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# 141st

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## ANNUAL REPORT

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FOR YEAR ENDED 31 MARCH 2018



[www.gbsbank.co.za](http://www.gbsbank.co.za)

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# GBS Mutual Bank

## BOARD OF DIRECTORS

NAME	ROLE OF THE MEMBER	APPOINTED	QUALIFICATIONS	ATTENDANCE
FO Skae	Independent Non-Executive Director (Chairman)	2014	MCom, MBA	11/11
TCS Tagg	Independent Non-Executive Director	1996	BCom, CA (SA)	11/11
KL Wiblin	Independent Non-Executive Director	2004	BAccSc (Hons)	11/11
PG Clayton	Independent Non-Executive Director	2003	PhD, FSAICS	11/11
AM Marriner	Independent Non-Executive Director	2010	BSc (Hons)	10/11
KW Maree	Independent Non-Executive Director	2016	MCom, CA (SA)	11/11
AM Vorster	Managing Director	2007	BCom, MBA	11/11
JM Fincham	Executive	2016	BScS, CA (SA)	11/11

Skae – Chairman from 1 January 2018. Tagg – retired as Chairman 31 December 2017.

## 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 141st Annual General Meeting of Shareholders will be held at the Bank's Head Office, 18 – 20 Hill Street, Grahamstown on 26 July 2018, at 17h00.

## AGENDA

- To confirm the minutes of the last Annual General Meeting.
- To receive and consider the report of the Board of Directors and the Annual Financial Statements for the year ended 31 March 2018.
- To appoint Auditors and fix their remuneration. PricewaterhouseCoopers Inc., Registered Accountants and Auditors, offer themselves for re-election and have been duly nominated.
- To amend Article 23 (ii) in the GBS Mutual Bank's Articles of Association by the deletion of the whole of the said Article and substitution thereof of the following:  
"Notice of the Annual General Meeting shall advise the website where a copy of the audited financial statements and reports thereon may be observed, as well as stating these documents will be available for inspection at the Bank's Head Office and branches of the Bank."
- To fix the remuneration of Directors in terms of Article 21 (vi).
- To pass a resolution that donations for charitable purposes may be made as the Directors see fit out of available profits.
- 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 5 to 49 were approved by the Board of Directors on 31 May 2018 and are signed on its behalf by:



**F O Skae**  
Chairman



**A M Vorster**  
Managing Director

# Auditor's Report

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

### OUR OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of GBS Mutual Bank (the Bank) as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act.

### WHAT WE HAVE AUDITED

GBS Mutual Bank's financial statements set out on pages 12 to 49 comprise:

- the balance sheet as at 31 March 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### BASIS FOR OPINION

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

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

### Independence

We are independent of the Bank in accordance with the *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 information included in the Annual Report. 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 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.

### 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.

# Auditor's Report (continued)

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*PricewaterhouseCoopers Inc.*

**PricewaterhouseCoopers Inc.**  
**Director: RD Stanham**  
**Registered Auditor**  
**Port Elizabeth**  
**31 May 2018**

# Report of the Directors

## NATURE OF BUSINESS

- MORTGAGE LOANS
- ASSET BASED FINANCE
- SAVINGS AND INVESTMENTS

## DIRECTORS' REPORT TO SHAREHOLDERS

The GBS Mutual Bank continues to thrive in tough economic times thanks to the outstanding support from our clients and stakeholders.

Balance Sheet growth has exceeded expectations. GBS total loans and advances, mortgage and asset based finance growth has achieved above industry growth over the last ten years. We believe that this is most encouraging and a strong endorsement of the Mutual path we follow.

The Board is pleased to bring to shareholders' attention that the interest rates on subscription and indefinite period shares have not been reduced through the last two interest rate changes in July 2017 and March 2018. The Bank has effectively paid share depositors a premium or 'bonus' dividend in celebration of 140 years and to thank our shareholders for their continued support.

As previously reported, Tom Tagg retired as Chairman of the Board at the end of December last year. He had been Chairman since 2009 and led the Bank with distinction. Over this time the Bank grew and flourished, and contributed enormously to the social and economic welfare of the region. His thorough knowledge of the operations of the Bank, as well as his extensive interactions with a range of clients will fortunately not be lost to GBS as he has agreed to remain on the Board of Directors to ensure a smooth transition to the incoming Chair. The Board on behalf of all stakeholders in the Bank thank Tom for his enormous contribution to GBS over many years both as Managing Director and as Chairman.

Owen Skae has been a Non-Executive Director of the Bank since 2014, was appointed Vice-Chair in 2016 and following due process and in line with succession planning was elected to Chair the Board commencing in January 2018. He is a graduate of Rhodes University and Durham University and since 2010 has been

Director of the Rhodes Business School. In the first three months of this role, he has spent time engaging with various stakeholders of the Bank, thereby gaining insights into key perspectives.

Consistent with the provisions of the Municipal Finance Management Act No 56 of 2003 the Bank reports that it holds no municipal deposits. As is mandatory, the two Executive Directors recently submitted and presented the Recovery Plan to the SA Reserve Bank. The Recovery Plan is a carefully considered process for addressing various forms of recovery from unexpected events and was recently approved by the Board.

The Bank has invested considerable resources in preparing for the introduction of IFRS9 which deals with the basis for providing for bad and doubtful debts. This onerous standard will be incorporated into annual reporting from the March 2019 year. In addition, significant progress has been made in dealing with the challenging compliance and regulatory environment and new technology platforms to gear us for the future.

The current business model of conservative lending and holding surplus cash has stood the bank in good stead and the GBS remains committed to the concept of mutuality. The GBS remains well placed in terms of liquidity, reserves and human capital to meet client needs for term investments and long term borrowings

## ECONOMY

Economic conditions have for a number of years been characterised by political and policy uncertainty which has negatively affected a range of key metrics including GDP growth, sovereign ratings and unemployment. This was allied with widespread allegations of corruption and mismanagement of resources. However, since the election of President Cyril Ramaphosa the outlook has improved considerably and confidence has started to return. Unemployment remains a key challenge and we call on Government to do all it can to address the issue.

The South African Rand surprised many by appreciating over the last two years, and particularly since the change in political leadership. The South African Reserve Bank and the Monetary Policy Committee reduced the repo rate in mid-2017 and again in March 2018 thereby increasing the incentive to borrow and invest in fixed and durable assets.

# Report of the Directors (Continued)

## PERFORMANCE

The GBS's results for the year to March 2018 were most satisfactory in a tough trading environment. Asset growth was double the inflation rate with excellent growth in instalment finance, while deposit growth again exceeded expectations. The Bank continues to hold surplus cash and has provided prudently for potential bad debts.

It is worth noting that over the period 2007 to 2017 the bank has outperformed the industry loan growth for mortgages by 120% and instalment finance growth by 53%.

The balance sheet grew 10,1% to R1,392 billion with growth in mortgage loans of 8,8% and the asset based finance portfolio growing by 11,6%. Specific provisions were R11,3 million at year end against R6,3 million a year ago, and the provision against performing loans was reduced from R7,5 million to R7 million.

The bank remains well capitalised with a capital adequacy ratio of 13,28% against a required ratio of 10%. The capital ratio improved over last year despite expensing IFRS9 software of R1m. Secondary capital, mainly qualifying fixed period shares, increased from R37m last year to R51m. The Board guideline is to maintain the capital adequacy ratio between 13% and 14%.

The profit for the year was enhanced by another year of outperformance of the Momentum investment which yielded R4,9 million against R8,5 million last year. We believe the return of 13% is unlikely to be repeated in 2019 and have planned for lower returns.

The lending interest margin narrowed over the year with net interest income lower by 1,9% while non-interest income, excluding the fair value adjustments, was 19% higher than last year. Operating expenses were marginally lower year on year and include the additional costs associated with compliance and the write-off of IFRS9 software. Other comprehensive income is detailed in the report and relates to remeasurements of the retirement benefit obligation and a fair value loss on the investment in preference shares.

The results for the year are again pleasing. Bank investment in technology related to new systems and compliance will impact costs in the coming years. This, with lower interest rates means the bank has budgeted for lower net income in 2019 but growing profits thereafter.

## CORPORATE GOVERNANCE

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

The Board is committed to the King Code of Corporate Governance and is aligned to the King IV principles and practices on a proportional apply and explain basis 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 Chair. This ensures that independent thought is brought to bear on Board decisions. Effective control is maintained through a structure of well-functioning Board committees which provide in-depth focus on specific areas.

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

### AUDIT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KW Maree (Chair)	5/5
KL Wiblin	5/5
FO Skae (1 April 2017 to 31 December 2017)	4/4
TCS Tagg (from 1 January 2018)	1/1

The audit committee is responsible for reviewing and evaluating the system of internal controls, the efficacy of the accounting and financial reporting systems, compliance with regulatory and other relevant legislation and both the internal and external audit processes.

The audit committee is chaired by an independent non-executive director and membership includes two other independent non-executive directors. The managing director, executive director and company secretary are

# Report of the Directors (Continued)

## AUDIT COMMITTEE (CONTINUED)

standing invitees to the majority of audit committee meetings. The audit committee members have collective qualifications and experience in banking, accounting and auditing.

The committee met five times during the year including an annual meeting with the Bank Supervision Department of the SA Reserve Bank. The external auditors and internal audit were present at three of the meetings and were given opportunities to raise any sensitive matters privately with the audit committee.

The audit committee considered the following key focus areas during the year:

- Considered and approved the external and internal audit plans for the year.
- Approved the external auditors' engagement letters and related remuneration.
- Considered the annual financial statements and recommended these to the Board for approval.
- Considered the external auditors' report and the key audit matters contained therein.
- Reviewed the external auditors' reports to management and the Bank's responses to findings.
- Reviewed the external auditors' report relating to regulatory submissions to the SA Reserve Bank.
- Considered the Bank's ability to continue operating as a going concern and concluded that this was indeed the case.
- Reviewed the quarterly internal auditors' reports to management and the Bank's responses to findings.
- Concluded that the system of internal controls was operating effectively.
- Considered the independence and effectiveness and efficiency of the external auditors and recommended their reappointment for shareholder approval at the AGM.
- Considered and implemented the disclosure requirements of King IV.
- Considered matters of compliance and addressing IFRS9 Financial Instruments as referred from the compliance committee. In particular, the audit committee considered the potential impact of IFRS9 Financial Instruments on the financial statements and related disclosures.

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

## REMUNERATION COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KL Wiblin (Chair)	2/2
AM Marriner	1/2
FO Skae	2/2

The remuneration committee is responsible for setting the remuneration policy for all executive directors, to recommend and monitor the level and structure of remuneration for senior management and overseeing any major changes to employee benefit structures.

The committee is chaired by an independent non-executive director and membership includes two other independent non-executive directors. The managing director and company secretary are standing invitees to committee meetings. No executive director or senior manager shall be involved in any decisions as to their own remuneration.

The remuneration committee members have collective qualifications and experience in banking, accounting and human resource management.

The remuneration committee considered the following key focus areas during the year:

- Considered and approved the annual salary increments.
- Considered and approved the profit share bonus allocation.
- Reviewed the long service awards and staff retiring within the next ten years.

The remuneration committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

### IT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
AM Marriner (Chair)	6/6
KL Wiblin	6/6
PG Clayton	5/6

The IT committee is primarily responsible for the governance of IT-specific projects and other business initiatives that have a significant IT component, for the monitoring and reporting of all IT risks and audit findings, ensuring that IT priorities are in line with those of the Board, the monitoring of the annual IT budget, and reviewing all IT policies on a regular basis.

# Report of the Directors (Continued)

## IT COMMITTEE (CONTINUED)

The IT committee is chaired by an independent non-executive director and membership of the committee includes a non-executive representative of the audit committee, and an additional non-executive representative from the Board of Directors with suitable IT expertise. The Managing Director, executive director, company secretary, compliance officer, head accountant, and the head of IT are all standing invitees to the meetings.

The committee met six times during the past year to discuss the following key focus areas:

- The selection and appointment of a vendor to develop the new Asset Based Finance system
- The planning and management of the new Asset Based Finance system implementation
- IT components of several compliance projects, including FICA, transaction monitoring and client screening
- Enhancements to, and testing of, the Bank's disaster recovery site
- Review and approval of all IT-related policies
- The prioritisation of IT projects and monitoring of the IT budget
- The review of the stability of the production environment
- The initiation and undertaking of an external penetration test
- Review of IT risk register and external IT audit reports
- The review of any cyber security threats as a standing item on the agenda.

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

## DIRECTORS AND EXECUTIVES' AFFAIRS COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
AM Marriner (Chair)	2/2
TCS Tagg	2/2
KL Wiblin	2/2
FO Skae (appointed in February 2018)	1/1

The directors and executive affairs committee is primarily responsible for the governance of matters pertaining to the non-executive directors of the Board, the structure of the executive management team and succession planning for key positions within GBS Mutual Bank.

The directors and executive affairs committee is chaired by an independent non-executive director, and membership of the committee includes two non-executive directors. The managing director is in attendance at the meetings.

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

- Appointment of the new Chairman of the Board
- The retirement age of both non-executives and executives
- The initiation of the Operations Committee as a new sub-committee of the Board
- A review of the current structure of the senior management team
- A review of the senior management succession plan
- The consideration of a Board appraisal process
- A review of the current non-executives attending the Board sub-committees.

The directors and executive affairs committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

## BUSINESS DEVELOPMENT COMMITTEE

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

The business development committee is responsible for advising and making recommendations to the Board on the implementation and monitoring of the strategy as formulated and agreed to by the Board and to assess product and service offerings.

It is chaired by an independent non-executive director and membership includes one other independent non-executive director, the managing director, executive director and two general managers.

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

- The strategic plan for the Port Elizabeth branch
- Compilation of reporting metrics for sales and marketing performance

# Report of the Directors (Continued)

## BUSINESS DEVELOPMENT COMMITTEE (CONTINUED)

- Tracking of growth targets
- Consideration of competitor product and service offerings and alignment of bank strategy to market opportunities where feasible and viable
- Consideration of 140th anniversary events
- Investigation of new income streams, taking into consideration both market and product development
- Branch sales and marketing performance in relation to strategic plan objectives and targets
- Communication with clients

The business development committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

## COMPLIANCE COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KW Maree (Chair)	12/12
KL Wiblin	12/12
AM Vorster	12/12
JM Fincham	11/12
P Hornby	12/12
B MacKenzie	12/12

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

The compliance committee is chaired by an independent non-executive director. Committee membership includes one other independent non-executive director, the managing director, executive director, company secretary and compliance officer. The compliance committee members have collective qualifications and experience in banking, accounting, auditing and compliance.

The committee met monthly during the year. The internal auditors were present at meetings where internal audit reports relating specifically to matters of compliance were tabled. The committee also met with members of the Financial Intelligence Centre and SA Reserve Bank regarding the amendments to the Financial Intelligence Centre Act.

The compliance committee considered the following key focus areas during the year:

- Considered and monitored compliance with regulatory requirements.

- Considered and monitored progress towards developing a model to comply with the requirements of IFRS9 Financial Instruments pertaining to allowances for expected credit losses.
- Considered and monitored adherence to the Financial Intelligence Centre Act (FICA) and progress on the activity plan for complying with amendments made to the act.
- Considered current and future compliance requirements related to the National Credit Act (NCA), South African Credit and Risk Reporting Association (SACRRA) and the Protection of Personal Information Act (PoPIA).
- Monitored the development of policies for managing compliance and recommended these to the Board for approval.

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

## 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 over the past year, they remain below the industry norm.

## RISK MANAGEMENT COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
FO Skae (Chair - from 1 January 2018)	2/2
TCS Tagg (Chair - April 2017 to 31 December 2017)	2/2
AM Marriner	1/2
KL Wiblin	2/2
PG Clayton	2/2
KW Maree	2/2
AM Vorster	2/2
JM Fincham	2/2
P Hornby	2/2
WS Vallance	2/2
KC Breetzke	2/2

# Report of the Directors (Continued)

## RISK MANAGEMENT COMMITTEE (CONTINUED)

The committee, which meets twice a year, was chaired by Tom Tagg (2017) and Owen Skae (2018), ensures that the risk management policies and procedures are reviewed periodically and that banking risks are understood at all relevant levels within the Bank.

The 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.

Many of these functions are delegated to the Risk Management Sub-Committee which meets on a weekly



**FO Skae**  
Chairman  
31 May 2018

basis and is chaired by a non-executive director on a rotational basis.

## STAFF DEVELOPMENT

We actively encourage staff to upgrade their knowledge and skills through incentives and this has proved to be beneficial to the bank. Extensive training, including the Board of Directors, has been undertaken relating to anti money laundering (AML) and combating the financing of terrorism (CFT).

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

## OUTLOOK AND THANKS

The year to March 2018 will be remembered for celebrating the Bank's 140th year and the continued growth of the Bank. The Board anticipate lower profits in the coming year but envisage increases thereafter in terms of the strategic objectives.

We thank the Board of Directors for their dedication and continued commitment to the Bank as well as for their wisdom, guidance and insight. Management and staff are also thanked for delivering another set of satisfactory results in a tough regulatory environment.

Most of all we thank our clients for trusting us to meet their financial needs. We remain humbled by your continued support.



**A M Vorster**  
Managing Director  
31 May 2018

# Report of the Directors (Continued)

## FIVE YEAR REVIEW

YEAR ENDED 31 MARCH (R 000)	2018	2017	2016	2015	2014
<b>BALANCE SHEETS</b>					
Reserves	108 715	102 177	91 423	86 606	79 623
Share deposits	275 562	265 875	274 816	264 871	264 887
Deposits	984 891	875 191	765 677	715 950	658 897
Other liabilities	23 327	21 611	20 434	17 614	15 482
	<b>1 392 495</b>	<b>1 264 854</b>	<b>1 152 350</b>	<b>1 085 041</b>	<b>1 018 889</b>
Cash & short term securities	166 146	143 870	150 176	137 575	128 605
Investments	134 581	118 779	82 875	72 370	88 832
Loans and advances	1 085 106	995 752	911 054	865 651	794 826
- Mortgages and other	713 978	660 574	607 739	574 350	517 627
- Instalment sales, rentals	389 478	348 935	311 968	298 394	284 838
- Less: Risk provisions	18 350	13 757	8 653	7 093	7 639
Other	6 662	6 453	8 245	9 445	6 626
	<b>1 392 495</b>	<b>1 264 854</b>	<b>1 152 350</b>	<b>1 085 041</b>	<b>1 018 889</b>
<b>Income Statements</b>					
Net interest margin	36 155	36 855	29 321	26 033	23 615
Other income	9 994	12 778	6 412	10 072	9 062
	<b>46 149</b>	<b>49 633</b>	<b>35 733</b>	<b>36 105</b>	<b>32 677</b>
Impairments & provisions	(5 792)	(5 924)	(2 025)	(1 489)	(1 540)
Operating expenses	(32 657)	(32 723)	(27 481)	(24 110)	(23 327)
Tax	(619)	(373)	(787)	(2 398)	(1 793)
Profit for the year	7 081	10 613	5 440	8 108	6 017
Other comprehensive (loss)/ income	(543)	141	(623)	(1 125)	507
Comprehensive income	<b>6 538</b>	<b>10 754</b>	<b>4 817</b>	<b>6 983</b>	<b>6 524</b>
<b>Key Ratios – %</b>					
Capital adequacy at year end	13,3%	13,2%	14,0%	14,6%	15,8%
Bad debt provision: advances	1,7%	1,4%	0,9%	0,8%	1,0%
Expenses to average assets	2,4%	2,7%	2,4%	2,3%	2,4%

# GBS Mutual Bank

## BALANCE SHEET AT 31 MARCH 2018

	NOTES	2018 R'000	2017 R'000
<b>ASSETS</b>			
Cash and cash equivalents	3	166 146	143 870
Investments	5	134 581	118 779
Advances and loans	4	1 085 106	995 752
Current income tax asset		1 017	1 506
Other assets	7	124	529
Property and equipment	6	3 166	1 602
Deferred income tax asset	8	2 355	2 816
<b>Total assets</b>		<b>1 392 495</b>	<b>1 264 854</b>
<b>LIABILITIES</b>			
Share deposits	9	275 562	265 875
Other deposits	9	984 891	875 191
Other liabilities	10	9 814	8 384
Retirement benefit obligations	11	12 292	12 272
Other long-term employee benefits	12	1 221	955
<b>Total liabilities</b>		<b>1 283 780</b>	<b>1 162 677</b>
<b>RESERVES</b>			
		108 715	102 177
<b>Total liabilities and reserves</b>		<b>1 392 495</b>	<b>1 264 854</b>

# GBS Mutual Bank

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	NOTES	2018 R'000	2017 R'000
Interest income	13	131 790	119 189
Interest expense	13	(95 635)	(82 334)
<b>Net interest income</b>		<b>36 155</b>	<b>36 855</b>
Net impairment on advances	16	(5 792)	(5 924)
<b>Net interest income after impairment on advances</b>		<b>30 363</b>	<b>30 931</b>
<b>Total non-interest income</b>			
		<b>9 994</b>	<b>12 778</b>
Fee and commission income	14	4 001	3 502
Fair value adjustments on investments	5	5 013	8 579
Dividend income		919	641
Other operating income		61	56
<b>Total expenses</b>		<b>(32 657)</b>	<b>(32 723)</b>
Operating expenses	15	(31 688)	(31 887)
Commission expense		(969)	(836)
<b>Profit before income tax</b>		<b>7 700</b>	<b>10 986</b>
Income tax expense	17	(619)	(373)
<b>Profit for the year</b>		<b>7 081</b>	<b>10 613</b>
<b>Other comprehensive income</b>			
Items that may not be reclassified to profit or loss			
		542	(22)
Remeasurements of retirement benefit obligation	11	753	(30)
Deferred tax	8	(211)	8
Items that may be reclassified to profit or loss			
		(1 085)	163
Fair value (loss)/gain on investments	5	(1 398)	210
Deferred tax	8	313	(47)
<b>Total comprehensive income for the year</b>		<b>6 538</b>	<b>10 754</b>

# GBS Mutual Bank

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	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 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	-	-	-
<b>Balance at 31 March 2017</b>	<b>1 000</b>	<b>95 182</b>	<b>58</b>	<b>5 937</b>	<b>102 177</b>
Balance at 1 April 2017	1 000	95 182	58	5 937	102 177
Profit for the year	7 081	-	-	-	7 081
Other comprehensive income for the year	-	542	(1 085)	-	(543)
Transfer to statutory credit risk reserve	(594)	-	-	594	-
Transfer to general reserves	(6 487)	6 487	-	-	-
<b>Balance at 31 March 2018</b>	<b>1 000</b>	<b>102 211</b>	<b>(1 027)</b>	<b>6 531</b>	<b>108 715</b>

### Notes

- Retained Earnings: the Bank maintained its Retained Earnings at R1 000 000 (2017: R1 000 000) and transfers excess funds to the General Reserve.
- General Reserve: represents profits which have been formally appropriated by the Board of Directors, as required by the Mutual Banks Act.
- Revaluation Reserve: relates to the accumulated unrealised gains and losses on available-for-sale investments.
- Statutory Credit Risk Reserve: separate reserve maintained in terms of regulations to the Mutual Banks Act on all advances that have not specifically been provided for.

# GBS Mutual Bank

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	2018 R'000	2017 R'000
<b>Cash flows from operating activities</b>		
Interest receipts	131 790	119 189
Interest payments	(95 635)	(82 334)
Fee and commission receipts	4 001	3 502
Fee and commission payments	(969)	(836)
Dividends received	919	641
Other income	61	56
Payments to employees and suppliers	(31 203)	(30 885)
Income taxes refunded	434	1 066
<i>Cash flows from operating activities before changes in operating assets and liabilities</i>	<b>9 398</b>	<b>10 399</b>
<b>Changes in operating assets and liabilities</b>		
Net increase in advances	(95 146)	(90 622)
Net decrease/(increase) in other assets	405	(466)
Net increase in share and other deposits	119 387	100 573
Net increase in other liabilities	2 696	1 566
<b>Net cash generated from operating activities</b>	<b>36 740</b>	<b>21 450</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(2 284)	(641)
Proceeds on disposal	7	-
Net increase in investments	(12 187)	(27 115)
<i>Net cash used in investing activities</i>	<b>(14 464)</b>	<b>(27 756)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>22 276</b>	<b>(6 306)</b>
Cash and cash equivalents at beginning of year	143 870	150 176
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>166 146</b>	<b>143 870</b>

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

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 significant new and amended standards that became effective during the 2018 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 2018 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. The effective date of the standard is for reporting periods beginning on or after 1 January 2018.

- 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. The effective date of the amendment is for reporting periods beginning on or after 1 January 2018.
- Amendment to IFRS 9 - 'Financial Instruments'. The narrow-scope amendment covers two issues. The first allows entities to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met - instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities. The second amendment confirms how to account for the modification of a financial liability. Such modifications will result in immediate recognition of a gain or loss. This is a change from practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings. The effective date of the amendment is for reporting periods beginning on or after 1 January 2019.
- IFRIC 23 - 'Uncertainty over income tax treatments'. This standard provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management will assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting. The effective date of the standard is for reporting periods beginning on or after 1 January 2019.
- IFRS 15 Revenue from contracts with customers. The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014.

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.1 BASIS OF PREPARATION (CONTINUED)

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. The effective date of the standard is for reporting periods beginning on or after 1 January 2018.

- 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. New and amended illustrative examples have been added for each of these areas for guidance. 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). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The effective date of the amendment is for reporting periods beginning on or after 1 January 2018.
- 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 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 effective date of the standard is for reporting periods beginning on or after 1 January 2019.

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 initially recognised at fair value when the Bank becomes party to the contractual terms of the instruments. Advances and loans are accounted for at amortised cost using the effective interest rate method. 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.

The Bank derecognises an asset when the contractual rights to the asset expires or are transferred.

#### 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

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.4 IMPAIRMENT OF ADVANCES (CONTINUED)

reduce the carrying amount of the asset to the present value of expected future cash flows.

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

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

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

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

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

#### 1.5 INVESTMENTS

Financial assets at fair value through profit or loss are initially recognised at fair value. All other financial assets are initially recognised at fair value plus transaction costs. All purchases and sales of financial assets that require

delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to 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.

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.5 INVESTMENTS (CONTINUED)

#### Available-for-sale (continued)

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 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. All assets are depreciated on a straight line basis (in the prior year furniture and equipment and computer equipment were depreciated on a reducing balance basis) to write down the cost of assets to their residual values over their estimated lives as follows:

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

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

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.8 IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or has expired.

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

#### 1.11 CURRENT AND DEFERRED INCOME TAX

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

The current income tax charge is calculated on the

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

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

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

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

#### 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.

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.12 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

##### 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.

##### 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

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>3. CASH AND CASH EQUIVALENTS</b>		
Bank balances	14 266	16 946
Short-term deposits	59 551	41 473
South African Reserve Bank deposit	27 810	25 198
Treasury bills	63 686	59 498
Cash on hand	833	755
	<b>166 146</b>	<b>143 870</b>

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

The Bank has an overdraft facility at First National Bank Limited of R10 000 000 (2017: 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.

	2018 R'000	2017 R'000
<b>4. ADVANCES AND LOANS</b>		
Mortgages	702 729	645 695
General	11 249	14 879
Instalment sales and rentals	389 478	348 935
	<b>1 103 456</b>	<b>1 009 509</b>
Impairment provisions (Note 16)	(18 350)	(13 757)
	<b>1 085 106</b>	<b>995 752</b>

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 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>4. ADVANCES AND LOANS (CONTINUED)</b>		
Commitment for the aggregate amount of advances and re-advances granted but not yet paid out:		
Instalment sales and rentals	29 568	19 217
Mortgages	37 210	60 125
	<b>66 778</b>	<b>79 342</b>
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	467 572	418 966
Less: Unearned finance income	(78 094)	(70 031)
	<b>389 478</b>	<b>348 935</b>

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

	2018 R'000	2017 R'000
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## 5. INVESTMENTS

### Held-to-maturity investments

Fixed deposits	33 733	35 428
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The fixed deposits were held with Sasfin Bank and First National Bank (2017: Grindrod Bank, Sasfin Bank, Investec 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	77 611	33 740
Additions	25 000	46 000
Withdrawals	(20 000)	(12 000)
Fair value adjustment through profit or loss	5 013	8 579
Interest reinvested	3 157	1 247
Dividends reinvested	49	45
Closing balance	<b>90 830</b>	<b>77 611</b>

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>5. INVESTMENTS (CONTINUED)</b>		
<i>Available-for-sale investments</i>		
Opening balance	5 740	5 530
Additions	5 676	–
Fair value (loss)/gain through other comprehensive income	(1 398)	210
Closing balance	10 018	5 740
<i>Investment in equity instrument</i>		
Opening and closing balance after impairment	–	–
Total investments	134 581	118 779

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 333 438 (2017: R6 087 302), are held to partially cover the post-retirement medical obligations in note 11. The Nedgroup 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% (2017: 83.3%) of the prime overdraft rate, carried at fair value of R10 018 000 (2017: R5 740 000). These instruments are classified as equity instruments.

The Bank has an equity investment which consists of a 8.65% (2017: 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 2018 (CONTINUED)

### 6. PROPERTY AND EQUIPMENT

	OFFICE PREMISES R'000	FURNITURE, EQUIPMENT & MOTOR VEHICLES R'000	COMPUTER EQUIPMENT & SOFTWARE R'000	TOTAL R'000
<b>Year ended 31 March 2018</b>				
Opening carrying amount	72	371	1 159	1 602
Additions	–	100	2 184	2 284
Disposals	–	–	(7)	(7)
Depreciation	–	(150)	(563)	(713)
Closing carrying amount	72	321	2 773	3 166
<b>At 31 March 2018</b>				
Cost	72	1 038	4 664	5 774
Accumulated depreciation	–	(717)	(1 891)	(2 608)
Closing carrying amount	72	321	2 773	3 166
<b>Year ended 31 March 2017</b>				
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
<b>At 31 March 2017</b>				
Cost	72	949	2 546	3 567
Accumulated depreciation	–	(578)	(1 387)	(1 965)
Closing carrying amount	72	371	1 159	1 602

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

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

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

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 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

	2018 R'000	2017 R'000
Sundry debtors	124	30
South African Revenue Services – VAT	–	499
	<b>124</b>	<b>529</b>

## 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% (2017: 28%).

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

	2018 R'000	2017 R'000
At beginning of year	2 816	2 167
(Charge)/credit to the profit and loss component of the statement of profit or loss and other comprehensive income (note 17)	(563)	688
Credited/(charged) directly to other comprehensive income	102	(39)
At end of year	<b>2 355</b>	<b>2 816</b>

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 8. DEFERRED INCOME TAX ASSET (CONTINUED)

Deferred income tax is attributable to the following items:

	2017 R'000	CREDITED / (CHARGED) TO PROFIT R'000	(CHARGED)/ CREDITED TO OCI <sup>A</sup> R'000	2018 R'000
Provisions against advances	2 139	(117)	–	2 022
Leave pay accrual	355	42	–	397
Deferred income	582	199	–	781
Retirement benefit obligations	3 434	219	(211)	3 442
Other long-term employee benefits	1 007	(222)	–	785
Other provisions	112	125	–	237
Deferred capital gains tax	150	–	–	150
Assessed loss recognised	–	9	–	9
Deferred income tax asset	7 779	255	(211)	7 823
Accelerated depreciation	(249)	117	–	(132)
Deferred capital gains tax	(587)	(22)	313	(296)
Rental deals	(4 127)	(913)	–	(5 040)
Deferred income tax liability	(4 963)	(818)	313	(5 468)
Net deferred income tax asset	<b>2 816</b>	<b>(563)</b>	<b>102</b>	<b>2 355</b>

<sup>A</sup> – Other comprehensive income

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>9. SHARE AND OTHER DEPOSITS</b>		
Share deposits		
Indefinite period shares	91 944	95 239
Subscription shares	59 392	56 436
Fixed period shares	124 226	114 200
	<b>275 562</b>	<b>265 875</b>
Other deposits		
Fixed and call deposits	953 656	848 617
Savings and transmission deposits	31 235	26 574
	<b>984 891</b>	<b>875 191</b>
Total indefinite period paid-up shares under notice of redemption	<b>4 329</b>	<b>4 233</b>
Details of the various deposits offered are as follows:		
	<b>TERM</b>	<b>INTEREST METHOD</b>
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
	<b>2018 R'000</b>	<b>2017 R'000</b>
<b>10. OTHER LIABILITIES</b>		
Sundry creditors	993	675
Accruals and other liabilities	5 603	5 631
South African Revenue Services – VAT	427	–
Deferred income	2 791	2 078
	<b>9 814</b>	<b>8 384</b>

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>11. RETIREMENT BENEFIT OBLIGATIONS</b>		
The Bank's retirement obligations are summarised as follows:		
Post-retirement healthcare obligation	11 733	11 713
Pension liability	559	559
	<b>12 292</b>	<b>12 272</b>
The main actuarial assumptions used in the calculation of the healthcare obligation were:		
– Discount rate	9,00%	9,75%
– Medical cost inflation	7,50%	8,75%
– Net discount rate	1,40%	0,92%
– Normal retirement age	63	63
The movement in the defined benefit obligation over the year is as follows:		
At beginning of year	11 713	12 102
Current service cost	269	314
Past service cost	–	(1 330)
Interest cost	1 112	1 181
Remeasurement (gain)/loss	(753)	30
Employer benefit payments	(608)	(584)
At end of year	<b>11 733</b>	<b>11 713</b>
Expected contributions to the retirement benefit obligations for the year ended 31 March 2019 are anticipated to be R634 000.		
Amounts recognised in the statement of profit or loss and other comprehensive income:		
– Interest cost	1 112	1 181
– Current service cost	269	314
– Past service cost	–	(1 330)
	<b>1 381</b>	<b>165</b>

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2018 R'000	2017 R'000
The remeasurement (gain)/loss recognised in other comprehensive income is as follows:		
Gain due to changes in financial assumptions	(743)	(33)
Experience (gain)/loss for the year	(10)	32
Loss due to demographic adjustments	–	31
	<b>(753)</b>	<b>30</b>

Included in investments held at fair value (note 5) is an investment with a carrying value of R6 333 438 (2017: R6 087 302) 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.

	2018	2017
<i>Post-retirement mortality tables: PA90-1 (Retired members) and SA 85-90 (Lite) (In-service employees)</i>		
– Average number of members:		
In-service employees	11	12
Retired members	18	18
	<b>29</b>	<b>30</b>

– Average age of members:		
In-service employees	54	52
Retired members	76	75

	R'000	R'000
The Bank's retirement obligations are summarised as follows:		
Active members	4 836	4 735
Pensioners	6 897	6 978
	<b>11 733</b>	<b>11 713</b>

The weighted average duration of the benefit obligation is 13.7 years (2017: 14.3 years).

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (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	1 535	1 281
1% change in discount rate	(1 282)	(1 562)
1 year change in retirement age	(407)	(452)
1 year change in average age	(455)	(462)

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:

- CPI and Health care cost inflation: The risk that CPI and therefore future healthcare cost inflation is higher than expected will lead to higher liabilities.
- Longevity: The employer's subsidy covers the post-employment medical scheme contributions in retirement until the main pensioner's death. The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.
- Cash flow risk: The risk to the employer that, due to unforeseen circumstances, funds may not be available at the time that they are required.
- Changes in bond yields: A decrease in the bond yields used to determine the discount rate will increase the employer's reported post-employment health care liability. High volatility in the bond yields used to determine the discount rate may lead to volatile 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. Changes in tax legislation affecting the subsidy may also pose a risk to both the employer and the recipients of the subsidy.

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

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2018 R'000	2017 R'000
<b>Pension liability</b>		
The main assumptions used to calculate the Bank's liability in respect of unfunded pension obligations were a discount rate of 7.26% (2017: 7.99%) and life expectancies based on actuarial life expectancy tables (refer note 1.12). There are 4 former employees and spouses included in this plan, with an average age of 84 years.		
There was no movement in the pension liability.		
At beginning and end of year	559	559
<b>GBS Mutual Bank Provident Fund</b>		
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 42 (2017: 44) members and contributions for the year amounted to R1 384 609 (2017: R1 330 322).		
<b>12. OTHER LONG-TERM EMPLOYEE BENEFITS</b>		
<b>Service awards</b>		
At beginning of year	955	766
Additional provision charged to statement of profit or loss and other comprehensive income	270	252
Amount utilised against provision	(4)	(63)
At end of year	1 221	955

The main assumptions used to calculate the Bank's liability in respect of service awards were a discount rate of 8.75% (2017: 8.93%), estimated salary increases of 7.5% (2017: 7.50%) and staff turnover of 25% (2017: 35%).

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).

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 13. INTEREST

	2018 R'000	2017 R'000
<b>Interest income</b>		
Mortgages	70 663	65 214
General advances	1 464	1 480
Instalment sales and rentals	44 649	39 643
Investments	14 622	12 594
Other	392	258
	<b>131 790</b>	<b>119 189</b>
<b>Interest expense</b>		
Fixed deposits	71 684	58 739
Tax free savings	178	90
Savings deposits	1 303	1 302
Indefinite period paid-up shares	7 646	7 961
Subscription shares	4 569	4 425
Fixed period shares	10 255	9 817
	<b>95 635</b>	<b>82 334</b>
<b>14. FEE AND COMMISSION INCOME</b>		
Fee income	3 772	3 144
Commission income	229	358
	<b>4 001</b>	<b>3 502</b>

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>15. OPERATING EXPENSES</b>		
Operating expenses totalled R31 688 000 (2017: R31 887 000) and include the following items:		
Auditors' remuneration		
– audit fees	1 070	1 010
– fees for other services	75	159
	<b>1 145</b>	<b>1 169</b>
Depreciation	713	399
Software development costs expensed	902	1 022
Office rental expense	398	331
Computer expenses	1 990	1 907
Staff remuneration and related personnel costs	15 065	15 964
Directors' emoluments		
<i>Executive Directors</i>		
– salaries and benefits	2 928	2 452
<i>Non-Executive Directors</i>		
– for services and consulting fees	1 341	1 111
	<b>4 269</b>	<b>3 563</b>

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

	2018 R'000	2017 R'000
<b>16. IMPAIRMENT PROVISIONS AGAINST ADVANCES AND LOANS</b>		
Balance at beginning of year	(13 757)	(8 653)
Amount utilised	1 199	820
Charge to statement of profit or loss and other comprehensive income	(5 792)	(5 924)
Recovery of amounts previously written off	166	411
Current year provision	(5 958)	(6 335)
Balance at end of year	<b>(18 350)</b>	<b>(13 757)</b>
<b>Analysis</b>		
Provisions against non-performing advances	(11 350)	(6 257)
Provision against performing advances	(7 000)	(7 500)
	<b>(18 350)</b>	<b>(13 757)</b>
<b>17. INCOME TAX EXPENSE</b>		
South African normal taxation		
Current tax		
– current year	–	(1 220)
– prior year	(56)	159
Deferred tax		
– current year	(575)	688
– prior year	12	–
	<b>(619)</b>	<b>(373)</b>

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 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:

	2018 R'000	2017 R'000
Profit before income tax	7 700	10 986
Tax calculated thereon at 28% (2017: 28%)	(2 156)	(3 076)
Tax effect of:		
Income not subject to tax	1 637	2 563
Expenses not deductible for tax	(56)	(19)
Prior year tax	(44)	159
Tax charge	(619)	(373)

The estimated tax loss available for set off against future taxable income is R30 960 (2017: Rnil).

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

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

	2018 R'000	2017 R'000
<b>Directors and key management</b>		
<b>Advances and loans</b>		
Advances and loans outstanding at end of year	3 315	3 562
No specific provision for impairment has been recognised in respect of advances and loans provided to related parties (2017: R Nil).		
<b>Deposits</b>		
Deposits at end of year	7 410	5 889

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 18. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018 R'000	2017 R'000
<b>Other expenses</b>		
Key management compensation		
– Short-term employee and consulting benefits	4 809	4 166
– Post-employment benefits	512	478
Non-executive directors' fees		
– for services as directors	1 341	1 111
	6 662	5 755

### 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 those of the prior year.

#### 19.2 FAIR VALUE ESTIMATION

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

The carrying amounts of all financial liabilities not carried at fair value, are assumed to approximate their fair values, other than share and other deposits which have a fair value of R1 236 500 000, compared to a carrying amount of R1 260 453 000, 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 (2017: fair value of R1 119 361 000, compared to a carrying amount of R1 141 066 000).

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).

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

### 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 2018:

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)	–	90 830	–
Available-for-sale investments			
– Investments (note 5)	10 018	–	–

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 assets 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 2018:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Advances and loans (note 4)	–	–	1 103 456

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)	–	–	1 236 500

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

# GBS Mutual Bank

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (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 13.00% (2017: 12.63%).

#### 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:

2018	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES AND RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
Gross	702 729	389 478	11 249	1 103 456
Performing advances	657 634	368 003	11 241	1 036 878
Estimated value of collateral held	(657 634)	(344 714)	(11 241)	(1 013 589)
Estimated exposure to credit risk	–	23 289	–	23 289
Past due and impaired advances	45 095	21 475	8	66 578
Estimated value of collateral held	(43 426)	(10 582)	(8)	(54 016)
Estimated exposure to credit risk	1 669	10 893	–	12 562

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
<b>2017</b>				
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

In the 2018 and 2017 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, and 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 2018 and 2017 financial years, the Bank did not recognise any collateral it held as security against advances, as an asset of the Bank.

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (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:

	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
<b>2018</b>				
Performing advances	657 634	368 003	11 241	1 036 878
Past due and impaired advances	45 095	21 475	8	66 578
Impaired advances	7 811	11 470	–	19 281
Unimpaired advances: 0 – 3 months in arrears	34 697	7 785	8	42 490
Unimpaired advances: more than 3 months in arrears	2 587	2 220	–	4 807
<b>Total</b>	<b>702 729</b>	<b>389 478</b>	<b>11 249</b>	<b>1 103 456</b>
Impaired advances (as above)	7 811	11 470	–	19 281
Security against impaired advances	(6 142)	(1 789)	–	(7 931)
Net impaired advances	1 669	9 681	–	11 350

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 19. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 19.4.2 CREDIT QUALITY (CONTINUED)

	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
<b>2017</b>				
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
<b>Total</b>	<b>645 695</b>	<b>348 935</b>	<b>14 879</b>	<b>1 009 509</b>
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

Advances and loans are considered to be non-performing when amounts are due and unpaid for 3 months, or when specific circumstances are indicative of the advance being non-performing.

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (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:

	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
<b>2018</b>				
Mortgage loans	72	26	2	100
General	97	3	–	100
Instalment sales and rentals	25	41	34	100
Specific impairment provision	32	53	15	100
<b>2017</b>				
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

### 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 R5 067 000 (2017: R4 590 000) per annum and a 1% decrease is expected to reduce pre-tax net margins by R5 141 000 (2017: R4 668 000) per annum. In order to determine the sensitivity of the pre-tax net margins to interest rate repricing, an assessment was made of the effect of an increase or decrease in the prime interest rate on all variable advances and loans and deposits to determine the impact on interest income and interest expense.

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 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:

	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
<b>2018</b>				
Assets	1 176 274	60 407	25 609	100 848
Liabilities	(270 685)	(256 321)	(485 816)	(164 535)
Other	–	–	–	(185 781)
	905 589	(195 914)	(460 207)	(249 468)
<b>2017</b>				
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)

### 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.

	2018 R'000	2017 R'000
Endowment Policy	41 285	36 371
Preference Shares	10 018	5 740
Nedgroup Cash Solution	43 212	35 153
Medical Investment	6 333	6 087
	100 848	83 351

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 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 portfolio:

	2018 %	2017 %
Equities	68	65
Cash	4	4
Bonds	14	19
Property	8	7
Other	6	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% (2017: 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.

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 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.

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (CONTINUED)

## 20. COMMITMENTS

### 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:

	2018 R'000	2017 R'000
No later than 1 year	411	174
Later than 1 year and no later than 5 years	1 036	151
	<b>1 447</b>	<b>325</b>

#### 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:

	2018 R'000	2017 R'000
No later than 1 year	44	42
Later than 1 year and no later than 5 years	–	–
	<b>44</b>	<b>42</b>

## 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 2018 (CONTINUED)

## 21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2018	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
<b>Financial Assets</b>						
Cash: Bank balances and deposits	-	47 963	26 008	-	-	73 971
Cash: SA Reserve Bank balance	-	-	-	-	27 810	27 810
Cash: Treasury bills	-	20 000	44 190	-	-	64 190
Cash: Cash on hand	833	-	-	-	-	833
Advances: Mortgage	-	5 260	26 992	33 892	1 387 014	1 453 158
Advances: General	-	388	1 993	2 513	8 458	13 352
Advances: Instalment sales and rentals	-	14 638	73 192	87 830	291 597	467 257
Investments: Fixed Deposits	-	5 179	18 511	10 826	-	34 516
Investments: Other	90 830	-	-	-	-	90 830
Investments: Investec Securities	10 018	-	-	-	-	10 018
	101 681	93 428	190 886	135 061	1 714 879	2 235 935
<b>Financial Liabilities</b>						
Deposits	(22 086)	(262 761)	(327 938)	(362 085)	(347 776)	(1 322 646)
Sundry Creditors	-	(2 038)	-	-	-	(2 038)
	(22 086)	(264 799)	(327 938)	(362 085)	(347 776)	(1 324 684)
<b>Total recognised financial instruments</b>	79 595	(171 371)	(137 052)	(227 024)	1 367 103	911 251
Irrevocable unutilised facilities	-	(27 026)	-	(30 464)	-	(57 490)
<b>Total unrecognised financial instruments</b>	-	(27 026)	-	(30 464)	-	(57 490)
<b>Net inflow / (outflow)</b>	79 595	(198 397)	(137 052)	(257 488)	1 367 103	853 761

# GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018 (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
<b>Financial Assets</b>						
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
<b>Financial Liabilities</b>						
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)
<b>Total recognised financial instruments</b>	65 632	(140 587)	(106 994)	(170 646)	1 130 095	777 500
Irrevocable unutilised facilities	-	(26 863)	-	(52 349)	-	(79 212)
<b>Total unrecognised financial instruments</b>	-	(26 863)	-	(52 349)	-	(79 212)
<b>Net inflow/(outflow)</b>	65 632	(167 450)	(106 994)	(222 995)	1 130 095	698 288

# Community Projects and Sponsorships

## COMMUNITY PROJECTS & SPONSORSHIP

GBS Mutual Bank had much to celebrate during the course of 2017, with it being the Bank's 140th anniversary and experiencing continued growth.

It is a well-known and indeed much-appreciated fact that GBS Mutual Bank makes donations and offers financial support to societies, clubs, educational institutions and other organisations on an annual basis.

The 2017 anniversary year was no exception, and the Bank celebrated in magnanimous fashion with two significant grants to worthy causes – GADRA and Grahamstown Child Welfare Society. This gesture will be repeated over a three-year period.

This is in addition to the established annual recipients of grants and donations.

Each year GBS Mutual Bank hosts rather special dinners to which valued clients, staff members and business associates are invited, and at which thanks and appreciation are extended to them for their continued support.

The 2017 dinners in Grahamstown, Port Alfred and

Port Elizabeth were special occasions in view of the 140th anniversary of the Bank. The Bank recognised guests' contributions towards the achievements, success and highlights of the Bank's epic journey over 14 decades.

Perhaps fittingly, bearing in mind it being the 140th Anniversary year for GBS Mutual Bank, the Bank agreed to back one of its largest single sponsorship projects to date, a Rotary District conference held in Grahamstown.

The conference was attended by scores of Rotarians from around South Africa, and was organised and hosted by Rotary Clubs in Grahamstown, Port Alfred and Kenton-on-Sea. Besides the usual Rotary business, delegates listened to eminent speakers and enjoyed a glittering closing dinner.

GBS Mutual Bank's 140th anniversary was indeed a formidable milestone in the Bank's history, and it looks forward to continued annual growth and success on the road to what will be another auspicious occasion in the history of GBS – the 150th anniversary.

An important aspect of the Bank's support, both financially and morally, is the role it plays in serving the children within the communities that GBS Mutual Bank has offices.

One such cause is the Grocott's Mail Christmas Cheer Fund, and GBS Mutual Bank clearly displays its passion and wholeheartedness in this worthy cause by proudly being the first donor, amongst scores of individuals and institutions, to make its annual contribution.

Each contribution to the Grocott's Mail Christmas Cheer Fund is acknowledged in the media, and these monetary contributions support deserving charitable causes within the community and surrounding districts, as well as identified special needs.

GBS Mutual Bank has, over the years, assisted numerous organisations, societies and institutions financially on an annual basis, helping to alleviate some of the burdensome costs involved in the running of these institutions.

The recipients of these donations include hospitals, retirement centres and homes, primary and high schools, health care societies and animal welfare societies. The generosity of GBS Mutual Bank is spread far and wide across many communities.

Rhodes University's Commerce Extended Studies Programme is another beneficiary of financial support from GBS Mutual Bank in the field of education. This important and noteworthy programme assists in the

education of disadvantaged school leavers with the potential of succeeding at tertiary level.

The partnership in this programme between GBS Mutual Bank and Rhodes University is highly valued by the Bank, as it extends empowerment to young people in their future education and aspirations.

The courses making up the programme develop and nurture the potential of students with additional support. Over the years, the programme has produced a significant number of exceptional employees in the corporate sector.

GBS Mutual Bank prides itself on its association with the Rhodes University Commerce Extended Studies Programme.

## FINANCIAL SKILLS

GBS Mutual Bank established its Financial Skills Programme, now in its 11th year with 1634 people having attended the programme's sessions to date.

Among the aims of the programme are to provide Makana residents with the necessary skills required to manage their personal finances in a more competent and streamlined manner.



Members of the Board and Associates at the 140th AGM Dinner



GBS Staff members enjoy the 140th celebratory AGM Dinner

# Community Projects and Sponsorships

## FINANCIAL SKILLS (CONTINUED)

The Financial Skills Programme is part and parcel of GBS Mutual Bank's Social Responsibility Programme, and was designed by the Bank.

The programme is in line with GBS Mutual Bank's solid values and strong purpose that are committed to building a society that takes care of its people and their needs.

Presenting the highly-regarded course is GBS Mutual Bank staff member Mr Mfuzo Dyira. Subject matter comprises theoretical and practical modules covering the disciplines of budgeting, banking and saving, as well as setting financial goals, and managing and avoiding debt.

Another vital aspect of the course is the procedural and practical side of utilising automatic teller machines (ATMs).

## SPORT

Sports clubs and sporting codes at school level in the Makana and Ndlambe districts continue to benefit from the financial support of GBS Mutual Bank, which is also supportive of sports tournaments and events. Many of these events are held to raise funds for charity and other worthy causes.

The Bank's sponsorship is in the form of financial assistance and support-in-kind, including the provision of prizes and awards.

It is encouraging and gratifying to note the reciprocal support for GBS Mutual Bank from clubs, associations and their members.

There are numerous sports events, tournaments and competitions in the Grahamstown district and along the Sunshine Coast that receive support from GBS Mutual Bank.

GBS sponsors charity golf days at Belmont Golf Club, just outside Grahamstown, and Royal Port Alfred Golf Club, and also sponsors various holes at golf competitions in Port Elizabeth.

GBS Mutual Bank is the title sponsor of the GBS Grahamstown Ladies' Open golf competition. The Bank has sponsored this particular event for many a year.

Three other title sponsorships are the GBS Mutual Bank Mixed Fours bowls tournament in Grahamstown and Kenton-on-Sea; the GBS Mutual Bank Settlers Plate bowls tournament in Port Alfred and the GBS Festival of Bowls held at the PE Bowling Club.

Leaving land momentarily, GBS Mutual Bank is also the sponsor of the GBS Teams-of-Three angling competition hosted by Port Alfred River and Ski-Boat Club.

# GBS Mutual Bank

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GBS Mutual Bank sponsor the annual GBS Ladies Open at The Belmont Golf Club. Cathryn Stapleton (left) from GBS Mutual Bank handed over the prizes to the winners Louise Van Niekerk and Sheila Howell with Daphne Bowker on the right (President of Ladies Golf)



[www.gbsbank.co.za](http://www.gbsbank.co.za)

## HEAD OFFICE

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