grobank

ANNUAL FINANCIAL STATEMENTS

2019

Grobank Limited

Audited Annual Financial Statements

for the year ended 31 December 2019

in compliance with Companies Act of South Africa

Prepared by: Chrisanthi Michaelides CA (SA)

Chief Financial Officer

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Directors' Responsibility and Approval for the Annual Financial Statements

The Directors are responsible for the preparation and integrity of the Annual Financial Statements and related information included in this report. In order for the Board to discharge its responsibilities, management has developed and continues to maintain systems of internal control. The Board has ultimate responsibility for the systems of internal control and reviews their effectiveness, primarily through the Audit and Compliance Committee. As part of the systems of internal controls, the Bank's Internal Audit department conducts operational, financial and specific audits, and reports directly to the Audit Committee. The external auditors are responsible for reporting on the Annual Financial Statements. The holding company is GroCapital Holdings Limited. The Directors have no reason to believe that the Bank will not be a going concern in the year ahead and have continued to adopt the going concern basis in preparing the financial statements. Refer to the directors' report,for further guidence in this regard.

The Annual Financial Statements have been prepared in accordance with the provisions of the Companies Act and comply with International Financial Reporting Standards. The Annual Financial Statements are based on appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Annual Financial Statements for the year ended 31 December 2019 were approved by the Board of Directors on the 11 June 2021 and are signed on its behalf by:

BP Mathidi
Acting Chairman
Johannesburg
11 June 2021

B van Rooy
Chief Executive Officer
Johannesburg
11 June 2021

Company Secretary's Certificate

The Company Secretary of Grobank (Limited) certifies that, in terms of section 88(2)(e) of the Companies Act, No.71 of 2008 as amended, the Bank has lodged with the Companies and Intellectual Property Commission of South Africa all returns and notices as required by a public company in terms of the Act and that all such returns are true, correct and up to date in respect of the financial year ended 31 December 2019.

T Buthelezi
Company Secretary
11 June 2021

Independent Auditor's Report

TO THE SHAREHOLDERS OF GROBANK LIMITED REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Grobank Limited set out on pages 19 to 77, which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the statements of financial position as at 31 December 2019, and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 30 to the financial statements, which describes the factors considered by the directors in assessing the appropriateness of adopting the going concern assumption. We specifically draw attention to the new capital injection received from Access Bank Plc of R400 million on 3 May 2021, the conversion of deposits from the PIC and Fairfax Holdings into Tier 2 instruments amounting to approximately R183 million which remains subject to PA approval, and the letter of support from Access Bank Plc pledging capital and funding support in the event of any capital or liquidity shortfall. Our opinion is not modified in respect of this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Grobank Limited audited financial statements for the period ended 2019" which includes the Company information, Directors responsibility statement, Directors' Report, Audit Committee's report and the Company Secretary's Certificate, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of the 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for 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 Company'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 Company'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 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 Company 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Justin Dziruni
Partner

11 June 2021

Directors' Report

NATURE OF THE BUSINESS

Grobank Limited (Grobank) is focused on developing and delivering banking services to medium-sized businesses and individuals, specialising in the agri-business value chain and associated industries in the South African market, driven by a unique combination of retail, business and alliance banking and agri-business experience.

Business and Commercial Banking

Grobank's Business and Commercial Banking is focused on the cornerstones of business banking (transactional banking, lending and deposit services) and targets the small and medium sized business customer. To facilitate international business transactions Grobank's Business and Commercial banking is fully integrated with the Grobank's Treasury and Global Transactional Services ("GTS") business (see below). Grobank also offers risk and investment solutions from leading providers in the industry which includes short and long term insurance as well as investment management services. These solutions are delivered through seven business suites situated in key business centres across South Africa.

Treasury and Global Transaction Services

Grobank's GTS business is focused on providing professional and personalised foreign exchange (import and export) services to the small and medium sized business customer. GTS's range of products include spot and forward contracts, foreign currency accounts, letters of credit, collection of foreign currency, cross border payments and exchange control applications.

Alliance Banking

Grobank's Alliance Banking business model focuses on banking products developed and offered to identified market segments or groups through a leveraged partner system. Grobank strategically partners with established retailers and innovative financial technology (FinTech) companies to deliver these solutions.

Additional information can be accessed from Grobank's website www.Grobank.co.za.

Effective from the 3rd May 2021, Access Bank Plc is the banking controlling company that owns 90.35% of Grobank Limited.

CAPITAL STRUCTURE

There has been no change in the structure of authorised share capital for the year under review. The unissued shares are under the control of the Directors subject to the notification to and specific approval by GroCapital Holdings Limited, until the next Annual General Meeting.

During the year four capital raising exercises totalling R194.631 million were undertaken.

- January 2019 - R49 999 998 share capital was raised by issuing 6 747 638 shares at 7.41 per share.
- April 2019 - R 19 999 994 share capital was raised by issuing 2 849 002 shares at 7.02 per share
- May 2019 - R 73 599 993 share capital was raised by issuing 10 713 245 shares at 6.87 per share.
- October 2019 - R 51 031 392 share capital was raised by issuing 7 973 655 shares at 6.4 per share (see note 13 and 14)

The results of the Bank are set out in the financial statements and supporting notes.

DIVIDENDS

No dividends have been proposed or declared for the year under review (2018: Nil).

HOLDING COMPANY

The holding company, until the 2nd of May 2021 was GroCapital Holdings Limited, incorporated in South Africa. The new controlling shareholder committed to supporting the Bank and the Directors have no reason to believe otherwise.

Effectively from 3rd May 2021, the Banks main shareholder and bank controlling company is Access Bank Plc, operating out of Nigeria.

The Shareholders are:

Access Bank Plc 90.35%
GCHL 9.64%
other minorities 0.01%

GOING CONCERN

The Bank has made a loss in FY2019 of R93million and in FY2018 of R 48.2million however, the Bank is solvent and has a current net asset value of R398million and R293million in 2018.

On the 25 March 2021, the Prudential Authority and the Minister of Finance approved the application of Access Bank Plc to become the controlling shareholder of Grobank.

After making due enquiries and having carefully considered all of the factors that may impact the Bank's going concern status, including the Bank's capital adequacy, liquidity for the next 12 months from the date of approving the annual financial statements, the Directors consider that the Bank has adequate resources to continue operating as a going concern for the foreseeable future.

The factors considered were:

- A portfolio of loans and advances to be settled / sold to Mercantile Bank, resulting in an expected cash flow of approximately R350 million,
- The new capital injection from Access Bank Plc of R400million received 3rd May 2021,
- The conversion of deposits from the PIC and Fairfax Holdings into Tier 2 instruments amounting to approximately R183 million (subject to PA approval received) and
- The letter of support from Access Bank Plc pledging capital and funding support in the event of any capital or liquidity shortfall.

Covid-19 pandemic

Due to the Covid-19 pandemic occurrence in South Africa and the rest of the world, as well as the impact this has had on the economic conditions in the country, the Board further assessed the impact this too would have on the Bank's going concern status. Taking into consideration the directives (D2/2020 and D3/2020) and guidance notes (GN3/2020 and GN 4/2020) from the Prudential Authority (PA), the Board assessed the relief provided by the PA together with the factors mentioned above concluded that, even if the impact of Covid-19 had been taken into account, the Bank would continue to have sufficient resources to continue operating as a going concern for the foreseeable future. However, the direct impact of Covid-19 on the Bank's operations cannot be reliably measured at this stage.

The financial statements have therefore been prepared on the going concern basis.

POST BALANCE SHEET EVENTS

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, business is being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial statements for the year ended 31 December 2019 have not been adjusted to reflect their impact.

From the start of the Covid-19 pandemic and national lock down announced with effect from 27 March 2020, the majority of Grobank's staff have been working remotely.

Grobank, similar to the banking industry, has been classified as an essential service, and consequently has maintained a skeleton staff at the Bank's head office and Suites to facilitate the provision of these essential services. As a result of the lockdown, the following possible risks have been highlighted for the Bank:

- Cash flow pressures on clients which could lead to late or non-payment of loan commitments
- An increase in provisions on the loans and advances portfolio due to inability of clients to meet debt obligations and security values being compromised
- Increased liquidity risk

During this period, the Bank has taken the decision to support its clients and provide financial relief through the granting of loan payment moratoriums on a case-by-case basis to clients for a period of four months.
The moratoriums were based on the following principles:

- Customers with a strong credit risk rating,
- Customers with an observable evidence of a clean repayment track record at Grobank, i.e. no arrear events
- The credit facilities were up to date as at February 2020

Since then the Bank has noted a total of approximately 457 client moratorium requests amounting to approximately R750m in exposure, of which 364 amounting to approximately R640m were in stage 1 and the remainder were in stage 2. The Bank continues to see moratorium requests but not at the levels at the start of level 5. Weekly the moratoriums granted are presented to the Bank's Board Credit Committee for review.

The Bank continues to run stress test scenarios to determine the impact of clients migrating into stage 2 or stage 3 due to clients not rehabilitating after this stress period.

The IFRS 9 provisioning scenarios considered were incremental increases of 5% of the performing book moving into stage 2 and incremental increases of 5% of the performing book moving into stage 3. Another scenario considered was impairing the collateral values of property security and residential mortgages security. The collateral values were impaired by 30% and 50%. This impact was then tested against the Bank's profitability and capital. Overly the bank anticipates that the Covid 19 pandemic will have a negative impact on the bank's profitability, liquidity and capital requirements. Consequently, even though the scenarios above have been considered, the impact of the Covid 19 situation is still evolving and the Bank is not able to reliably quantify the pandemic's future financial impact on its business.

Other events
During February 2020, additional common equity capital totalling R91.5million was raised from GroCapital Holdings Limited and minority shareholders, in order to meet the regulatory requirements.

On the 25 March 2021, the Prudential Authority and the Minister of Finance approved that the application of Access Bank Plc to become the controlling shareholder of Grobank.

On the 3rd May 2021 R400million new share capital was injected into the Bank by Access Bank Plc.

At the end of December 2020, the Bank reassessed the useful life of the intangible assets. An amount of R29million was processed in the income statement as accelerated amortisation. An additional write-off amounting to R46million was made in the 2020 income statement for project costs relating to the new core banking system as the project was discontinued.

DIRECTORATE AND SECRETARY

The Directors of the Bank as at 11 June 2021 are:

Non-executive:

- C P Venter (resigned 31 January 2020)
- J E O'Neill (appointed 5 February 2020)
- R M Y Giles (appointed 27 April 2021)
- R M Ogbonna (appointed 27 April 2021)
- C N Ajene (appointed 27 April 2021)

Independent, Non-executive:

- P Ranchod (resigned 16 October 2020)
- T J Fearnhead (resigned 28 February 2020)
- R A Shough
- W J Krüger
- J A Mirza (resigned 31 December 2020)
- A Beck (appointed 1 June 2020)
- B P Mathidi (appointed 20 August 2019)
- N M Nene (appointed 30 November 2019)
- P Hadebe (appointed 18 February 2020)
- B Barungi (appointed 27 April 2021)

Executive:

- B van Rooy (Chief Executive Officer) (appointed 28 June 2019)
- S Georgopoulos (Chief Executive Officer) (resigned 30 June 2019)
- D J Adriaanzen (resigned 23 June 2020)
- C Michaelides

Registered address:

Block 3, Inanda Greens Business Park 54 Wierda Road West, Wierda Valley, Sandton.

Report from the Chairman of the Audit and Compliance Committee

This report provides an overview of the Grobank Audit and Compliance Committee (ACC) and its activities and the manner in which it has discharged its responsibilities for the financial year ended December 2019. The ACC is an independent and formal statutory committee appointed by the shareholders. Further duties are delegated to the ACC by the Board of Grobank.

The ACC has used the King IV principles to continue to drive and embed good corporate governance at Grobank. The committee's objectives include fostering an ethical culture, sustainable value creation, a good reputation and legitimacy, and trusted financial reporting supported by effective financial processes, controls and assurance.

COMPOSITION

Grobank's Audit and Compliance Committee comprises of independent non-executive directors who are elected annually at the company's Annual General Meeting (AGM).

The members are:
Mr Roy Shough (Chairman, non-executive independent)
Mr Willem Kruger (non-executive independent)
Mr Jawaid Mirza (non-executive independent – resigned 31 December 2020)
Mr Patrick Mathidi (non-executive independent – joined in August 2019)
Mr Tim Fearnhead (non-executive independent – resigned 28 February 2020)
Ms A Beck (non-executive independent - joined 1 June 2020)*

*Appointment to be ratified at AGM.

The members possess the necessary expertise to execute their duties in relation to the committee as provided in section 94 of the Companies Act and have adequate knowledge and experience to carry out their duties. The composition of the ACC meets the requirements of the Companies Act, the Banks Act and KING IV.

The ACC operates independently of management and of the shareholders, is free of any organisational restraint or pressure and acts in accordance with its statutory duties and the Board's delegated authority. The Committee holds private closed sessions without management with the external auditors, the Head: Internal Audit, the Head: Compliance and Legal, and the Chief Financial Officer, all of whom have direct access to the committee. The Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer, Head of Compliance and Legal Services, the Head of Internal Audit, and the external auditors are invitees to the Committee meetings. Other risk and related assurance providers attend meetings by invitation only.

Mr BP Mathidi, who is a member of the ACC, is Acting Chairman of the Board, pending appointment of a new Chairman. The Company Secretary serves as secretary to the committee.

The effectiveness of the ACC and its members is assessed on an annual basis.

RESPONSIBILITIES OF THE COMMITTEE

The statutory duties of the Committee are set out in the Companies Act. The functions of the Committee are outlined in its charter. The ACC is accountable to the shareholders and the Board and relevant regulatory authorities. The responsibility and functions of the Committee include the review of financial reporting and their recommendation for approval to the Board and reviewing the basis on which the company has been determined a going concern. The Committee's charter allows it to consult with external consultants to assist it with the performance of its functions.

ANNUAL CONFIRMATIONS OF KEY FUNCTIONS FOR THE YEAR

External auditor appointment and independence

Deloitte were appointed as external auditors of the Bank for the 2019 financial year, replacing PwC who acted as external auditors for the 2017 and 2018 financial years. Having served for only one year, and in accordance with section 94(8) of the Companies Act, 2008, including consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors, the ACC is satisfied that Deloitte are independent of the Bank and are able to conduct their audit functions without any influence from the Bank. Requisite assurance was sought and provided by the auditor that internal governance processes within Deloitte support and demonstrate its independence.

The committee reviewed and agreed to the auditor's terms of engagement, audit plan and budgeted audit fees for the 2019 year and is satisfied with the results of its appraisal of Deloitte's expertise and audit quality. Feedback was

provided to Deloitte regarding our appraisal of their performance in completing the 2019 audit. During the year the committee met confidentially with the external audit partners without management being present.

Our established procedure that governs the consideration and approval of non-audit services provided by the auditor, was followed. During 2019 Deloitte provided non-audit services of an immaterial value relating to due diligences on new alliance partners in terms of the Alliance partner on-boarding framework. The Committee further approved that non-audit services of this nature to the value of 25% of the audit fee will be allowed before reverting back to the committee for further approval.

Annual financial statements and accounting practices

The ACC has reviewed the accounting policies and the annual financial statements of the Bank and is satisfied that they are appropriate and comply with International Financial Reporting Standards. There were no matters of concern or complaint as envisaged by section 94(7) (g) of the Companies Act, 2008, received from within or outside the company which came to the attention of the ACC in the past financial year.

Internal financial controls

During the year the ACC receives continuous feedback and assurances on the effectiveness of the Bank's system of internal control and risk management, including internal financial controls, from management and various assurance providers. At year end the Bank's Head: Internal Audit provides an overall assessment of the effectiveness of those same systems and internal controls. This assessment as well as assurance received from other assurance providers in terms of the Bank's continuous combined assurance activities, form the basis for the ACC's recommendation in this regard to the Board, in order for the board to report thereon. The ACC has assessed the internal financial controls as satisfactory.

Internal audit

The ACC is responsible for ensuring that the Bank's Internal Audit function is independent and has the necessary resources, standing and authority within the Bank to enable it to discharge its duties. Furthermore, the committee oversees cooperation between the internal and external auditors and serves as a link between the Board of Directors and these functions. The ACC considered and recommended the internal audit charter for approval by the Board. The Internal Audit function's annual audit plan was approved by the ACC. The Internal Audit function has responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all the Bank's operations. The Head of Internal Audit reports the findings of the internal audit work against the agreed internal audit plan to the ACC on a regular basis. The Head of Internal Audit reports directly to the ACC and meets regularly with the chairman of the ACC to report back on the function's status, progress and findings. During the year the committee met with the Head: Internal Audit without management being present.

Compliance

The Bank's compliance plan for the year is reviewed and approved by the ACC to ensure adequate coverage of all the key areas. Findings are reported regularly to the ACC to ensure that the compliance function effectively discharges its responsibility. The Head of Compliance and Legal Services reports directly to the ACC and meets regularly with the chairman of the ACC to report back on the function's status, progress and findings. During the year the committee met with the Head of Compliance and Legal Services without other members of management being present.

Governance of risk

The Board has assigned oversight of the Bank's risk management function to the Enterprise Risk and Capital Management Committee (ERCM). The chairman of the ACC is a member of the ERCM committee, and conversely the chairman of the ERCM committee is a member of the ACC, ensuring that information relevant to these committees is transferred regularly. The ACC fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as it relates to financial reporting.

Evaluation of the expertise and experience of the financial director and the finance function

The ACC has considered, and has satisfied itself regarding the appropriateness of the expertise and the adequacy of the resources of the finance function. It has also considered and satisfied itself of the expertise and experience of the Chief Financial Officer and senior members of management responsible for the finance function. During the year the committee met with the Chief Financial Officer without other members of management being present.

Combined assurance

The Bank's combined assurance framework has been developed and approved, and stakeholder engagement is established. Processes for maintaining and continuous updating of the framework are under ongoing development as part of a phased implementation. The understanding and culture of combined assurance is strong within the bank's leadership, and use of the framework by executives and board members is steadily increasing. The board and executive management are committed to a journey towards an appropriate level of combined assurance maturity.

IN CONCLUSION

The Committee is satisfied that it had fulfilled its responsibilities in terms of its charter during the year under review and believes that it complied with its legal, regulatory and governance responsibilities as set out in the Companies Act.

Mr RA Shough
11 June 2021

STATEMENT OF **FINANCIAL POSITION**

As at 31 December 2019

	Notes	2019 R'000	2018 R'000
Assets			
Cash and cash equivalents	2	648,800	296,293
Derivative financial instruments	3	32,482	5,593
Short-term negotiable securities	4	221,519	1,126,023
Accounts receivable	5	27,264	26,961
Other investments	6	15	15
Loans and Advances	7,8	2,022,809	1,765,003
Property and equipment	9	16,066	15,417
Intangible assets	10	89,723	86,222
Government bonds	11	167,346	-
Right of use asset	12	12,329	-
Total assets		**3,238,353**	**3,321,527**
Equity and liabilities			
Share capital	13	67,856	39,572
Share premium	14	626,927	460,579
Accumulated loss		(296,545)	(207,121)
Total equity		**398,238**	**293,030**
Liabilities			
Long term debt instruments	16	-	50,000
Derivative financial instruments	3	31,433	5,794
Deposits and current accounts	17	2,695,571	2,917,007
Negotiable certificate of deposits	18	10,000	-
Accounts payable	19	91,131	55,696
Lease liabilities	12	11,980	-
Total liabilities		**2,840,115**	**3,028,497**
Total equity and liabilities		**3,238,353**	**3,321,527**

STATEMENT OF **COMPREHENSIVE INCOME**

As at 31 December 2019

		2019 R'000	2018 R'000
Interest income	21.1	238,858	220,391
Interest expense	21.2	(144,337)	(140,399)
Net interest income from banking activities		**94,521**	**79,992**
Interest expense from non-banking activities	21.3	(3,985)	-
Net interest income		90,536	79,992
Net (charge) release for bad and doubtful advances	8	(10,011)	5,575
Non-interest income	21.4	66,970	53,103
Operating income		**147,495**	**138,670**
Staff cost	21.5	(107,974)	(80,733)
Depreciation and amortisation	21.5	(26,846)	(15,537)
Operating lease expenses	21.5	-	(11,577)
Other operating expenses	21.5	(105,754)	(79,110)
Loss before tax		**(93,079)**	**(48,287)**
Income tax expense	22	-	-
Loss for the year		**(93,079)**	**(48,287)**
Other comprehensive loss net of taxation			
Net profit on short term negotiable instruments (reclassification)	4	-	137
Total comprehensive loss for the year		**(93,079)**	**(48,150)**
Loss for the year attributable to:			
Holding company		(93,021)	(48,252)
Minority shareholders		(58)	(35)
		(93,079)	**(48,287)**
Total comprehensive loss for the year attributable to:			
Holding company		(93,021)	(48,115)
Minority shareholders		(58)	(35)
		(93,079)	(48,150)

CHANGES IN **SHAREHOLDERS' EQUITY**

Financial Statements for the year ended 31 December 2019

	Share Capital	Share premium	Properties revaluation reserve	Short term negotiable instruments	Accumulated loss	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 January 2018	**31,781**	**406,404**	**4,734**	**(137)**	**(166,347)**	**276,435**
IFRS 9 ECL Adjustment	-	-	-	-	2,779	2,779
Restated total equity at the beginning of the financial year	31,781	406,404	4,734	(137)	(163,568)	279,214
Loss for the year	-	-	-	-	(48,287)	(48,287)
Issue of ordinary shares	7,791	54,175	-	-	-	61,966
Revaluation reserve recognised on sale of Investment property	-	-	(4,734)	-	4,734	-
IFRS 9 reclassification of short-term negotiable instruments to amortised cost	-	-	-	137	-	137
Balance at 31 December 2018	**39,572**	**460,579**	**-**	**-**	**(207,121)**	**293,030**
IFRS 16 Adjustment	-	-	-	-	3,655	3,655
Restated total equity at the beginning of the financial year	**39,572**	**460,579**	**-**	**-**	**(203,466)**	**296,685**
Loss for the year	-	-	-	-	(93,079)	(93,079)
Issue of ordinary shares	28,284	166,348	-	-	-	194,632
Balance at 31 December 2019	**67,856**	**626,927**	**-**	**-**	**(296,545)**	**398,238**

STATEMENT OF **CASH FLOWS**

Financial Statements for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash receipts from customers	27.1	319,426	249,541
Cash paid to customers, suppliers and employees	27.2	(358,065)	(308,002)
Cash utilised from operations		**(38,639)**	**(58,461)**
Net decrease (increase) in income earning assets	27.3	626,807	(985,349)
Net (decrease) increase in deposits and other accounts	27.4	(222,871)	964,771
Net cash inflow (outflow) from operating activities		**365,297**	**(79,038)**
Cash flows from investing activities			
Purchase of intangible assets		(15,710)	(13,948)
Purchase of equipment		(6,858)	(3,719)
Proceeds on sale of property and equipment		-	6,795
Purchase of Government bonds		(172,887)	-
Proceeds received on sale of Government bonds		5,541	-
Net cash outflow from investing activities		**(189,914)**	**(10,872)**
Cash flows from financing activities			
Proceeds from issue of equity instruments of the Bank		194,632	61,966
Operating lease liability payments		(12,237)	-
Net cash inflow from financing activities		**182,395**	**61,966**
Net cash inflow (outflow) for the year		**357,778**	**(27,944)**
Net cash flow effect of exchange rate movements		(5,271)	23,546
Cash and cash equivalents at the beginning of the year		296,293	300,691
Cash and cash equivalents at the end of the year		**648,800**	**296,293**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are stated in South African Rands, rounded to the nearest thousand (unless otherwise stated).

1.2 BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss and derivative contracts, which have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

1.3 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1.3.1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- **IFRS 16: LEASES**

Leases has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank has adopted the standard using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation increased assets by approximately R20.7million and increase financial liabilities by the R20.2million and approximately R4million impact on decreasing the accumulated loss.

- **IFRS 15: REVENUE FROM CONTRACTS**

Revenue from contracts has an effective date for annual periods beginning on or after 1 January 2019. The Bank has assessed the impact of IFRS 15, and the impact is not material.

1.3.2 NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

There are a number of new or revised standard in issue that are not yet effective and that the Bank does not have plans to early adopt. The following standards could be applicable to the business of the Bank and might have an impact on future financial statements. The impact of initial application of the following standards or interpretation is not expected to be significant to the Bank.
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

Standard	Standard title and detail	Effective Date
Conceptual Framework	**The Conceptual Framework for Financial Reporting** Amendments to References to the Conceptual Framework in IFRS Standards	Annual periods beginning on or after 1 January 2020
IAS 1	**Presentation of Financial Statements** Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	Annual periods beginning on or after 1 January 2020
IAS 1	**Presentation of Financial Statements** Classification of Liabilities as Current or Non-current: Narrow-scope amendments to clarify how to classify debt and other liabilities as current or non-current.	Annual periods beginning on or after 1 January 2022
IAS 8	**Policies, Changes in Accounting Estimates and Errors** Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	Annual periods beginning on or after 1 January 2020
IAS 28	**Investments in Associates and Joint Ventures** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Narrow scope amendment to address an acknowledgement inconsistency between standards	Deferred indefinitely
IFRS 10	**Consolidated Financial Statements** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Narrow scope amendment to address an acknowledgement inconsistency between standards	Deferred indefinitely

1.4 LEASES AS LESSEE

Definition

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

Identification of a lease

At inception of a contract, it is assessed to determine whether the contract is, or contains, a lease. 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. If the terms and conditions of a contract are changed, it is reassessed to once again determine if the contract is still or now contains a lease.

Where a contract contains a lease, each lease component with the contract is accounted for separately from the non-lease components. The consideration is then allocated to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components are determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, an estimate of the stand-alone price is made, maximising the use of observable information in each case. All non-lease components are accounted for in accordance with whatever other policy is applicable to them.

For class of underlying asset, the practical expedient allowed by IFRS16 is elected, and therefore the non-lease components are not separated from the lease components. Each lease component and any associated non-lease component is treated as a single lease component.

Lease term

The lease term of a lease is determined as the non-cancellable period of the lease, together with the periods covered by an option to extend the lease where there is reasonable certainty that the option will be exercised, and periods covered by an option to terminate the lease if there is reasonable certainty that the option will not be exercised.

The assessment of the reasonable certainty of the exercising of options to extend the lease or not exercising of options to terminate the lease is reassessed upon the occurrence of either a significant event or a significant change in circumstances that is within the company's control and it affects the reasonable certainty assumptions.

The assessment of the lease term is revised if there is a change in the non-cancellable lease period.

Measurement

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The obligation for those costs is incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Subsequently, right-of-use assets are measured using the cost model.

Where a lease transfers ownership of the underlying asset by the end of the lease term or if the cost of the right-of-use asset reflects a purchase option will be exercised, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not yet paid at the commencement date. Lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined, else it is based on the company's incremental borrowing rate. The following lease payments are included where they are not paid at the commencement date:

- fixed payments, less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the
- commencement date;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if there is reasonably certainty that the option will be exercised; and
- payments of penalties for terminating the lease, if the lease term reflects the exercising an option to terminate the lease.

Subsequently, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate described above, or if applicable the revised discount rate described below.

Profit or loss for the year will include the interest expense on the lease liability, and the variable costs not included in the measurement of the lease liability are included in the year in which the event of condition that triggers the payment of the variable costs occurs.

The remeasurement is performed by discounting the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the future lease payments resulting from a change in an index or a rate used to determine those payments. This remeasurement will use an unchanged discount rate unless the change in lease payments resulted from a change in a floating interest rate.

Lease modifications

A lease modification is treated as a separate lease if both: the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration for the lease increases by an amount commensurate with the stand- alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Where the lease modification is not accounted for as a separate lease, at the effective date of the lease modification the following changes are made:

- allocate the consideration in the modified contract;
- determine the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the company's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

Where the lease modification is not accounted for as a separate lease, the remeasurement of the lease liability is accounted for by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is;
- recognised in profit or loss; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

1.5 FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("the functional currency"). The financial statements of the Bank are presented in thousands of South African Rands (ZAR), which is the functional currency of the Bank. Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions.
Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences on debt securities and other monetary financial assets re- measured at fair value are included in foreign exchange gains and losses.

Translation differences on non-monetary financial assets are a component of the change in their fair value and are recognised in profit and loss for equity securities held for trading, or in other comprehensive income for equity securities classified as available for sale investment securities. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

Depending on the classification of a non–monetary financial asset, translation differences are either recognised in the Statement of Comprehensive Income or within shareholders' equity, if non-monetary financial assets are classified as available for sale investment securities.

1.6 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Bank determines the classification of its financial assets at initial recognition. The Bank classifies its financial assets into the following measurement categories:

- those to be measured at fair value through profit and loss (designated held for trading);
- those to be measured at fair value through other comprehensive income; and
- those measured at amortised cost

1.6.1 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

The Bank designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss

- Doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost.
- A book of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel, for example the Board of Directors and the Chief Executive Officer;

The fair value designation, once made, is irrevocable.

1.6.2 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities.

They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'.

Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss or OCI.

1.6.3 FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST

Financial assets are measured at amortised cost where they:

- are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates;
- cash flows that are solely payments of principal and interest on the principle amount outstanding are measured at amortised cost; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost.

The Bank accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

1.7 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the Statement of Financial position at fair value and subsequently remeasured at their fair value.

Derivatives are presented in assets when favourable to the Bank and in liabilities when unfavourable to the Bank. Fair values are obtained from quoted market prices, dealer price quotations or discounted cash flow models, as appropriate.

Derivatives are not entered into for trading nor speculative purposes. Changes in the fair value of derivatives are recognised in the Statement of Comprehensive Income.

Certain derivative instruments transacted as effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore treated in the same way as derivative instruments held for trading purposes, i.e. fair value gains and losses are recognised in the Statement of Comprehensive non-interest Income.

1.8 INVESTMENT SECURITIES

Investment securities are initially recognised at fair value (including transaction costs) and classified as held for trading. Investment securities are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Investments, where it is impracticable to determine fair value, are carried at cost.

Held for trading investment securities are measured subsequent to initial recognition at fair value based on quoted bid prices in active markets, dealer price quotations or discounted expected cash flows. . Fair value for unquoted equity instruments is held at amortised cost.

Held for trading short term negotiable securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rate or equity prices. When held for trading investment security is disposed of or impaired, the accumulated unrealised gain or loss included in shareholders' equity is transferred to the income statement for the period and reported as gains/losses from investment securities. Gains and losses on disposal are determined using the moving average cost method.

Short term negotiable instruments which are held to maturity consist of non-derivative, securities that are quoted in an active market, with fixed or determinable payments and fixed maturities, which the management has the positive intent and ability to hold to maturity.

Short term negotiable instrument is carried at amortised cost using the effective interest rate method, less any provision for impairment. Amortised cost is calculated by taking into account any fees, points paid or received, transaction costs and any discount or premium on acquisition.

Impairment: The Bank assesses at each reporting date, the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly.

The objective is to recognise lifetime expected credit losses whether assessed on an individual or collective basis considering all reasonable and supportable information, including that which is forward-looking. If, at the reporting

date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank shall measure the loss allowance at an amount equal to 12-months ECL.

Interest earned while holding investment securities is reported as interest income. Dividend income is recognised when the right to receive payment is established (Declaration date) for equity securities and is separately reported and included in Net other income.

1.9 RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The Bank reclassifies non- derivative debt instruments out of the trading and amortised cost categories and into the loans and receivables category if the instruments meet the definition of this category at the date of reclassification and the Bank has the intention and ability to hold the instruments for the foreseeable future or until maturity.

When rare circumstances cause significant deterioration in the trading activity or substantially affect the observable prices of non-derivative financial assets classified in the trading category, the Bank reclassifies such financial assets out of the trading category and into the held-to-maturity or amortised cost categories, provided the assets meet definition of the respective category at the date of reclassification and the Bank does not have the intention to sell them in the near term.

If there is a change in intention or ability to hold a debt financial Instrument to maturity, the Bank reclassifies such instruments out of the held for trading category and into the held-to-maturity category, provided the instruments meet the definition of the latter at the date of reclassification.

For financial assets reclassified as described above, the fair value at the date of reclassification becomes the new amortised cost at that date.

When the instruments reclassified out of the trading category include embedded derivatives, the Bank reassesses at the reclassification date whether the embedded derivatives need to be separated from the host contract, on the basis of the circumstances that existed when the Bank became a party to the contract.

1.10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank measures the fair value of its financial instruments based on a framework for measuring fair value that categorises financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.
Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain over-the-counter (OTC) derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety, is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

1.11 RECOGNITION OF DEFERRED DAY 1 PROFIT OR LOSS

When the fair value is determined using valuation models for which not all inputs are market observable prices or rates, the Bank initially recognises a financial instrument at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Such a difference between the transaction price and the model value is commonly referred to as “Day 1 profit or loss”. The Bank does not recognise that initial difference, immediately in profit or loss.

Deferred Day 1 profit or loss is amortised over the life of the instrument, deferred until fair value can be determined using market observable inputs, or realised through settlement. In all instances any unrecognised Day 1 profit or loss is immediately released to income if fair value of the financial instrument in question can be determined either by using market observable model inputs or by reference to a quoted price for the same product in an active market or upon settlement.
After entering into a transaction, the Bank measures the financial instrument at fair value, adjusted for the deferred Day 1 profit or loss. Subsequent changes in fair value are recognised immediately in the income without reversal of deferred Day 1 profits and losses.

1.12 LOANS AND ADVANCES

Loans and advances originated by the Bank, where money is provided directly to the borrower, other than those that are originated with the intent to be sold (if any), in which case they are recorded as held for trading investments securities.

Loans originated by the Bank are recognised when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value including any transaction costs and are subsequently valued at amortised cost using the effective interest rate method. The effective interest rate approximates contract interest rates for loans and advances.

Interest on loans and advances is included in interest income and is recognised on an effective interest rate method. Fees and direct costs relating to a loan origination, financing or restructuring and to loan commitments are treated as part of the cost of the transaction and are deferred and amortised to non-interest income over the life of the loan using the term of the contract, unless they are designated as at "fair value through profit and loss."

1.12.1 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL').

In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

Financial assets where 12-month ECL is recognised, are considered to be 'stage 1'.
Financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2' (Lifetime ECL).

Financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3' ('lifetime ECL').

Credit impaired (stage 3)
The Bank determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:
Quantitative Indicators:

- Loan and interest payments are more than 90 days past due.
- There has been a deterioration in account behaviour to a point where drawings are regularly unpaid and the exposure on the account does not fluctuate.

Qualitative guidelines:

- The borrower has been placed under debt review.
- The borrower has been placed in business rescue.
- Legal proceedings vs. Sequestration / Liquidation have been instituted against the borrower.
- The borrower / key individual is deceased.
- The borrower has ceased trading / no longer has an income.
- There are no signs of improvement on an advance already on the bank's watch list.

The definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when the Bank modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be purchased and originated credit-impaired (POCI) and will continue to be disclosed as renegotiated loans. Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non- payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Stage 2

Significant increase in credit risk (SICR) (stage 2)

The Bank manages clients and not individual loans, thus the status of an exposure is driven by the worst status of all the exposures that the client has, hence all accounts linked to the client will have the same staging (stage 1 or stage 2) based on the worse staging of its account. The measurement of stage 2 ECL is a life time ECL whereas, stage 1 is a 12 month ECL. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability- weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.

The credit rating of a facility at origination establishes the probability of default (PD) over the lifetime of the loan, which reflects the Bank's view of the perceived or expected risk over the entire lifetime of the loan. Any significant change in the risk of the loan relative to the view as at origination of the loan, in particular an increase in the remaining lifetime PDs, would suggest a SICR. The PD could increase at specific points during the life of the instrument, however, if this was the expectation of the rating evolution at initial recognition then it should be treated as such. Hence, the assessment of whether a SICR has occurred at each subsequent reporting date should be performed in relation to the rating expected for that period at origination. This can be achieved at subsequent measurement by assessing (a) the annualised lifetime PD over the remaining life of the loan against (b) the annualised lifetime PD over the remaining life of the loan as expected at initial recognition.

The table below shows per risk grading the lower and upper limits of PD's that are used to demonstrate SICR when accounts move between risk grading from origination to reporting date.

RISK GRADING	LOWER LIMIT	PD	UPPER LIMIT
1	0.00%	1.21%	1.97%
2	1.97%	2.73%	8.10%
3	8.10%	13.46%	56.73%
A	0.00%	0.51%	0.88%
B	0.88%	1.25%	1.30%
C	1.30%	1.35%	1.77%
D	1.77%	2.19%	3.63%
E	3.63%	5.07%	52.54%

However, there are other circumstances that warrant that financial assets are deemed to have suffered a significant increase in credit risk other than defined above and these circumstances are:

In arrears:

- The capital and/or interest is overdue for more than 1 day but not greater than 89 days.

- All arrears that are more than the percentage as defined in technical arrears will be classified as arrears.

  - for exposures with a month end balance less than R1000 the arrears ratio is considered to be technical and will remain in Stage 1.

  - for accounts where the month end balance is more than R1000 the arrears ratio is defined by calculating the number of days since last deposit (month end date – last deposit date) and dividing by 30.4375 (average days in a month). The arrears ratio buckets are assigned as below:

Days since last deposit / 30.4375	Arrears Ratio
<1	-
>= 1 and < 2	1
>= 2 and < 3	2
>= 3	3

On Watch List

An advance is classified as watch list where one or more of the following indicators has been triggered:

Quantitative indicators:

- There are early signs of liquidity problems, such as past due loan payments or drawings not being provided for.
- Loans are past due for more than 30 days but not more than 89 days.
- A credit review of the advance is more than 3 months past due and updated financial information remains unavailable.
- The value of collateral provided is under question.

Qualitative indicators:
- The borrower is not co-operative or unreachable.
- There is a slowdown or adverse trend in the borrower's business activity.
- There is a volatility in economic or market conditions that may affect the particular borrower directly in the not too distant future.
- The industry in which the borrower operates is performing poorly.
- The borrower or a key person in the borrowing company is in ill health.
- The Bank is aware that the borrower is experiencing difficulty servicing other borrowings.
- The Bank becomes aware of any significant deterioration in the credit record of the borrower.
- There is a significant deterioration in the borrower's financial position.
- The advance has been restructured due to distress and 6 consecutive full payments need to be met before the loan is removed from the watch list.
- Any event that is perceived as a change in the risk to the Bank for the worse.

Managed Accounts

The advance is classified as managed where one or more of the following indicators has been triggered:

Quantitative indicators:
- The borrower is adhering to a settlement agreement made order of court for a minimum period of 6 months and the Bank is comfortable with its collateral position should the borrower default.

Qualitative indicator:
- The advance was in the current book or on the watch list yet there was little progress with recovery being made at the relationship manager level due to a relationship break down.

Future Economic variables

The Bank has procured the services of the Bureau of Economic Research Stellenbosch University (BER) as it does not have an internal economics house. The significant assumptions used for the ECL estimates are set out in the table below. The scenarios base, positive and negative were applied to all loan and advances in stage 1 and in stage 2. The variables were only applied to the PD's determined at reporting date and not on the PD's at origination as the economic variables were not determined at origination dates.

Stage 1

Advances that don't present any of the above criteria are considered current and are allocated to stage 1. Stage 1 advances have a 12-month ECL.

Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

y-o-y % change (unless otherwise stated) Main economic indicators		Average 2012-18 Actual	2019	2020	2021	2022	2023	2024
					Forecast			
Real effective firm lending rate (%)								
	base	2,22	4,53	3,84	4,61	4,77	4,62	4,41
	negative	2,22	4,53	4,01	5,00	5,61	5,80	5,92
	positive	2,22	4,56	4,11	4,20	3,69	3,28	2,87
Real disposable income								
	base	2,1	1,1	1,1	1,2	1,6	1,8	1,8
	negative	2,1	1,1	0,7	0,5	0,8	1,3	1,5
	positive	2,1	1,1	1,3	1,5	2,1	2,3	2,5
Real gross domestic product								
	base	1,5	0,4	1,0	1,6	1,6	1,7	1,8
	negative	1,5	0,4	0,4	0,5	1,0	1,2	1,3
	positive	1,5	0,6	1,4	1,9	2,3	2,4	2,7
Scenario Weighting								
	base	47%	54%	54%	54%	54%	54%	54%
	negative	27%	23%	23%	23%	23%	23%	23%
	positive	26%	23%	23%	23%	23%	23%	23%

Measurement

A provision for loan impairment is reported as a reduction of the carrying amount of a claim on the Statement of Financial Position. Any identified impairment losses are recognised in the Statement of Comprehensive Income. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at:

a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or
b) current effective interest rate, if the loan bears a variable interest rate.

Interest in Abeyance is interest earned on Stage 3 loans and advances and is not recognised as part of profit and loss.

Credit Risk

Credit risk is defined as the possibility that customers may default on their future cash flow obligations to the Bank. In lending transactions, credit risk arises from the non-payment of approved of loans and advances, and from off-balance sheet exposures such as commitments and guarantees. The Bank actively manages its credit risk at the Individual transaction, counterparty and portfolio level using a variety of qualitative and quantitative measures. Customers' credit worthiness is thoroughly assessed before any credit facility is recommended to or granted by the various credit committees. The credit granting philosophy Is a conservative one. The Board of Directors ratifies all exposures In excess of 10% of the Bank's qualifying capital. The Bank has implemented a risk-rating model, which calculates the probability of default of customers.

Refer to note 25.7 in the notes of the financial statements.

1.13 DERECOGNITION

1.13.1 FINANCIAL ASSETS

A financial asset (or, where applicable a part of a financial asset or part of a bank of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

As part of its activities, the Bank securities certain financial assets, generally through the sale of these assets to special purposes entities, which issue securities collateralised with these assets.

To the extent that the Bank sells these securities to third party investors, the transferred assets may qualify

for derecognition in full or in part. Gains or losses on securitisations are based on the carrying amount of the financial assets derecognised and the retained interest, based on their relative fair values at the date of the transfer.

1.13.2 FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

1.14 REGULAR WAY PURCHASES AND SALES

"Regular way" purchases and sales of financial assets and liabilities (that is, those that require delivery within the time frame established by regulation or market convention) are recognised on the settlement date apart from trading and investment securities and derivative financial instruments, which are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Other purchases and sales of trading securities are treated as derivatives until settlement occurs.

1.15 INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest-bearing financial instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other instruments. The effective interest 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 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 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 at points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring loan commitments are deferred and amortised over the life of the instrument using the effective interest rate method. Once a financial asset or a bank of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of effective interest to discount the future cashflows for the purpose of measuring the impairment loss. Included in interest expense is foreign funding costs of converting foreign funds received into local currency.

1.16 FEE AND COMMISSION INCOME

Fees and commissions are generally recognised on an accrual basis over the period the service is provided. Commissions and fees arising from negotiating – or participating in the negotiation of a transaction for a third party, such as acquisition of loans, equity shares or other securities or the purchase or sale of businesses – are recognised upon completion of the underlying transaction.

1.17 PROPERTY AND EQUIPMENT

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Bank for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition.

Subsequent to initial recognition, property and equipment excluding Land are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits to the Bank beyond those originally anticipated for the asset, otherwise they are expensed as incurred. Land and buildings are subsequently measured, using the revaluation model, at its fair value less accumulated depreciation and impairment losses.

Land and buildings are revalued annually by an independent valuator using market observable data and sufficiently recent similar market transactions.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognised. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land	No depreciation
Buildings used in operations	not exceeding 20 years
Leasehold Improvements	Residual lease term, not exceeding 10 years
Furniture and related equipment	not exceeding 10 years
Motor vehicles	not exceeding 5 years
Hardware and other equipment	not exceeding 5 years

At each reporting date the Bank assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Where property is revalued, the write down is first applied to the revaluation reserve to the extent that the reserve relates to the asset being written down. Foreclosed assets, which consist of properties acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at cost, which includes transaction costs, and reported under other assets.

After initial recognition, foreclosed assets are remeasured at the lower of their carrying amount and fair value less estimated costs to sell. Any gains or losses on liquidation of foreclosed assets are included in other operating income.

1.18 INTANGIBLE ASSETS

Intangible assets include computer software and other intangible assets that are separately identifiable.

Computer software and implementation costs include costs that are directly associated with identifiable and unique software products controlled by the Bank that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets, are amortised using the straight-line method over their useful lives, not exceeding a period of 20 years rolling, based on annual management assessment. Expenditure on starting up an operation or branch, training personnel, advertising and promotion and relocating or reorganising part or the entire Bank is recognised as an expense when it is incurred.

At each Statement of Financial Position date, management reviews intangible assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised as a profit or loss when the asset is derecognised.

1.18.1 IMPAIRMENT OF INTANGIBLE ASSETS

At the end of each reporting period, the Bank reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent if the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.19 INVESTMENT PROPERTY

Property is initially recognised at cost and subsequently measured using the fair value model. The investment is held by the Bank for investment appreciation purposes. A valuation is performed annually by an independent valuer. The fair value gains or losses are accounted through profit and loss.

1.20 LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1.20.1.1 FINANCE LEASE:

Leases where the Bank has substantially all the risks and rewards of ownership of the asset are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The outstanding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period. All assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

1.20.1.2 OPERATING LEASE:

Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentive received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.20.2 THE BANK IS THE LESSOR

1.20.2.1 FINANCE LEASE:

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Finance lease receivables are included in loans and advances to customers.

1.20.2.2 OPERATING LEASE:

Fixed assets leased out under operating leases are included in the statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

1.21 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include: cash on hand, unrestricted balances held with central banks, amounts due from other banks, and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Bank in the management of its short term commitments.

1.22 PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1.23 EMPLOYEE BENEFITS

The Bank has a defined contribution retirement benefit plan in accordance with Section 12(4) of the Pension Funds Second Amendment Act No. 39 of 2001. Such plans are classified as pension plans or other post-retirement benefit plans. Company contributions to the retirement fund are based on a percentage of employees' remuneration.

The minimum percentage contribution is recommended by the independent actuaries. Retirement benefits are provided for all permanent staff.

1.23.1 DEFINED CONTRIBUTION PLANS

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The Bank's contributions to defined contribution plans are charged to the Statement of Comprehensive Income in the year to which they relate and are included in staff costs.

1.23.2 OTHER POST-RETIREMENT BENEFIT PLANS

The Bank's employees participate in plans, which provide for various health benefits including post-retirement healthcare benefits. Such plans are all defined contribution and the Bank's contributions are charged to the Statement of Comprehensive Income in the year which they relate and are included in staff costs.

1.24 INCOME TAXES

Income tax payable on profits, based on the applicable tax laws in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred income tax is fully provided, using the liability method, on all temporary differences arising between the carrying amounts of assets and liabilities in the Statement of Financial Position and their amounts as measured for tax purposes. A deferred tax asset is not recognised unless the Bank generates profits.

1.25 BORROWINGS

Borrowings are initially recognised at fair value net of transaction costs incurred.
Subsequent measurement is at amortised cost and any difference between net proceeds. The redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

1.26 SHARE CAPITAL

1.26.1 SHARE ISSUE COSTS:

Incremental external costs directly attributable to the issue of shares and other equity items, other than on a business combination, are shown in equity as a deduction, net of tax, from the proceeds.

1.27 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Introduction

In preparing the annual financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience use of independent experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the Bank. The assumptions and estimates applied for:

- fair value measurement is included in note 24 and 1.10
- impairments note 8 and 1.12
- investment in securities note 4 and 1.8

Estimated useful lives

The useful life of each asset is assessed individually. The benchmarks used when assessing the useful life of the individual assets are set out in accounting policy note 1.17 and 1.18.

2. Cash And Cash Equivalents

	2019 R'000	2018 R'000
Coin and bank notes	33	33
Local currency deposits with other banks	336,371	58,615
Foreign currency balances	216,828	167,941
Balances with the Central Bank	95,568	69,704
	648,800	**296,293**
The mandatory South African Reserve Bank reserve requirement is included in the above figures.	52,740	57,013

Banks are required to keep a mandatory average balance with the Central Bank. According to the Bank Act, 2.5% of the Bank's liabilities as adjusted should be maintained therefore no withdrawal below the agreed level should be allowed to this account. The balance earns interest at 0%.

		2019 R'000	2018 R'000
Foreign currency balances		**216,828**	**167,941**
Stanbic Bank Botswana	BWP	14	27
Deutsche Bank, Frankfurt	CAD	1,745	4,301
Inteso Saint Paolo (previously Banca Commerciale Italiana), Milano	EUR	2,953	1,651
Deutsche Bank, Frankfurt	EUR	50,415	54,696
National Bank of Greece, Athens	EUR	83	71
Deutsche Bank, London	GBP	11,564	7,708
Bank of Tokyo, Tokyo	JPY	15,039	15,036
US Bank, New York (Collateral)	USD	2,015	2,031
Deutsche Bankers Trust, New York	USD	111,346	60,298
Standard Bank of South Africa, Johannesburg (Collateral)	USD	21,654	22,122

The balances on the Nostro and Collateral accounts are managed on a daily basis and kept to a minimum, hence these net balances are not hedged. The conversion rates used are as per note 29.

3. Derivative Financial Instruments

The notional amount of the derivative instruments does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments. The notional amounts of these instruments indicate the nominal value of transactions outstanding at the statement of financial position date. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in the market. The derivative instruments are carried at fair value with movements going through the Statement of Comprehensive Income. The valuation method used to get the fair value, is market observable inputs as obtained from Reuters as defined in IFRS 13 fair value measurement, these fall within level 2 classification.

	2019 R'000	2018 R'000
Assets		
Foreign exchange contracts		
Notional	536,449	286,013
Fair value	**32,482**	**5,593**
Liabilities		
Foreign exchange contracts		
Notional	520,581	266,614
Fair value	**31,433**	**5,794**

*Refer to note 25.3 for maturity analysis

4. Short-Term Negotiable Securities

The Short-Term Negotiable Securities consist of Treasury Bills, Debentures and Landbank Bills with interest rates ranging from 6.8187% to 7.1790% and maturing during the period 8 January 2020 to 20 May 2020. These financial investments are classified as held to maturity and are carried at amortised cost.

	Notes	2019 R'000	2018 R'000
Investments held to maturity			
At 1 January		1,126,023	135,788
Purchased Treasury Bills and Debentures	27.3	3,126,148	1,768,685
Proceeds on maturity from sale of Treasury Bills and Debentures	27.3	(4,055,328)	(792,379)
Interest earned	27.3	24,676	13,792
Reclassification to amortised cost		-	137
At 31 December		**221,519**	**1,126,023**

5. Accounts Receivable

	2019 R'000	2018 R'000
Accounts receivable	9,306	3,727
Prepaid expenses	11,308	8,954
Other receivables	4,756	14,145
Receiver of revenue	-	135
Interest accrued	1,894	-
	27,264	**26,961**

6. Other Investments

Other Investments relate to an investment acquired 15 years ago in an unlisted company, called Dandyshelf 3 (Pty)Ltd. The investment acquired consists of 100 shares in the Dandyshelf 3 (Pty) Ltd. No dividend was received during 2019 or 2018. The shares are unlisted, and the Directors' valuation of the unlisted investment equates to the fair value which approximates cost as defined in IFRS 13 fair value measurement, these fall within level 3 classification.

	2019 R'000	2018 R'000
Financial asset carried at fair value		
Unlisted - Dandyshelf 3 (Pty) Ltd		
Fair value	**15**	**15**

7. Loans and Advances

	Gross Loans	Expected Credit Loss	Net Loans
2019			
Business and Commercial Banking	2,063,651	(40,635)	2,023,016
Guarantees	-	(207)	(207)
	2,063,651	**(40,842)**	**2,022,809**
2018			
Business and Commercial Banking	1,798,289	(33,128)	1,765,161
Guarantees	-	(158)	(158)
	1,798,289	**(33,286)**	**1,765,003**

Overdrafts

2019	Stage 1	Stage 2	Stage 3	Total
Loan product by credit quality	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**R'000**
Standard monitoring	192,443	24,964	-	217,407
Special monitoring	-	5,719	-	5,719
Default	-	-	3,487	3,487
Gross carrying amount	192,443	30,683	3,487	226,613
Loss allowance	(977)	(1,572)	(2,673)	(5,222)
	191,466	**29,111**	**814**	**221,391**

2018	Stage 1	Stage 2	Stage 3	Total
Loan product by credit quality	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**R'000**
Standard monitoring	133,269	19,835	-	153,104
Special monitoring	-	4,738	-	4,738
Default	-	-	4,228	4,228
Gross carrying amount	133,269	24,573	4,228	162,070
Loss allowance	(602)	(952)	(1,197)	(2,751)
	132,667	**23,621**	**3,031**	**159,319**

7. Loans and Advances (continued)

Property, commercial and other term loans

2019 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	713,378	58,780	-	772,158
Special monitoring	-	25,825	-	25,825
Default	-	-	47,758	47,758
Gross carrying amount	713,378	84,605	47,758	845,741
Loss allowance	(1,799)	(1,295)	(7,090)	(10,184)
	711,579	**83,310**	**40,668**	**835,557**

2018 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	564,782	23,185	-	587,967
Special monitoring	-	9,588	-	9,588
Default	-	-	68,794	68,794
Gross carrying amount	564,782	32,773	68,794	666,349
Loss allowance	(1,294)	(410)	(12,381)	(14,085)
	563,488	**32,363**	**56,413**	**652,264**

Home loans

2019 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	606,303	49,830	-	656,133
Special monitoring	-	45,246	-	45,246
Default	-	-	64,680	64,680
Gross carrying amount	606,303	95,076	64,680	766,059
Loss allowance	(2,140)	(6,011)	(11,939)	(20,090)
	604,163	**89,065**	**52,741**	**745,969**

2018 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	667,829	36,847	-	704,676
Special monitoring	-	22,891	-	22,891
Default	-	-	44,722	44,722
Gross carrying amount	667,829	59,738	44,722	772,289
Loss allowance	(2,165)	(2,249)	(6,274)	(10,688)
	665,664	**57,489**	**38,448**	**761,601**

7. Loans and Advances (continued)

Instalment credit and lease agreements

2019 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	169,982	39,277	-	209,259
Special monitoring	-	10,915	-	10,915
Default	-	-	5,062	5,062
Gross carrying amount	169,982	50,192	5,062	225,236
Loss allowance	(611)	(1,442)	(3,082)	(5,135)
	169,371	**48,750**	**1,980**	**220,101**

2018 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	152,580	35,875	-	188,455
Special monitoring	-	4,123	-	4,123
Default	-	-	5,003	5,003
Gross carrying amount	152,580	39,998	5,003	197,581
Loss allowance	(600)	(936)	(4,068)	(5,604)
	151,980	**39,062**	**935**	**191,977**

Loans and advances

2019 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	1,682,106	172,851	-	1,854,957
Special monitoring	-	87,705	-	87,705
Default	-	-	120,987	120,987
Gross carrying amount	1,682,106	260,556	120,987	2,063,649
Loss allowance	(5,527)	(10,320)	(24,784)	(40,631)
	1,676,579	**250,236**	**96,203**	**2,023,018**

2018 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	1,518,460	115,742	-	1,634,202
Special monitoring	-	41,340	-	41,340
Default	-	-	122,747	122,747
Gross carrying amount	1,518,460	157,082	122,747	1,798,289
Loss allowance	(4,661)	(4,547)	(23,920)	(33,128)
	1,513,799	**152,535**	**98,827**	**1,765,161**

7. Loans and Advances (continued)

Guarantees and letters of credit

2019 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	52,740	32,602	-	85,342
Special monitoring	-	-	-	-
Default	-	-	-	-
Gross carrying amount	52,740	32,602	-	85,342
Loss allowance	(84)	(123)	-	(207)
	52,656	**32,479**	**-**	**85,135**

2018 Loan product by credit quality	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total R'000
Standard monitoring	69,657	4,851	-	74,508
Special monitoring	-	570	-	570
Default	-	-	-	-
Gross carrying amount	69,657	5,421	-	75,078
Loss allowance	(135)	(23)	-	(158)
	69,522	**5,398**	**-**	**74,920**

Category analysis	2019 R'000	2018 R'000
Overdrafts	223,126	157,842
Property, commercial and other loans	797,984	597,555
Home loans	701,379	727,567
Instalment credit and lease agreements	220,174	192,578
Non-Performing Loans	120,988	122,747
	2,063,651	**1,798,289**
Less: Expected credit loss (ECL) - Refer Note 8	**(40,842)**	**(33,286)**
Overdrafts	(5,223)	(2,751)
Property, commercial and other loans	(10,185)	(14,085)
Home loans	(20,091)	(10,688)
Instalment credit and lease agreements	(5,136)	(5,604)
Non-Performing Loans	(207)	(158)
	2,022,809	**1,765,003**

7. Loans and Advances (continued)

Net loans and advances

Included in ECL is suspended interest amounting to R9,476,037 (2018: R8,859,004). The Bank continues to accrue interest, where appropriate on doubtful debts when there is a realistic prospect of recovery.

This interest is not recognised in the income statement but allocated to the customer's account and interest in suspense. The interest is only recognised in the income statement once recovered or rehabilitated to stage 2.

	2019	2018
Sectorial analysis	**R'000**	**R'000**
Agriculture	81,087	390
Financial services, building and property development	628,362	835,672
Individuals	475,067	528,297
Manufacturing and commerce	526,492	119,810
Transport and communication	92,173	74,339
Electricity and Water	2,975	4,083
Mining	39,465	5,030
Other services	218,030	230,668
	2,063,651	**1,798,289**
Maturity analysis		
Maturing within one year	461,417	350,400
Maturing after one year but within five years	657,093	709,746
Maturing after five years	945,141	738,143
	2,063,651	**1,798,289**

All loans and advances are granted within the Republic of South Africa and can be denominated in different currencies.

Non-performing loans and advances by category

2019	As a % of Advances	Credit Risk	Securities and other expected recoveries	Impairment allowance
		R'000	R'000	R'000
Overdraft	0.17%	3,487	814	2,673
Commercial and property loans	2.31%	47,758	40,668	7,090
Instalment sale and lease agreements	0.25%	5,062	1,980	3,082
Home loans	3.13%	64,682	52,740	11,942
Total	**5.86%**	**120,989**	**96,202**	**24,787**
Non-performing loans and advances by sector				
Individuals	1.52%	31,446	25,291	6,155
Manufacturing	1.10%	22,775	16,046	6,729
Transport	0.18%	3,761	2,051	1,710
Financial services and property development	1.77%	36,559	31,076	5,483
Other services	1.28%	26,448	21,738	4,710
Total	**5.86%**	**120,989**	**96,202**	**24,787**

7. Loans and Advances (continued)

Non-performing loans and advances by category

2018

	As a % of Advances	Credit Risk R'000	Securities and other expected recoveries R'000	Impairment allowance R'000
Overdraft	0.24%	4,228	3,031	1,197
Commercial and property loans	3.83%	68,794	56,413	12,381
Instalment sale and lease agreements	0.28%	5,003	934	4,069
Home loans	2.49%	44,722	38,448	6,274
Total	**6.84%**	**122,747**	**98,826**	**23,921**

Non-performing loans and advances by sector

Individuals	1.36%	24,390	20,869	3,521
Manufacturing	2.13%	38,366	28,187	10,179
Transport	0.07%	1,250	507	743
Financial services and property development	3.00%	53,956	48,961	4,995
Other services	0.27%	4,785	302	4,483
Total	**6.84%**	**122,747**	**98,826**	**23,921**

Mortgage portfolio - LTV distribution

	Credit impaired (Gross Carrying amount) 2019 R'000	Credit impaired (Gross Carrying amount) 2018 R'000
Less than 50%	-	-
50% to 60%	-	1,714
60 to 70%	1,908	681
70 % to 80%	8,408	2,121
80% to 90%	2,457	5,884
90%to 100%	23,755	14,676
Greater than 100%	28,152	19,646
	64,680	**44,722**

Expected Credit Loss provision: reconciliation of movement

2019

	Loans and advances Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total Stage 3 Lifetime ECL	2019 Total
	R'000	R'000	R'000	R'000
Balance as at 1 January 2019	4,795	4,570	23,921	33,286
New loans and advances originated	1,931	1,163	-	3,094
Settlement of loans and advances	(629)	(520)	(94)	(1,243)
Amounts written off	-	-	(10,783)	(10,783)
Transfers:				-
Transfer from Stage 1 to Stage 2	(474)	474	-	-
Transfer from Stage 1 to Stage 3	(35)	-	35	-
Transfer from Stage 2 to 3	-	(1,232)	1,232	-
Transfer from Stage 2 to 1	709	(709)	-	-
Transfer from Stage 3 to 1	2	-	(2)	-
Changes in PD's/LGD's/EAD	(685)	6,696	10,477	16,488
	5,614	**10,442**	**24,786**	**40,842**

Expected Credit Loss provision: reconciliation of movement

2018

	Loans and advances Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total Stage 3 Lifetime ECL	2018 Total
	R'000	R'000	R'000	R'000
Balance as at 1 January 2018	8,641	12,353	30,166	51,160
IFRS 9 opening balance adjustment	(2,779)	-	-	(2,779)
Movements with P&L impact				
New loans and advances originated	2,104	-	-	2,104
New loans and advances originated moved from stage 1 to stage 2	(515)	515	-	
Settlement of loans and advances	(915)	(1,765)	(1,195)	(3,875)
Amounts written off	-	-	(9,232)	(9,232)
Transfers:				-
Transfer from Stage 1 to Stage 2	(387)	1,663	-	1,276
Transfer from Stage 1 to Stage 3	(4)	-	4	-
Transfer from Stage 2 to 3	-	(1,093)	1,093	-
Transfer from Stage 2 to 1	342	(4,595)	-	(4,253)
Transfer from Stage 3 to 2	-	118	(1,180)	(1,062)
Transfer from Stage 3 to 1	14	-	(940)	(926)
Changes in PD's/LGD's/EAD	(1,706)	(2,626)	5,205	873
	4,795	**4,570**	**23,921**	**33,286**

7. Loans and Advances (continued)

Securities in respect of loans and advances **Overdrafts, property and commercial loans**	**2019** **R'000**	**2018** **R'000**
- Cash Investments	20,326	15,079
- Guarantees	15,365	4,759
- Mortgage Bonds	777,554	661,491
- Ceded Insurance Policies	691	460
- Other Securities	54,325	257
- Secondary Security	36,534	14,088
	904,795	**696,134**
Home Loans		
- Mortgage Bonds (Residential)	**692,911**	**727,277**
Instalment credit and lease agreements	**220,174**	**192,578**
Non-performing loans:		
- Mortgage Bonds (residential and commercial)	94,734	97,892
- Assets Financed in respect of Instalment Credit Agreement	1,467	933
	96,201	**98,825**
Total secured loans and advances	1,914,081	1,714,814
Total unsecured loans and advances	149,570	83,475
Total loans and advances	**2,063,651**	**1,798,289**

8. Credit Impairment For Loans And Advances

	2019 R'000	2018 R'000
Balance at 1 January	33,286	51,160
IFRS 9 General impairment adjustment to opening balance	-	(2,779)
Amounts written off against provisions	(10,783)	(9,232)
	22,503	**39,149**
Charge to the Statement of Comprehensive Income	**10,011**	**(5,575)**
Specific impairment: raised in the current year	16,731	8,350
Specific provisions: recoveries of balances raised in current year	(5,811)	(3,824)
Interest in abeyance recovered	(4,095)	-
Portfolio impairment reversal	6,691	(8,850)
Recoveries of balance previously written off	(3,505)	(1,251)
Recoveries of balance previously written off	3,505	1,251
Interest in abeyance raised deducted against interest income	4,823	6,870
Interest on abeyance recovered included in interest income	-	(8,409)
Balance at 31 December	**40,842**	**33,286**
Analysis		
Specific impairment	24,786	23,921
Portfolio impairment	16,056	9,365
	40,842	**33,286**
Sectorial analysis		
Individuals	10,294	6,272
Manufacturing	12,412	10,803
Transport and communication	2,241	1,130
Financial services and property development	8,555	9,271
Mining	173	26
Electricity and water	-	-
Other services	7,167	5,784
	40,842	**33,286**

IFRS 9 'Financial Instruments' was adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

9. Property and Equipment

Cost or valuation	Motor vehicles R'000	Properties Brought in R'000	Furniture and Fittings R'000	Office Equipment R'000	Computer Equipment R'000	Total R'000
Balance as at 1 January 2018	**1,385**	**79**	**24,455**	**5,385**	**10,838**	**42,142**
Additions	-	-	2,819	237	663	3,719
Disposals	(202)	-	(1,020)	(3,031)	(5,196)	(9,449)
Balance as at 1 January 2019	**1,183**	**79**	**26,254**	**2,591**	**6,305**	**36,412**
Additions	-	-	516	-	6,342	6,858
Disposals	-	-	-	-	(912)	(912)
At 31 December 2019	**1,183**	**79**	**26,770**	**2,591**	**11,735**	**42,358**
Accumulated depreciation						
Balance as at 1 January 2018	**(1,110)**	**(79)**	**(10,688)**	**(4,262)**	**(9,236)**	**(25,375)**
Depreciation charge for the year	(65)	-	(3,526)	(337)	(914)	(4,842)
Eliminated on disposal	202	-	829	3,013	5,178	9,222
Balance as at 1 January 2019	**(973)**	**(79)**	**(13,385)**	**(1,586)**	**(4,972)**	**(20,995)**
Depreciation charge for the year	(65)	-	(4,240)	(313)	(1,591)	(6,209)
Eliminated on disposal	-	-	-	-	912	912
At 31 December 2019	**(1,038)**	**(79)**	**(17,625)**	**(1,899)**	**(5,651)**	**(26,292)**
Carrying amount						
At 31 December 2018	210	-	12,869	1,005	1,333	15,417
At 31 December 2019	**145**	**-**	**9,145**	**692**	**6,084**	**16,066**

10. Intangible assets

Intangible assets	Cost R'000	Amortisation R'000	Carrying Amount R'000
At 31 December 2017	**122,926**	**(39,196)**	**83,730**
Additions	13,948	-	**13,948**
Disposals	(7,679)	6,918	**(761)**
Amortisation for the year	-	(10,695)	**(10,695)**
At 31 December 2018	**129,195**	**(42,973)**	**86,222**
Additions	15,710	-	15,710
Disposals	(3,058)	3,058	-
Amortisation for the year	-	(12,209)	(12,209)
At 31 December 2019	**141,847**	**(52,124)**	**89,723**

Intangible assets consist of computer software, licenses and internal and external software development and implementation costs.

Financial assets

11. Government Bonds

11.1 Government Bonds comprise the following balances

	2019 R'000	2018 R'000
R186 Government Bonds	167,346	-

On the 4th November 2019, the Bank acquired the 10.5% R186 South African Government Bond @ nominal value of R150 million. These bonds are classified as held to maturity and are carried at amortised cost.

12. Leases

12.1 Right of use asset	2019 R'000	2018 R'000
At 1 January 2019 Initial Recognition	20,757	-
Depreciation on right of use of assets	(8,428)	-
At 31 December 2019	**12,329**	**-**

12.2 Lease Liabilities	2019 R'000	2018 R'000
At 1 January 2019 Initial recognition	**20,232**	**-**
Interest expense on lease liabilities	3,985	-
Minimum Lease payments	(12,237)	-
At 31 December 2019	**11,980**	**-**
Maturity analysis of lease liabilities		
Year 1	6,997	
Year 2	3,728	-
Year 3	1,255	-
	11,980	**-**

Leases relating to leasing of various business suites and head office have from January 2019 been accounted for in accordance with IFRS 16 standards.

13. Share Capital

Authorised	2019 R'000	2018 R'000
100 000 000 ordinary shares of R1 each (par value)	100,000	100,000
Issued and fully paid	39,572	31,781
At the beginning of the year 39 572 223 (2018: 31 781 000) shares of R1 each		
Shares issued at R1 each during the year*	28,284	7,791
At the end of the year 67 855 763 (2018: 39 572 223) shares of R1 each	**67,856**	**39,572**

The Bank has one class of ordinary shares which carry no right to fixed income. The unissued shares are under the control of the Directors subject to the notification to and specific approval by the GroCapital Holdings limited, until the next AGM.
* Refer to directors' report for further breakdown.

14. Share Premium

	2019 R'000	2018 R'000
Balance at beginning of the year	460,579	406,404
Shares issued during the year*	166,348	54,175
Balance at end of the year	**626,927**	**460,579**

* Refer to directors' report for further breakdown.

15. Revaluation Reserve

	Available for sale reserve (R'000)	Property revaluation reserve (R'000)	Total (R'000)
Balance at 1 January 2018	(137)	4,734	4,597
Change in accounting policy	137	-	137
Sale of property	-	(4,734)	(4,734)
Balance at 1 January 2019	**-**	**-**	**-**
Balance at 31 December 2019	**-**	**-**	**-**

16. Long Term debt instruments

	2019 R'000	2018 R'000
7-year Debentures - Issued 30 November 2015	-	20,000
7-year Debentures - Issued 30 December 2015	-	30,000
	-	**50,000**

Comprises of 2 unsecured debentures issued in 2015. The debentures issued on 30 November 2015 bears interest at the aggregated 6 month JIBAR plus a margin of 10.39 percent per annum with a maturity of 7 years. The debentures issued on 31December 2015 bears interest at the aggregate of the applicable 6 month JIBAR plus a margin of 10.87 percent per annum with a maturity of 7 years. The capital amount is repayable on maturity. The debentures at the sole discretion of the Reserve Bank can be converted into ordinary shares on the occurrence of an event. The debentures qualified as Tier 2 capital in terms of the Bank Regulations. The future discounted cashflows are disclosed in note 23. The debenture instruments were redeemed in January 2019, with Reserve Bank approval.

17. Deposits and current accounts

	2019 R'000	2018 R'000
Demand deposits	1,187,279	1,693,067
Customer foreign currency deposits (demand deposits)	207,778	154,483
Term deposits	862,149	706,185
	2,257,206	2,553,735
Deposits from banks	438,365	363,272
	2,695,571	**2,917,007**
Included in deposits from banks are:		
Amounts due to other banks	438,365	363,272
Maturity analysis		
On demand	1,426,109	1,878,526
Maturing within one month	13,669	5,289
Maturing after one but within six months	799,642	347,455
Maturing after six months but within twelve months	433,521	685,737
Maturing greater than 12 months	22,630	-
	2,695,571	**2,917,007**

Sector analysis	2019 R'000	2018 R'000
Agriculture, Hunting, Forestry and Fishing	23,470	6,944
Community, Social and Personal	528,230	536,442
Construction	49,040	55,079
Electricity and water	4,128	12,743
Financial, Insurance, Real estate and Business	1,519,875	1,922,188
Manufacturing	16,769	16,678
Mining and Quarrying	68,033	5,223
Other	42,196	35,841
Transport, Storage and Communication	30,117	37,373
Wholesale and Retail trade	413,712	288,496
	2,695,571	**2,917,007**

18. Negotiable certificate of deposits

Grobank Limited Fixed Rate NCD	**10,000**	**-**

On the 8th October 2019, the bank issued a R10 million, 1 year negotiable certificate of deposit at an 8.5% yield payable at maturity.

19. Accounts Payable

	notes	2019 R'000	2018 R'000
Sundry creditors		45,194	32,654
Accruals		45,791	23,042
Receiver of Revenue		146	-
		91,131	**55,696**

20. Contingencies And Commitments

20.1 Contingencies

Letters of credit	7	2,076	3,259
Liabilities under guarantees	7	83,265	71,819
Revocable unutilised facilities		140,335	109,906
Irrevocable unutilised facilities		148,250	105,286
EFT Debit services		2,200	2,200
Legal claim instituted by borrowers		45,000	45,000
Committed capital expenditure		62,412	3,244
Deferred Sanction fine		5,000	-
		488,538	**340,714**

20.2 Commitments under operating leases

	2019 R'000	2018 R'000
Within 1 year	-	12,263
2 to 5 years	-	18,402
	-	**30,665**

Commitments under operating leases relate to the leasing of the various business suites and the head office. From January 2019 those are accounted in accordance with IFRS 16 Standards.

21. Profit / (Loss) From Operations

	2019 R'000	2018 R'000
21.1 Interest income		
Balances with banks and short-term funds	15,265	14,055
Short-term negotiable securities	24,676	13,792
Government bonds	4,245	-
Money market fund	1,076	-
Loans and advances - performing	193,581	184,125
Recovery of interest in abeyance	-	8,409
Other interest	15	10
	238,858	**220,391**
21.2 Interest expense		
Deposits from banks	3,622	2,173
Current and call deposit accounts	43,376	32,319
Savings accounts	6,182	6,430
Deposits	90,204	90,365
Negotiable certificates of deposits	196	-
Interest bearing long-term debt	757	9,112
	144,337	**140,399**
21.3 Interest expense from non-banking activities		
Interest on lease liabilities	3,985	-
	3,985	**-**
Net interest income	**90,536**	**79,992**
21.4 Non - interest income		
Fee Income	45,976	39,960
Foreign exchange profit	12,127	10,977
Profit on sale of government bonds	4,385	-
Profit on sale of equipment	-	119
Other income	4,482	2,047
	66,970	**53,103**

21.5 Operating Expenses

	2019 R'000	2018 R'000
Staff costs	**107,974**	**80,733**
Salaries, wages and allowances	67,845	54,534
Contributions to provident fund and other staff funds	15,388	11,965
Directors' emoluments	19,986	12,503
Other	4,755	1,731
Depreciation and amortisation	**26,847**	**15,537**
Owned assets	**18,419**	**15,537**
Motor vehicles	65	65
Furniture and fittings	4,241	3,526
Office equipment	313	337
Computer equipment	1,591	914
Depreciation properties brought in	-	-
Computer software	12,209	10,695
Lease assets	8,428	-
Buildings	8,428	-
Audit fees	4,596	6,576
Operating lease expenses	-	11,577
Loss on disposal of assets	-	3,816
Other operating expenses	101,157	68,718
	240,574	**186,957**

Leases relating to the leasing of various business suites and head office, have from January 2019 been accounted for in accordance with IFRS 16.

22. Taxation

The Bank has a tax assessed loss position of R259,662,687 as at 31 December 2018. December 2018 was the latest tax year assessed by SARS.

A deferred tax asset has not been recognised. The raising of a deferred tax asset will be considered based on future profitability.

	2019 %	2018 %
Standard Rate of income tax	28.00	28.00
Disallowed expenditure	0.18	4.33
Unused portion of assessed tax losses not recognised	(28.18)	(32.33)
Effective tax rate	**0.00**	**0.00**

23. Undiscounted Cash Flows of Financial Liabilities

	Carrying Amount	Subject to notice	Up to 1 month	1-3 months	3 - 12 months	1 - 2 years	2 - 5 years	5+ years
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2019								
Derivative financial instrument	31,433	-	8,784	19,582	3,067	-	-	-
Due to customers	2,257,206	289,265	1,399,685	407,475	138,152	615	2,014	20,000
Due to banks	438,365	332,313	31,052	-	75,000	-	-	-
Long term debt instrument	-	-	-	-	-	-	-	-
Lease Liabilities	11,980	-	693	1,368	4,936	3,729	1,254	-
Negotiable certificate of deposits	10,000	-	-	-	10,000	-	-	-
Accounts payable	91,131	-	54,835	9,914	7,187	2,480	4,998	11,717
	2,840,115	**621,578**	**1,495,049**	**438,339**	**238,342**	**6,824**	**8,266**	**31,717**

	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2018								
Derivative financial instrument	5,794	-	3,645	1,976	173	-	-	-
Due to customers	2,553,734	244,925	1,846,600	73,348	388,861	-	-	-
Due to banks	363,272	363,272	-	-	-	-	-	-
Long term debt instrument	86,573	-	-	2,272	6,942	9,214	68,145	-
Accounts payable	50,596	-	22,766	2,391	12,753	1,558	3,856	7,272
	3,059,969	**608,197**	**1,873,011**	**79,987**	**408,729**	**10,772**	**72,001**	**7,272**

24. Categories And Fair Values Of Financial Instruments

Asset	2019 Fair Value R'000	2018 Fair Value R'000
Held to Maturity	**398,394**	**1,126,023**
Short term negotiable securities	221,519	1,126,023
Government Bonds	176,875	-
Loans & receivables	**2,698,873**	**2,088,257**
Cash and cash equivalents	648,800	296,293
Loans and advances	2,022,809	1,765,003
Other accounts receivables	27,264	26,961
Held for trading	**32,482**	**5,593**
Derivative financial instrument	32,482	5,593
Held at fair value	**15**	**15**
Other investments	15	15
Liabilities		
Held for trading	**31,433**	**5,794**
Derivative financial instruments	31,433	5,794
Other financial liabilities	**2,808,682**	**3,022,703**
Deposits	2,695,571	2,917,007
Long term debt instruments	-	50,000
Negotiable certificate of deposits	10,000	-
Accounts payable and Provisions	91,131	55,696
Lease Liabilities	11,980	-

Fair Value Levels

2019	Level 2	Level 3
Asset		
Derivative Financial Instrument	32,482	
Other investments		15
Liabilities		
Derivative Financial Instruments	31,433	

2018	Level 2	Level 3
Derivative Financial Instrument		
Other investments	5,593	
Liabilities		15
Derivative Financial Instruments	5,794	

The Bank does not have any level one financial instruments.

24.1 Fair Value Measurements

This note provides information about how the Bank determines fair value of various financial assets and financial liabilities. The fair values are measured on a recurring basis,

Financial assets / financial liabilities hierarchy	*Fair value*	*Valuation techniques and key inputs*
1. Foreign currency forward contracts (note 3)		Discounted cash flow.
	Level 2	Future cash are determined based on the forward exchange rates from observable forward exchange rate at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of the various counterparties.
2. Other investments (note 6)	Level 3	Other Investments relate to an investment acquired 15 years ago in an unlisted company, called Dandyshelf 3 (Pty)Ltd. No dividend was received during 2019 or 2018. The shares are unlisted, and the Directors' valuation of the unlisted investment equates to the fair value which approximates cost as defined in IFRS 13 fair value measurement, these fall within level 3 classification. If one had to participate in Dandyshelf as anew shareholder a similar amount would be paid for said participation.

25. Financial Risk Management

The Bank's Treasury function provides services to the business, and co-ordinates access to domestic and international financial markets and manages the various financial risks. The Risk department of the Bank monitors the financial risks relating to the operations of the Bank through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

25.1 Market Risk

The Bank seeks to minimise market risk by using derivatives to economically hedge market risk - currency risk. The use of financial derivatives is governed by the Bank's policy approved by the board of directors, which provides written principles on foreign exchange risk, interest rate and credit risk. The Bank does not enter into or trade financial instruments, including derivative instruments for speculative risk purposes.

The Bank's activities expose it primarily to the financial risks of change in foreign currency exchange rate (see note 25.6) and interest rate risk (note 25.4).

The Bank manages it foreign exchange risk by entering into forward exchange contracts. This exchange rate risk arises from the intragroup loans which are denominated in foreign currency.

25.2 Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Statement of Financial Position, are:

- To comply with the capital requirements set by the regulators of the banking industry in which the Bank operates
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the South African Reserve Bank, for supervisory purposes.

The required information is filed with the South African Reserve Bank on a monthly basis. The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the South African Reserve Bank which takes into account the risk profile of the Bank. The regulatory capital requirements are strictly observed when managing capital. The Bank's regulatory capital comprises two tiers:

- Tier 1 capital: share capital, share premium and general bank reserve. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: 7 year debentures and collective impairment allowances.

Shortfalls of value adjustments and provisions as compared to expected losses are deducted from Tier 1 and Tier 2 capital to calculate regulatory capital.

"The risk- weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets and off-balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, the Fitch rating agency is nominated. Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets"

25.2 Capital management (continued)	2019 R'000	2018 R'000
Tier 1 capital		
Share capital	67,856	39,572
Share premium	626,927	460,579
Deductions against capital and reserve funds	(296,545)	(207,121)
Less: intangible assets	(89,723)	(86,222)
Total qualifying tier 1 capital	**308,515**	**206,808**
Tier 2 capital		
Term debt instruments	-	30,000
Collective impairment allowance	16,056	9,365
Total qualifying tier 2 capital	**16,056**	**39,365**
Total regulatory capital	**324,569**	**246,173**
Risk-weighted assets:		
Credit risk	1,784,085	1,450,577
Counter party risk	57,258	14,173
Market risk	1,095	1,327
Equity risk	15	15
Operational risk	242,991	213,875
Other risk	53,757	42,227
Total risk-weighted assets	**2,139,201**	**1,722,194**
Capital adequacy ratio	**15.17%**	**14.29%**

After the Access Bank transaction was finalised in May 2021, the capital adequacy ratio is expected to be approxomately 18% before the approved Tier 2 instruments.

25.3 Liquidity Risk

"Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitment to lenders, depositors and other creditors at any point in time. The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met and that the bank has sufficient funding in place to ensure payment of daily transactions."

"Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short, medium and long term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management. Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCCO). Liquidity is ensured through optimal funding strategies taking into account various interest rate scenarios, as well as taking cognisance of available inter-bank lines of credit and the substantial committed lines of credit from the Bank's majority shareholder to cater for unforeseen circumstances."

25.3 Liquidity Risk (continued)

Stress scenarios and testing have been undertaken thereby allowing the bank to identify and be prepared for such eventualities. These scenarios have ensured that the Bank is well prepared to manage any liquidity or interest rate risks that may occur.

2019	Up to 1 month R'000	1 - 3 months R'000	3 - 6 months R'000	7 - 12 months R'000	1- 5 years R'000	Over 5 years/ non con-tractual R'000	Total R'000
Assets							
Cash and cash equivalents	648,800	-	-	-	-	-	648,800
Derivative financial instruments	8,663	20,678	3,141	-	-	-	32,482
Short-term negotiable securities	49,935	74,323	97,261	-	-	-	221,519
Accounts Receivable	8,668	8,952	1,704	1,767	4,378	1,795	27,264
Other investments (non-contractual)	-	-	-	-	-	15	15
Loans and Advances	175,316	51,529	53,659	96,184	657,093	989,028	2,022,809
Property and equipment	-	-	-	-	-	16,066	16,066
Intangible assets (non contractual)	-	-	-	-	-	89,723	89,723
Government Bonds	-	-	-	-	-	167,346	167,346
Right of use asset (non contractual)	-	-	-	-	-	12,329	12,329
	891,382	**155,482**	**155,765**	**97,951**	**661,471**	**1,276,302**	**3,238,353**
Liabilities							
Derivative financial liabilities	8,784	19,582	3,067	-	-	-	31,433
Deposits, current and other accounts	1,439,778	762,699	36,943	433,521	2,630	20,000	2,695,571
Negotiable certificate of deposits	-	-	-	10,000	-	-	10,000
Accounts payable	54,832	9,914	2,653	4,534	7,479	11,719	91,131
Lease liabilities	693	1,369	2,001	2,934	4,983	-	11,980
	1,504,087	**793,564**	**44,664**	**450,989**	**15,092**	**31,719**	**2,840,115**
Contractual liquidity mismatch	**(612,705)**	**(638,082)**	**111,101**	**(353,038)**	**646,379**	**1,244,583**	**398,238**

25.3 Liquidity Risk (continued)

2018	Up to 1 month R'000	1 - 3 months R'000	3 - 6 months R'000	7 - 12 months R'000	1- 5 years R'000	Over 5 years R'000	Total R'000
Assets							
Cash and cash equivalents	296,293	-	-	-	-	-	296,293
Derivative financial instruments	3,296	2,098	145	54	-	-	5,593
Short-term negotiable securities	894,824	183,699	-	47,500	-	-	1,126,023
Accounts Receivable	25,192	443	92	55	1,179	-	26,961
Other investments	15	-	-	-	-	-	15
Loans and Advances	183,207	35,076	50,153	92,374	611,143	793,050	1,765,003
Property and equipment	-	-	-	-	-	15,417	15,417
Intangible assets	-	-	-	-	-	86,222	86,222
Right of use asset	-	-	-	-	-	-	-
	1,402,827	**221,316**	**50,390**	**139,983**	**612,322**	**894,689**	**3,321,527**
Liabilities							
Long term debt instruments	-	-	-	-	50,000	-	50,000
Derivative financial liabilities	3,645	1,976	125	48	-	-	5,794
Deposits, current and other accounts	1,883,816	312,018	35,437	685,736	-	-	2,917,007
Negotiable certificate of deposits	-	-	-	-	-	-	-
Accounts payable	22,765	2,391	7,622	5,134	5,414	12,370	55,696
	1,910,226	**316,385**	**43,184**	**690,918**	**55,414**	**12,370**	**3,028,497**
Contractual liquidity mismatch	**(507,399)**	**(95,069)**	**7,206**	**(550,935)**	**556,908**	**882,319**	**293,030**

25.4 Interest Rate Risk

Interest rate risk is defined as the impact that the repricing of the Bank's assets and liabilities may have on the future cash flows and earnings.

"The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings. Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management. Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCCO).

Stress scenarios and testing have been undertaken thereby allowing the Bank to identify and be prepared for such eventualities. These scenarios have ensured that the Bank is well prepared to manage any liquidity or interest rate risks that may occur.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

	Fixed	Floating	Non-interest sensitive	Total
2019	**R'000**	**R'000**	**R'000**	**R'000**
Assets				
Cash and cash equivalents	-	358,025	290,775	648,800
Derivative financial instruments	-	-	32,482	32,482
Short-term negotiable securities	221,519	-	-	221,519
Accounts Receivable	-	-	27,264	27,264
Other investments	-	-	15	15
Loans and Advances	-	2,063,651	(40,842)	2,022,809
Property and equipment	-	-	16,066	16,066
Intangible assets	-	-	89,723	89,723
Government Bonds	167,346	-	-	167,346
Right of Use asset	-	-	12,329	12,329
	388,865	**2,421,676**	**427,812**	**3,238,353**
Liabilities				
Long term debt instruments	-	-	-	-
Derivative financial liabilities	-	-	31,433	31,433
Deposits, current and other accounts	572,885	2,122,686	-	2,695,571
Negotiable certificate of deposits	10,000	-	-	10,000
Accounts Payable	-	-	91,131	91,131
Lease liabilities	-	-	11,980	11,980
	582,885	**2,122,686**	**134,544**	**2,840,115**

2018	Fixed R'000	Floating R'000	Non-interest sensitive R'000	Total R'000
Assets				
Cash and cash equivalents	-	80,737	215,556	296,293
Derivative financial instruments	-	-	5,593	5,593
Short-term negotiable securities	1,126,023	-	-	1,126,023
Accounts Receivable	-	-	26,961	26,961
Other investments	-	-	15	15
Loans and Advances	-	1,798 289	(33,286)	1,765,003
Property and equipment	-	-	15,417	15,417
Intangible assets	-	-	86,222	86,222
	1,126,023	**1.879,826**	**316,478**	**3,321,527**
Liabilities				
Long term debt instruments	-	50,000		50,000
Derivative financial liabilities	-	-	5,794	5,794
Deposits, current and other	450,320	2,466,687	-	2,917,007
accounts payable	-	-	55,696	55,696
	450,320	**2,516,687**	**61,490**	**3,028,498**

25.5 Interest Rate Sensitivity Analysis

The tables below summarises the Bank's exposure to interest rate risk. Assets and liabilities are included at the carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At the reporting date, a 200 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in the interest rates. If interest rates increased/decreased by 200 basis points and all other variables remained constant, the Bank's net profit and equity at year-end would increase by R13.9 million and decrease by R13.8 million (2018: increase by R7.3 million and decrease by R7.3million)

2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non Interest Bearing	Total
Assets							
Cash and cash equivalents	358,025	-	-	-	-	290,775	648,800
Derivative financial instruments	-	-	-	-	-	32,482	32,482
Short-term negotiable securities	49,935	74,323	97,261	-	-	-	221,519
Accounts Receivable	-	-	-	-	-	27,264	27,264
Other investments	-	-	-	-	-	15	15
Loans and Advances	2,063,651	-	-	-	-	(40,842)	2,022,809
Property and equipment	-	-	-	-	-	16,066	16,066
Intangible assets	-	-	-	-	-	89,723	89,723
Government Bonds	-	-	-	-	167,346	-	167,346
Right of use asset	-	-	-	-	-	12,329	12,329
	2,471,611	**74,323**	**97,261**	**-**	**167,346**	**427,812**	**3,238,353**
Liabilities							
Due to other banks	363,364	75,000	-	-	-	-	438,364
Due to customers	1,688,950	407,475	138,153	615	22,014	-	2,257,207
Derivative financial liabilities	-	-	-	-	-	31,433	31,433
Negotiable certificate of deposits	-	-	10,000	-	-	-	10,000
Accounts Payable	-	-	-	-	-	91,131	91,131
Lease liabilities	-	-	-	-	-	11,980	11,980
	2,053,214	**482,475**	**148,153**	**615**	**22,014**	**134,544**	**2,840,115**

25.5 Interest Rate Sensitivity Analysis (continued)

2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non Interest Bearing	Total
Assets							
Cash and cash equivalents	80,737	-	-	-	-	215,556	296,293
Derivative financial instruments	-	-	-	-	-	5,593	5,593
Short-term negotiable securities	894,824	183,699	-	47,500	-	-	1,126,023
Accounts Receivable	-	-	-	-	-	26,961	26,961
Other investments	-	-	-	-	-	15	15
Loans and Advances	1,798 289	-	-	-	-	(33,286)	1,765,003
Property and equipment	-	-	-	-	-	15,417	15,417
Intangible assets	-	-	-	-	-	86,222	86,222
Government Bonds	-	-	-	-	-	-	-
	2,773,850	**183,699**	**-**	**47,500**	**-**	**316,478**	**3,321,527**
Liabilities							
Due to other banks	30,960	-	332,312	-	-	-	363,272
Due to customers	1,852,856	312,018	388,861	-	-	-	2,553,735
Long term debt instruments	-	-	50,000	-	-	-	50,000
Derivative financial liabilities	-	-	-	-	-	5,794	5,794
Negotiable certificate of deposits	-	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	55,696	55,696
	1,883,816	**312,018**	**771,173**	**-**	**-**	**61,490**	**3,028,497**

25.6 Foreign Currency Risk Management

The Bank undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Bank's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

Foreign Currency exposure

2019	ZAR R'000	USD R'000	EURO R'000	Other R'000	Total R'000
Assets					
Cash and cash equivalents	431,972	135,015	53,451	28,362	648,800
Derivative financial instruments	-	28,213	3,219	1,050	32,482
Short-term negotiable securities	221,519	-	-	-	221,519
Accounts receivable	27,264	-	-	-	27,264
Other investments	15	-	-	-	15
Loans and Advances	2,016,547	5,557	-	705	2,022,809
Property and equipment	16,066	-	-	-	16,066
Intangible assets	89,723	-	-	-	89,723
Government Bonds	167,346	-	-	-	167,346
Right of use asset	12,329	-	-	-	12,329
	2,982,781	**168,785**	**56,670**	**30,117**	**3,238,353**
Liabilities					
Derivative financial liabilities	-	28,003	3,203	227	31,433
Deposits, current and other accounts	2,487,793	139,967	53,838	13,973	2,695,571
Negotiable certificate of deposits	10,000	-	-	-	10,000
Accounts payable	91,131	-	-	-	91,131
Lease Liabilities	11,980	-	-	-	11,980
	2,600,904	**167,970**	**57,041**	**14,200**	**2,840,115**

	ZAR R'000	USD R'000	EURO R'000	Other R'000	Total R'000
2018					
Assets					
Cash and cash equivalents	128,352	84,451	56,418	27,072	296,293
Derivative financial instruments	-	3,251	2,204	138	5,593
Short-term negotiable securities	1,126,023	-	-	-	1,126,023
Accounts receivable	26,961	-	-	-	26,961
Other investments	15	-	-	-	15
Loans and Advances	1,765,003	-	-	-	1,765,003
Property and equipment	15,417	-	-	-	15,417
Intangible assets	86,222	-	-	-	86,222
	3,147,993	**87,702**	**58,622**	**27,210**	**3,321,527**
Liabilities					
Long term debt instruments	50,000	-	-	-	50,000
Derivative financial liabilities	-	2,902	2,115	777	5,794
Deposits, current and other accounts	2,762,524	88,207	54,906	11,370	2,917,007
Accounts payable	55,696	-	-	-	55,696
	2,868,220	**91,109**	**57,021**	**12,147**	**3,028,497**

25.7 Credit Risk

Credit risk is defined as the possibility that customers may default on their future cash flow obligations to the Bank. In lending transactions, credit risk arises from the non-payment of approved of loans and advances, and from off-balance sheet exposures such as commitments and guarantees. The Bank actively manages its credit risk at the Individual transaction, counterparty and portfolio level using a variety of qualitative and quantitative measures. Customers' credit worthiness is thoroughly assessed before any credit facility is recommended to or granted by the various credit committees. The credit granting philosophy is a conservative one. The Board of Directors ratifies all exposures in excess of 10% of the Bank's qualifying capital. The Bank has implemented a risk-rating model, which calculates the probability of default of customers.

Refer to accounting policy 1.12 for definitions and criteria used to allocate loans in stage 1, stage 2 or stage 3.

26. Retirement Fund

All permanent employees of the Bank are members of Grobank provident fund, a defined contribution fund administered by 10X Investments.

27. Cash Flow From Operating Activities

	2019 R'000	2018 R'000
27.1 Cash received from customers		
Interest income	243,680	218,852
Non-interest income	75,746	30,808
	319,426	249,660
Profit on sale of assets	-	(119)
	319,426	**249,541**
27.2 Cash paid to customers and employees		
Interest expenditure	(148,322)	(140,399)
Operating expenditure	(240,574)	(186,957)
	(388,896)	**(327,356)**
Adjusted for:		
Depreciation - owned assets	6,209	4,842
Depreciation - leased assets	8,428	-
Amortisation	12,209	10,695
Loss on sale of assets	-	3,816
Interest on lease liabilities	3,985	-
	(358,065)	**(308,002)**
27.3 Decrease (Increase) in income-earning assets		
Negotiable securities and other assets	(904,504)	(990,100)
Loans and advances	(276,144)	16,192
Net derivative instruments	(1,250)	2,181
Other accounts receivable	(303)	(13,622)
	626,807	**(985,349)**

27.4 (Decrease) Increase in deposits and other liabilities	2019 R'000	2018 R'000
Deposits and current accounts	(221,436)	975,444
Negotiable certificate of deposits	10,000	-
Long Term debt instruments	(50,000)	-
Other accounts payable and provisions	38,565	(10,672)
	(222,871)	**964,772**
27.5 Reconciliation of (loss) / profit to net cash flows from operating activities		
Loss from operations	(93,079)	(48,287)
Adjusted for non-cash items:		
- depreciation - owned assets	6,209	4,843
- depreciation - leased assets	8,428	-
- amortisation of intangible assets	12,209	10,695
- impairment charges	10,011	(5,575)
- bad debts recovered previously written off	3,505	1,251
- interest on lease liabilities	3,985	-
-interest in abeyance raised/deducted against interest income	4,822	(1,539)
- (profit)/loss on sale of asset	-	3,697
Adjustment for exchange rate effect on cash and cash equivalents	5,271	(23,546)
Cash generated from operations	**(38,639)**	**(58,461)**

28. Related-Party Transactions

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operating decisions. Related parties include, the Bank's holding company, its respective shareholders and companies they control, directors, their close relatives, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

All banking transactions entered into with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

28.1 Identification of Related Parties

The holding company is GroCapital Holdings (incorporated in South Africa). During the year the Bank, in the ordinary course of business, entered into various transactions with GroCapital Holdings, its associated companies and Directors of the Bank. These transactions occurred under terms that were no more or less favourable than those arranged with third parties. All of these entities listed below, and the Directors have been classified as related parties.

28.2 Related-Party Transactions with Holding Company And Its Associated Companies

	Amounts owed by related parties at 31 December 2019	Amounts owed to related parties at 31 December 2019
	R'000	R'000
Holding company		
GroCapital Holdings		
- Rand deposits	-	286,901
Other related parties		
AFGRI (Pty) Ltd (Related to shareholder of Bank holding entity)	-	39,944
AFGRI Group Holdings (Pty) Ltd (Related to shareholder of Bank holding entity)	56,501	-
Fairfax Africa Investments (Pty) Ltd (Related to Bank holding entity)	-	185,954
AFGRI Operations (Pty) Ltd (Related to shareholder of Bank holding entity)	3,697	-

	Amounts owed by related parties at 31 December 2018	Amounts owed to related parties at 31 December 2018
	R'000	R'000
Holding company		
GroCapital Holdings		
- Rand deposits	-	334,960
- Debentures	-	50,000
Other related parties		
AFGRI (Pty) Ltd (Related to shareholder of Bank holding entity)	-	37,577
AFGRI Group Holdings (Pty) Ltd (Related to shareholder of Bank holding entity)	-	2
Fairfax Africa Investments (Pty) Ltd (Related to Bank holding entity)	-	791,643
AFGRI Operations (Pty) Ltd (Related to shareholder of Bank holding entity)	3,951	-

28.2 Related-Party Transactions with Holding Company And Its Associated Companies (continued)

	2019 R'000	2018 R'000
Interest Received		
AFGRI Operations (Pty) Ltd	2,372	139
Fees received		
AFGRI Operations (Pty) Ltd	-	1
AFGRI Group Holdings (Pty) Ltd	-	1
AFGRI (Pty) Ltd	8	2
Interest paid		
NBG Athens	-	54,702
AFGRI (Pty) Ltd	-	633
GroCapital Holdings Limited	27,759	8,847
Fairfax Africa Investments (Pty) Ltd	9,527	5,349
Operational Costs		
GroCapital Holdings Limited	3,552	3,777
Other income		
GroCapital Holdings Limited	137	33

28.3 Compensation Of Key Management

The remuneration of directors during the year was as follows:

	2019 R'000	2018 R'000
Directors' emoluments	19,986	12,504
Independent non-executives	3,341	1,954
G Bizos	-	79
TJ Fearnhead	480	475
P Ranchod	819	619
R Shough	611	402
W Kruger	448	267
J Mirza	627	79
C Venter	217	33
P Mathidi	101	-
NM Nene	38	-
Executive Directors	16,645	10,550
B van Rooy	3,607	-
S Georgopoulos	8,217	5,395
DJ Adriaanzen	2,476	2,056
C Michaelides	2,345	1,954
D Haarhoff	-	1,145

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

2019	Cash R'000	Discretionary Payment R'000	Leave pay payout R'000	Travel, subsistence and use of company car R'000	Cellphone and data R'000	Medical Aid contributions R'000	Provident fund contributions R'000	Total R'000
Executive directors salary composition	**7,917**	**6,638**	**673**	**255**	**61**	**186**	**915**	**16,645**
B van Rooy	1,838	1,500	-	7	10	-	252	3,607
S Georgopoulos	2,321	4,773	673	152	13	90	195	8,217
DJ Adriaanzen	1,885	187	-	79	19	96	210	2,476
C Michaelides	1,873	178	-	17	19	-	258	2,345

2018	Cash R'000	Discretionary Payment R'000	Leave pay payout R'000	Travel allowance and use of company car R'000	Cellphone and data R'000	Medical Aid contributions R'000	Provident fund contributions R'000	Total R'000
Executive directors salary composition	**8,924**	**-**	**-**	**352**	**70**	**442**	**762**	**10,550**
S Georgopoulos	4,557	-	-	304	19	213	302	5,395
DJ Adriaanzen	1,715	-	-	48	18	125	150	2,056
C Michaelides	1,707				18	-	229	1,954
D Haarhoff	945				15	104	81	1,145

28.4 Transactions with Directors And Their Associated Companies.

Amounts owed by/to related parties as at December 2019

	Amounts owed by related parties at 31 December 2019 R'000	Amounts owed to related parties at 31 December 2019 R'000
C Michaelides	-	239
D Adriaanzen	1	-

	Amounts owed by related parties at 31 December 2018 R'000	Amounts owed to related parties at 31 December 2018 R'000
S Georgopoulos	12,181	-
D Haarhoff	2,319	-
C Michaelides	-	727
D Adriaanzen	-	2

There were no amounts owed by/to the independent non-executive directors and their associated companies for the year ending 31 December 2019.

29. Principal Foreign Currency Conversion Closing Rates

	2019	2019
Pound Sterling	18.554	18.392
United States of America	14.061	14.365
Euro	15.792	16.458
Australian Dollar	9.868	10.143
Botswana Pula	1.327	1.342
Japanese Yen	0.130	0.131
Canadian Dollar	10.811	10.547

30. Going concern

The Bank has made a loss in FY2019 of R93million and in FY2018 of R 48.2million however, the Bank is solvent and has a current net asset value of R398million and R293million in 2018.

The Bank will continue to make losses in 2020 and in 2021. The support from the new shareholder, Access Bank Plc, will be available in the form of capital, liquidity and business relationships to facilitate the increase in revenues.

On the 25 March 2021, the Prudential Authority and the Minister of Finance approved the application of Access Bank Plc to become the controlling shareholder of Grobank.

After making due enquiries and having carefully considered all of the factors that may impact the Bank's going concern status, including the Bank's capital adequacy, liquidity for the next 12 months from the date of approving the annual financial statements, the Directors consider that the Bank has adequate resources to continue operating as a going concern for the foreseeable future.

The factors considered are:

- A portfolio of loans and advances to be settled / sold to Mercantile Bank, resulting in an expected cash flow of approximately R350 million,
- The new capital injection from Access Bank Plc of R400million was received 3rd May 2021,
- The conversion of deposits from the PIC and Fairfax Holdings into Tier 2 instruments amounting to approximately R183 million subject to PA approval, and
- The letter of support from Access Bank Plc pledging capital and funding support in the event of any capital or liquidity shortfall.
- Leveraging of Access Bank Plc relationships to increase revenue flows and leveraging off Group technologies.

Covid-19 pandemic

Due to the Covid-19 pandemic occurrence in South Africa and the rest of the world, as well as the impact this has had on the economic conditions in the country, the Board further assessed the impact this too would have on the Bank's going concern status. Taking into consideration the directives (D2/2020 and D3/2020) and guidance notes (GN3/2020 and GN 4/2020) from the Prudential Authority (PA), the Board assessed the relief provided by the PA together with the factors mentioned above concluded that, even if the impact of Covid-19 had been taken into account, the Bank would continue to have sufficient resources to continue operating as a going concern for the foreseeable future. However, the direct impact of Covid-19 on the Bank's operations cannot be reliably measured at this stage.

During April 2020 the Prudential Authority provided relief on the LCR from 100% minimum to 80% minimum in terms of Directive 1/2020. The Bank's minimum LCR requirement effective from the date of Directive (1 April 2020) is 80%.

The financial statements have therefore been prepared on the going concern basis.

31. Post balance sheet events

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, business is being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial statements for the year ended 31 December 2019 have not been adjusted to reflect their impact.

From the start of the Covid-19 pandemic and national lock down announced with effect from 27 March 2020, the majority of Grobank's staff have been working remotely. Grobank, similar to the banking industry, has been classified as an essential service, and consequently has maintained a skeleton staff at the Bank's head office and Suites to facilitate the provision of these essential services. As a result of the lockdown, the following possible risks have been highlighted for the Bank:

- Cash flow pressures on clients which could lead to late or non-payment of loan commitments
- An increase in provisions on the loans and advances portfolio due to inability of clients to meet debt obligations and security values being compromised
- Increased liquidity risk

During this period, the Bank has taken the decision to support its clients and provide financial relief through the granting of loan payment moratoriums on a case-by-case basis to clients for a period of four months.
The moratoriums were based on the following principles:

- Customer with a strong credit risk rating
- Customers with an observable evidence of a clean repayment track record at Grobank, i.e. no arrear events
- The credit facilities were up to date up to date as at February 2020

Since then the Bank has noted a total of approximately 457 client moratorium requests amounting to approximately R750m in exposure, of which 364 amounting to approximately R640m are in stage 1 and the remainder are in stage 2 and current. The Bank continues to see moratorium requests but at the levels at the start of level 5 lock down. Weekly the moratoriums granted are presented to the Bank's Board Credit Committee for review.

The Bank continues to run stress test scenarios to determine the impact of clients migrating into stage 2 or stage 3 due to clients not rehabilitating after this stress period.

The IFRS 9 provisioning scenarios considered were incremental increases of 5% of the performing book moving into stage 2 and incremental increases of 5% of the performing book moving into stage 3. Another scenario considered was impairing the collateral values of property security and residential mortgages security. The collateral values were impaired by 30% and 50%. This impact was then tested against the Bank's profitability and capital. Overly the bank anticipates that the Covid 19 pandemic will have a negative impact on the bank's profitability, liquidity and capital requirements. Consequently, even though the scenarios above have been considered, the impact of the Covid 19 situation is still evolving and the Bank is not able to reliably quantify the pandemic's future financial impact on its business.

Impact of Covid 19 – Moratoriums

During April 2020, the Bank had issued a total of approximately 457 client moratorium requests amounting to approximately R750m in exposure, of which 364 amounting to approximately R640m were in stage 1 and the remainder were in stage 2. Weekly the moratoriums granted were presented to the Bank's Board Credit Committee for review.

As at 31 December 2020, of the moratoriums issued in April 2020, R506million remained in stage 1, R158million in stage 2 and R27million moved to stage 3.

Of the 457 clients amounting to approximately R750million moratoriums granted in April 2020, only 30 accounts amounting to R38.6million are in moratorium as at 31 December 2020.

By the end of May 2021, these remaining 30 accounts are no longer in moratorium.

Other events

During February 2020, additional common equity capital totalling R91.5million was raised from GroCapital Holdings Limited and minority shareholders, in order to meet the regulatory requirements.

On the 25th March 2021, the Prudential Authority and the Minister of Finance approved the application for Access Bank Plc to become the controlling shareholder in Grobank.

On the 3rd May 2021, R400million share capital was injected into the Bank by Access Bank Plc, making them the majority and controlling shareholder holding 90.35% of the Banks issued share capital.

At the end of December 2020, the Bank reassessed the useful life of the intangible assets. An amount of R29million was processed in the income statement as accelerated amortisation. An additional write-off amounting to R46million was made in the 2020 income statement for project costs relating to the new core banking system as the project was discontinued.

NOTES

Grobank Limited. Reg. No. 1947/025414/06
Authorised Financial Services Provider (FSP 5865)
A Registered Credit Provider (NCRCP 6)

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