ANNUAL REPORT

GBS MUTUAL BANK
ESTABLISHED 1877

142nd ANNUAL REPORT

FOR YEAR ENDED 31 MARCH 2019

www.gbsbank.co.za

Contents

GBS MUTUAL BANK
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GBS Mutual Bank

BOARD OF DIRECTORS

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

MANAGEMENT STRUCTURE

NAME	ROLE OF THE MEMBER	JOINED	QUALIFICATIONS
AM Vorster	Managing Director	2007	BCom, MBA
JM Fincham	Executive Director	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 142nd Annual General Meeting of Shareholders will be held at the Bank's Head Office, 18 – 20 Hill Street, Grahamstown on 25 July 2019, at 17h00.

AGENDA

1. To confirm the minutes of the last Annual General Meeting.
2. To receive and consider the report of the Board of Directors and the Annual Financial Statements for the year ended 31 March 2019.
3. To elect Directors in the place of Mesdames K.L. Wiblin and A.M. Marriner and Mr T.C.S. Tagg, who retire in rotation. Being eligible, they offer themselves for re-election and have been duly nominated.
4. To appoint Auditors and fix their remuneration. PricewaterhouseCoopers Inc., Registered Accountants and Auditors, offer themselves for re-election and have been duly nominated.
5. To fix the remuneration of Directors in terms of Article 21 (vi).
6. To pass a resolution that donations for charitable purposes may be made as the Directors see fit out of available profits.
7. To transact such business as may be brought forward at the Annual General Meeting.

By order of the Board of Directors.

P. Hornby
Company Secretary

Statement of Responsibility

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

The attached annual financial statements set out on pages 6 to 69 were approved by the Board of Directors on 30 May 2019 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 2019, 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 14 to 69 comprise:

- the balance sheet as at 31 March 2019;
- 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 *GBS Mutual Bank Annual Financial Statements for the year ended 31 March 2019*, which we obtained prior to the date of this auditor's report, and the other sections of the *142nd Annual Report of GBS Mutual Bank for the year ended 31 March 2019*, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: RD Stanham
Registered Auditor
Port Elizabeth
30 May 2019

Report of the Directors

The Board has pleasure in reporting to shareholders and stakeholders on the performance of our Mutual Bank for the year ended 31 March 2019.

The past year will be remembered for the challenging economic climate, an unwillingness to invest in fixed assets (partly due to uncertainty regarding expropriation without compensation) and the continued deterioration in the infrastructure of Makana. Despite these issues, we picked up some tailwinds from investment returns and debt recoveries, which, along with satisfactory normalised returns, resulted in the best profit in our history and balance sheet growth of 10% to R1.5 billion.

The bank is proud to have invested, in addition to our normal contribution to schools and other NGOs, an additional R1.3 million in worthy causes linked to community projects in and around Makhanda/ Grahamstown, including water projects and education. We are committed to, and invested in our city, but urge local, regional and national government to increase their efforts in effecting a turnaround of fortunes in the local economy.

Balance sheet growth has again exceeded expectation, and the Board is cognisant of growing assets in a controlled manner in line with strategic goals. Asset growth, particularly in times of uncertainty, needs to be managed carefully and the bank has remained focused on its target markets and providing superior service to its clients.

The year has seen the successful implementation of two major projects which have consumed considerable effort over the last two or more years, namely IFRS9 and our new asset-based finance system. IFRS9 deals with the basis for providing for bad and doubtful debts and you will see a number of additional disclosures in this report. We anticipate increased volatility in credit impairment reporting in the coming years as this is a fundamental departure from our traditional basis of calculating credit losses. As the bank has previously provided prudently, IFRS9 has not had a material effect on either opening reserves or on the 2018/19 financial results.

We are pleased to report that the new asset-based finance system has been live since April 2018 and has met our expectations. Approximately R2.5 million was invested in the project and we are confident that the new system gears us well for the future in this important area of our business.

In addition to the two projects mentioned above the bank has advanced the project related to the FIC Amendment Act and has met all the required reporting obligations. This is the culmination of a number of years' work and we thank the Compliance Committee, the Compliance Officer and staff for their efforts in this regard.

The Board has developed and approved a comprehensive succession plan for all senior executives retiring within the next five years. Of necessity this will include new appointments and additional cost structures until current staff retire. We wish to ensure a smooth transition with minimum impact on client relationships and service.

The Bank is considering the introduction of Permanent Interest Bearing Shares (PIBS). This will be done on a small scale initially with the purpose of creating additional permanent capital and allowing staff to take a stake in the Bank. We will communicate further in this regard. We are also considering replacing our Subscription Share product with a Subscription Deposit. In the longer term our intention is to have only share categories that qualify for capital in terms of the Mutual Banks' Act.

ECONOMY

Sadly the economy continues to flounder. The growth outlook is well below expectation and unemployment remains a key challenge. We trust and hope the post-election period brings about improved business confidence and greater socio-economic certainty.

Interest rates were lowered in March and increased in November of last year. The outlook for rates looks somewhat uncertain, but no major changes are anticipated in the medium term.

The South African Rand weakened from below R12/US$ in March last year to around R14.50/US$ in March this year, while inflation remained in a narrow band between 4.5% and 5%. The weaker Rand is expected to push inflation up in the coming months but is forecast by the Monetary Policy Committee of the SA Reserve Bank to remain within the 3% to 6% band.

PERFORMANCE

The GBS's results for the year to March 2019 were most satisfactory in a tough trading environment. The balance sheet grew 10,2% to R1,534 billion, having reached R1 billion only 5 years ago.

Report of the Directors (Continued)

PERFORMANCE (CONTINUED)

Loans and advances growth of nearly 8% is satisfactory, while share and other deposits grew by almost 10%. The additional funds raised from depositors that were not advanced on loans were invested in cash and other investment instruments as noted in the report.

The reserves of the Bank now stand at R123 million and are a healthy war-chest for troubled times.

Provisions are now reported in compliance with IFRS9 and disclosed in notes 1 and 19 of the report. The total provision of R12.9 million compares to R18.3 million last year of which one loan provision amounted to R4.5 million, the majority of which was recovered during the year.

The Bank remains well capitalised with a capital adequacy ratio of 14.0% against a required ratio of 10%. Secondary capital, mainly qualifying fixed period shares, increased from R51 million last year to R64 million. Capital remains a key criterion and is carefully managed in terms of the Board guideline which 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 R8.9 million against R4.9 million last year. We believe the return of 21% is unlikely to be repeated and have planned for lower returns in future. The fund is a smoothed bonus fund, and the reason for the high return is that too much was 'reserved' in earlier years, and some of the excess has been released back to investors.

The lending interest margin narrowed over the year while net interest income was R2m higher than last year. The bank invested further in Investec Preference Shares which provide a good yield and improved dividend income. In prior years these were disclosed as measured at fair value through other comprehensive income, but the bank has now elected to classify them as measured at fair value through profit or loss in terms of IFRS9.

Operating expenses were higher year on year and include the additional costs associated with compliance, enhancements to IFRS9 software and certain non-recurring expenditure.

The record results for the year are most pleasing. Staff and management are to be congratulated on the performance.

CORPORATE GOVERNANCE

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

The Board is committed to the King Code of Corporate Governance and is aligned to the King IV principles and practices, on a proportional "apply and explain" basis, as well as the Basel Committee on banking supervision guidelines where possible and practical.

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

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

The Board comprises eight directors, six 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.

During the year the Board has considered the effectiveness of the Committees and is satisfied that they have each met their responsibilities in this regard.

Board meetings are held monthly with additional meetings scheduled to review the budget and determine strategy. This latter meeting includes senior management. During the year, an independent evaluation of the Governing Body was undertaken to assess alignment to the 17 King IV principles. The Board is pleased to advise that this evaluation was positive and has committed to addressing the recommendations insofar as proportionality allows us to do so.

AUDIT COMMITTEE

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

The audit committee is chaired by an independent non-executive director and membership includes two

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

other independent non-executive directors. The audit committee members have collective qualifications and experience in banking, accounting and auditing.

The audit committee meets at least quarterly and oversees all matters regarding assurance, compliance and reporting. In fulfilling its mandate, the audit committee subscribes to a combined assurance model to provide a coordinated approach to all assurance activities.

The committee evaluates auditor independence and audit quality and is satisfied with the quality and effectiveness of assurance services provided to the Bank. The external auditors employ a policy of partner rotation with the current audit partner, having served his term, will be replaced in the current year. The audit committee is satisfied that the external auditors have considered significant matters in relation to the annual financial statements and that these have been appropriately addressed. All non-audit services are pre-approved by the audit committee, which is satisfied that non-audit services are not significant and that the Bank's external auditors are independent.

There have not been significant changes to management personnel of the Bank which may bring the independence of the external auditors into question. The audit committee has recommended to the Board the reappointment of PricewaterhouseCoopers Inc. for the 2020 financial year.

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

The committee met four times during the year including an annual meeting with the Bank Supervision Department of the Prudential Authority. 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 chief executive officer, executive director and company secretary also attend certain of the committee meetings by invitation.

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

- Considered and approved the external and internal audit plans for the year.
- Approved the external auditors' engagement letters and related remuneration.
- Evaluated auditor independence and audit quality with reference to a number of external and internal indicators.
- Considered the 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 quarterly internal auditors' reports to management and the Bank's responses to findings.
- Reviewed the external auditors' report relating to regulatory submissions to the Prudential Authority.
- Considered the effects of the implementation of a new software platform for managing the Bank's asset based finance clients.
- Considered the Bank's ability to continue operating as a going concern and concluded that this was indeed the case.
- Concluded that the system of internal controls was operating effectively.
- 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 role of the audit committee is constituted in terms of a board approved audit charter and the committee is satisfied that it fulfilled its responsibilities in accordance with this charter for the reporting period.

REMUNERATION COMMITTEE

COMMITTEE MEMBERS	ATTENDANCE
KL Wiblin (Chair)	3/3
AM Marriner	3/3
FO Skae	2/3

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

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

The committee is chaired by an independent non-executive director and membership includes two other independent non-executive directors. The Managing Director and Company Secretary are standing invitees to committee meetings. No executive director or senior manager is involved in any decisions as to their own remuneration.

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

During the year, the remuneration committee:

- Considered and approved the annual salary increments.
- Considered and approved the profit share bonus allocation.
- Considered and approved a provident fund top-up for current employees.
- Considered and approved an increase in the Bank's contribution to the provident fund.
- Reviewed the long service awards and staff retiring within the next ten years.
- Reviewed the Family Responsibility Leave policy of the Bank.

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
P Clayton	6/6

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.

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, General Manager, 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:

- Oversight and management of the implementation of the new Asset Based Finance system. The committee was responsible for reviewing the budget, timelines, functionality, data migration, data integrity and roll-over processes.
- The planning, management and review of the necessary IT components of several compliance projects including IFRS9, FICA and SACRRA.
- The upgrading of several servers.
- The development of printed transaction confirmation slips.
- Review of the Bank's disaster recovery test results.
- Review and approval of all IT-related policies.
- The initiation of a bulk email system to effectively communicate with the Bank's clients and stakeholders.
- The oversight of the penetration test remediation actions.
- The prioritisation of IT projects in line with the Bank's strategic plan.
- The monitoring of the IT budget.
- Regular reviews of the stability of the production environment.
- Reviews of the 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 has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

OPERATIONS COMMITTEE

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

The Operations Committee is primarily responsible for the governance of business operational activities, oversight of any change management within the organisation, and of business processes and initiatives that have significant operational components. The committee is responsible

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

for the monitoring and reporting of operational risks and audit findings, ensuring that operational priorities are in line with those of the Board, and reviewing operational policies on a regular basis.

The operations committee is chaired by an independent non-executive director and membership of the committee includes non-executive representatives of the audit and IT committees. Membership of the operations committee is deliberately overlapped with the IT committee, and joint meetings of the two committees are held on occasion. The Managing Director, Executive Director, Company Secretary, Compliance Officer, and Operations Supervisor are all standing invitees to the meetings.

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

- Records management
- Business continuity
- Operational compliance
- Emergency management procedures and safety of facilities
- Electrical upgrades
- Staffing of operational functions
- Review of service fees
- Cape Town branch relocation
- Operational changes in support of the new Sage X3 ABF system
- Procedural changes required by the new Legal Practices Act
- Review of the operational risk register
- External audit reports relating to operations
- Modernisation of in-branch transaction forms

The operations 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
KL Wiblin	2/2
FO Skae	2/2

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:

- A review of the current structure of the senior management team and proposals for the future senior management structure.
- A review of the senior management succession plan.
- The review of an independent evaluation which was contracted to ascertain the extent to which the GBS Mutual Bank's Board aligns with the 17 principles of King IV.
- The appointment of an Independent Non-Executive Director.

The Directors and Executives 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	4/4
WS Vallance	4/4
AM Vorster	4/4

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

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

Report of the Directors (Continued)

CORPORATE GOVERNANCE (CONTINUED)

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

- Monitored the reporting metrics for sales and marketing performance and tracking of growth targets for each branch in relation to the strategic plan
- Consideration of competitor product and service offerings and alignment of bank strategy to market opportunities where feasible and viable
- Investigation of new income streams, taking into consideration both market and product development
- Enhanced database management for relevant market data analytics
- Customer relationship management processes and practices
- Communication with stakeholders
- Staff development priorities.

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)	10/10
KL Wiblin	10/10
AM Vorster	10/10
JM Fincham	10/10
P Hornby	10/10
B McKenzie	10/10

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

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

The committee met monthly for most of the year and has resolved to now meet every second month. The internal auditors were present at meetings where internal audit reports relating specifically to matters of compliance were tabled.

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

- Complying with regulatory requirements
- Monitoring the development and implementation of an expected credit loss model to comply with the requirements of IFRS9 Financial Instruments
- Monitoring the development and implementation of a new Risk Management and Compliance Program required in terms of amendments made to the Financial Intelligence Centre Act
- Monitoring the development of policies for managing compliance and recommended these to the board for approval
- Considering and monitoring current and future compliance requirements related to the National Credit Act (NCA), South African Credit and Risk Reporting Association (SACRRA), Legal Practices Fidelity Fund and the Protection of Personal Information Act (PoPIA).

The role of the compliance committee is constituted in terms of a board approved charter and the committee is satisfied that it fulfilled its responsibilities in accordance with this charter 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)	2/2
TCS Tagg	2/2
AM Marriner	2/2
KL Wiblin	2/2
PG Clayton	2/2
KW Maree	2/2

Report of the Directors (Continued)

RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT COMMITTEE (CONTINUED)

AM Vorster	2/2
JM Fincham	2/2
P Hornby	2/2
WS Vallance	2/2
KC Breetzke	2/2

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

The Bank considers, amongst others, the following risks:

- Credit risk, the risk that a counterparty will be unable to pay amounts in full on maturity date.
- Liquidity risk which 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 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 Bank has enjoyed an excellent run over the last five-odd years and remains well placed in terms of capital, liquidity and intellectual equity to serve long-term investors and borrowers.

Bank investment in technology, compliance and succession planning will impact operating expenditure in the coming years. This, combined with lower returns in the Momentum investment means the Bank has budgeted for lower net income in 2020 and 2021, but growth in profits thereafter, in line with strategic objectives.

We record our thanks and appreciation to the Board of Directors for their guidance and insight in setting the direction of the Bank and for maintaining a high level of corporate governance. Management and staff are also thanked for delivering on the strategic goals set in recent years.

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

F O Skae
Chairman
30 May 2019

A M Vorster
Managing Director
30 May 2019

Report of the Directors (Continued)

FIVE YEAR REVIEW

YEAR ENDED 31 MARCH (R 000)	2019	2018	2017	2016	2015
BALANCE SHEETS					
Reserves	122 702	108 715	102 177	91 423	86 606
Share deposits	258 604	275 562	265 875	274 816	264 871
Deposits	1 126 615	984 891	875 191	765 677	715 950
Other liabilities	26 638	23 327	21 611	20 434	17 614
	1 534 559	1 392 495	1 264 854	1 152 350	1 085 041
Cash & short term securities	177 163	166 146	143 870	150 176	137 575
Investments	172 214	134 581	118 779	82 875	72 370
Loans and advances	1 178 015	1 085 106	995 752	911 054	865 651
- Mortgages and other	766 712	713 978	660 574	607 739	574 350
- Instalment sales, rentals	424 260	389 478	348 935	311 968	298 394
- Less: Risk provisions	12 957	18 350	13 757	8 653	7 093
Other	7 167	6 662	6 453	8245	9 445
	1 534 559	1 392 495	1 264 854	1 152350	1 085 041
Income Statements					
Net interest margin	38 006	36 155	36 855	29 321	26 033
Other income	15 876	9 994	12 778	6 412	10 072
	53 882	46 149	49 633	35 733	36 105
Impairments & provisions	(1 030)	(5 792)	(5 924)	(2 025)	(1 489)
Operating expenses	(40 216)	(32 657)	(32 723)	(27 481)	(24 110)
Profit before tax	12 636	7 700	10 986	6 227	10 506
Tax	(245)	(619)	(373)	(787)	(2 398)
Profit for the year	12 391	7 081	10 613	5 440	8 108
Other comprehensive (loss)/ income	587	(543)	141	(623)	(1 125)
Comprehensive income	12 978	6 538	10 754	4 817	6 983
Key Ratios – %					
Capital adequacy at year end	14,0%	13,3%	13,2%	14,0%	14,6%
Bad debt provision: advances	1,1%	1,7%	1,4%	0,9%	0,8%
Expenses to average assets	2,7%	2,4%	2,7%	2,4%	2,3%

GBS Mutual Bank

BALANCE SHEET AT 31 MARCH 2019

	NOTES	2019 R'000	2018 R'000
ASSETS			
Cash and cash equivalents	3	177 163	166 146
Investments	5	172 214	134 581
Advances and loans	4	1 178 015	1 085 106
Current income tax asset		2 362	1 017
Other assets	7	128	124
Property and equipment	6	3 076	3 166
Deferred income tax asset	8	1 601	2 355
Total assets		1 534 559	1 392 495
LIABILITIES			
Share deposits	9	258 604	275 562
Other deposits	9	1 126 615	984 891
Other liabilities	10	12 997	9 814
Retirement benefit obligations	11	12 130	12 292
Other long-term employee benefits	12	1 511	1 221
Total liabilities		1 411 857	1 283 780
RESERVES		122 702	108 715
Total liabilities and reserves		1 534 559	1 392 495

GBS Mutual Bank

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	NOTES	2019 R'000	2018 R'000
Interest income	13	140 983	131 790
Interest expense	13	(102 977)	(95 635)
Net interest income		38 006	36 155
Credit impairment losses	16	(1 030)	(5 792)
Net interest income after impairment on advances		36 976	30 363
Total non-interest income		15 876	9 994
Fee and commission income	14	3 849	4 001
Fair value adjustments on investments	5	10 567	5 013
Dividend income		1 245	919
Other operating income		215	61
Total expenses		(40 216)	(32 657)
Operating expenses	15	(39 465)	(31 688)
Commission expense		(751)	(969)
Profit before income tax		12 636	7 700
Income tax expense	17	(245)	(619)
Profit for the year		12 391	7 081
Other comprehensive income			
Items that may not be reclassified to profit or loss		587	542
Remeasurements of retirement benefit obligation	11	815	753
Deferred tax	8	(228)	(211)
Items that may be reclassified to profit or loss		-	(1 085)
Fair value loss on investments	5	-	(1 398)
Deferred tax	8	-	313
Total comprehensive income for the year		12 978	6 538

GBS Mutual Bank

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	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 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	(1085)	–	(543)
Transfer to statutory credit risk reserve	(594)	–	–	594	–
Transfer to general reserves	(6 487)	6 487	–	–	–
Balance at 31 March 2018	1 000	102 211	(1 027)	6 531	108 715
Opening balance adjustment in respect of IFRS 9 - reclassification	(1027)	–	1 027	–	–
Opening balance adjustment in respect of IFRS 9 - expected credit loss, net of taxation	1 009	–	–	–	1 009
Restated balance at 1 April 2018	982	102 211	–	6 531	109 724
Profit for the year	12 391	–	–	–	12 391
Other comprehensive income for the year	–	587	–	–	587
Transfer to statutory credit risk reserve	(589)	–	–	589	–
Transfer to general reserves	(11 784)	11 784	–	–	–
Balance at 31 March 2019	**1 000**	**114 582**	**–**	**7 120**	**122 702**

Notes

- Retained Earnings: the Bank maintained its Retained Earnings at R1 000 000 (2018: R1 000 000) and transferred 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: related 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 2019

	2019 R'000	2018 R'000
Cash flows from operating activities		
Interest receipts	**140 983**	131 790
Interest payments	**(102 977)**	(95 635)
Fee and commission receipts	**3 849**	4 001
Fee and commission payments	**(751)**	(969)
Dividends received	**1 245**	919
Other income	**215**	61
Payments to employees and suppliers	**(37 726)**	(31 203)
Income taxes refunded	**(1 456)**	434
Cash flows from operating activities before changes in operating assets and liabilities	**3 382**	9 398
Changes in operating assets and liabilities		
Net increase in advances	**(92 538)**	(95 146)
Net (increase)/decrease in other assets	**(4)**	405
Net increase in share and other deposits	**124 766**	119 387
Net increase in other liabilities	**3 473**	2 696
Net cash generated from operating activities	**39 079**	36 740
Cash flows from investing activities		
Acquisition of property and equipment	**(1 001)**	(2 284)
Proceeds on disposal of property and equipment	**5**	7
Net increase in investments	**(27 066)**	(12 187)
Net cash used in investing activities	**(28 062)**	(14 464)
Net increase in cash and cash equivalents	**11 017**	22 276
Cash and cash equivalents at beginning of year	**166 146**	143 870
Cash and cash equivalents at end of year (Note 3)	**177 163**	166 146

GBS Mutual Bank

1. ACCOUNTING POLICIES

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

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

With the exception of the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers (effective on 1 April 2018), 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.

New and amended standards adopted
IFRS 15: Revenue from Contracts with Customers was adopted on 1 April 2018, and replaces the previous revenue recognition standard. IFRS 15 establishes a single approach for the recognition and measurement of revenue, and requires an entity to recognise revenue as performance obligations are satisfied. It applies to all contracts with customers except for transactions specifically scoped out, which includes interest, dividends and leases.

The accounting policy was updated to reflect the terminology in the new standard. The Bank has applied the modified retrospective application method, but it had no impact on the financial information reported in the current or comparative period and therefore no adjustment to opening retained earnings at 1 April 2018 was required.

The Bank assessed revenue recognised from contracts with customers by nature, amount, timing and uncertainty of revenue and cash flows that are affected by economic factors. Based on this assessment, revenue is appropriately disaggregated.

Interest income and expenses continue to be recognised using the effective interest rate method for financial instruments measured at amortised cost in terms of IFRS 9.

The Bank has adopted IFRS 9 Financial Instruments as issued by the IASB in July 2014 with a date of transition of 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the financial impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are disclosed in more detail in sections 1.3, 1.4 and 1.5 below.

(i) Classification and measurement of financial instruments
The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 April 2018 are compared as follows:

GBS Mutual Bank

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

	IAS 39		IFRS 9	
FINANCIAL ASSETS	MEASUREMENT CATEGORY	CARRYING AMOUNT R'000	MEASUREMENT CATEGORY	CARRYING AMOUNT R'000
Cash and cash equivalents	Amortised cost (Loans and receivables)	102 460	Amortised cost	102 460
	Amortised cost (Held-to-maturity)	63 686	Amortised cost	63 686
Advances and loans	Amortised cost (Loans and receivables)	1 085 106	Amortised cost	1 086 508
	Amortised cost (Held-to-maturity)	33 733	Amortised cost	33 733
Investments	FVPL (Designated)	90 830	FVPL (Mandatory)	90 830
	FVOCI (Available-for-sale)	10 018	FVPL (Designated)	10 018

There were no changes to the classification and measurement of financial liabilities.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 1.3.1 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 April 2018.

	REF	IAS 39 CARRYING AMOUNT 31 MARCH 2018 R'000	RE-CLASSIFICATIONS R'000	RE-MEASUREMENTS R'000	IFRS 9 CARRYING AMOUNT 1 APRIL 2018 R'000
Amortised cost					
Cash and cash equivalents					
Opening balance under IAS 39 and closing balance under IFRS 9		166 146			166 146
Advances and loans		1 085 106			
Opening balance under IAS 39				1 401	
Remeasurement: ECL allowance					1 086 507
Closing balance under IFRS 9					
Investments - amortised cost					
Opening balance under IAS 39		–			
Addition: From financial assets held-to-maturity	(A)		33 733		
Closing balance under IFRS 9					33 733
Investments - held-to-maturity					
Opening balance under IAS 39		33 733			
Subtraction: To amortised cost (IFRS 9)	(A)		(33 733)		
Closing balance under IFRS 9					–
Total financial assets measured at amortised cost		**1 284 985**	**–**	**1 401**	**1 286 386**

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

	REF	IAS 39 CARRYING AMOUNT 31 MARCH 2018 R'000	RE-CLASSIFICATIONS R'000	RE-MEASUREMENTS R'000	IFRS 9 CARRYING AMOUNT 1 APRIL 2018 R'000
Fair value through profit or loss (FVPL)					
Investments - FVPL (mandatory)					
Opening balance under IAS 39		–			
Addition: From designated at FVPL (IAS 39)			90 830		
Closing balance under IFRS 9					90 830
Investments - FVPL (designated)					
Opening balance under IAS 39		90 830			
Subtraction: To mandatory FVPL (IFRS 9)			(90 830)		
Addition: From Available-for-sale financial assets (IFRS 9)	(B)		10 018		
Closing balance under IFRS 9					10 018
Total financial assets measured at FVPL		**90 830**	**10 018**	**–**	**100 848**
Fair value through other comprehensive income (OCI)					
Investment securities - Available-for-sale financial assets					
Opening balance under IAS 39		10 018			
Subtraction: To FVPL - equity instruments (IAS 39)	(B)		(10 018)		
Closing balance under IFRS 9					–
Total financial assets measured of FVOCI		**10 018**	**(10 018)**	**–**	**–**

The total remeasurement gain, net of taxation, of R1 008 468 was recognised in opening reserves at 1 April 2018. The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

(A) Reclassification from retired categories with no change in measurement. These debt instruments have been reclassified as measured at amortised cost under IFRS 9, as their previous category, held to maturity, under IAS 39 was 'retired', with no changes to their measurement basis.

(B) Designation of equity instruments at FVPL. The Bank has elected to irrevocably designate an investment in Investec Preference Shares at FVPL as permitted under IFRS 9. This investment was previously classified as available-for-sale and measured at fair value through other comprehensive income. This category was retired under IAS 39.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION (CONTINUED)

(iii) Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 April 2018:

MEASUREMENT CATEGORY	LOAN LOSS ALLOWANCE UNDER R'000	RE-CLASSIFICATION R'000	RE-MEASUREMENT R'000	LOAN LOSS ALLOWANCE UNDER IFRS 9 R'000
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and cash equivalents	–	–	–	–
Advances and loans	18 350		(1 401)	16 949
Investments	–	–	–	–
Total	**18 350**	**-**	**(1 401)**	**16 949**

Impairment provisions required for cash and cash equivalents and investments were considered immaterial.

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. ACCOUNTING POLICIES (CONTINUED)

1.3 FINANCIAL ASSETS AND LIABILITIES (2019)

Measurement methods

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

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

  When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.
- **Interest income:** Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their net carrying amount (i.e. net of the expected credit loss provision).
- **Initial recognition and measurement:** Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

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

1.3.1 FINANCIAL ASSETS

Classification and subsequent measurement

From 1 April 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

The classification requirements for financial assets and equity instruments are described below:

Classification and subsequent measurement of financial assets depends on:

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

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 19.4.2. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition

1. ACCOUNTING POLICIES (CONTINUED)

1.3.1 FINANCIAL ASSETS (CONTINUED)

of impairment reversals or losses, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'Fair value adjustments on investments' in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows.
- SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.
- **Equity instruments**: Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

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

  Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Bank's right to receive payments is established.

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

Impairment

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

The measurement of ECL reflects:

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

1. ACCOUNTING POLICIES (CONTINUED)

1.3.1 FINANCIAL ASSETS (CONTINUED)

Note 19.4.2 provides more detail of how the expected credit loss allowance is measured.

Derecognition

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

1.3.2 FINANCIAL LIABILITIES

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

Derecognition

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

1.4 ADVANCES AND LOANS

Advances and loans are financial assets with fixed or determinable payments and include purchased advances. Advances and loans are initially recognised at fair value when the Bank becomes party to the contractual terms of the instruments. Advances and loans are accounted for at amortised cost using the effective interest rate method and derecognised in accordance with note 1.3.1 above.

Transaction costs and origination fees received are capitalised to the carrying amount of the advance and expensed or taken to interest income over the estimated duration of the advance or loan.

Advances and loans include rental agreements and 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 1.3.1.

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 IMPAIRMENT OF ADVANCES (2018)

In accordance with IAS 39, advances are stated net of provisions for impairments. Advances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any impairment indicators show that it is probable that the Bank will be unable to collect all amounts due, a provision for impairment is made to reduce the carrying amount of the asset to the present value of expected future cash flows.

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

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

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

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.

GBS Mutual Bank

1. ACCOUNTING POLICIES (CONTINUED)

1.6 INVESTMENTS (2018)

In accordance with IAS 39, 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 financial assets into the following categories on acquisition:

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

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

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

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

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

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

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

Fair value
The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Considering the nature of the Bank's financial assets, the best evidence of fair value on initial recognition is the transaction price.

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

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

1.7 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

GBS Mutual Bank

1. ACCOUNTING POLICIES (CONTINUED)

1.7 PROPERTIES IN POSSESSION (CONTINUED)

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.

1.8 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 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.

1.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

1.10 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.

1.11 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.

1.12 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

1. ACCOUNTING POLICIES (CONTINUED)

1.12 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the 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.

1.13 RETIREMENT BENEFIT OBLIGATIONS

Healthcare benefits

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

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

Pension benefits

The Bank has an obligation to pay fixed pensions to certain retired employees. These payments are funded internally, and not through a formal pension fund. The post-retirement pension liability was measured at the present value of estimated future cash outflows based on the fixed pensions and the life expectancy of the pensioners. The valuation of the liability was performed internally based on actuarial life expectancy tables. Remeasurement gains and losses are charged or credited to other comprehensive income in the year in which they arise.

Provident fund benefits

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

1.14 REVENUE RECOGNITION

Interest income and expense

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

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

When calculating the original effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using

1. ACCOUNTING POLICIES (CONTINUED)

1.14 REVENUE RECOGNITION (CONTINUED)

the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, which is the effective interest rate calculated at origination of the financial asset measured at amortised cost.

Fee and commission income

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

Dividend income

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

Other income

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

1.15 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.

Standards and amendments issued not yet effective

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 2019. These standards have not been early adopted.

- Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material. These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting, clarify the explanation of the definition of material; and incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The effective date of the amendments is annual periods beginning on or after 1 January 2020.
- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement. These amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. These amendments also require an entity to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss The impact of the amendments is to confirm that these effects are not offset. The effective date of the amendments is annual periods beginning on or after 1 January 2019 (issued February 2018).
- Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities. The narrow-scope amendment covers two issues. Firstly, the amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value

GBS Mutual Bank

1. ACCOUNTING POLICIES (CONTINUED)

Standards and amendments issued not yet effective (continued)

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. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings. The effective date of the amendments are annual 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 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.

  At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

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.

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 and measurement of the expected credit loss allowance – notes 1.3.1, 16 and 19.4.2
- Property and equipment – notes 1.8 and 6
- Retirement benefit obligations – notes 1.13 and 11
- Recoverability of deferred income tax assets – note 1.12
- Impairment of non-financial assets – note 1.9

GBS Mutual Bank

3. CASH AND CASH EQUIVALENTS

	2019 R'000	2018 R'000
Bank balances	15 797	14 266
Short-term deposits	60 538	59 551
South African Reserve Bank deposit	30 568	27 810
Treasury bills	69 441	63 686
Cash on hand	819	833
	177 163	166 146

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

The Bank has an overdraft facility at First National Bank Limited of R10 000 000 (2018: R10 000 000). This facility is reviewed annually. A fixed deposit of R10 000 000 with Rand Merchant Bank has been ceded to FirstRand Bank Limited as security for this facility.

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

4. ADVANCES AND LOANS

	2019 R'000	2018 R'000
Mortgages	755 427	702 729
General	11 285	11 249
Instalment sales and rentals	424 260	389 478
	1 190 972	1 103 456
Impairment provisions (Note 16)	(12 957)	(18 350)
	1 178 015	1 085 106

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

GBS Mutual Bank

4 . ADVANCES AND LOANS (CONTINUED)

	2019 R'000	2018 R'000
Commitment for the aggregate amount of advances and re-advances granted but not yet paid out:		
Instalment sales and rentals	**32 126**	29 568
Mortgages	**47 303**	37 210
	79 429	66 778
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	**509 425**	467 572
Less: Unearned finance income	**(85 165)**	(78 094)
	424 260	389 478

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

5 . INVESTMENTS

	2019 R'000	2018 R'000
Held-to-maturity investments		
Fixed deposits	**48 044**	**33 733**
The fixed deposits were held with Sasfin Bank and First National Bank (2018: Sasfin Bank and First National Bank). These financial institutions comply with the Bank's risk management policies of investing with sound, reputable entities.		
Investments classified as financial instruments at fair value through profit or loss:		
Opening balance in accordance with IAS 39	**90 830**	77 611
Adjustment in respect of IFRS 9 adoption	**10 018**	–
Opening balance in accordance with IFRS 9/IAS 39	**100 848**	77 611
Additions	**78 433**	25 000
Withdrawals	**(69 000)**	(20 000)
Fair value adjustment through profit or loss	**10 567**	5 013
Interest reinvested	**3 277**	3 157
Dividends reinvested	**45**	49
Closing balance	**124 170**	90 830

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

5 . INVESTMENTS (CONTINUED)

	2019 R'000	2018 R'000
Available-for-sale investments		
Opening balance in accordance with IAS 39	**10 018**	5 740
Adjustment in respect of IFRS 9 adoption	**(10 018)**	–
Opening balance in accordance with IFRS 9/ IAS 39	**–**	5 740
Additions	**–**	5 676
Fair value loss through other comprehensive income	**–**	(1 398)
Closing balance	**–**	10 018
Investment in equity instrument		
Opening and closing balance after impairment	**–**	–
Total investments	**172 214**	134 581

Refer to note 1.1 for the reconciliation between the closing balances for Investments at fair value through profit or loss and Available-for-sale investments at 31 March 2018 and the opening balances at 1 April 2018.

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, Nedgroup Investments and Investec Bank Limited. The endowment policy is an undated instrument with a loan facility. The investments held with Allan Gray Investment Services and Momentum Collective Investments, with a carrying value of R6 706 238 (2018: R6 333 438), are held to partially cover the post-retirement medical obligations in note 11. The Nedgroup Investment is in the Nedgroup Investments Corporate Money Market and Core Income Funds. The funds are reinvested mainly in the large commercial banks in South Africa. The investment in the Investec Bank Limited non-cumulative non-redeemable preference shares bearing dividends at 83.3% (2018: 83.3%) of the prime overdraft rate, is carried at fair value of R13 872 000 (2018: R10 018 000). The investment in the Investec Bank Limited preference shares is classified as a financial asset of FVPL.

The Bank has an equity investment which consists of a 8.65% (2018: 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 2019 (CONTINUED)

6. PROPERTY AND EQUIPMENT

	OFFICE PREMISES R'000	FURNITURE, EQUIPMENT & MOTOR VEHICLES R'000	COMPUTER EQUIPMENT & SOFTWARE R'000	TOTAL R'000
Year ended 31 March 2019				
Opening carrying amount	72	321	2 773	3 166
Additions	–	76	925	1 001
Disposals	–	–	(5)	(5)
Depreciation	–	(101)	(985)	(1 086)
Closing carrying amount	72	296	2 708	3 076
At 31 March 2019				
Cost	72	783	5 259	6 114
Accumulated depreciation	–	(487)	(2 551)	(3 038)
Closing carrying amount	72	296	2 708	3 076
Year ended 31 March 2018				
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
At 31 March 2018				
Cost	72	1 038	4 664	5 774
Accumulated depreciation	–	(717)	(1 891)	(2 608)
Closing carrying amount	72	321	2 773	3 166

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 2019 (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

	2019 R'000	2018 R'000
Sundry debtors	128	124

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% (2018: 28%).

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

	2019 R'000	2018 R'000
At beginning of year	2 355	2 816
Adjustment in respect of IFRS 9 adoption (refer note 1.1)	(392)	–
Adjusted balance at beginning of year	1 963	2 816
Charge to profit or loss component of the statement of profit or loss and other comprehensive income (note 17)	(134)	(563)
(Charged)/credited directly to other comprehensive income	(228)	102
At end of year	1 601	2 355

8. DEFERRED INCOME TAX ASSET (CONTINUED)

Deferred income tax is attributable to the following items:

	2018 R'000	ADJUSTMENT IN RESPECT OF IFRS 9 ADOPTION [A] R'000	CREDITED/ (CHARGED) TO PROFIT R'000	(CHARGED)/ CREDITED TO OCI [B] R'000	2019 R'000
Provisions against advances	2 022	(392)	328	–	1 958
Leave pay accrual	397	–	10	–	407
Deferred income	781	–	71	–	852
Retirement benefit obligations	3 442	–	183	(228)	3 397
Other long-term employee benefits	785	–	179	–	964
Other provisions	237	–	908	–	1 145
Deferred capital gains tax	150	–	–	–	150
Assessed loss recognised	9	–	(9)	–	–
Deferred income tax asset	7 823	(392)	1670	(228)	8 873
Accelerated depreciation	(132)	–	18	–	(114)
Deferred capital gains tax	(296)	–	(321)	–	(617)
Rental deals	(5 040)	–	(1 501)	–	(6 541)
Deferred income tax liability	(5 468)	–	(1 804)	–	(7 272)
Net deferred income tax asset	2 355	(392)	(134)	(228)	1 601

A – Charged to opening reserves. Refer note 1.1
B – Other comprehensive income

9. SHARE AND OTHER DEPOSITS

	2019 R'000	2018 R'000
Share deposits		
Indefinite period shares	86 040	91 944
Subscription shares	61 530	59 392
Fixed period shares	111 034	124 226
	258 604	275 562
Other deposits		
Fixed and call deposits	1 102 500	953 656
Savings and transmission deposits	24 115	31 235
	1 126 615	984 891
Total indefinite period paid-up shares under notice of redemption	4 948	4 329

Details of the various deposits offered are as follows:	TERM	INTEREST METHOD
Indefinite period shares	Indefinite, minimum of 15 months	Variable
Subscription shares	36 months	Variable
Fixed period shares	60 months	Fixed
Fixed and call deposits	Ranges from 1 to 60 months	Fixed and variable respectively
Savings and transmission deposits	Demand	Variable
Tax free savings	Indefinite, minimum of 7 days	Variable

10. OTHER LIABILITIES

	2019 R'000	2018 R'000
Sundry creditors	445	993
Accruals and other liabilities	9 473	5 603
South African Revenue Services – VAT	35	427
Deferred income	3 044	2 791
	12 997	9 814

11. RETIREMENT BENEFIT OBLIGATIONS

	2019 R'000	2018 R'000
The Bank's retirement obligations are summarised as follows:		
Post-retirement healthcare obligation	11 571	11 733
Pension liability	559	559
	12 130	12 292

	2019	2018
Post-retirement healthcare obligation		
The main actuarial assumptions used in the calculation of the healthcare obligation were:		
– Discount rate	10.15%	9.00%
– Medical cost inflation	7.60%	7.50%
– Net discount rate	2.37%	1.40%
– Normal retirement age	63	63

	R'000	R'000
The movement in the defined benefit obligation over the year is as follows:		
At beginning of year	11 733	11 713
Current service cost	260	269
Interest cost	1 027	1 112
Remeasurement gain	(815)	(753)
Employer benefit payments	(634)	(608)
At end of year	11 571	11 733
Expected contributions to the retirement benefit obligations for the year ended 31 March 2020 are anticipated to be R667 000.		
Amounts recognised in the statement of profit or loss and other comprehensive income:		
– Interest cost	1 027	1 112
– Current service cost	260	269
	1 287	1 381

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2019 R'000	2018 R'000
The remeasurement gain recognised in other comprehensive income is as follows:		
Gain due to changes in financial assumptions	(1 486)	(743)
Experience loss/(gain) for the year	110	(10)
Loss due to demographic adjustments	561	–
	(815)	(753)

Included in investments held at fair value (note 5) is an investment with a carrying amount of R6 706 238 (2018: R6 333 438) which the Directors of the Bank have d esignated 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.

	2019	2018
Post-retirement mortality tables: PA90-2 (Retired members) and SA 85-90 (Lite) (In-service employees)		
– Average number of members:		
In-service employees	11	11
Retired members	18	18
	29	29
– Average age of members:		
In-service employees	55	54
Retired members	77	76

	R'000	R'000
The Bank's retirement obligations are summarised as follows:		
Active members	4 886	4 836
Pensioners	6 685	6 897
	11 571	11 733

The weighted average duration of the benefit obligation is 13.7 years (2018: 14.3 years).

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	1 407	1 187
1% change in discount rate	(1 179)	(1 419)
1 year change in retirement age	(441)	(470)
1 year change in average age	(410)	(413)

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.

11. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Pension liability
The main assumptions used to calculate the Bank's liability in respect of unfunded pension obligations were a discount rate of 6.93% (2018: 7.26%) and life expectancies based on actuarial life expectancy tables (refer note 1.13). There are 4 former employees and spouses included in this plan, with an average age of 85 years.

There was no movement in the pension liability.

	2019 R'000	2018 R'000
At beginning and end of year	**559**	559

GBS Mutual Bank Provident Fund
This plan is a defined contribution plan registered under the Pension Funds Act and is funded through contributions made by the Bank. The fund has 42 (2018: 42) members and contributions for the year amounted to R3 252 169 (2018: R1 384 609).

12. OTHER LONG-TERM EMPLOYEE BENEFITS

	2019 R'000	2018 R'000
Service awards		
At beginning of year	**1 221**	955
Additional provision charged to statement of profit or loss and other comprehensive income	**306**	270
Amount utilised against provision	**(16)**	(4)
At end of year	**1 511**	1 221

The main assumptions used to calculate the Bank's liability in respect of service awards were a discount rate of 9.27% (2018: 8.75%), estimated salary increases of 7% (2018: 7.50%) and staff turnover of 10% (2018: 25%).

The benefit relates to long-service awards. Employees are entitled to this benefit provided that:
- they remain in service up to the date of retirement (normally 63 years of age) or on death of the employee;
- they have worked for the Bank for a minimum of 15 years (unless specifically agreed otherwise by the Board).

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

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

13. INTEREST

	2019 R'000	2018 R'000
Interest income		
Mortgages	74 690	70 663
General advances	1 410	1 464
Instalment sales and rentals	48 328	44 649
Investments	16 306	14 622
Other	249	392
	140 983	131 790
Interest expense		
Fixed deposits	79 311	71 684
Tax free savings	314	178
Savings deposits	1 107	1 303
Indefinite period paid-up shares	7 120	7 646
Subscription shares	4 753	4 569
Fixed period shares	10 366	10 255
Other	6	–
	102 977	95 635

14. FEE AND COMMISSION INCOME

	2019 R'000	2018 R'000
Fee income	3 690	3 772
Commission income	159	229
	3 849	4 001

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

15. OPERATING EXPENSES

	2019 R'000	2018 R'000
Operating expenses totaled R39 465 000 (2018: R31 688 000) and include the following items:		
Auditors' remuneration		
– audit fees	1 520	1 070
– fees for other services	213	75
	1 733	1 145
Depreciation	1 086	713
Software development costs expensed	827	902
Office rental expense	447	398
Computer expenses	1 897	1 990
Staff remuneration and related personnel costs	19 105	15 065
Directors' emoluments		
Executive Directors		
– salaries and benefits	3 086	2 928
Non-Executive Directors		
– for services and consulting fees	1 466	1 341
	4 552	4 269

16. CREDIT IMPAIRMENT LOSSES

	2019 R'000	2018 R'000
Balance at beginning of year in accordance with IAS 39	(18 350)	(13 757)
Adjustment in respect of IFRS 9 adoption	1 401	–
Balance at beginning of year in accordance with IFRS 9/IAS 39	(16 949)	(13 757)
Amount utilised	5 022	1 199
Charge to statement of profit or loss and other comprehensive income	(1 030)	(5 792)
Recovery of amounts previously written off/provided for	3 580	166
Current year provision	(4 610)	(5 958)
Balance at end of year	(12 957)	(18 350)
Analysis		
Provisions against non-performing advances	(7 336)	(11 350)
Provision against performing advances	(5 621)	(7 000)
	(12 957)	(18 350)

17. INCOME TAX EXPENSE

	2019 R'000	2018 R'000
South African normal taxation		
Current tax		
– current year	(111)	–
– prior year	–	(56)
Deferred tax		
– current year	(134)	(575)
– prior year	–	12
	(245)	(619)

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (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:

	2019 R'000	2018 R'000
Profit before income tax	12 636	7 700
Tax calculated thereon at 28% (2018: 28%)	(3 538)	(2 156)
Tax effect of:		
Income not subject to tax	3 378	1 637
Expenses not deductible for tax	(85)	(56)
Prior year tax	–	(44)
Tax charge	(245)	(619)

The estimated tax loss available for set off against future taxable income is Rnil (2018: R30 960).

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:

	2019 R'000	2018 R'000
Directors and key management		
Advances and loans		
Advances and loans outstanding at end of year	3 280	3 315
No specific provision for impairment has been recognised in respect of advances and loans provided to related parties (2018: R Nil).		
Deposits		
Deposits at end of year	7 832	7 410

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Other expenses	2019 R'000	2018 R'000
Key management compensation		
– Short-term employee and consulting benefits	5 073	4 809
– Post-employment benefits	547	512
Non-executive directors' fees		
– for services	1 466	1 341
	7 086	6 662

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 412 480 000, compared to a carrying amount of R1 385 219 000, 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 (2018: fair value of R1 236 500 000, compared to a carrying amount of R1 260 453 000).

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 2019 (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 2019:

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)	13 872	110 298	–

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

The following tables present the Bank's assets and liabilities that are measured at amortised cost at 31 March 2019:

Assets	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Advances and loans (note 4)	–	–	1 190 972

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)	–	–	1 412 480

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.

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 Prudential Authority.

The Bank has a statutory capital requirement, in terms of the Mutual Banks Act, which sets a minimum amount of capital and reserves to be held. This amount, termed the capital adequacy ratio, is set at 10% of risk weighted assets. This ratio in effect determines the amount the Bank may lend out on advances. The average capital adequacy ratio for the year under review was 14% (2018: 13%).

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 CREDIT RISK MEASUREMENT

Loans and advances
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Bank measures credit risk using estimates of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. Refer to note 19.4.2 for more details.

19.4.2 EXPECTED CREDIT LOSS MEASUREMENT

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 19.4.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 19.4.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 19.4.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Note 19.4.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).
- Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 19.4.2.5).

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.2 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

The following diagram summarises the impairment requirements under IFRS9 (other than purchased or originated credit-impaired financial assets):

CHANGE IN CREDIT QUALITY SINCE INITIAL RECOGNITION

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

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

19.4.2.1 SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

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

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

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

- In short-term forbearance
- Direct debit cancellation
- Extension to the terms granted
- Previous arrears within the last 12 months

The assessment of SICR incorporates forward-looking information (refer to note 19.4.2.4 for further information) and is performed on a quarterly basis at a portfolio level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by management.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 March 2019.

Please refer to note 19.4.2.4 for a sensitivity analysis of the impact on ECL of changing the PDs thresholds.

19.4.2.2 DEFINITION OF DEFAULT AND CREDIT-IMPAIRED ASSETS

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

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

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

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations. An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

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

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

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

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 14.4.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

19.4.2.4 FORWARD LOOKING INFORMATION INCORPORATED INTO THE ECL MODELS

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

In addition to the base economic scenario, the Bank has also considered other possible scenarios along with scenario weightings at 1 April 2018 and 31 March 2019.

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Economic variable assumptions
The most significant period-end assumptions used for the ECL estimate as at 1 April 2018 and 31 March 2019 relate to the PDs as disclosed below:

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

The weightings assigned to each economic scenario at 1 April 2018 and 31 March 2019 were as follows:

	BASE SCENARIO	UP-TURN	DOWN-TURN
Whole portfolio	70%	10%	20%

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Sensitivity analysis
Set out below are the changes to the ECL as at 31 March 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions in each of the economic scenarios considered:

	TOTAL ECL ALLOWANCE	DIFFERENCE TO WEIGHTED ECONOMIC SCENARIO	PERCENTAGE DIFFERENCE TO WEIGHTED AVERAGE SCENARIO
Weighted economic scenario	12 957		
Base	12 898	(59)	(0.5%)
Up-turn	12 318	(639)	(4.9%)
Down-turn	13 484	527	4.1%

19.4.2.5 GROUPING OF INSTRUMENTS FOR LOSSES MEASURED ON A COLLECTIVE BASIS

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

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

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

- Credit rating band
- Product type

All stage 3 loans are assessed individually.

19.4.3 MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL HELD

2019 (IFRS 9)
The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of the financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

The Bank analyses its exposure to credit risk of financial instruments for which an ECL is not recognised based on past due and impaired advances, less collateral held or other credit enhancements. Past due and impaired advances are defined as those advances that are in arrears, or that have been specifically provided for.

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

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

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

	ADVANCES - GENERAL R'000
Gross	11 285
Performing advances	11 285
Estimated value of collateral held	(11 285)
Estimated exposure to credit risk	–

2018 (IAS39)
For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals the carrying amount. The Bank analysed 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:

	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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

- Mortgages: the most recent 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.

2019 and 2018
In the 2019 and 2018 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.

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

During the 2019 and 2018 financial years, the Bank did not recognise any collateral it held as security against advances, as an asset of the Bank.

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

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	GROSS EXPOSURE	IMPAIRMENT ALLOWANCE	CARRYING AMOUNT	FAIR VALUE OF COLLATERAL HELD
Credit-impaired assets				
Rental agreements	6 196	(3 993)	2 203	541
Instalment sales	933	(717)	216	109
Mortgages	22 955	(2 626)	20 329	20 148
Total credit-impaired assets	30 084	(7 336)	22 748	20 798

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.4 CREDIT QUALITY (2018 IAS 39)

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 credit-granting committee.

The credit quality of advances can be summarised as follows:

2019	ADVANCES – MORTGAGE LOANS R'000	ADVANCES – INSTALMENT SALES & RENTALS R'000	ADVANCES – GENERAL R'000	TOTAL R'000
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
Total	702 729	389 478	11 249	1 103 456
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

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.

19.4.5 LOSS ALLOWANCE

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised during the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Write-offs of allowances related to assets that were written off during the period (see note 19.4.6).

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.5 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
RENTAL AGREEMENTS	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	3 198	555	5 423	9 176
Transfers				
Transfer from Stage 1 to Stage 2	(518)	790	–	272
Transfer from Stage 1 to Stage 3	(437)	–	1 739	1 302
Transfer from Stage 2 to Stage 3	–	(126)	640	514
Transfer from Stage 3 to Stage 2	–	3	(67)	(64)
Transfer from Stage 3 to Stage 1	68	–	(1 064)	(996)
Transfers from Stage 2 to Stage 1	23	(85)	–	(62)
Decrease in allowance with no change in stage	(607)	(113)	(113)	(833)
New financial assets originated	2 159	–	–	2 159
Financial assets de-recognised	(217)	(72)	(2 565)	(2 854)
Loss allowance as at 31 March 2019	3 669	952	3 993	8 614
INSTALMENT SALE AGREEMENTS				
Loss allowance as at 1 April 2018	372	105	5 499	5 976
Transfers				
Transfer from Stage 1 to Stage 2	(49)	161	–	112
Transfer from Stage 1 to Stage 3	(165)	–	448	283
Transfer from Stage 2 to Stage 3	–	(39)	199	160
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfers from Stage 2 to Stage 1	15	(46)	–	(31)
Decrease in allowance with no change in stage	(106)	(16)	(27)	(149)
New financial assets originated	431	–	–	431
Financial assets de-recognised	(35)	–	(5 402)	(5 437)
Loss allowance as at 31 March 2019	463	165	717	1 345

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.5 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
MORTGAGES	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2018	314	118	1 365	1 797
Transfers				
Transfer from Stage 1 to Stage 2	(4)	49	–	45
Transfer from Stage 1 to Stage 3	(2)	–	552	550
Transfer from Stage 2 to Stage 3	–	(118)	1 106	988
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfers from Stage 2 to Stage 1	–	–	–	–
(Decrease)/Increase in allowance with no change in stage	(65)	17	(397)	(445)
New financial assets originated	68	–	–	68
Financial assets de-recognised	(5)	–	–	(5)
Loss allowance as at 31 March 2019	306	66	2 626	2 998

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.5 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
RENTAL AGREEMENTS	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	340 081	5 666	6888	352 635
Transfers				
Transfer from Stage 1 to Stage 2	(10 231)	8 770	–	(1 461)
Transfer from Stage 1 to Stage 3	(3 713)	–	2875	(838)
Transfer from Stage 2 to Stage 3	–	(1 386)	1273	(113)
Transfer from Stage 3 to Stage 2	–	37	(76)	(39)
Transfer from Stage 3 to Stage 1	975	–	(1423)	(448)
Transfers from Stage 2 to Stage 1	607	(1 039)	–	(432)
Decrease in carrying amount with no change in stage	(88 462)	(659)	(455)	(89 576)
New financial assets originated	161 069	–	–	161 069
Financial assets de-recognised	(25 591)	(502)	(2886)	(28 979)
Gross carrying amount as at 31 March 2019	374 735	10 887	6 196	391 818
INSTALMENT SALE AGREEMENTS				
Gross carrying amount as at 1 April 2018	29 199	774	6870	36 843
Transfers				
Transfer from Stage 1 to Stage 2	(1 858)	1 333	–	(525)
Transfer from Stage 1 to Stage 3	(719)	–	570	(149)
Transfer from Stage 2 to Stage 3	–	(222)	256	34
Transfer from Stage 3 to Stage 2	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfers from Stage 2 to Stage 1	225	(298)	–	(73)
Decrease in carrying amount with no change in stage	(7 374)	(159)	–	(7 533)
New financial assets originated	16 043	–	–	16 043
Financial assets de-recognised	(5 435)	–	(6763)	(12 198)
Gross carrying amount as at 31 March 2019	30 081	1 428	933	32 442

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.5 LOSS ALLOWANCE (CONTINUED)

ECL STAGING	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-month ECL	Lifetime expected ECL	Lifetime expected ECL	
MORTGAGES	R'000	R'000	R'000	R'000
Gross carrying amount as at 1 April 2018	**669 546**	**23 794**	**9389**	**702 729**
Transfers				
Transfer from Stage 1 to Stage 2	(12 425)	9 369	–	(3 056)
Transfer from Stage 1 to Stage 3	(8 997)	–	9452	455
Transfer from Stage 2 to Stage 3	–	(6 799)	7125	326
Transfer from Stage 3 to Stage 2	–	6	(9)	(3)
Transfer from Stage 3 to Stage 1	87	–	(1030)	(943)
Transfers from Stage 2 to Stage 1	9 874	(10 508)	–	(634)
Decrease in carrying amount with no change in stage	(13 185)	(275)	(117)	(13 577)
New financial assets originated	95 174	–	–	95 174
Financial assets de-recognised	(19 812)	(3 377)	(1855)	(25 044)
Gross carrying amount as at 31 March 2019	**720 262**	**12 210**	**22 955**	**755 427**

19.4.6 WRITE-OFF POLICY

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

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.4.7 GEOGRAPHICAL CONCENTRATION OF CREDIT RISK

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

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

2018	EASTERN CAPE %	WESTERN CAPE %	OTHER %	TOTAL %
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

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 R6 879 000 (2018: R5 067 000) per annum and a 1% decrease is expected to reduce pre-tax net margins by R6 965 000 (2018: R5 141 000) 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 2019 (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:

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

2018	0 – 31 DAYS R'000	32 – 90 DAYS R'000	91 – 365 DAYS R'000	OTHER R'000
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)

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.

	2019 R'000	2018 R'000
Endowment Policy	**50 195**	41 285
Preference Shares	**13 872**	10 018
Nedgroup Investments Core Income Fund	**15 086**	–
Nedgroup Investments Cash Solution	**38 311**	43 212
Medical Investment	**6 706**	6 333
	124 170	100 848

GBS Mutual Bank

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.

	2019 %	2018 %
Equities	84	68
Cash	2	4
Bonds	5	14
Property	6	8
Other	3	6

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% (2018: 83.3%) of the prime overdraft rate. As the rate attached to the preference shares is not a fixed coupon rate, the capital value should not react to rises and falls in interest rates in the same manner as bonds. Share price fluctuations rather reflect investor sentiment which could be driven by potential changes in tax or bank legislation, and/or other fixed interest investments available in the market.

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

Nedgroup Investments Cash Solution
The fund is a money market fund that invests only in the highest quality paper available with a maximum exposure to any counter-party of 25%. The Nedgroup Investments Corporate Money Market Fund aims to maximise 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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

19.6 LIQUIDITY RISK (CONTINUED)

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

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

Liquidity is reviewed weekly by the risk management sub-committee. Liquidity risk management is consistent with that of the previous year.

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

The tables in note 21 provide details on the contractual maturity and mismatch position of all financial instruments and other assets and liabilities, using historical data, on a discounted and undiscounted basis.

19.7 FOREIGN EXCHANGE RISK

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

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:

	2019 R'000	2018 R'000
No later than 1 year	349	411
Later than 1 year and no later than 5 years	687	1 036
	1 036	1 447

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:

	2019 R'000	2018 R'000
No later than 1 year	45	44

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

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

2019 *Discounted Maturity*	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	TOTAL R'000
Financial Assets						
Cash: Bank balances and deposits	–	39 556	36 779	–	–	76 335
Cash: SA Reserve Bank balance	–	–	–	–	30 568	30 568
Cash: Treasury bills	–	19 926	49 515	–	–	69 441
Cash: Cash on hand	819	–	–	–	–	819
Advances: Mortgage	–	129	416	144	754 738	755 427
Advances: General	–	7 291	627	556	2 811	11 285
Advances: Instalment sales and rentals	–	2 315	4 664	12 316	404 965	424 260
Investments: Fixed Deposits	–	–	27 588	20 456	–	48 044
Investments: Other	110 298	–	–	–	–	110 298
Investments: Investec Securities	13 872	–	–	–	–	13 872
Sundry Debtors	–	128	–	–	–	128
	124 989	69 345	119 589	33 472	1 193 082	1 540 477
Financial Liabilities						
Deposits	(14 887)	(261 044)	(204 349)	(382 572)	(522 367)	(1 385 219)
Sundry Creditors	–	(5 976)	–	–	–	(5 976)
	(14 887)	(267 020)	(204 349)	(382 572)	(522 367)	(1 391 195)
Total recognised financial instruments	110 102	(197 675)	(84 760)	(349 100)	670 715	149 282
Financial guarantees	–	–	(31 760)	–	–	(31 760)
Irrevocable unutilised facilities	–	(21 105)	–	(44 654)	–	(65 759)
Total unrecognised financial instruments	–	(21 105)	(31 760)	(44 654)	–	(97 519)
Net inflow/(outflow)	110 102	(218 780)	(116 520)	(393 754)	670 715	51 763

GBS Mutual Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2019 **Undiscounted (balance sheet values with impact of future interest)**	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	DISCOUNTING EFFECT R'000	TOTAL R'000
Financial Assets							
Cash: Bank balances and deposits	–	39 556	37 020	–	–	(241)	76 335
Cash: SA Reserve Bank balance	–	–	–	–	30 568	–	30 568
Cash: Treasury bills	–	20 000	50 000	–	–	(559)	69 441
Cash: Cash on hand	819	–	–	–	–	–	819
Advances: Mortgage	–	129	429	155	1 611 180	(856 466)	755 427
Advances: General	–	7 325	648	604	3 954	(1 246)	11 285
Advances: Instalment sales and rentals	–	2 347	4 748	12 881	489 449	(85 165)	424 260
Investments: Fixed Deposits	–	–	28 114	21 755	–	(1 825)	48 044
Investments: Other	110 298	–	–	–	–	–	110 298
Investments: Investec Securities	13 872	–	–	–	–	–	13 872
Sundry Debtors	–	128	–	–	–	–	128
	124 989	69 485	120 959	35 395	2 135 151	(945 502)	1 540 477
Financial Liabilities							
Deposits	(14 887)	(261 907)	(209 165)	(405 661)	(611 617)	118 018	(1 385 219)
Sundry Creditors	–	(5 976)	–	–	–	–	(5 976)
	(14 887)	(267 883)	(209 165)	(405 661)	(611 617)	118 018	(1 391 195)
Total recognised financial instruments	110 102	(198 398)	(88 206)	(370 266)	1 523 534	(827 484)	149 282
Financial guarantees	–	–	(31 760)	–	–	–	(31 760)
Irrevocable unutilised facilities	–	(21 105)	–	(44 654)	–	–	(65 759)
Total unrecognised financial instruments	–	(21 105)	(31 760)	(44 654)	–	–	(97 519)
Net inflow / (outflow)	110 102	(219 503)	(119 966)	(414 920)	1 523 534	(827 484)	51 763

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2018 *Discounted Maturity*	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	TOTAL R'000
Financial Assets						
Cash: Bank balances and deposits	–	47 963	25 854	–	–	73 817
Cash: SA Reserve Bank balance	–	–	–	–	27 810	27 810
Cash: Treasury bills	–	19 931	43 755	–	–	63 686
Cash: Cash on hand	833	–	–	–	–	833
Advances: Mortgage	–	5 238	26 190	31 428	639 873	702 729
Advances: General	–	386	1 928	2 315	6 620	11 249
Advances: Instalment sales and rentals	–	12 202	61 009	73 210	243 057	389 478
Investments: Fixed Deposits	–	5 169	18 229	10 335	–	33 733
Investments: Other	90 830	–	–	–	–	90 830
Investments: Investec Securities	10 018	–	–	–	–	10 018
Sundry Debtors	–	124	–	–	–	124
	101 681	91 013	176 965	117 288	917 360	1 404 307
Financial Liabilities						
Deposits	(22 086)	(261 898)	(320 408)	(341 533)	(314 528)	(1 260 453)
Sundry Creditors	–	(2 038)	–	–	–	(2 038)
	(22 086)	(263 936)	(320 408)	(341 533)	(314 528)	(1 262 491)
Total recognised financial instruments	79 595	(172 923)	(143 443)	(224 245)	602 832	141 816
Irrevocable unutilised facilities	–	(27 026)	–	(30 464)	–	(57 490)
Total unrecognised financial instruments	–	(27 026)	–	(30 464)	–	(57 490)
Net inflow/(outflow)	79 595	(199 949)	(143 442)	(254 709)	602 832	84 326

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

21. LIQUIDITY RISK ANALYSIS (CONTINUED)

2018 **Undiscounted (balance sheet values with impact of future interest)**	REDEEMABLE ON DEMAND R'000	MATURING WITHIN 1 MONTH R'000	MATURING AFTER 1 MONTH BUT WITHIN 6 MONTHS R'000	MATURING AFTER 6 MONTHS BUT WITHIN 12 MONTHS R'000	MATURING AFTER 12 MONTHS R'000	DISCOUNTING EFFECT R'000	TOTAL R'000
Financial Assets							
Cash: Bank balances and deposits	–	47 963	26 008	–	–	(154)	73 817
Cash: SA Reserve Bank balance	–	–	–	–	27 810	–	27 810
Cash: Treasury bills	–	20 000	44 190	–	–	(504)	63 686
Cash: Cash on hand	833	–	–	–	–	–	833
Advances: Mortgage	–	5 260	26 992	33 892	1 387 014	(750 429)	702 729
Advances: General	–	388	1 993	2 513	8 458	(2 103)	11 249
Advances: Instalment sales and rentals	–	14 638	73 192	87 830	291 598	(77 780)	389 478
Investments: Fixed Deposits	–	5 179	18 511	10 826	–	(783)	33 733
Investments: Other	90 830	–	–	–	–	–	90 830
Investments: Investec Securities	10 018	–	–	–	–	–	10 018
Sundry Debtors	–	124	–	–	–	–	124
	101 681	93 552	190 886	135 061	1 714 880	(831 753)	1 404 307
Financial Liabilities							
Deposits	(22 086)	(262 761)	(327 938)	(362 085)	(347 776)	62 193	(1 260 453)
Sundry Creditors	–	(2 038)	–	–	–	–	(2 038)
	(22 086)	(264 799)	(327 938)	(362 085)	(347 776)	62 193	(1 262 491)
Total recognised financial instruments	79 595	(171 247)	(137 052)	(227 024)	1 367 104	(769 560)	141 816
Irrevocable unutilised facilities	–	(27 026)	–	(30 464)	–	–	(57 490)
Total unrecognised financial instruments	–	(27 026)	–	(30 464)	–	–	(57 490)
Net inflow / (outflow)	79 595	(198 273)	(137 052)	(257 488)	1 367 104	(769 560)	84 326

Community Projects and Sponsorships

It is widely appreciated and acknowledged that GBS Mutual Bank makes donations and offers financial support to educational and welfare institutions, as well as other organisations, societies, and clubs on an annual basis.

MAJOR RECIPIENTS THIS YEAR

LIV Lukhanyiso

LIV Lukhanyiso was the recipient of a very generous donation from GBS Mutual Bank. The donation enables the organisation to continue building a solid foundation for the future through its key strategic initiatives – land sub-division and services, community engagement projects and raising support to make this vision become a reality.

LIV Lukhanyiso acknowledges that having the support of one of Grahamstown's most significant and prestigious institutions has meant so much and given it immense strength and courage to persevere in making LIV Lukhanyiso a reality.

Appreciative of the donation from GBS Mutual Bank, LIV Lukhanyiso extends a sincere thank-you to the Bank for partnering with them and bringing light and hope to the city and the province.

Whistle Stop School (St Mary's Development and Care Centre)

GBS Mutual Bank funds an exciting educational partnership initiated at St Mary's Development and Care Centre (DCC), the oldest after-school care centre in Grahamstown (Makhanda).

In 2017, the Whistle Stop School was piloted at the Development and Care Centre in partnership with GADRA Education to address fundamental early grade reading backlogs in no-fee schools. This is a serious national problem and the major factor in school drop-out rates before Grade 12 – up to 50% in Grahamstown (Makhanda) schools.

Whistle Stop School achieved outstanding results in its pilot year and again in 2018, through dedicated daily lessons for small groups from St Mary's Primary School. This advances up to three years in English reading and comprehension levels in a single year.

The first roll-out of Whistle Stop School in isiXhosa home language takes place at Tantyi School in 2019. The Tantyi Whistle Stop School offering is supported by isiXhosa experts from Rhodes University, as well as the service of a clinical psychologist.

The breakthroughs achieved by Whistle Stop Schools have featured in the national media and are enthusiastically endorsed by principals and teachers.

Amanzi Yimpilo Water Project for Early Childhood Development

Grahamstown (Makhanda) has faced serious water crises in recent months, and this has hit the pre-school centres in the city very hard. The Early Childhood Development (ECD) sector is under-funded and under-resourced, leaving them very vulnerable.

But this situation did not deter Pam Sandi, Chairperson of the local Early Childhood Development Forum, who arranged for the pre-school teachers to come together and conceptualise the Amanzi Yimpilo programme, with the aim of harvesting water by establishing a tank and gutters in the 20-member sites.

On a monthly basis they collected what funds they could afford to purchase tanks, but this resulted in only one tank a month. Ms Sandi decided to look for a partner who could assist with the financing of the project.

GBS Mutual Bank responded promptly, investing R200 000 into the much-needed initiative. Ms Sandi was delighted that the local Bank had invested in young children, stating:

LEFT: GBS Mutual Bank's Company Secretary, Patrick Hornby with CEO Mr Anton Vorster, Board member Kerryn Wiblin and Chairman of the Bank, Prof Owen Skae at the official opening of the Marais Field facility at Graeme College.

"As pre-school teachers we can now focus on the education of our pupils and stop worrying about the effects of dirty water that either kept children away from school or resulted in chronic diarrhoea and skin rashes."

According to Mrs Hornby from the Rhodes Engagement Community, the value of the investment went beyond providing sustainable clean water daily for over 110 pre-schoolers, to the building of community leadership and investing in small township businesses.

9/10ths Mentoring Programme

A three-year partnership between Rhodes University, GADRA and no-fee-paying schools has set public education in Makhanda and GBS Mutual Bank on a new trajectory.

The public-school Class of 2018 produced the best set of Matric results in the history of Grahamstown (Makhanda).

The year 2018 was a breakthrough year in the pursuit for equal education in Grahamstown (Makhanda), and the 9/10ths Mentoring Programme played a significant role in this regard. The purpose of this programme is to improve the accessibility of Rhodes University to local disadvantaged students.

The 168 pupils forming part of the 9/10ths Mentoring Programme contributed significantly to the outstanding results. Of the 102 no-fee school Bachelor passes, 83 were mentored under the 9/10ths Mentoring Programme.

The programme has enjoyed national recognition with other educational institutions adopting the model. On the heels of this huge success, the 9/10ths Mentoring Programme was facing a funding crisis.

GBS Mutual Bank stepped up to fund the programme for another year, in the amount of R200 000, and going forward it is hoped that Government will recognise this city's effort to provide its children with an equal education opportunity.

The Missing Middle

GBS Mutual Bank donated an amount of R200 000 to Rhodes University to assist in the funding of the "missing middle" group, especially those who were educated/reside in Grahamstown (Makhanda) and who fall outside of the NSFAS funding window. Where possible, this funding will be directed towards students in the commerce faculty.

Graeme College

An amount of R150 000 was donated to Graeme College for their recently completed facility on Marais Field which was officially opened on 9 May. The learners, guests, parents and the community at large will benefit greatly from this addition to the Graeme College campus. The school is not only grateful for this very significant contribution which has gone a long way in the development of this facility but also incredibly proud of their long standing relationship with GBS Mutual Bank.

RIGHT: The Nine Tenths Mentoring Programme gets underway at Ntsika Secondary School with well trained Rhodes Mentors developing personal plans and setting targets for the year with their Grade 12 mentees.

Kingswood College/Lebone Centre

Kingswood College celebrated their 125th anniversary this year and in recognition of this milestone, GBS Mutual Bank donated an amount of R125 000 to Lebone Centre which was established by Kingswood College in 2006. Lebone Centre supports and engages with the surrounding community, accommodating the on-site, multilingual Little Red Dragon Pre-School for 28 pre-Grade R children.

Lebone Centre also facilitates an after-care programme for 20 vulnerable children from Grade 1 to Grade 3. A strong focus on literacy development exists, and programmes are also run off-site.

The GBS Mutual Bank donation has provided the funding for a much-needed upgrading of the pre-school playground, as well as the garden and access area.

OTHER BENEFICIARIES

GBS Mutual Bank has, over many 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 magnanimity of GBS Mutual Bank is spread far and wide across many communities.

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

Community Projects and Sponsorships

FINANCIAL SKILLS PROGRAMME

GBS Mutual Bank established its Financial Skills Programme, now in its 12th year, with over 2000 people having attended the programme's sessions to date. The programme's aims include providing residents in the Makana district with the necessary skills required to manage their personal finances more competently.

The Financial Skills Programme is part and parcel of GBS Mutual Bank's Social Responsibility Programme. Having been 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 and appreciated 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).

BELOW: "Clean water at last, now we can focus on what we are trained to do – provide quality education!" These were the words of Pamella Sandi, Chair of the Early Childhood Development Forum in Makanda. GBS Mutual Bank has funded their vision of water tanks for 21 pre-school (26 tanks).

SPORT

The GBS Mutual Bank Mountain Drive Half Marathon

An exciting new sponsorship venture arose in 2018 with GBS Mutual Bank invited to be the title sponsor of the GBS Mutual Bank Mountain Drive Half Marathon, a 21-kilometre road running event in and around Grahamstown (Makhanda) in August each year.

The very popular race, which is part of Eastern Province Athletics' road running league, attracts several hundred participants from Port Elizabeth, Uitenhage, Port Alfred, Grahamstown (Makhanda) and other centres. The plan is to grow the event to include a fun run and a cycle race, with the objective of benefitting the city by attracting more visitors and participants.

With GBS Mutual Bank company branding spread across the start and finish venue and around the town, the event offers invaluable exposure of the Bank to participants and the public.

Other support for sport

Numerous sports events, tournaments and competitions in the Grahamstown (Makhanda) district and along the Sunshine Coast benefit from the support of GBS Mutual Bank. Sports clubs and sporting codes at school level in the Makana and Ndlambe districts continue to benefit from the Bank's financial support for their sports tournaments, competitions and events, many of which are organised and arranged with the specific aim of raising funds for charity and other worthy causes. Sponsorship is in the form of financial assistance and support-in-kind, including the provision of prizes and awards.

GBS Mutual Bank sponsors charity golf days at Belmont Golf Club outside Grahamstown (Makhanda), and Royal Port Alfred Golf Club, as well as various holes at golf competitions in Port Elizabeth. The Bank is the title sponsor of the GBS Grahamstown Ladies' Open golf competition, an event that has received sponsorship from the Bank for numerous years.

Three other title sponsorships are the GBS Mutual Bank Mixed Fours Bowls Tournaments in Grahamstown (Makhanda) and Kenton-on-Sea, the GBS Mutual Bank Settlers Plate Bowls Tournament in Port Alfred and the GBS Festival of Bowls at the Port Elizabeth Bowling Club.

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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ANNUAL REPORT

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