Corporation for Public Deposits

Annual Financial Statements for the year ended 31 March 2018

South African Reserve Bank

Contents

Approval and statement of responsibility

The directors of the Corporation for Public Deposits (CPD) are responsible for the maintenance of adequate accounting records, and the preparation and integrity of the annual financial statements and related information. The external auditors are responsible for the independent auditing of, and reporting on, the fair presentation of the annual financial statements in conformity with International Financial Reporting Standards (IFRSs).

The annual financial statements are prepared in accordance with IFRSs and in the manner required by the Corporation for Public Deposits Act 46 of 1984 (CPD Act), on the going-concern basis. The directors have every reason to believe that the CPD has adequate resources in place to continue to operate for the foreseeable future. The annual financial statements are based on appropriate accounting policies, and supported by reasonable and prudent judgements and estimates. The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the period and the financial position of the CPD at the reporting date.

The directors are also responsible for ensuring that adequate systems of internal financial control exist for the CPD. These systems are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements; to safeguard, verify and maintain accountability of assets and liabilities; and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The annual financial statements have been audited by an independent auditing firm, SizweNtsalubaGobodo Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors (Board), and of the shareholder, that is, the South African Reserve Bank (SARB). The directors believe that all representations made to the independent auditors during the audit were valid and appropriate.

The annual financial statements were approved by the Board and are signed on its behalf by:

A D Mminele
Chairperson

A M Maseko
Director

Pretoria
3 May 2018

Directors' report

for the year ended 31 March 2018

The directors present the CPD's 34th annual financial statements for the year ended 31 March 2018.

Nature of business

The CPD, a wholly owned subsidiary of the SARB, is a juristic person established by the CPD Act.

The CPD accepts deposits from the public sector, and invests these funds in deposits and money market instruments. The CPD may also accept call deposits from other depositors with the approval of the Minister of Finance (Minister). All funds invested with the CPD are repayable on demand.

Board of Directors

The affairs of the CPD are managed and controlled by the Board. The Board assumes ultimate responsibility for the CPD. In accordance with the CPD Act, the Board comprises four persons appointed by the Minister. Two are persons who hold the office of Governor or Deputy Governor at the SARB, or who are officers of the SARB, and two are officers of National Treasury.

The term of office for directors who hold the office of Governor, Deputy Governor, or who are officers of the SARB is three years, and these directors are eligible for reappointment. The term of office for directors who are officers of the National Treasury is determined by the Minister.

The Chairperson of the Board is appointed by the Minister.

The CPD Act allows directors to nominate, with the consent of the Board, alternate directors to act on their behalf during their absence or inability to act as directors.

Directors of the CPD, 2017/18

Director	Position and Office	Date of appointment/ reappointment	Alternate director
A D Mminele	Deputy Governor of the SARB and Chairperson of the Board	24 March 2016	N Ford-Hoon*
L R Myburgh	Officer of the SARB	1 March 2016	M Nkuna
A M Maseko	Officer of National Treasury	4 April 2012	B Mokwala
J D Redelinghuys	Officer of National Treasury	1 May 2016	W H Moolman

* N Ford-Hoon resigned in July 2017, and a replacement alternate director has not been appointed as yet.

Owing to the scope and risk profile of the CPD, the Board has elected not to appoint any board committees to support it in the discharge of its responsibilities.

The Board meets at least four times a year to consider matters of the CPD. During the year under review, the Board continued to provide oversight over the investment of funds and the accounting function; the performance of investments and interest rate structures; activities and accounts of depositors and issuers of securities; and adherence to approved Investment Guidelines.

Directors are not remunerated for services rendered to the CPD.

Attendance schedule of directors for CPD Board meetings, 2017/18

	09/5/2017	24/8/2017	24/11/2017	16/2/2018
A D Mminele	√	√	√	√
L R Myburgh	×	√	×+	√
M Maseko	√	√	√	√
J D Redelinghuys	√	√	×+	√

√ Present
× Absent with apology
+ Alternate representative in attendance

Accountability

The financial statements of the CPD are required to be submitted to the Minister within six months after the end of the financial year, whereafter the Minister tables them in Parliament. The March 2017 financial statements were tabled in Parliament on 13 July 2017.

Internal controls

The Internal Audit Department of the SARB evaluates internal controls in place to ensure the integrity and reliability of the CPD's financial information, compliance with all applicable laws and regulations, the accomplishment of objectives, efficiency of operations, and the safeguarding of assets. The Risk Management and Compliance Department of the SARB assesses the risk management processes of the CPD. The Audit Committee of the SARB is responsible for evaluating and monitoring internal controls of the CPD.

Administration and accounting

The CPD is accommodated in the SARB's Head Office and uses the SARB's staff, accounting systems and other infrastructure.

The administration and accounting of funds under the control of the CPD is performed by the Financial Services Department and the investment of funds is the responsibility of the Financial Markets Department, both of which are departments of the SARB. This is governed by a formal management agreement.

Contingency reserve

In terms of section 15 of the CPD Act, a contingency reserve is maintained to provide against risks to which the CPD is exposed. Movements in the contingency reserve are set out in the statement of changes in equity on page 8 of the financial statements.

Financial results and performance

The financial results and performance of the CPD are set out in the financial statements. The surplus remaining after the payment of a dividend amounted to R91.2 million (2017: R73.3 million), which will be paid to government in terms of the CPD Act. There was no transfer to the contingency reserve in the current financial year (2017: Rnil).

Share capital

The authorised and issued share capital are set out in the financial statements.

Dividend

A dividend of 10 cents per ordinary share was declared during the year and paid on 19 March 2018.

Secretary

M A Masibi-Malotle

Registered office

South African Reserve Bank
370 Helen Joseph Street (formerly Church Street)
Pretoria, Republic of South Africa, 0002

Independent auditor's report

to the shareholder of the Corporation for Public Deposits

Opinion

We have audited the annual financial statements of the Corporation for Public Deposits (CPD), set out on pages 7 to 23, which comprise the statements of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. In our opinion, the financial statements of the CPD for the year ended 31 March 2018 have been prepared, in all material respects, in accordance with IFRSs.

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 CPD in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of directors for the financial statements

The CPD's directors are responsible for the preparation of the consolidated and separate financial statements in accordance with IFRS. The CPD's directors are further responsible for determining that the basis of presentation is acceptable in the circumstances, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the CPD's ability to continue as a going concern, disclosing as applicable matters relating to going concern and using the going-concern basis of accounting unless an act of parliament is passed to liquidate the CPD or to cease operations.

Responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 CPD's internal control.

- 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 CPD's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CPD to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by the directors.

We communicate with those charged with governance 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.

SizweNtsalubaGobodo Inc.
Director: Agnes Dire
Registered Auditor
20 Morris Street East
Woodmead
2191
Johannesburg

8 June 2018

SizweNtsalubaGobodo Inc. Head office 20 Morris Street East Woodmead 2191 P O Box 2939 Saxonwold 2132
Tel: (011) 231 0600 Fax: (011) 234 0933
Executive: Victor Sekese (Chief Executive)
A comprehensive list of all directors is available at the company offices or registered office. SizweNtsalubaGobodo Inc.
Registration number: M2005/034639/21

Statement of financial position

at 31 March 2018

	Notes	2018 R'000	2017 R'000
Assets			
Cash and cash equivalents	2	45 446 802	34 067 122
Money market investments	3	2 876 811	3 807 393
Short-term deposits	4	3 029 392	0
Loans and advances	5	17 511 786	27 596 644
South African government bonds	6	0	391 220
Total assets		68 864 791	65 862 379
Liabilities			
Bank overdraft	2	0	3 453
Deposit accounts	7	68 671 596	65 683 403
Dividends payable		0	200
Surplus due to government	8	91 195	73 323
Total liabilities		68 762 791	65 760 379
Capital and reserves			
Share capital	9	2 000	2 000
Contingency reserve		100 000	100 000
Total capital and reserves		102 000	102 000
Total liabilities, capital and reserves		68 864 791	65 862 379

Statement of profit or loss and other comprehensive income

for the year ended 31 March 2018

Interest income	10	5 330 374	5 932 287
Interest expense	11	(5 232 755)	(5 858 707)
Net interest income		97 619	73 580
Realised loss on investments		(1 281)	0
Unrealised (loss)/profit on investments		(1 226)	3 292
Total income		95 112	76 872
Operating costs	12	(3 717)	(3 349)
Profit for the year		91 395	73 523
Taxation	13	0	0
Total comprehensive income for the year		91 395	73 523

Statement of changes in equity

for the year ended 31 March 2018

	Share capital	Accumulated profit	Contingency reserve	Total
	R'000	R'000	R'000	R'000
Balance at 31 March 2016	2 000	0	100 000	102 000
Total comprehensive income for the year	0	73 523	0	73 523
Transfer to government	0	(73 323)	0	(73 323)
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2017	2 000	0	100 000	102 000
Total comprehensive income for the year	0	91 395	0	91 395
Transfer to government	0	(91 195)	0	(91 195)
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2018	2 000	0	100 000	102 000

Explanatory notes

Contingency reserve

In terms of section 15 of the CPD Act, a contingency reserve is maintained to provide against risks to which the CPD is exposed. For the years ended 31 March 2018 and 31 March 2017 no amounts were transferred from accumulated profit to the contingency reserve.

Transfer to government

In terms of section 15 of the CPD Act, the surplus remaining after transfers to reserves and payment of dividends has to be paid to government. For the year ended 31 March 2018, an amount of R91.2 million (2017: R73.3 million) was due to government.

Statement of cash flows

for the year ended 31 March 2018

	Notes	2018	2017
		R'000	R'000
Cash flows from operating activities			
Cash generated/(utilised) from operating activities	14.1	13 068 053	(4 722 828)
Interest received		5 330 374	5 932 287
Interest paid		(5 232 755)	(5 858 707)
Dividends paid		(400)	0
Transfer to government payment		(73 323)	(72 550)
Net cash flows generated/**(utilised)** from operating activities		13 091 949	(4 721 798)
Cash flows (utilised)/generated by investing activities		(1 708 816)	23 475 543
Decrease in money market investments	14.2	929 356	510 854
Increase/(decrease) in short-term deposits		(3 029 392)	22 958 735
Decrease in South African government bonds	14.3	391 220	5 954
Net increase in cash and cash equivalents		11 383 133	18 753 745
Cash and cash equivalents at beginning of the year		34 063 669	15 309 924
Cash and cash equivalents at end of the year		45 446 802	34 063 669

Notes to the financial statements

for the year ended 31 March 2018

1. Accounting policies

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The accounting policies have been applied consistently to all years presented, unless otherwise stated.

1.1 Basis of preparation

These annual financial statements have been prepared in accordance with IFRSs, in the manner required by the CPD Act and the accounting policies set out below, on the going-concern basis. The financial statements have been prepared on the historical cost basis, except for certain investments carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets at initial recognition.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the CPD.

The annual financial statements of the CPD are presented in South African rand, which is the functional currency of the CPD, and the amounts are rounded to the nearest thousand rands.

1.2 New standards and interpretations

1.2.1 New standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2018, and have not been early adopted in preparing these financial statements.

IFRS 9, Financial Instruments

A final version of *IFRS 9, Financial Instruments,* has been issued which replaces *IAS 39, Financial Instruments: Recognition and Measurement*. The completed standard comprises guidance on classification and measurement, impairment, hedge accounting and derecognition. *IFRS 9, Financial Instruments,* introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held as well as its cash flow characteristics. A new business model was introduced which allows certain financial assets to be categorised as 'fair value through other comprehensive income' (FVOCI) in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from *IAS 39, Financial Instruments: Recognition and Measurement*. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The new model introduces a single impairment model being applied to all financial instruments, as well as an 'expected credit loss' model for the measurement of financial assets.

IFRS 9, Financial Instruments, contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, it also requires enhanced disclosures that will provide better information about risk management and the effect of hedge accounting on the financial statements. *IFRS 9, Financial Instruments,* carries forward the derecognition requirements of financial assets and liabilities from *IAS 39, Financial Instruments: Recognition and Measurement*. The mandatory effective date for implementation is for annual periods beginning on or after 1 January 2018. *IFRS 9, Financial Instruments,* may be early adopted. If *IFRS 9, Financial Instruments,* is early adopted, the new hedging requirements may be excluded until the effective date. The CPD expects to adopt the standard for the first time in the first annual financial period after the effective date. The CPD has undertaken a detailed assessment of the impact of the application of *IFRS 9* on its financial statements.

Subsequent measurement:

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, FVOCI or fair value through profit or loss (FVPL). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with *IAS 39 Financial Instruments*. Based on the current CPD business model, the classification and measurement will remain unchanged.

Impairment

The impairment requirements apply to financial assets measured at amortised cost. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an 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 in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in 'stage 3'. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under *IAS 39, Financial Instruments*: *Recognition and Measurement*, and the resulting impairment charge may be more volatile. *IFRS* 9, *Financial Instruments,* may also result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with *IAS 39, Financial Instruments: Recognition and Measurement*. The CPD has developed an impairment model which calculates an ECL allowance per counterparty per instrument. The calculation itself essentially uses the closing balance (the exposure at default), multiplies it with a loss given default ratio (zero if the asset is fully collateralised and the collateral is highly liquid) and the probability of default. The probability of default is calculated using regression analysis. *IFRS 9, Financial Instruments,* requires the use of forward-looking information (such as macro-economic information) to adjust the probability of defaults of those entities at each reporting date. By using regression analysis, the impact of each macro-economic factor on the probability of default can be calculated.

Management has completed their assessment of the impact of IFRS9 on the disclosure requirements of the CPD, and have confirmed that there are no classification changes, nor material impairments required to restate the balances as at 31 March 2018 in preparation for the adoption of IFRS9 in the 2018/19 financial year.

There are no other new and amended standards applicable to the CPD for the financial year ended 31 March 2018.

1.3 Financial instruments

1.3.1 Financial assets

1.3.1.1 Classification

The CPD classifies its financial assets into the following categories: financial assets at 'fair value through profit or loss' (including held-for-trading) and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management applies principles contained in the Investment Guidelines of the CPD to determine the number of days used to classify cash and cash equivalents and short-term deposits, and to determine the maturity structure of financial assets in the financial statements of the CPD. Instruments with maturities of less than three months at the inception of the deal are classified as cash and cash equivalents, and instruments with maturities of more than three months are classified as short-term deposits. These principles align the classification with the definition of cash and cash equivalents in *IAS 7, Statement of Cash Flow*.

Financial assets at fair value through profit or loss

This category comprises two subcategories:

- financial assets held for trading; and
- those designated at fair value through profit or loss at inception.

A financial asset is classified as 'held for trading' if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if it is so designated by management. Derivatives are also classified as 'held for trading', unless they are designated as hedges at inception.

A financial asset is designated as 'fair value through profit or loss' when it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on it, on different bases; or it forms part of a portfolio of financial assets that is managed and whose performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel; or it forms part of a contract containing one or more embedded derivatives and *IAS 39, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as 'fair value through profit or loss'.

The following categories of financial assets have been classified as 'designated at fair value':
- money market investments;
- short-term deposits; and
- South African government bonds.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the CPD provides loans directly to a debtor with no intention of trading the receivable. This category does not include those loans and receivables that the CPD intends to sell in the short term or that it has designated as at 'fair value through profit or loss' or 'available for sale'.

The following categories of financial assets have been classified as 'loans and receivables':
- loans and advances; and
- cash and cash equivalents.

The category 'cash and cash equivalents' comprises deposits with banks and other short-term highly liquid money market investments with original maturities of three months or less (91 days and less). Where the maturity date falls on a weekend or a public holiday the next business day convention will apply; however, the investment will still be considered a 91-day investment. For the purpose of the statement of cash flows, cash and cash equivalents includes cash and cash equivalents as defined under this paragraph, net of the bank overdraft (if any).

1.3.1.2 Recognition and derecognition

The CPD recognises financial assets on the date on which the CPD becomes party to the contractual provisions to purchase the assets, and applies trade date accounting for 'regular way' purchases and sales. From this date, any gains or losses arising from changes in the fair value of the assets are recognised in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired, or where the CPD has transferred substantially all risks and rewards of ownership.

1.3.1.3 Measurement

Initial measurement

Financial instruments are measured initially at fair value plus, in the case of financial instruments not carried at fair value through profit or loss, transaction costs directly attributable to their acquisition. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions for the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

Purchases and sales of financial assets that require delivery are recognised on the trade date, namely the date on which the CPD commits itself to purchasing or selling the asset. From this date, any gains or losses arising from changes in the fair value of the assets and liabilities are recognised. The best evidence of fair value on initial recognition is the transaction price, unless fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on discounted cash-flow models and option-pricing valuation techniques whose variables include data from observable markets.

Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method. The amortised cost of a financial asset is the amount at which the financial asset is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reductions for impairment of financial assets.

When the financial assets are derecognised the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss as a reclassification adjustment.

1.3.1.4 Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The CPD assesses whether there is objective evidence that a financial asset is impaired at each reporting date. Any impairment loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and is recognised in profit or loss.

1.3.2 Financial liabilities

1.3.2.1 Classification

The CPD classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost.

The CPD classifies a financial instrument that it issues as a financial liability in accordance with the substance of the contractual agreement.

Management determines the classification of financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss

Derivatives with negative fair values have been classified as financial liabilities at fair value through profit or loss.

Financial liabilities at amortised cost

The following liabilities have been classified as financial liabilities at amortised cost:

- deposit accounts;
- bank overdrafts; and
- other financial liabilities.

1.3.2.2 Recognition and derecognition

The CPD recognises financial liabilities when it becomes a party to the contractual provisions of the instruments. The CPD derecognises financial liabilities when, and only when, the CPD's obligations are discharged or cancelled, expire or are substantially modified. The difference between the carrying amount of the financial liability derecognised, and the consideration paid and payable is recognised in profit or loss.

1.3.2.3 Measurement

Initial measurement

Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred, except for financial liabilities at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

Subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at fair value.

Financial liabilities are subsequently carried at amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reductions for the impairment of financial liabilities. The carrying amount represents its fair value.

Fair values are determined according to the hierarchy based on the requirements in *IFRS 13, Fair Value Measurement*, as set out in Note 16 to the financial statements. Fair values are established as follows:

- Money market investments and South African government bonds: The managers utilise quoted market prices for quoted financial instruments and market-acceptable valuation techniques for unquoted financial instruments. Where these instruments are bank deposits, they are valued at nominal values plus accrued interest based on market rates. These values approximates fair values. Non-interest-bearing Treasury bills are stated at nominal value, since they do not have fixed maturity dates.

- Short-term deposits: These instruments are valued at nominal values plus accrued interest based on market rates. These values approximates fair values.

- Loans and advances and non-trading liabilities: Loans and advances and non-trading liabilities are measured at amortised cost, which approximates fair values.

1.3.3 Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognised in profit or loss in the period in which they arise. Premiums or discounts on financial instruments carried at amortised cost are recognised in profit or loss over the expected life of the financial instrument.

1.3.4 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

1.3.5 Set-off

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.4 Share capital

Ordinary shares are classified as equity and are recorded at the proceeds received net of incremental external costs directly attributable to the issue.

1.5 Revenue recognition

Interest income is recognised at the effective rates of interest inherent in finance contracts and is brought into income in proportion to the balance outstanding using the time-proportional method. Interest income includes amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

1.6 Contingencies and commitments

Transactions are classified as contingencies where the CPD's obligations depend on uncertain future events that are not within its control. Items are classified as commitments where the CPD commits itself to future transactions with external parties.

1.7 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

A fair value measurement of a non-financial instrument takes into account a market participant's ability to generate economic benefits by using the instrument in its highest and best use, or by selling it to another market participant that would use the instrument in its highest and best use.

2. Cash and cash equivalents

	2018 R'000	2017 R'000
Current account with the SARB	5 452	0
Call deposit with the SARB	7 451 088	8 697 788
Short-term deposits at commercial banks	30 505 000	21 705 000
Money market investments	7 212 556	3 562 574
Accrued interest	272 706	101 760
	45 446 802	34 067 122

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

Cash and cash equivalents	45 446 802	34 067 122
Overdraft with the SARB	0	(3 453)
	45 446 802	34 063 669

The call deposit with the SARB earns interest at a rate equal to the average of the prevailing yield on 91-day Treasury bills and the average rate paid on the most recent 28-day reverse repurchase transactions conducted by the SARB with market counterparts. The 91-day Treasury bill yield will be applicable if this average rate falls below the Treasury bill yield. The short-term deposits at commercial banks earn interest at market-related rates.

Included in the money market investments are repurchase agreements of R4.6 billion. The following table presents details thereof:

Fair value of repurchase agreements	4 599 403	3 562 567
Fair value of collateral received	4 753 096	3 561 776
Fair value of collateral permitted to sell or repledge at the reporting date	4 753 096	3 561 776
Collateral cover	103%	100%
Maturity date	5 Apr 2018	6 Apr 2017

At the reporting date, none of the collateralised advances were past due or impaired.

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for repurchase agreements. The CPD has the ability to sell or repledge these securities in the event of default.

3. Money market investments

	2018 R'000	2017 R'000
Non-interest-bearing Treasury bills	72 585	72 588
Land Bank promissory notes	1 113 208	946 283
Negotiable certificates of deposit	1 511 207	751 177
Treasury bills	51 686	0
Other discount instruments	0	1 940 788
Commercial project bills	128 125	0
Land Bank bills	0	96 557
	2 876 811	3 807 393
Maturity structure[1] of money market investments		
1 month and less	272 099	162 139
Between 1 and 3 months	1 552 510	1 402 215
Between 3 and 6 months (more than 91 days)	1 052 202	2 243 039
	2 876 811	3 807 393
Investments that meet the definition of financial assets designated at fair value:		
Maximum exposure to credit risk	2 876 811	3 807 393

Non-interest-bearing Treasury bills are funded by non-interest-bearing deposits in terms of an agreement with National Treasury.

4. Short-term deposits

	2018 R'000	2017 R'000
Fixed deposits at commercial banks	3 000 000	0
Accrued interest	29 392	0
	3 029 392	0
Maturity structure[1] of short-term deposits		
Between 1 and 3 months	3 029 392	0
	3 029 392	0

Short-term deposits are made for varying periods, depending on the CPD's immediate cash requirements, and earn interest at market-related rates. Short-term deposits with a maturity of less than three months from inception are classified as cash and cash equivalents.

5. Loans and advances

	2018 R'000	2017 R'000
Interest-bearing loans	17 511 786	27 596 644

These loans are unsecured and, at the reporting date, not past due or impaired. In terms of the current interest rate policies as approved by the Board, these loans earn interest at a rate equal to the yield on 91-day Treasury bills. The prevailing rate at the reporting date was 6.99% (2017: 7.42%).

The loans are advanced as part of the national government's Inter-Governmental Cash Coordination (IGCC) arrangement in terms of which some state-owned entities and treasuries of provincial governments deposit excess funds with the CPD to form a pool of funds from the public sector. The national and the provincial treasuries are allowed to borrow money from the IGCC pool of funds. National Treasury guarantees that the deposits will be made available to depositors on demand.

[1] The maturity structure is calculated from the last day of the financial year (31 March 2018) to the maturity date of the financial instrument.

6. South African government bonds

	2018 R'000	2017 R'000
Listed bonds: interest-bearing	0	389 773
Accrued interest	0	1 447
	0	391 220
Effective interest rate		6.89%

These bonds are unencumbered and, at the reporting date, not past due or impaired and earn interest at a market-related rate.

7. Deposit accounts

Interest-bearing deposits	68 599 011	65 610 815
Non-interest-bearing deposits	72 585	72 588
	68 671 596	65 683 403

Maturity structure of deposit accounts

Deposit accounts are repayable on demand in terms of the CPD Act.

In terms of the current interest rate policies as approved by the Board, deposit accounts earn interest at a rate of 10 basis points less than the yield on 91-day Treasury bills. The prevailing rate at the reporting date was 6.89% (2017: 7.32%). Non-interest-bearing deposits fund the non-interest-bearing Treasury bills included in Note 3 on page 16.

8. Surplus due to government

Surplus due to government	91 195	73 323

In terms of section 15 of the CPD Act, the surplus remaining after provision has been made for dividends and transfers to reserves must be transferred to government.

9. Share capital

Authorised 2 000 000 (2017: 2 000 000) ordinary shares at R1 each	2 000	2 000
Issued 2 000 000 (2017: 2 000 000) ordinary shares at R1 each	2 000	2 000

10. Interest income

Interest on call and fixed deposits	1 836 858	1 889 086
Interest on money market instruments	134 334	176 618
Interest on loans and advances	3 165 404	3 712 258
Interest on South African government bonds	26 562	27 044
Discount received	167 216	127 281
	5 330 374	5 932 287

11. Interest expense

	2018 R'000	2017 R'000
Interest on deposit accounts	5 232 493	5 858 137
Interest on margin call	100	251
Interest on overdraft	162	319
	5 232 755	5 858 707

Interest on deposit accounts is calculated as set out in Note 7 on page 17.

Interest on overdraft is calculated at a rate of 40 basis points less than the average rate on 91-day Treasury bills. The prevailing rate at the reporting date was 6.59% (2017: 6.89%).

12. Operating costs

Audit fees	237	220
Other operating costs	3 480	3 129
	3 717	3 349

13. Taxation

No provision has been made for taxation since the CPD is exempt from taxation in terms of section 13 of the CPD Act.

14. Notes to the statement of cash flows

14.1 Cash generated/(utilised) from operating activities

Profit for the year	91 395	73 523
Adjustments for:		
Interest income	(5 330 374)	(5 932 287)
Interest expense	5 232 755	5 858 707
Unrealised loss/(profit) on investments	1 226	(3 292)
	(4 998)	(3 349)
Changes in working capital:		
Loans and advances	10 084 858	(299 440)
Deposit accounts	2 988 193	(4 420 039)
	13 068 053	(4 722 828)

14.2 Decrease in money market investments

Decrease in money market investments	930 582	507 530
Adjustment for non-cash item:		
Unrealised (loss)/profit on money market investments	(1 226)	3 324
	929 356	510 854

14.3 Decrease in South African government bonds

Decrease in South African government bonds	391 220	5 986
Adjustment for non-cash item:		
Unrealised loss on South African government bonds	0	(32)
	391 220	5 954

15. Events after the reporting date

No material events occurred between 31 March 2018 and 3 May 2018 requiring disclosure in, or adjustment to, the annual financial statements for the year ended 31 March 2018.

16. Risk management in respect of financial instruments

Interest rate management

The rand-denominated financial assets and liabilities of the CPD respectively earn and bear interest at rates linked to South African money market rates. The CPD is exposed to interest rate risk and this is managed through specifying maturity limits in the Investment Guidelines.

Deposit accounts

In terms of the current interest rate policies as approved by the Board, interest will be paid to all depositors at a rate of 10 basis points less than the yield on 91-day Treasury bills as determined at the most recent weekly Treasury bill auction.

Investments, including cash and cash equivalents, loans and advances, and South African government bonds

Interest-bearing deposits are invested in call and fixed deposits, other money market investments and South African government bonds at market-related yields. Interest earned on special Treasury bills is at the prevailing yield on 91-day Treasury bills. An amount equal to the non-interest-bearing deposits is invested in non-interest-bearing Treasury bills.

The CPD also invests funds in the market on a buy- or sell-back basis at market-related yields. With respect to call deposit transactions between the SARB and the CPD, the SARB will pay interest to the CPD at a rate equal to the average of the prevailing yield on 91-day Treasury bills and the average rate paid on the most recent 28-day reverse repurchase transactions conducted by the SARB with market counterparts. The 91-day Treasury bill yield will be applicable if this rate falls below the Treasury bill yield. In terms of the current interest rate policies as approved by the Board, loans and advances earn interest at a rate equal to the yield on 91-day Treasury bills.

The CPD's financial assets and liabilities earn and bear interest rates linked to South African money market rates. The repricing of these assets and liabilities therefore occurs at approximately the same time. Accordingly, the CPD is not subject to significant interest rate risk in respect of these instruments.

Credit risk management

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from activities of the CPD such as advances to, and deposits made with, other institutions and the settlement of financial market transactions.

Credit risk is mitigated in the CPD by specifying a list of eligible securities and the minimum credit rating that securities should meet in the investment guidelines. Credit ratings are derived from the ratings assigned by Standard & Poor's, Moody's Investor Services and Fitch Ratings Inc.

The CPD portfolio had no exposure to a counterparty that was below the minimum rating during the current financial year.

Call and fixed deposits

The CPD invests in banks that have capital and reserves in excess of R2 billion, and limits its exposure to 20% per bank. The exposure to call and fixed deposits at commercial banks at 31 March 2018 was R33.5 billion (2017: R21.7 billion), excluding accrued income. The CPD also places call deposits with the SARB. The total exposure to call deposits at the SARB at 31 March 2018 was R7.5 billion (2017: R8.7 billion), excluding accrued income.

Money market instruments, including cash and cash equivalents

The CPD may have significant investment exposure to other money market instruments, such as promissory notes and negotiable certificates of deposit. Where applicable, the exposure to these instruments is subject to, and forms part of, the same 20% limit as the call deposits referred to above.

In terms of the Investment Guidelines approved by the Board, all investments are placed with qualifying institutions and the SARB. The CPD utilises institutions with a National Scale Rating (NSR) or Local Currency Rating (LCR) that is not more than two notches below the sovereign rating.

The majority of investments are invested in the short term with maturities of less than three months. The profitability of the CPD is monitored regularly and the Board has the authority to adjust the interest rate payable to depositors in order to maintain the desired results.

Liquidity risk management

In view of the short-term nature of the CPD's liabilities, its investment policy is to invest in assets with a maturity of less than three years and further to invest at least 60% of all funds in assets with a maturity of less than three months (91 days or less). Where the maturity date falls on a weekend or a public holiday the next business day convention will apply. Such an instance could result in a total maturity of more or less than 91 days. However, the investment will still be considered a 91-day investment. The maturity structure of investments at 31 March is shown in notes 2, 3 and 4.

Deposit accounts

The business of the CPD is to accept call deposits and invest the funds so obtained in short-term money market instruments, Treasury bills, South African government bonds and with the SARB. The Financial Markets Department of the SARB is responsible for investing funds deposited with the CPD according to the Investment Guidelines approved by the Board. This department endeavours to invest funds in an optimal manner, taking into account the expected cash flow of the CPD, the interest rate cycle, the possible liquidity impact and market tendencies.

Sensitivity analysis

The CPD is subject to interest rate risk for money market instruments and price risk for South African government bonds. The table below shows the effect of sensitivity of the portfolio of money market investments and South African government bonds in the statement of financial position to a reasonably possible 100 basis point increase or decrease in interest rates and price on the CPD's profit or loss for the year.

	Increase in basis points	Sensitivity of net income: increase/ (decrease)	Decrease in basis points	Sensitivity of net income: increase/ (decrease)
		R'000		R'000
2018				
Money market investments	+100	(8 360)	-100	8 381
South African government bonds (price movement)	+100	0	-100	0
2017				
Money market investments	+100	(11 472)	-100	11 476
South African government bonds (price movement)	+100	(16 925)	-100	8 843

Fair value hierarchy disclosures

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Fair value is based on input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value is based on input for the asset or liability that is not based on observable market data.

Financial instruments

	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
2018				
Items measured at fair value on a recurring basis				
Financial assets				
Money market investments	2 876 811	0	2 876 811	0
Short-term deposits	3 029 392	3 029 392	0	0
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	45 446 802	38 234 246	7 212 556	0
Loans and advances	17 511 786	0	17 511 786	0
Financial liabilities				
Deposit accounts	68 671 596	0	68 671 596	0
2017				
Items measured at fair value on a recurring basis				
Financial assets				
Money market investments	3 807 393	0	3 807 393	0
South African government bonds	391 220	391 220	0	0
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	34 067 122	30 504 548	3 562 574	0
Loans and advances	27 596 644	0	27 596 644	0
Financial liabilities				
Bank overdraft	3 453	0	3 453	0
Deposit accounts	65 683 403	0	65 683 403	0

17. Gains and losses per category of financial assets and financial liabilities

	Total R'000	Designated at fair value R'000	Loans and receivables R'000	Other liabilities R'000
2018				
Interest income	5 330 374	164 424	5 165 950	0
Interest expense	(5 232 755)	0	0	(5 232 755)
Realised loss on investments	(1 281)	(1 281)	0	0
Unrealised loss on investments	(1 226)	(1 226)	0	0
2017				
Interest income	5 932 287	220 831	5 711 456	0
Interest expense	(5 858 707)	0	0	(5 858 707)
Unrealised profit on investments	3 292	3 292	0	0

18. Classification of financial assets and liabilities

	Carrying amounts				
	Total	Designated at fair value	Loans and receivables	Other liabilities at amortised cost	Fair value
	R'000	R'000	R'000	R'000	R'000
2018					
Financial assets					
Cash and cash equivalents	45 446 802	0	45 446 802	0	45 446 802
Money market investments	2 876 811	2 876 811	0	0	2 876 811
Short-term deposits	3 029 392	3 029 392	0	0	3 029 392
Loans and advances	17 511 786	0	17 511 786	0	17 511 786
	68 864 791	5 906 203	62 958 588	0	68 864 791
Financial liabilities					
Deposit accounts	68 671 596	0	0	68 671 596	68 671 596
	68 671 596	0	0	68 671 596	68 671 596
2017					
Financial assets					
Cash and cash equivalents	34 067 122	0	34 067 122	0	34 067 122
Money market investments	3 807 393	3 807 393	0	0	3 807 393
Loans and advances	27 596 644	0	27 596 644	0	27 596 644
South African government bonds	391 220	391 220	0	0	391 220
	65 862 379	4 198 613	61 663 766	0	65 862 379
Financial liabilities					
Bank overdraft	3 453	0	0	3 453	3 453
Deposit accounts	65 683 403	0	0	65 683 403	65 683 403
	65 686 856	0	0	65 686 856	65 686 856

19. Related party disclosures

Name	Relationship
South African Reserve Bank	Holding company, key management personnel services provider
South African Mint Company (RF) Proprietary Limited	Fellow subsidiary
South African Bank Note Company (RF) Proprietary Limited	Fellow subsidiary
Pension Fund of the South African Reserve Bank	Pension fund of holding company (deregistered in 2017)
South African Reserve Bank Retirement Fund	Retirement fund of holding company
National Treasury	Significant influence
Aaron Daniel Mminele (South African Reserve Bank)	Key management personnel
Leon Reinier Myburgh (South African Reserve Bank)	Key management personnel
Aubrey Mkhulu Maseko (National Treasury)	Key management personnel
Johan Redelinghuys (National Treasury)	Key management personnel

The table below provides a summary of transactions that have been entered into with related parties for the relevant financial year:

	Expenditure paid to R'000	Interest income R'000	Interest expense R'000	Amounts owed by R'000	Amounts owed to R'000
2018					
South African Reserve Bank	3 480	938 898	162	7 536 468	0
South African Mint Company (RF) Proprietary Limited	0	0	6 630	0	94 100
South African Bank Note Company (RF) Proprietary Limited	0	0	55 732	0	197 334
South African Reserve Bank Retirement Fund	0	0	658	0	8 528
National Treasury	0	3 165 404	5 169 473	17 511 786	68 366 183
2017					
South African Reserve Bank	3 129	736 392	319	8 760 993	3 453
South African Mint Company (RF) Proprietary Limited	0	0	14 045	0	87 469
South African Bank Note Company (RF) Proprietary Limited	0	0	43 170	0	368 394
Pension Fund of the South African Reserve Bank	0	0	2	0	0
South African Reserve Bank Retirement Fund	0	0	571	0	1 538
National Treasury	0	3 712 258	5 800 349	27 596 644	65 229 455

Terms and conditions of transactions with related parties

Outstanding balances at the reporting date are unsecured and settlement is in cash. No guarantees have been provided or received for related party receivables or payables.

Abbreviations

Board	Board of Directors of the Corporation for Public Deposits
CPD	Corporation for Public Deposits
CPD Act	Corporation for Public Deposits Act 46 of 1984
Group	South African Reserve Bank and its subsidiaries
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
IGCC	Inter-Governmental Cash Coordination
IRBA Code	Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors
Minister	Minister of Finance
SARB	South African Reserve Bank
SIC	Standing Interpretation Committee