321	26 033	23 615	21 969
Other income	**12 778**	6 412	10 072	9 062	7 306
	49 633	35 733	36 105	32 677	29 275
Impairments & provisions	**(5 924)**	(2 025)	(1 489)	(1 540)	(880)
Operating expenses	**(32 723)**	(27 481)	(24 110)	(23 327)	(20 333)
Tax	**(373)**	(787)	(2 398)	(1 793)	(1 766)
Profit for the year	**10 613**	5 440	8 108	6 017	6 296
Other comprehensive (loss)/ income	**141**	(623)	(1 125)	507	(967)
Comprehensive income	**10 754**	4 817	6 983	6 524	5 329
Key Ratios – %					
Capital adequacy at year end	**13,2%**	14,0%	14,6%	15,8%	14,0%
Bad debt provision: advances	**1,4%**	0,9%	0,8%	1,0%	0,9%
Expenses to average assets	**2,7%**	2,4%	2,3%	2,4%	2,3%

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BALANCE SHEET AT 31 MARCH 2017

	NOTES	2017 R'000	2016 R'000
ASSETS			
Cash and cash equivalents	3	143 870	150 176
Advances and loans	4	995 752	911 054
Investments	5	118 779	82 875
Property and equipment	6	1 602	2 382
Current income tax asset		1 506	3 633
Other assets	7	529	63
Deferred income tax asset	8	2 816	2 167
Total assets		1 264 854	1 152 350
LIABILITIES			
Share deposits	9	265 875	274 816
Other deposits	9	875 191	765 677
Other liabilities	10	8 384	7 007
Retirement benefit obligations	11	12 272	12 661
Other long-term employee benefits	12	955	766
Total liabilities		1 162 677	1 060 927
RESERVES		102 177	91 423
Total liabilities and reserves		1 264 854	1 152 350

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	NOTES	2017 R'000	2016 R'000
Interest income	13	119 189	100 133
Interest expense	13	(82 334)	(70 812)
Net interest income		36 855	29 321
Net impairment on advances	16	(5 924)	(2 025)
Net interest income after impairment on advances		30 931	27 296
Total non-interest income		12 778	6 412
Fee and commission income	14	3 502	3 521
Fair value adjustments on investments	5	8 579	2 366
Dividend income		641	465
Other operating income		56	60
Total expenses		(32 723)	(27 481)
Operating expenses	15	(31 887)	(26 620)
Commission expense		(836)	(861)
Profit before income tax		10 986	6 227
Income tax expense	17	(373)	(787)
Profit for the year		10 613	5 440
Other comprehensive income			
Items that may not be reclassified to profit or loss		(22)	(459)
Remeasurements of retirement benefit obligation	11	(30)	(637)
Deferred tax	8	8	178
Items that may be reclassified to profit or loss		163	(164)
Fair value gain/(loss) on investments	5	210	(266)
Deferred tax	8	(47)	102
Total comprehensive income for the year		10 754	4 817

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	RETAINED EARNINGS R'000	GENERAL RESERVE R'000	REVALUATION RESERVE R'000	STATUTORY CREDIT RISK RESERVE R'000	TOTAL R'000
Balance at 1 April 2015	750	80 625	59	5 172	86 606
Profit for the year	5 440	–	–	–	5 440
Other comprehensive income for the year	–	(459)	(164)	–	(623)
Transfer to statutory credit risk reserve	(228)	–	–	228	–
Transfer to general reserves	(5 212)	5 212	–	–	–
Balance at 31 March 2016	750	85 378	(105)	5 400	91 423
Balance at 1 April 2016	750	85 378	(105)	5 400	91 423
Profit for the year	10 613	–	–	–	10 613
Other comprehensive income for the year	–	(22)	163	–	141
Transfer to statutory credit risk reserve	(537)	–	–	537	–
Transfer to general reserves	(9 826)	9 826	–	–	–
Balance at 31 March 2017	1 000	95 182	58	5 937	102 177

Notes

- Retained Earnings: the Bank increased its Retained Earnings to R1 000 000 (2016: R750 000) and transfers excess funds to the General Reserve.
- General Reserve: represents profits which have been formally appropriated by the Board of Directors, as required by the Mutual Banks Act.
- Revaluation Reserve: relates to the accumulated unrealised gains and losses on available-for-sale investments.
- Statutory Credit Risk Reserve: separate reserve maintained in terms of regulations to the Mutual Banks Act on all advances that have not specifically been provided for.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	2017 R'000	2016 R'000
Cash flows from operating activities		
Interest receipts	119 189	100 133
Interest payments	(82 334)	(70 812)
Fee and commission receipts	3 502	3 521
Fee and commission payments	(836)	(861)
Dividends received	641	465
Other income	56	60
Payments to employees and suppliers	(30 466)	(25 812)
Income taxes refunded	1 066	333
Cash flows from operating activities before changes in operating assets and liabilities	10 818	7 027
Changes in operating assets and liabilities		
Net increase in advances	(90 622)	(47 428)
Net (increase)/decrease in other assets	(466)	421
Net increase in share and other deposits	100 573	59 672
Net increase in other liabilities	1 566	953
(Decrease)/Increase in retirement benefit obligations	(419)	730
Net cash generated from operating activities	21 450	21 375
Cash flows from investing activities		
Acquisition of property and equipment	(641)	(369)
Net increase in investments	(27 115)	(8 405)
Net cash used in investing activities	(27 756)	(8 774)
Net (decrease)/increase in cash and cash equivalents	(6 306)	12 601
Cash and cash equivalents at beginning of year	150 176	137 575
Cash and cash equivalents at end of year (Note 3)	143 870	150 176

GBS Mutual Bank

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

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

1.1 BASIS OF PREPARATION

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

a) New and amended standards adopted

There were no new and amended standards that became effective during the 2017 financial year applicable to GBS Mutual Bank.

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

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 April 2017 or later periods. These standards have not been early adopted.

- IFRS 9 – Financial Instruments (2009 and 2010). This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- Amendment to IFRS 9 – "Financial instruments". The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.
- Amendment to IAS 7, Cash flow statements. In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
  The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. The effective date of the implementation is for all accounting periods starting on or after 1 January 2017.
- IFRS 15 Revenue from contracts with customers. The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occur when control of goods or services are transferred to a customer.
- Amendment to IFRS 15 – Revenue from contracts with customers. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.
- IFRS 16, Leases. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.
  Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease

GBS Mutual Bank

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.
  For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

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

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.

1.2 CASH AND CASH EQUIVALENTS

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

1.3 ADVANCES AND LOANS

Advances and loans are financial assets with fixed or determinable payments and include purchased advances. Advances and loans are accounted for at amortised cost using the effective interest rate method. Transaction costs and origination fees received are capitalised to the value of the advance and expensed or taken to interest income over the estimated duration of the advance or loan.

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

Impairment testing of advances is described in note 1.4.

1.4 IMPAIRMENT OF ADVANCES

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

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

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

1.5 INVESTMENTS

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

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

Held-to-maturity

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

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

Fair value through profit or loss

Where the Bank has elected in terms of IAS 39 to designate financial assets as held at fair value through profit or loss or where financial instruments are held for trading, these financial assets are classified as assets held at fair value through profit or loss. All related realised and unrealised gains and losses arising from the change in fair value of these financial assets are included as a separate line item in the statement of profit or loss and other comprehensive income.

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

Available-for-sale

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

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

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

Fair value

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

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

Subsequent to initial recognition, fair values of financial assets are based on quoted prices excluding transaction costs. Where this is not available, fair value is determined using applicable valuation techniques.

Derecognition

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

1.6 PROPERTIES IN POSSESSION

Properties in possession comprise the amounts outstanding on advances where mortgagors have defaulted and the properties securing the advances have been bought in by the Bank. Until resale, all expenditure and income is allocated to the value of the relevant

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 PROPERTIES IN POSSESSION (CONTINUED)

property in possession. An impairment provision is made where the amount of the property value, or a portion thereof, is considered to be not recoverable.

1.7 PROPERTY AND EQUIPMENT

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

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

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

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

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

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

1.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

1.9 SHARES, 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 through profit or loss.

1.10 PROVISIONS

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

1.11 CURRENT AND DEFERRED INCOME TAX

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

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

1. ACCOUNTING POLICIES (CONTINUED)

1.11 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

1.12 RETIREMENT BENEFIT OBLIGATIONS

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

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

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.

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

1.13 REVENUE RECOGNITION

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

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

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

1.14 LEASES

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

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

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

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.14 LEASES (CONTINUED)

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

2. KEY MANAGEMENT ASSUMPTIONS

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

- Impairment of advances – notes 1.4 and 16
- Property and equipment – notes 1.7 and 6
- Retirement benefit obligations – notes 1.12 and 11
- Recoverability of deferred income tax assets – note 1.11
- Impairment of non-financial assets –note 1.8

3. CASH AND CASH EQUIVALENTS

	2017 R'000	2016 R'000
Bank balances	**16 946**	20 248
Short-term deposits	**41 473**	51 911
South African Reserve Bank deposit	**25 198**	22 541
Treasury bills	**59 498**	54 593
Cash on hand	**755**	883
	143 870	150 176

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, Sasfin Bank, Grindrod Bank and Rand Merchant Bank.

The Bank has an overdraft facility at First National Bank Limited of R10 000 000 (2016: R10 000 000). This facility is reviewed annually. A fixed deposit of R10 000 000 with Rand Merchant Bank has been ceded to FirstRand Bank Limited as security for this facility.

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

4. ADVANCES AND LOANS

	2017 R'000	2016 R'000
Mortgages	**645 695**	594 804
General	**14 879**	12 935
Instalment sales and rentals	**348 935**	311 968
	1 009 509	919 707
Impairment provisions (Note 16)	**(13 757)**	(8 653)
	995 752	911 054

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

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

4 . ADVANCES AND LOANS (CONTINUED)

	2017 R'000	2016 R'000
Commitment for the aggregate amount of advances and re-advances granted but not yet paid out:		
Instalment sales and rentals	**19 217**	15 746
Mortgages	**60 125**	52 382
	79 342	68 128
The commitment for advances granted but not yet paid out will be funded out of cash and cash equivalents as well as deposits classified as investments in note 5.		
Gross amounts due under instalment sale and rental agreements	**418 966**	372 124
Less: Unearned finance income	**(70 031)**	(60 156)
	348 935	311 968

Refer to note 19 for further disclosures regarding credit quality and collateral held.

5 . INVESTMENTS

	2017 R'000	2016 R'000
Held-to-maturity investments		
Fixed deposits	**35 428**	43 605
The fixed deposits were held with Grindrod Bank, Sasfin Bank, Investec Bank and First National Bank (2016: Grindrod Bank, Sasfin Bank and First National Bank). These financial institutions comply with the Bank's risk management policies of investing with sound, reputable entities.		
Financial instruments designated at fair value through profit or loss		
Opening balance	**33 740**	53 037
Additions	**46 000**	–
Withdrawals	**(12 000)**	(21 663)
Fair value adjustment through profit or loss	**8 579**	2 366
Interest reinvested	**1 247**	–
Dividends reinvested	**45**	–
Closing balance	**77 611**	33 740

GBS Mutual Bank

5 . INVESTMENTS (CONTINUED)

	2017 R'000	2016 R'000
Available-for-sale investments		
Opening balance	5 530	4 173
Additions	–	1 623
Fair value gain/(loss) through other comprehensive income	210	(266)
Closing balance	5 740	5 530
Investment in equity instrument		
Opening and closing balance after impairment	–	–
Total investments	118 779	82 875

Financial instruments at fair value through profit or loss comprise an investment in an endowment policy with Momentum Wealth and investments in unit trust portfolios with Allan Gray Investment Services, Momentum Collective Investments and Nedgroup Investments. 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 R6 087 302 (2016: R5 870 990), are held to partially cover the post-retirement medical obligations in note 11. The Nedgoup Investment is in the Nedgroup Investments Corporate Money Market Fund. The funds are reinvested mainly in the large commercial banks in South Africa.

Available for sale investments comprise Investec Bank Limited non-cumulative non-redeemable preference shares bearing dividends at 83.3% (2016: 83.3%) of the prime overdraft rate, carried at fair value of R5 740 000 (2016: R5 530 000). These instruments are classified as equity instruments.

The Bank has an equity investment which consists of a 8.65% (2016: 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 ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

6. PROPERTY AND EQUIPMENT

	OFFICE PREMISES R'000	FURNITURE, EQUIPMENT & MOTOR VEHICLES R'000	COMPUTER EQUIPMENT & SOFTWARE R'000	TOTAL R'000
Year ended 31 March 2017				
Opening carrying amount	72	321	1 989	2 382
Additions	–	130	511	641
Disposals	–	–	(1 022)	(1 022)
Depreciation	–	(80)	(319)	(399)
Closing carrying amount	72	371	1 159	1 602
At 31 March 2017				
Cost	72	949	2 546	3 567
Accumulated depreciation	–	(578)	(1 387)	(1 965)
Closing carrying amount	72	371	1 159	1 602
Year ended 31 March 2016				
Opening carrying amount	72	351	1 898	2 321
Additions	–	39	330	369
Disposals	–	(2)	(5)	(7)
Depreciation	–	(67)	(234)	(301)
Closing carrying amount	72	321	1 989	2 382
At 31 March 2016				
Cost	72	819	4 092	4 983
Accumulated depreciation	–	(498)	(2 103)	(2 601)
Closing carrying amount	72	321	1 989	2 382

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

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

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

GBS Mutual Bank

6. PROPERTY AND EQUIPMENT (CONTINUED)

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

7. OTHER ASSETS

	2017 R'000	2016 R'000
Sundry debtors	30	63
South African Revenue Services – VAT	499	–
	529	63

8. 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% (2016: 28%).

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

	2017 R'000	2016 R'000
At beginning of year	2 167	1 843
Credit to the profit and loss component of the statement of profit or loss and other comprehensive income (note 17)	688	44
(Charge)/Credit directly to other comprehensive income	(39)	280
At end of year	2 816	2 167

GBS Mutual Bank

8. DEFERRED INCOME TAX ASSET (CONTINUED)

Deferred income tax is attributable to the following items:

	2016 R'000	CREDITED / (CHARGED) TO PROFIT R'000	CREDITED / (CHARGED) TO OCI [A] R'000	2017 R'000
Provisions against advances	1 161	978	–	2 139
Leave pay accrual	315	40	–	355
Deferred income	512	70	–	582
Retirement benefit obligations	3 543	(117)	8	3 434
Other long-term employee benefits	317	690	–	1 007
Other provisions	28	84	–	112
Deferred capital gains tax	150	–	–	150
Deferred income tax asset	6 026	1 745	8	7 779
Accelerated depreciation	(382)	133	–	(249)
Deferred capital gains tax	(523)	(17)	(47)	(587)
Rental deals	(2 954)	(1 173)	–	(4 127)
Deferred income tax liability	(3 859)	(1 057)	(47)	(4 963)
Net deferred income tax asset	2 167	688	(39)	2 816

[A] – Other comprehensive income

9. SHARE AND OTHER DEPOSITS

	2017 R'000	2016 R'000
Share deposits		
Indefinite period shares	95 239	101 170
Subscription shares	56 436	55 043
Fixed period shares	114 200	118 603
	265 875	274 816
Other deposits		
Fixed and call deposits	848 617	734 676
Savings and transmission deposits	26 574	31 001
	875 191	765 677
Total indefinite period paid-up shares under notice of redemption	4 233	4 843

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

10. OTHER LIABILITIES

	2017 R'000	2016 R'000
Sundry creditors	675	530
Accruals and other liabilities	5 631	4 309
South African Revenue Services – VAT	–	338
Deferred income	2 078	1 830
	8 384	7 007

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

11. RETIREMENT BENEFIT OBLIGATIONS

	2017 R'000	2016 R'000
The Bank's retirement obligations are summarised as follows:		
Post-retirement healthcare obligation	11 713	12 102
Pension liability	559	559
	12 272	12 661

	2017	2016
Post-retirement healthcare obligation		
The main actuarial assumptions used in the calculation of the healthcare obligation were:		
– Discount rate	9,75%	10,00%
– Medical cost inflation	8,75%	9,00%
– Net discount rate	0,92%	0,92%
– Retirement age	63	60

	R'000	R'000
The movement in the defined benefit obligation over the year is as follows:		
At beginning of year	12 102	10 735
Current service cost	314	308
Past service cost	(1 330)	–
Interest cost	1 181	893
Remeasurement loss	30	637
Employer benefit payments	(584)	(471)
At end of year	11 713	12 102
Expected contributions to the retirement benefit obligations for the year ended 31 March 2018 are anticipated to be R608 000.		
Amounts recognised in the statement of profit or loss and other comprehensive income:		
– Interest cost	1 181	893
– Current service cost	314	308
– Past service cost	(1 330)	–
	165	1 201

11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2017 R'000	2016 R'000
The remeasurement loss recognised in other comprehensive income is as follows:		
(Gain)/Loss due to changes in financial assumptions	**(33)**	697
Experience loss/(gain) for the year	**32**	(60)
Loss due to demographic adjustments	**31**	–
	30	637

Included in investments held at fair value (note 5) is an investment with a carrying value of R6 087 302 (2016: R5 870 990) 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.

	2017	2016
Post-retirement mortality tables: PA90-1 (Retired members) and SA 85-90 (Lite) (In-service employees)		
– Average number of members:		
In-service employees	**12**	14
Retired members	**18**	16
	30	30
– Average age of members:		
In-service employees	**52**	52
Retired members	**75**	76

	R'000	R'000
The Bank's retirement obligations are summarised as follows:		
Active members	**4 735**	6 657
Pensioners	**6 978**	5 445
	11 713	12 102

The weighted average duration of the benefit obligation is 14.3 years (2016: 13.6 years).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

11. 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	1 648	1 359
1% change in discount rate	(1 364)	(1 682)
1 year change in retirement age	(378)	(417)
1 year change in average age	(464)	(472)

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

Risks Involved in Maintaining the Post-employment Healthcare Obligation:

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

- Inflation: The risk that future CPI inflation and healthcare cost inflation are higher than expected and uncontrolled.
- Longevity: The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.
- 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: High volatility in the bond yields used to determine the discount rate may lead to volatile balance sheet 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.

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

11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2017 R'000	2016 R'000
Pension liability		
The main assumptions used to calculate the Bank's liability in respect of unfunded pension obligations were a discount rate of 7.99% (2016: 8.67%) and life expectancies based on actuarial life expectancy tables (refer note 1.12). There are 5 former employees and spouses included in this plan, with an average age of 85 years.		
There was no movement in the pension liability.		
At beginning and end of year	**559**	559

GBS Mutual Bank Provident Fund

This plan is a defined contribution plan registered under the Pension Funds Act and is funded through contributions made by the Bank. The fund has 44 (2016: 41) members and total contributions for the year amounted to R1 330 322 (2016: R1 704 020).

12. OTHER LONG-TERM EMPLOYEE BENEFITS

	2017 R'000	2016 R'000
Service awards		
At beginning of year	**766**	742
Additional provision charged to statement of profit or loss and other comprehensive income	**252**	228
Amount utilised against provision	**(63)**	(204)
At end of year	**955**	766

The benefit relates to long-service awards. Employees are entitled to this benefit provided that:
- they remain in service up to the date of retirement (normally about 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).

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

13. INTEREST

	2017 R'000	2016 R'000
Interest income		
Mortgages	**65 214**	54 783
General advances	**1 480**	1 335
Instalment sales and rentals	**39 643**	33 278
Investments	**12 594**	10 411
Other	**258**	326
	119 189	100 133
Interest expense		
Fixed deposits	**58 739**	49 836
Tax free savings	**90**	–
Savings deposits	**1 302**	1 077
Indefinite period paid-up shares	**7 961**	6 771
Subscription shares	**4 425**	3 490
Fixed period shares	**9 817**	9 638
	82 334	70 812

14. FEE AND COMMISSION INCOME

	2017 R'000	2016 R'000
Fee income	**3 144**	3 022
Commission income	**358**	499
	3 502	3 521

GBS Mutual Bank

15. OPERATING EXPENSES

	2017 R'000	2016 R'000
Operating expenses totalled R31 887 000 (2016: R26 620 000) and include the following items:		
Auditors' remuneration		
– audit fees	1 010	973
– fees for other services	159	147
	1 169	1 120
Depreciation	399	301
Software development costs previously capitalised, written off	1 022	–
Office rental expense	331	316
Staff remuneration and related personnel costs	18 416	15 575
Regulatory penalties	–	500
Computer expenses	1 907	1 072
Directors' emoluments		
Executive Directors		
– salaries and benefits	2 452	2 259
Non-Executive Directors		
– for services and consulting fees	1 111	1 039
	3 563	3 298

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

16. IMPAIRMENT PROVISIONS AGAINST ADVANCES AND LOANS

	2017 R'000	2016 R'000
Balance at beginning of year	(8 653)	(7 093)
Amount utilised	820	465
Charge to statement of profit or loss and other comprehensive income	(5 924)	(2 025)
Recovery of amounts previously written off	411	594
Current year provision	(6 335)	(2 619)
Balance at end of year	(13 757)	(8 653)
Analysis		
Provisions against non-performing advances	(6 257)	(4 653)
Provision against performing advances	(7 500)	(4 000)
	(13 757)	(8 653)

17. INCOME TAX EXPENSE

	2017 R'000	2016 R'000
South African normal taxation		
Current tax		
– current year	(1 220)	(1 359)
– prior year	159	528
Deferred tax		
– current year	688	142
– rate change	–	(98)
	(373)	(787)

17. INCOME TAX EXPENSE (CONTINUED)

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

	2017 R'000	2016 R'000
Profit before income tax	10 986	6 227
Tax calculated thereon at 28% (2016: 28%)	(3 076)	(1 744)
Tax effect of:		
Income not subject to tax	2 563	684
Expenses not deductible for tax	(19)	(157)
Prior year current tax	159	528
CGT inclusion rate change adjustment	–	(98)
Tax charge	(373)	(787)

18. 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.

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:

	2017 R'000	2016 R'000
Directors and key management		
Advances and loans		
Advances and loans outstanding at end of year	3 562	3 361
No provision for impairment has been recognised in respect of advances and loans provided to related parties (2016: R Nil).		
Deposits		
Deposits at end of year	5 889	5 955

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

18. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Other expenses	2017 R'000	2016 R'000
Key management compensation		
– Short-term employee and consulting benefits	4 166	3 481
– Post-employment benefits	478	582
Non-executive directors' fees		
– for services as directors	1 111	1 039
	5 755	5 102

19. FINANCIAL RISK MANAGEMENT

19.1 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 that of the prior year.

19.2 FAIR VALUE ESTIMATION

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

The carrying amount of all financial liabilities not carried at fair value, are assumed to approximate their fair values, other than share and other deposits which have a fair value of R1 119 361 000, compared to a carrying amount of R1 141 066 000, due to the fact that certain share and other deposits (note 9) are issued at a fixed rate lower than current market rates as they were issued in prior years (2016: fair value of R1 022 428 000, compared to a carrying amount of R1 040 493 000).

IFRS 13 requires the disclosure of fair value measurements by level of the following fair value measurement hierarchy:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the assets or 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).

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.2 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Bank's assets and liabilities that are measured at fair value at 31 March 2017:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Financial assets at fair value through profit or loss			
– Investments (note 5)	–	77 611	–
Available-for-sale investments			
– Investments (note 5)	5 740	–	–

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

The following tables present the Bank's assets and liabilities that are measured at amortised cost at 31 March 2017:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Advances and loans (note 4)	–	–	1 009 509

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

Although the fair value 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 balance sheet. All rates on advances and loans are variable and were market related at the time of grant.

Liabilities	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Share and other deposits (note 9)	–	–	1 119 361

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.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.3 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 South African Reserve Bank.

The Bank has a statutory capital requirement, in terms of the Mutual Banks Act, which sets a minimum amount of capital and reserves to be held. This amount, termed the capital adequacy ratio, is set at 10% of risk weighted assets. This ratio in effect determines the amount the Bank may lend out on advances. The average capital adequacy ratio for the year under review was 12.63% (2016: 13.80%).

19.4 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.

19.4.1 MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL HELD

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

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

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

2017	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES AND RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Gross	645 695	348 935	14 879	1 009 509
Performing advances	612 568	337 340	14 879	964 787
Estimated value of collateral held	(612 568)	(315 343)	(14 879)	(942 790)
Estimated exposure to credit risk	–	21 997	–	21 997
Past due and impaired advances	33 127	11 595	–	44 722
Estimated value of collateral held	(31 876)	(5 725)	–	(37 601)
Estimated exposure to credit risk	1 251	5 870	–	7 121

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

2016	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Gross	594 804	311 968	12 935	919 707
Performing advances	567 264	302 243	12 935	882 442
Estimated value of collateral held	(567 264)	(282 837)	(12 935)	(863 036)
Estimated exposure to credit risk	–	19 406	–	19 406
Past due and impaired advances	27 540	9 725	–	37 265
Estimated value of collateral held	(27 103)	(4 772)	–	(31 875)
Estimated exposure to credit risk	437	4 953	–	5 390

In the 2017 and 2016 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.

In cases where an advance is not individually assessed as impaired, the collateral value is determined as follows:
- Mortgages: the original valuation of the property;
- Instalment sales and rentals: the original cost of the asset is depreciated. In instances where the asset financed is a motor vehicle, the trade-in value, net of repossession costs, is used as the value of the security.

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

During the 2017 and 2016 financial years, the Bank did not recognise any collateral it held as security against advances, as an asset of the Bank.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.2 CREDIT QUALITY

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

The credit quality of advances can be summarised as follows:

2017	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Performing advances	612 568	337 340	14 879	964 787
Past due and impaired advances	33 127	11 595	–	44 722
Impaired advances	3 610	6 105	–	9 715
Unimpaired advances: 0 – 3 months in arrears	25 387	4 870	–	30 257
Unimpaired advances: more than 3 months in arrears	4 130	620	–	4 750
Total	645 695	348 935	14 879	1 009 509
Impaired advances (as above)	3 610	6 105	–	9 715
Security against impaired advances	(2 359)	(1 099)	–	(3 458)
Net impaired advances	1 251	5 006	–	6 257

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.2 CREDIT QUALITY (CONTINUED)

2016	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Performing advances	567 264	302 243	12 935	882 442
Past due and impaired advances	27 540	9 725	–	37 265
Impaired advances	1 523	4 454	–	5 977
Unimpaired advances: 0 – 3 months in arrears	21 593	4 001	–	25 594
Unimpaired advances: more than 3 months in arrears	4 424	1 270	–	5 694
Total	594 804	311 968	12 935	919 707
Impaired advances (as above)	1 523	4 454	–	5 977
Security against impaired advances	(1 086)	(238)	–	(1 324)
Net impaired advances	437	4 216	–	4 653

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

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.3 GEOGRAPHICAL CONCENTRATION OF CREDIT RISK

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

2017	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
Mortgage loans	71	27	2	100
General	85	15	–	100
Instalment sales and rentals	27	43	30	100
Specific impairment provision	49	27	24	100

2016	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
Mortgage loans	69	27	4	100
General	79	20	1	100
Instalment sales and rentals	27	42	31	100
Specific impairment provision	37	44	19	100

19.5 MARKET RISK

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

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

19.5.1 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 R4 590 000 (2016: R4 273 000) per annum and a 1% decrease is expected to reduce pre-tax net margins by R4 668 000 (2016: R4 335 000) 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.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.5.1 INTEREST RATE RISK (CONTINUED)

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

2017	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	**1 065 932**	**65 206**	**25 308**	**83 351**
Liabilities	**(216 873)**	**(263 591)**	**(405 459)**	**(188 356)**
Other	**–**	**–**	**–**	**(165 518)**
	849 059	**(198 385)**	**(380 151)**	**(270 523)**

2016	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
Assets	991 672	55 338	38 500	39 271
Liabilities	(231 362)	(248 583)	(310 951)	(191 718)
Other	–	–	–	(142 167)
	760 310	(193 245)	(272 451)	(294 614)

19.5.2 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.

	2017 R'000	2016 R'000
Endowment Policy	**36 371**	27 869
Preference Shares	**5 740**	5 530
Nedgroup Investments	**35 153**	–
Medical Investment	**6 087**	5 871
	83 351	39 270

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.5.2 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. The asset allocation largely resembles that of a balanced unit trust:

	2017 %	2016 %
Equities	**65**	68
Cash	**4**	5
Bonds	**19**	20
Property	**7**	7
Other	**5**	–

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% (2016: 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
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 similar to those reflected above in the Endowment Policy.

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.6 LIQUIDITY RISK

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

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

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

The Bank's policy with respect to managing liquidity risk is conservative in that policies dictate that approximately twenty percent of deposits maturing within twelve months must be held in cash or liquid investments, which comfortably exceeds the statutory minimum liquid asset requirements. In addition we meet annually with our bankers to ensure 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 table in note 21 summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows, and the expected inflows, based on historical data, of the corresponding financial assets. Using the same principles for expected outflows on financial liabilities, short-term liquidity mismatches would not occur.

19.7 FOREIGN EXCHANGE RISK

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

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20. COMMITMENTS

(a) Operating lease commitments

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

	2017 R'000	2016 R'000
No later than 1 year	174	166
Later than 1 year and no later than 5 years	151	61
	325	227

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

	2017 R'000	2016 R'000
No later than 1 year	42	40
Later than 1 year and no later than 5 years	–	–
	42	40

21. LIQUIDITY RISK ANALYSIS

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

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2017	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	–	35 401	23 143	–	–	58 544
Cash: SA Reserve Bank balance	–	–	–	–	25 198	25 198
Cash: Treasury bills	–	18 000	42 000	–	–	60 000
Cash: Cash on hand	755	–	–	–	–	755
Advances: Mortgage	–	5 262	27 009	33 933	1 216 100	1 282 304
Advances: General	–	617	3 174	4 004	9 276	17 071
Advances: Instalment sales and rentals	–	13 840	69 201	83 041	252 446	418 528
Investments: Fixed Deposits	–	–	20 617	15 960	–	36 577
Investments: Other	77 611	–	–	–	–	77 611
Investments: Investec Securities	5 740	–	–	–	–	5 740
	84 106	73 120	185 144	136 938	1 503 020	1 982 328
Financial Liabilities						
Deposits	(18 474)	(211 563)	(292 138)	(307 584)	(372 925)	(1 202 684)
Sundry Creditors	–	(2 144)	–	-	–	(2 144)
	(18 474)	(213 707)	(292 138)	(307 584)	(372 925)	(1 204 828)
Total recognised financial instruments	65 632	(140 587)	(106 994)	(170 646)	1 130 095	777 500
Irrevocable unutilised facilities	–	(26 863)	–	(52 349)	–	(79 212)
Total unrecognised financial instruments	–	(26 863)	–	(52 349)	–	(79 212)
Net inflow / (outflow)	65 632	(167 450)	(106 994)	(222 995)	1 130 095	698 288

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2016	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	TOTAL R'000
Financial Assets						
Cash: Bank balances and deposits	–	41 674	30 795	–	–	72 469
Cash: SA Reserve Bank balance	–	–	–	–	22 541	22 541
Cash: Treasury bills	–	20 000	35 000	–	–	55 000
Cash: Cash on hand	883	–	–	–	–	883
Advances: Mortgage	–	4 696	24 087	30 229	1 127 518	1 186 530
Advances: General	–	451	2 320	2 925	9 603	15 299
Advances: Instalment sales and rentals	–	11 912	59 559	71 470	228 705	371 646
Investments: Fixed Deposits	–	–	28 928	16 251	–	45 179
Investments: Other	33 740	–	–	–	–	33 740
Investments: Investec Securities	5 530	–	–	–	–	5 530
	40 153	78 733	180 689	120 875	1 388 367	1 808 817
Financial Liabilities						
Deposits	(23 774)	(221 314)	(229 572)	(241 997)	(375 305)	(1 091 962)
Sundry Creditors	–	(3 286)	–	–	–	(3 286)
	(23 774)	(224 600)	(229 572)	(241 997)	(375 305)	(1 095 248)
Total recognised financial instruments	16 379	(145 867)	(48 883)	(121 122)	1 013 062	713 569
Financial guarantees	–	–	–	–	–	–
Irrevocable unutilised facilities	–	(26 135)	–	(53 867)	–	(80 002)
Total unrecognised financial instruments	–	(26 135)	–	(53 867)	–	(80 002)
Net inflow/(outflow)	16 379	(172 002)	(48 883)	(174 989)	1 013 062	633 567

Community Projects and Sponsorships

COMMUNITY PROJECTS & SPONSORSHIP

In recognition of GBS Mutual Bank's 140th anniversary in 2017, the Bank made two sizeable and significant donations to worthy recipients within the Grahamstown and district communities, plus sponsorship of a much-publicised event along the Sunshine Coast.

The amounts of R420 000 donated by GBS Mutual Bank to Gadra Education, and R140 000 to Child Welfare SA Grahamstown, are in addition to annual grants made to NGOs, schools and other organisations in Grahamstown, Port Alfred and surrounding districts.

Gadra Education expressed its gratitude to GBS Mutual Bank for the cheque in the amount of R420 000, representing R140 000 for 2017 in recognition of the Bank's 140th anniversary, a similar amount for 2018 and a further sum of R140 000 for 2019.

According to a Gadra Education spokesperson, the institution partners with the leadership of Rhodes University to offer a wide range of support programmes to Grahamstown's public schools, and also manages Rhodes's biggest feeder school, the Gadra Matric School.

Upon receiving its cheque of R140 000, Child Welfare SA Grahamstown said the donation from GBS Mutual Bank was the pinnacle of the Bank's benevolence, as for many years GBS had supported Child Welfare Grahamstown.

The Bank's support, both financially and morally, had repeatedly played a role in the society's achievements in serving the children within the community.

More than 100 people took part in the highly-successful Stride With Pride beach walk between Port Alfred and Kleinemonde towards the end of February 2017. The event was presented and organised by Sunshine Coast Hospice and sponsored by GBS Mutual Bank. This was the third year the Stride With Pride event was held.

Run in conjunction with the much-enjoyed beach walk was the Hospice golf day and post-competition dinner at which former South African spin bowler Pat Symcox was a popular choice as guest speaker.

Each year, GBS Mutual Bank's annual donation to the Grocott's Mail Christmas Cheer Fund is the first to be deposited into the fund. The fund has been in existence for many decades, supporting deserving charitable causes and needs within the community and surrounding districts.

Anton Vorster, Trish Gillies, Pat Symcox, Zelda Elliott and Andrew Marshall. Photo by Rob Knowles, Talk of the Town

GBS Mutual Bank continues to assist many institutions, societies and organisations on an annual basis. These donations range from hospitals and retirement centres to health care bodies and animal care centres. Schools also benefit from the magnanimity of GBS Mutual Bank.

Also on the receiving end of financial support from GBS Mutual Bank in the field of education is Rhodes University's "Commerce Extended Studies Programme" that has assisted in the education of disadvantaged school leavers with the potential of succeeding at university level.

GBS Mutual Bank values its partnership with Rhodes University in this programme, and the empowerment extended to young people in their future education and aspirations.

The course develops and nurtures the potential of students with additional support, and GBS Mutual Bank prides itself on its association with the programme that has, over the years, produced a large number of exceptional and prodigious employees in the corporate sector.

FINANCIAL SKILLS

The Financial Skills Programme was established by GBS Mutual Bank more than ten years ago with 1592 people attending the programme to date. The programme's aims are to provide Makana residents with the necessary skills required to manage their personal finances in a more efficient and streamlined manner.

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

GBS Mutual Bank staff member Mr Mfuzo Dyira is the presenter of the esteemed course that comprises theoretical and practical modules covering the disciplines of saving, budgeting, banking, managing and avoiding debt, and setting financial goals. The course also covers the all-important procedural and practical aspects of using ATMs.

Managing Director of GBS Mutual Bank, Anton Vorster hands a cheque for R420 000 to Gadra Education Manager, Dr Ashley Westaway. Photo by Stephen Penney, Grocotts

SPORT

GBS Mutual Bank continues to support sport at club and school level in the Makana and Ndlambe districts, and is also supportive of sporting events and tournaments, many of them raising funds for charity. The Bank offers financial assistance and support in kind, including the provision of prizes and awards.

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

Among the sports events, competitions and tournaments receiving support from GBS Mutual Bank in Grahamstown and along the Sunshine Coast are:

- GBS mixed fours bowls tournaments in Grahamstown and Kenton-on-Sea;
- GBS Grahamstown ladies' open golf day, which the Bank has sponsored for many years;
- GBS teams-of-three angling competition hosted by the Port Alfred River and Ski Boat Club;
- GBS Settlers Plate bowls tournament at Port Alfred.
- GBS Mutual Bank also sponsors charitable golf days at The Belmont Golf Club and Royal Port Alfred Golf Club, as well as sponsoring various holes at golf days in Port Elizabeth

To celebrate GBS Mutual Bank's 140th anniversary, Managing Director Anton Vorster hands over a cheque for R140 000 to Child Welfare SA Grahamstown Director Woineshet Bischoff and society administrator, Debbie Labuschagne.
Photo by Stephen Penney, Grocotts

Notes

GBS Mutual Bank

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