

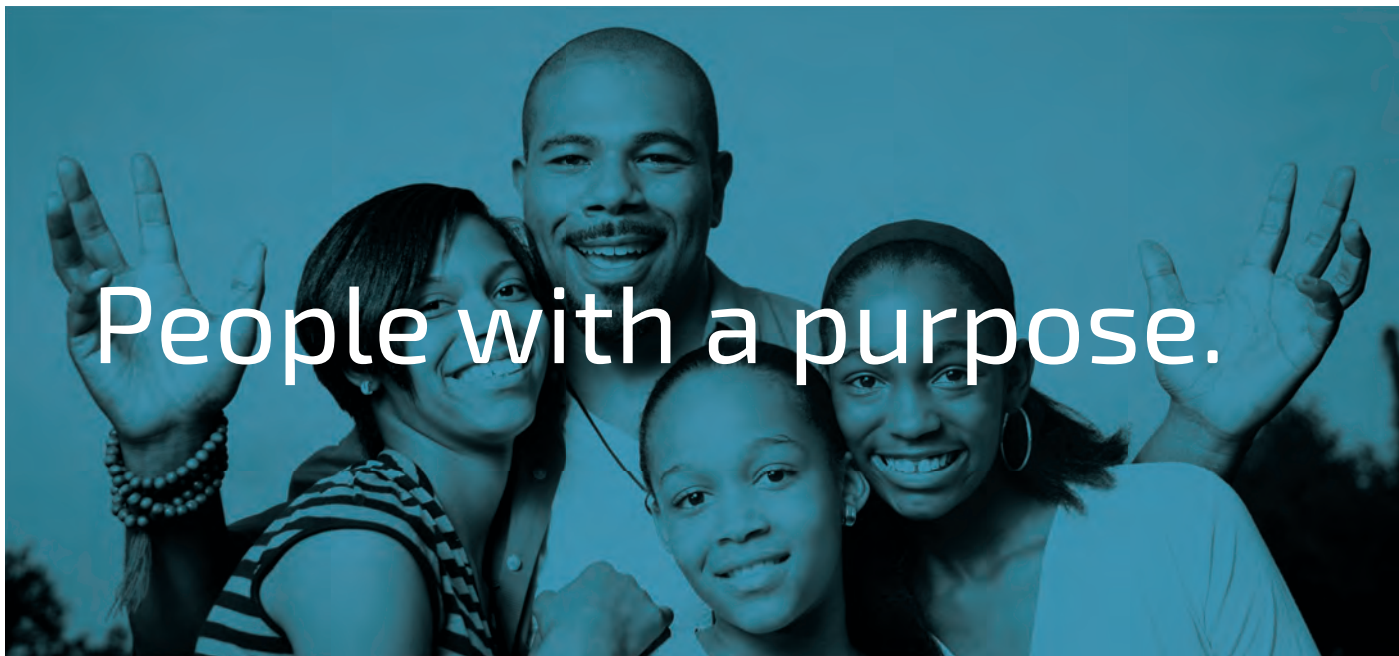


People with a purpose.

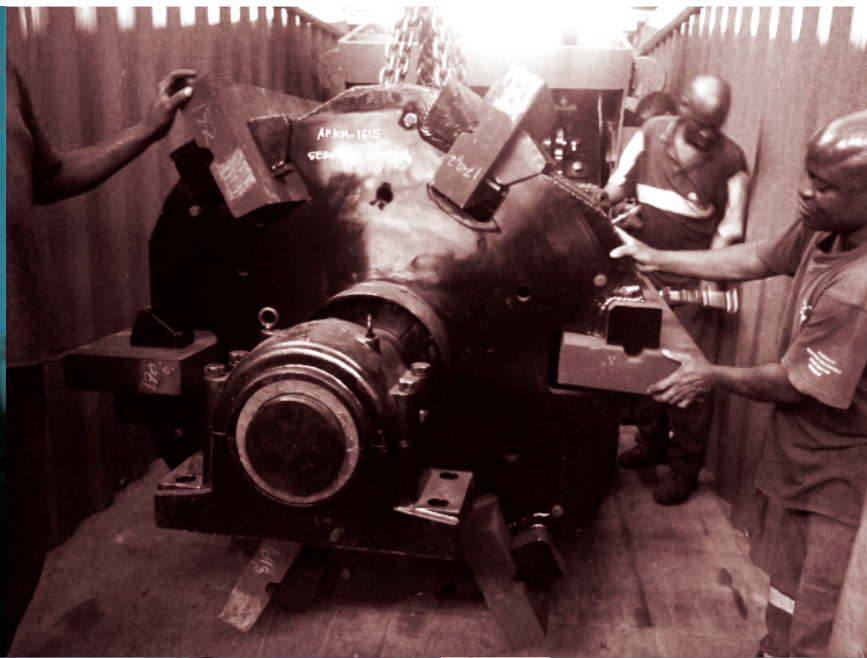


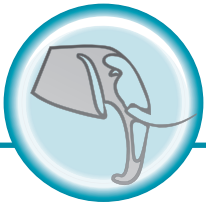
# VBS MUTUAL BANK

2015 Annual Report



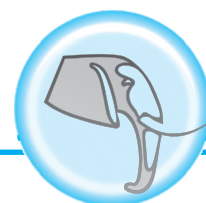






## “People with a Purpose”

We are here to serve our customers and let them gain financially because of our dedicated assistance. To play a meaningful role in our society. To enable our shareholders to obtain their return on investment.



# INDEX

<b>Introduction to VBS</b>	<b>1</b>
<b>Governance</b>	<b>3</b>
<b>Chairman's report</b>	<b>9</b>
<b>Audit and Risk Committee report</b>	<b>12</b>
<b>Chief Executive report</b>	<b>16</b>
<b>Performance Overview</b>	<b>18</b>
<b>Annual financial statements</b>	
Directors' responsibility statement	19
Directors' report	20
Independent auditor's report	21
Statement of financial position	22
Statement of comprehensive income	23
Statement of cash flows	24
Statement of changes in shareholders equity	25
Notes to the annual financial statements	26



# VBS MUTUAL BANK

## INTRODUCTION TO VBS

The Bank was established in 1982 and initially operated as Venda Building Society. The Bank was granted a permanent Mutual Bank License on 11 October 2000.

The Bank currently has 3 branches, located in Thohoyandou, Sibasa and Makhado. The Credit Department is located in Thohoyandou, and its Head Office is located in Makhado. The bank recently opened a Corporate Office in Rivonia, Johannesburg.

VBS Mutual Bank is a mutual bank registered with and regulated by the South African Reserve Bank (SARB) under mutual banking license number 1051, governed by the Mutual Bank's Act, 1993.

The Bank is registered as an Authorised Financial Services Provider with the Financial Services Board (FSB) in terms of the Financial Advisory and Intermediary Services Act, 2002 and operates under FSP license number 30857.

The Bank is also registered with the National Credit Regulator in terms of the National Credit Act, 2005 and operates under license number NCRCP2.

### The Bank is a member of the following organisations:

- The Banking Association of South Africa (BASA)
- The South African Credit & Risk Reporting Association (SACRRA)
- The Payments Association of South Africa (PASA).
- BankServ Africa
- VISA International (associate member)

### Shareholding profile

The only share product issued by the bank which qualifies as primary capital is permanent interest bearing shares. The initial subscription of R25 million was approved by shareholders of the bank. This subscription has been fully subscribed.

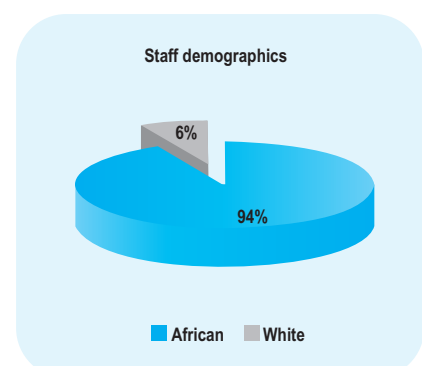
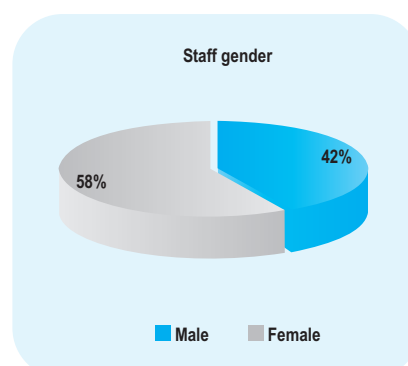
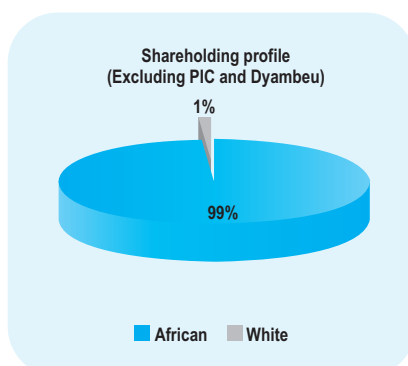
At year-end permanent shares to the value of R 23.75 million were in issue. The remaining R1.25 million is reserved for an employee share incentive scheme.

The bank's largest shareholders are the Public Investment Corporation (25.26%) and Dyamheu Investments (Pty) Ltd (25.22%).

### Broad Based Black Economic Empowerment

VBS Mutual Bank is a bona fide BBBEE organisation. The bank is a level 1 contributor with a recognition level of 135% in terms of BBBEE. As at 31 March 2015 black shareholding comprised 99.57% of total shareholding

Below is a graphical profile of the bank as at 31 March 2015:





### Vision & Mission

#### Vision

"A responsible and caring Bank that delivers value and prestige to its Shareholders, Clients, Staff and is an employer of choice".

Key elements of the vision:

##### **Responsible**

We envisage a Bank that conducts business fairly and observes good governance, diversity issues and acts within the framework of the law and regulations.

##### **Caring**

The Bank must play its role within the different communities in which it does business and bring social upliftment and good citizenship.

##### **Delivery of value**

All our activities must culminate in profits and growth.

##### **Prestige**

To be regarded by all Stakeholders with pride and fulfilment.

##### **Employer of choice**

To attract and retain good employees.

#### Mission

"To meet the expectations of our Clients, Shareholders, Stakeholders and to create an environment in which our Staff can excel by providing products and services that will result in growth and profits."

##### **Our clients expectations**

To offer superior service, solve customer problems and create lasting relationships.

##### **Shareholders and stakeholders expectations**

Creation of value is central to the activities of the Bank.

##### **Staff that excels**

Staff must enjoy work and have fun and have clear cut careers.

##### **Delivery of service**

An endeavour to improve and give the best at all times must be made.

##### **Growth and profits**

The bank must make profits and grow.

#### Values

##### **Honesty**

To be honest when handling all affairs of the Bank and Clients as well as being honest with ourselves.

##### **Respect**

To treat others with respect at all times so that we can be treated with respect.

##### **Passion**

To be passionate about our work and make endeavours to excel in everything we do.

##### **Creativity**

To endeavour at all times to find better ways and better our lot.





# VBS MUTUAL BANK

## GOVERNANCE

### Introduction

The board of directors of the bank governs the bank in terms of the Mutual Bank's Act, the bank's Articles of Association and any other applicable law or regulatory provision. The board of directors recognizes and endorses the Code of Governance Principles as set out in King III.

### Composition

The board comprises a balance of executive and non-executive directors, with a majority of non-executive directors who are independent. Directors are appointed through a formal process and the Directors Affairs Committee assists with the process of identifying suitable candidates to be proposed to the shareholders. The Chief Executive Officer and the Chief Financial Officer are ex officio members of the board. A formal induction programme is established for new directors. Inexperienced directors are developed through a variety of mentorship programmes. Continuing professional development programmes are implemented which ensure that directors receive regular briefings on changes in risks, laws and the environment.

### Role and Responsibilities

#### Delegation

The board delegates certain functions to well-structured committees but without abdicating its own responsibilities. Delegation is formal and involves the following:

- Formal terms of reference are established and approved for each committee of the board.
- The committees' terms of reference are reviewed once a year.
- The committees are appropriately constituted with due regard to the skills required by each committee.
- The board establishes a framework for the delegation of authority to management.

### Meeting procedures

#### Frequency

The board holds sufficient scheduled meetings to discharge all its duties subject to a minimum of four meetings per year. Meetings in addition to those scheduled may be held at the instance of a board member. The chairman of the board may meet with the chief executive officer and the chief finance officer and/or the company secretary prior to a board meeting to discuss important issues and agree on the agenda.

#### Attendance

Members of senior management, assurance providers and professional advisors may be in attendance at meetings, but by invitation only and they may not vote. Board members must attend all scheduled meetings of the board, including meetings called on an ad hoc-basis for special matters, unless prior apology, with reasons, has been submitted to the chairman or company secretary. The company secretary is the secretary to the board. If the nominated chairman of the board is absent from a meeting his deputy will take over or, the members present must elect one of the members present to act as chairman.

#### Agenda and minutes

A detailed agenda, together with supporting documentation, is circulated, at least one week prior to each meeting to the members of the board and other invitees. Board members fully prepared for board meetings to ensure appropriate and constructive input on matters for discussion.

The minutes are completed as soon as possible after the meeting and circulated to the chairman and members of the board for review thereof. The minutes are formally approved by the board at its next scheduled meeting.

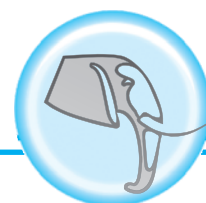
#### Quorum

A representative quorum for meetings is provided for in the Articles of Association. Individuals in attendance at board meetings by invitation may participate in discussions but do not form part of the quorum for board meetings.

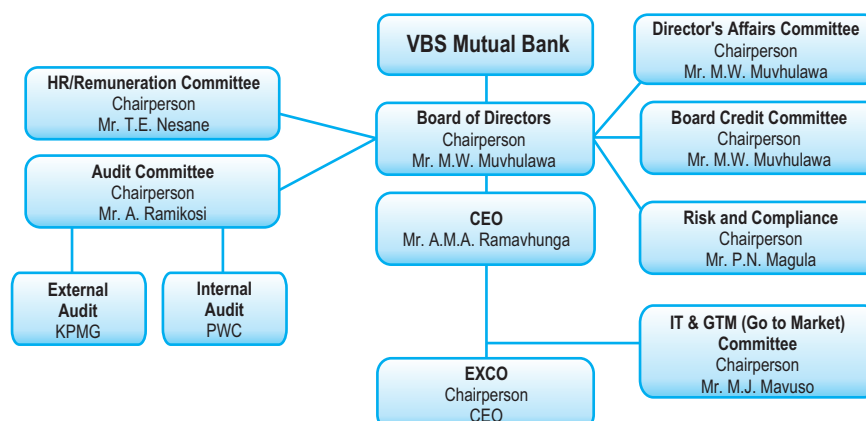
#### Evaluation

The evaluation of the board, its committees and individual directors, including the chairman, is performed annually.





### Board and Committee Structure



### Members of the Board of Directors:

The Board of Directors of VBS Mutual Bank consists of 9 non-executive (7 non-executive up to 9 March 2015) and 2 executive directors.

The following members served on the board of directors during the year under review:

#### Non-Executive Directors

- Mr. M.W. Muvhulawa - Certificate Institute of Bookkeepers - Chairman from 14 August 2014
- Mr. A.R. Prinsloo - B.Com, B.Compt (Hons), CA (SA) - Chairman up to 25 July 2014
- Mr. M.J. Mavuso - Bachelor of Economics - Deputy Chairperson
- Mr. P.A. Ramikosi – B.Com(Accounting), B.Compt Honours (Accounting), H.Dip Tax Law, H.Dip International Tax Law, CA (SA)
- Mr. L.N. Mudau - Jnr Sec Teachers Certificate
- Mr. T.E. Nesane - LLB (PIC Representative)
- Mr. P. Magula - B.Com, BCom(Hons)(Financial Management) (PIC Representative) (Alternate to Mr Nesane up to 20 November 2014)
- Mrs N. Manyonga - BBus Science (Actuarial Science), PG Dip (Actuarial Science) (Resigned 26 November 2014)
- Mr. W.H. Meyer - B.Compt(Hons), B.PI (Bachelor Degree In Personnel Leadership), CA (SA)
- Mrs. B.L. Mapongwana - LLB, LLM, Bachelor of Social Science
- Mrs. T. Ramuedzisi - MPD, MBA, BSC (Honours) Computer Science, BSC (Computer Science and Mathematics)

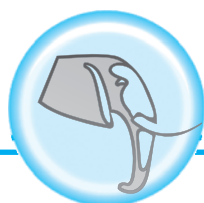
#### Executive Directors

- Mr. A.M.A. Ramavhunga – B.Com(Accounting), B.Com.Honours (Accounting), CA (SA)
- Mr. V.N. Sandamela - B.Com, B.Com (Hons), M.Com , CAIB (SA), MAP, SMDP, EDP (Contract expired 31 July 2014)
- Mr P.N.Truter - B.Com (Accounting), B.Compt (Hons)

#### Board members attended the following board meetings during the reporting period:

Name of director	11/04	16/05	25/07	14/08	26/09	20/11	09/03
AR Prinsloo	✓	✓	✓	-	-	-	-
MW Muvhulawa	✓	✓	✓	✓	✓	✓	✓
LN Mudau	✓	✓	✓	✓	✓	✓	✓
TE Nesane	✓	✓	✓	✓	✓	✓	A
M Mavuso	✓	✓	✓	✓	✓	✓	✓
N Manyonga	-	-	-	A	A	A	-
WH Meyer	-	-	-	-	-	-	✓
BL Mapongwana	-	-	-	-	-	-	✓
T Ramuedzisi	-	-	-	-	-	-	✓
PN Magula	-	-	-	-	-	-	A
PA Ramikosi	✓	✓	✓	✓	✓	A	✓
VN Sandamela	✓	✓	✓	-	-	-	-
PN Truter	✓	✓	✓	✓	✓	✓	✓
AM Ramavhunga	✓	✓	✓	✓	✓	✓	✓

✓ - Present  
A - Apology



# VBS MUTUAL BANK

## GOVERNANCE (continued)

### Members of the Board of Directors (continued)

#### Non executive remuneration

Name of director	R'000 2015	R'000 2014
AR Prinsloo (Chairperson) (Resigned 31 July 2014)	30	89
A Naude (Resigned 30 Sept 2013)	-	22
MW Muvhulawa (Chairperson)	78	76
LN Mudau	61	72
V Ramabulana (Resigned 30 Sept 2013)	-	30
TC Luvhani (Resigned 30 Sept 2013)	-	42
B.L. Mapongwana	2	-
WH Meyer	2	-
T Ramudzisi	2	-
TE Nesane	66	64
M Mavuso	59	32
PA Ramikosi	75	56
AM Ramavhunga	-	16
<b>Total</b>	<b>375</b>	<b>499</b>

### Board Committees

#### Composition of main board committees

##### Directors' Affairs Committee

##### Objectives of the Directors' Affairs Committee:

The primary purpose of the Directors Affairs Committee is to:

- Ensure compliance with good corporate governance standards
- Identify individuals qualified to become board members
- Recommend to the board:
  - director nominees for election at the annual meeting of shareholders, or
  - election by the board to fill interim vacancies,
- Recommend to the board committee appointments for directors, and
- Assess board and board committee effectiveness

##### Membership of the Directors' Affairs Committee

Chairperson: Mr. M.W.Muvhulawa – Chairperson of the Board - Non Executive

Member: Mr. M.J. Mavuso - Deputy Chairperson of the Board - Non-Executive

Member: Mr. T.E.Nesane - Chairperson of the Human Resources Committee - Non Executive

Member: Mr.P. A. Ramikosi – Chairperson of the Audit Committee - Non Executive

Secretary: Chief Executive Officer

##### Audit and Risk Committee

##### Objectives of the Audit and Risk Committee:

The Audit and Risk Committee will:

- function as sub-committee of the board with accountability to both the board and the shareholders.
- be advisory in nature.
- assist the board and management with relation to:
  - Integrated reporting;
  - Combined assurance;
  - Internal audit;
  - Risk management;
  - External audit;
  - Development of Internal Audit program;
  - Safeguarding of VBS Mutual Bank's assets;
  - Maintenance of adequate accounting records;
  - Development and maintenance of effective internal control systems;
  - Improving the effective utilization of resources;
  - Reporting of financial matters; and
  - The development, maintenance, evaluation and monitoring of risk policies.



The Audit and Risk Committee will not perform any management functions nor assume any management responsibilities, as this could prejudice the objectivity of the Committee.

### **Membership of the Audit and Risk Committee:**

Chairperson: Mr. P.A. Ramikosi - Non-Executive  
Member: Mrs. T. Ramuedzisi - Non-Executive  
Member: Mr. W.M. Meyer - Non Executive  
Secretary: Chief Financial Officer

### **Human Resources Committee**

#### **Objectives of the Human Resources Committee:**

The Human Resources Committee will:

- function as a sub-committee of the board.
- be advisory in nature.
- assist the board and management with relation to:
  - Staff training and development;
  - Recruitment of executive staff / directors and make recommendations to the Board;
  - Disciplinary function for executive staff / directors;
  - Develop and maintain staff procedures and
  - Remuneration and benefits of staff / directors / committees.

The Human Resources Committee will not perform any management functions nor assume any management responsibilities, as this could prejudice the objectivity of the Committee.

### **Membership of the Human Resource Committee:**

Chairperson: Mr. T.E.Nesane - Non Executive  
Member: Mr. L.N.Mudau - Non Executive  
Member: Mrs.B.L.Mapongwana - Non Executive  
Secretary: Chief Financial Officer

### **Risk Appetite and Philosophy**

The highest level of authority resides with the Board of Directors of VBS Mutual Bank. The Bank's directors should delegate the necessary authority on Risk Management for the relevant business areas over which they have control.

The authority to take on all risks is exercised at board level. The Bank's risk appetite is expressed by the following parameters:

- approved product listing;
- risk definitions
- limits set for the various risks and
- controls in place to ensure adherence to limits/sound business practices.

Board authority is delegated downwards in a logical way according to a hierarchy of authority levels and mandates.



### Risk Appetite and Philosophy

The application of these responsibilities by the Board of Directors with respect to risk management is through:

- approving policies that set out the risk philosophy and the amount of capital that can be put at risk in Investment / Advance activities;
- give approval for entering into any new Investment / Advance activity not defined in this manual and for the evaluation and approval of new products;
- approving and assessing risks and the setting of risk management policies;
- delegating authority to manage the risks;
- ensuring that timely, accurate and relevant information is provided to the board for monitoring the risks;
- approving limits by client by product;
- control and evaluation of assets;
- monitoring utilisation of counterparty / client limits and act on excesses;
- monitoring loss histories against specific grades of delegated authority;
- formulating policies for the management of counterparty risk; and
- proper training of board members to fulfil these roles as members of the board.
- ensuring proper succession at Board and Chief Executive level

### Internal Audit

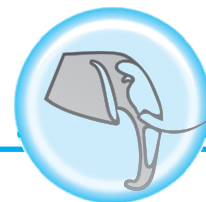
The internal audit function is an independent, appraisal and consulting service department established by the board of directors. Its purpose is to evaluate the adequacy and effectiveness of the systems of internal control of the organisation implemented by management and to advise them on mitigating and managing business risk. Internal audit forms an integral part of the combined assurance model as internal assurance provider to VBS Mutual Bank.

The scope of the internal audit department includes the review of:

- The reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- The systems established to ensure compliance with those policies, plan, procedures, laws and regulations which could have a significant impact on operations and reports.
- The means of safeguarding assets and, where appropriate, verify the existence of such assets.
- The economic and efficient management of the bank's financial, human and other resources, and the effective conduct of its operations.
- Operations of programmes to ascertain whether or not results are consistent with established objectives and goals and whether or not the operations are being carried out as planned.
- In accordance with the recommendation of the Report on Governance for South Africa – 2009 King Committee on Governance (King III), internal audit can provide a written assessment regarding the effectiveness of the system of internal controls and risk management to the board.
- This enables the board to report on the effectiveness of the system of internal controls in the integrated report; and
- In accordance with the recommendation of King III, internal audit can conduct a documented review of the key financial reporting controls in identified financial systems and processes every year. This must be submitted to the audit committee to enable it to formulate its comment to be included in the annual financial statements.

Internal Audit's focus and approach is guided by a risk based internal audit plan which takes into consideration the strategy and risks faced by VBS Mutual Bank.





### Internal Audit (continued)

The internal audit function objectives, defined in terms of audit focus are:

- **Financial auditing:** which aims to ensure that reliable information is produced for both management purposes and external publication and that adequate controls exist to safeguard assets.
- **Operational auditing:** which focuses on the effectiveness and efficiency of the organisation's operations.
- **Compliance and sustainability auditing:** which addresses compliance with relevant national laws and regulations and best practice as well as sustainability issues.

Internal audit will examine and evaluate the adequacy and effectiveness of financial controls to reduce business risk to an acceptable level in the most effective manner. In addition to this, internal audit will assess operational and compliance controls, risk management and specialist areas such as Value Added Tax.

The internal audit function is currently outsourced to PwC Inc.

### Shareholder Engagement

An Annual General Meeting (AGM) is held with the shareholders of the bank as required by the Mutual Bank's Act and the Articles of Association of the bank.

The business of the annual general meeting shall be:

- Receive, consider and approve the Annual Financial Statements of the Bank.
- Elect non-executive directors.
- Confirm the appointment of the external auditors for the next financial year.
- Approve, when a review thereof is proposed, the remuneration of the non-executive directors of the Board for the next 12 months
- Appoint non executive members of the Audit committee to serve on this committee until the next annual general meeting
- Transact any other business referred to in the notice of the meeting, including, but not limited to and special resolutions when required, and business as may be required by relevant legislation from time to time.



# VBS MUTUAL BANK

## CHAIRMAN'S REPORT

### Financial results

Amid tough economic conditions and a low interest rate environment the bank managed to record a profit of R1,027,116 for the year. This bodes well compared to the previous year's loss of R1,871,982. The bank is in the implementation stage of the approved turnaround strategy.

### Reserves and retained income

The bank's qualifying capital at year end amounted to R 38.6 million (2014 – R 38.9 million). This is made up of issued permanent interest bearing shares of R23.75 million as well as R 14.87 million in the General Reserve and retained income.

The Bank's Permanent share capitalization at year end comprised of shares amounting to the value of R23.75 million. With the exception of R1,25 million reserved for an employee incentive scheme the initial offer of permanent interest bearing shares has been fully subscribed. Dividends of R 1,269,549 were paid to our shareholders during the year under review.

The amount of R 23,300 will remain in retained income. Projected profits during the year will provide cover for dividends paid to permanent shareholders. At year end the bank's capital adequacy ratio was 22.0% (2014 – 29.4%), as opposed to the SARB prudential requirement of 10%.

### Registration under the Mutual Banks Act

The bank was granted a permanent banking license on 11 October 2000.

### Members of the board of directors

#### Non-executive directors

Messrs M. W. Muvhulawa, L.N.Mudau, T.E. Nesane, J.M.Mavuso and Mr P.A.Ramikosi served as Non-Executive directors of the Board for the full year under review.

Mr A.R.Prinsloo served on the board until 25 July 2014. Mrs N.Manyonga served from 1 August to 26 November 2014.

Mrs B.L.Mapongwana, Mrs T.Ramuedzisi, Mr P.N.Magula and Mr W.H.Meyer were appointed as non-executive directors from 9 March 2015.

#### Executive directors

Mr A.M.A Ramvhunga served as executive director during the full year under review.

Mr V.N. Sandamela served until the expiry of his contract on 31 July 2014. Mr P.N.Truter served from 1 September 2014.

The directors to retire at the Annual General Meeting are Mrs B.L.Mapongwana, Mrs T.Ramuedzisi, Mr W.H.Meyer and Mr P.N.Magula. All have indicated their willingness to stand for re-election.

### Corporate governance

#### Regulatory environment

The Bank Supervision Department of the South African Reserve Bank is responsible for the effective supervision of banks. This contributes to a stable and efficient banking system and promotes sound risk management in banks, together with corporate governance, transparency and full disclosure.

#### Corporate practice and conduct

Our bank recognizes and endorses the Code of Corporate Practice and Conduct as set out in the King III Report. The board is committed to fulfil all of its obligations to maintain an effective system of corporate governance.

#### Board of directors

##### Composition

The board comprises of nine non-executive directors, each contributing in board decisions. The Chief Executive Officer and Chief Financial Officer serve as executive directors on the board. The Chairman is a non-executive director and only serves on the Directors' Affairs Committee. The direction and control of the bank lies firmly with the board, and no individual has sole power to make decisions. Each director is elected for a term of three years.



### ***Independence***

Each of the non-executive directors is independent of management and do not usually have a relationship with the bank that will influence his/her objective judgement on any issue. However, where this is the case, non-executive directors recuse themselves from the decision making process if an issue concerning them is discussed.

### ***Meetings***

The board has a formal schedule of matters that have to be referred to for decision taking at its regular meetings. In addition, executive management ensures that all relevant matters are referred to the board.

### ***Board subcommittees***

Three independent non-executive directors are appointed to each of the three subcommittees. Each committee has a charter and written terms of reference which sets out its respective authority and duties.

#### ***Audit and Risk committee***

The external auditor and internal auditor are invited to attend meetings and have free access to the Chairman of the committee. Regular meetings are held to review financial statements, interim financial information, accounting policies, systems of internal control, risk management policies and procedures and the effectiveness of both audit functions. It meets periodically with the external auditor to discuss and address their planning and findings.

#### ***Human resource/Remuneration committee***

This committee meets on a regular basis to deal with issues related to human resources and to ensure that directors and senior staff are fairly remunerated. Specific attention is given to remuneration and performance. To this end the board of directors approved and introduced a performance measurement system which has been fully implemented.

#### ***Directors' affairs committee***

This committee comprises of the Chairman of the board, Chairmen of the Audit & Risk and Human Resource committees as well as the Chief Executive Officer. The committee considers issues in relation to Corporate Governance and the effective functioning of the board. In addition it ensures the ongoing monitoring of the board's effectiveness and includes assessment of the contributions of the non-executive members in the execution of their duties as members of the board. The committee also deals with skills development and training of non-executive members of the board on an ongoing basis.

### ***Internal financial control***

Methods and procedures are in place to ensure the safeguarding of assets, the prevention and detection of fraud and error and the completeness and accuracy of accounting records and financial reports. The bank has developed and continues to maintain an effective system of recording transactions, internal control and reporting to reduce the possibility of fraud and error, in order to give reasonable assurance in respect of the integrity of and reliance on the bank's financial statements and to safeguard its assets.

The directors report that nothing has come to their attention to indicate that any material breakdown in the functioning of procedures, systems and controls has occurred during the year under review. The board has reported to the Registrar of Banks in terms of Regulation 37(5) of the Mutual Banks Act that the bank's systems of internal controls relating to financial and regulatory reporting are fully compliant.



# VBS MUTUAL BANK

## CHAIRMAN'S REPORT (continued)

### ***Internal audit***

The internal audit function is independent of management and has direct access to the Chairman of the Audit and Risk committee. It is the function of internal audit to review the reliability and integrity of financial and operating information, the systems of internal control and adherence to procedures. The Audit and Risk committee approves the annual Internal Audit Plan, and reviews and monitors the internal audit program and reports. The board outsourced the internal audit function to PwC Inc.

### **Technology risk**

The current regulatory environment and the need for operational risk measurement and the implementation of new accounting standards place an increased burden on banks to develop and upgrade technological platforms and software to cater for these needs. Future technological development is part of the approved turnaround strategy.

### **Employment**

An equity plan has been submitted as required by the Employment Equity Act, and strategies have been implemented to ensure that objectives are attained.

### **Expression of appreciation**

Our Chief Executive Officer Mr. A.M.A Ramavhunga, ably led the bank during the year under review. Under his guidance and with the dedicated support of all our staff a solid foundation was built for growth into the future and I wish to thank each member of our staff for their contribution to achieve this.

I also wish to thank the members of our board of directors for their loyal and dedicated support to our bank.

**M.W. Muvhulawa**

Chairman of the board of directors

26 June 2015





### **Audit and Risk Committee Report to VBS Mutual Bank for year ended 31 March 2015**

We are pleased to present our report of the audit and risk committee (committee) of VBS Mutual Bank appointed for the financial year ended 31 March 2015 in compliance with the Companies Act and in terms of the Mutual Banks Act.

#### **Audit Committee charter and terms of reference**

The VBS Mutual Bank audit and risk committee (the committee) has adopted a formal charter and terms of reference that has been approved by the board of directors. The committee has conducted its affairs in compliance with this mandate and the terms of reference and has discharged its responsibilities contained therein. The committee has a charter that complies with the Companies Act and King III requirements. Copies are available either from the bank secretary on request, or can be downloaded from the bank's website.

#### **Composition and membership**

The shareholders appointed the committee for the 2015 financial year at the annual general meeting in July 2014 and will be requested to approve the appointment of the chairman and members to the committee for the 2016 financial year at the annual general meeting scheduled for 24 July 2015. The committee consists solely of independent non-executive directors who are all financially literate. The current members are PA Ramikosi (Chairman), WM Meyer and T Ramuedzisi. Permanent secretary services were provided to the committee by PN Truter. MJ Mavuso served as a member until 9 March 2015, whilst N Manyonga resigned on 26 November 2014.

#### **Purpose, roles and responsibilities**

The purpose of the committee, which in certain instances operates in conjunction with the risk committee and social and ethics committee, is to:

- assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- oversee the activities of, and to ensure coordination between internal and external audit;
- provide a forum for discussing financial, enterprise-wide, market, regulatory, safety and other risks and control issues; and to monitor controls designed to minimise these risks;
- review the bank's annual integrated report, including the separate annual financial statements and any other public reports or announcements containing financial information;
- receive and deal with any complaints concerning the accounting practices, internal and external audit or the content and audit of its financial statements or related matters; and
- annually review the committee's work and charter to make recommendations to the board to ensure its effectiveness.



# VBS MUTUAL BANK

## CHAIRMAN AUDIT COMMITTEE (continued)

### Duties carried out

The committee has performed its duties and responsibilities during the financial year according to its charter.

### External Auditors

#### External audit

The committee:

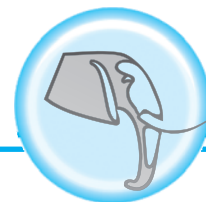
- nominated KPMG as auditors and Sipho Malaba as the independent auditor and designated audit partner, respectively to the shareholders for appointment for the financial year ended 31 March 2015, of the bank, and ensured that the appointments complied with legal and regulatory requirements for the appointment of an auditor;
- approved the external audit engagement letter, the audit plan and the budgeted audit fees payable to the external auditors;
- determined the nature and extent of all non-audit services provided by the independent auditors and pre-approved all non-audit services undertaken;
- obtained assurances from the independent auditors that adequate accounting records were being maintained;
- confirmed that no reportable irregularities had been identified or reported by the independent auditors under the Auditing Profession Act;
- The committee is satisfied that KPMG is independent of the bank after taking the following factors into account:
  - representations made by KPMG to the committee;
  - the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefit from the bank;
  - the auditors' independence was not impaired by any consultancy, advisory or other work undertaken;
  - the auditors' independence was not prejudiced as a result of any previous appointment as auditors; and
  - the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

### Annual financial statements

The committee has reviewed the annual financial statements of the bank and is satisfied that they comply in all material respects with International Financial Reporting Standards and the requirements of the Companies Act and Mutual Banks Act.

The committee:

- confirmed, based on management's review, that the interim and annual financial statements were prepared on the going concern
- examined the annual financial statements and other financial information made public, prior to their approval by the board;
- considered accounting treatments, significant or unusual transactions and accounting judgements;
- considered the appropriateness of accounting policies and any changes made
- reviewed the representation letter relating to the annual financial statements and the ISAE 3240 reasonable assurance opinion in respect of the preliminary announcement, signed by management;
- considered any problems identified as well as any legal and tax matters that could materially affect the financial statements; and
- met separately with management, external audit and internal audit and satisfied themselves that no material control weakness exists



### Duties assigned by the board

The committee fulfils an oversight role regarding the bank's annual report and the reporting process, including the system of internal financial control. It is responsible for ensuring that the bank's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to effectively discharge its duties. Furthermore, the committee oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions.

During the year, the committee met with the external auditor and internal auditors without management being present.

The committee is satisfied that it has complied in all material respects with its legal, regulatory and other responsibilities.

### Internal Audit

The committee:

- reviewed and approved the annual internal audit plans and evaluated the independence, effectiveness and performance of the internal audit function;
- considered the reports of the internal auditors on the bank's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- received assurances that proper accounting records were maintained and that the systems safeguarded the bank's assets against unauthorised use or disposal;
- reviewed issues raised by internal audit and the adequacy of corrective action taken by management in response thereto;
- assessed the adequacy of the performance of the internal audit function and found it satisfactory; and
- concluded that there were no material breakdowns in internal control.

### Internal financial controls

Based on the results of the formal documented review of the design, implementation and effectiveness of the bank's system of internal financial controls conducted by the internal audit function during the financial year ended 31 March 2015, and in addition, considering information and explanations given by management plus discussions held with the external auditor on the results of their audit, the committee is of the opinion that the bank's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements. No findings have come to the attention of the committee to indicate that any material breakdown in internal controls has occurred during the financial year under review.

### Risk management

The board has assigned oversight of the bank's risk management function to a combined audit and risk management committee. The committee 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. Going forward the committee will be separated as there are essential activities that requires the full attention of a risk management committee.

The committee:

- reviewed the bank's policies on risk management, including information technology risks and found them to be sound;
- reviewed with the assistance of management legal matters that could have a material impact on the bank;
- reviewed the adequacy and effectiveness of the bank's procedures to ensure compliance with legal and regulatory responsibilities; and
- considered reports provided by management, internal assurance providers and the independent auditors regarding compliance with legal and regulatory requirements.



# VBS MUTUAL BANK

## CHAIRMAN AUDIT COMMITTEE REPORT (continued)

### Combined assurance

The committee reviewed the plans and reports of the external and internal auditors and other assurance providers including management and concluded that these were adequate to address all significant financial risks facing the business.

### Expertise and experience of financial director and finance function

The committee:

- considered the appropriateness of the experience and expertise of the bank's financial director and concluded that this was appropriate;
- considered the expertise, resources and experience of the finance function and concluded that these were appropriate.

The committee has considered, and has satisfied itself of the overall appropriateness of the expertise and adequacy of resources of the bank's finance function and experience of the senior members of management responsible for the financial function.

### Audit committee members and attendance at meetings

The committee consists of three independent, non-executive directors and meets at least four times per annum as per the committee charter and terms of reference. The chief executive officer, chief financial officer, internal auditors, external auditor and other assurance providers attend meetings by invitation. During the year under review four meetings were held.

#### Attendance:

The names of the members who were in office during the period April 2014 to March 2015 and the details of audit committee meetings attended by each of the members are:

Director	06/06/2014	05/09/2014	07/11/2014	17/02/2015
PA Ramikosi (Chairman)	✓	✓	✓	✓
NA Mudau	✓	-	-	-
MA Muvhulawa (Alternate)	✓	-	-	-
MJ Mavuso	-	✓	✓	✓
N Manyonga (Resigned 26 November 2014)	-	✓	A	-

✓ Attended in person, by video-conference or tele-conference.

A Absent

### Recommendation of the annual financial statements for approval by the board

Following the review by the committee of the annual financial statements of VBS Mutual Bank for the year ended 31 March 2015, the committee is of the view that, in all material respects, it complies with the relevant provisions of the Mutual Banks Act and IFRS and fairly presents the financial position at that date and the results of its operations and cash flows for the year then ended. The committee has also satisfied itself as to the integrity of the remainder of the annual report.

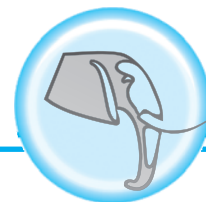
Having achieved its objectives for the financial year, the committee recommended the annual financial statements and annual integrated report for the year ended 31 March 2015 for approval to the board.

**A. Ramikosi**

Chairman of the audit committee

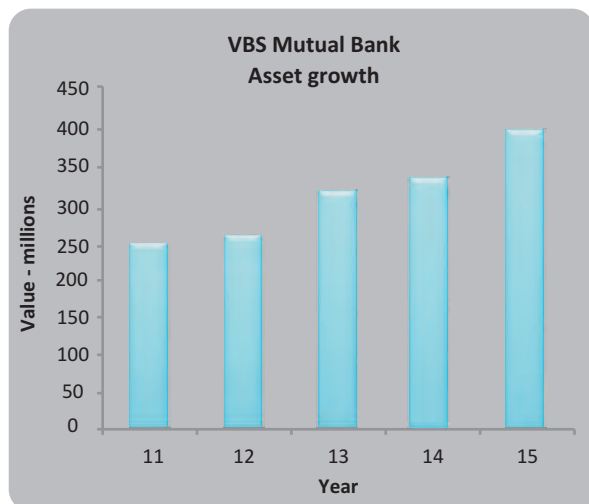
26 June 2015





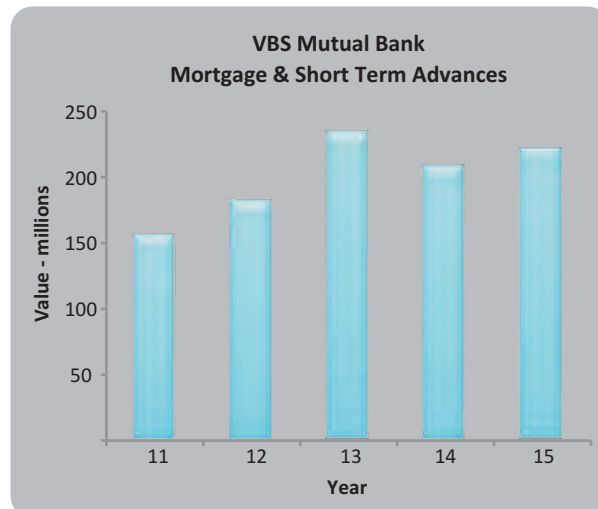
### Total assets

Over the past four years total assets grew by R145 million at an average annual rate of increase of 14.38%.



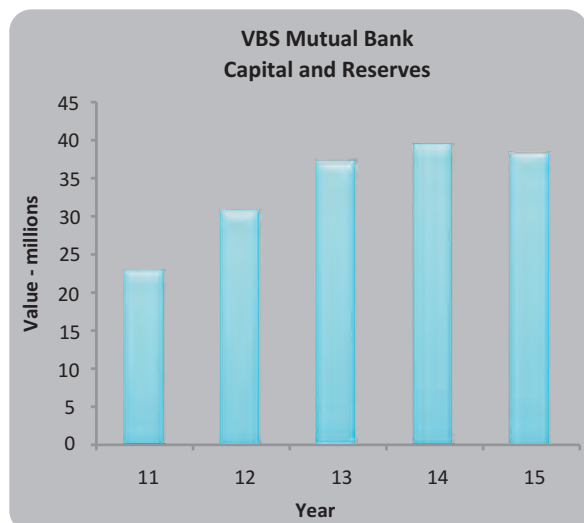
### Loans and advances

During the year under review the bank recorded an increase on its advance products of R11.25 million or 5.36%.



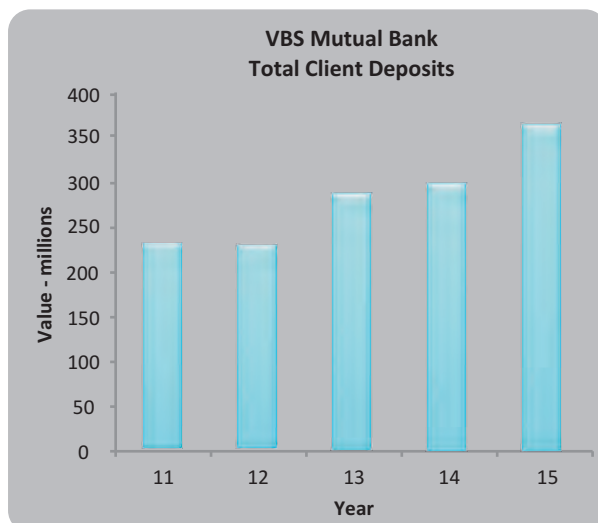
### Capital and reserves

Current shareholding of R23.7 million is included in capital and reserves amounting to R38.7 million.



### Total client deposits

Over the past four years client deposits grew by R127 million at an average annual rate of 14.17%.





# VBS MUTUAL BANK

## CHIEF EXECUTIVE REPORT (continued)

### Overview

The bank managed to turn the corner and report a small profit of R1 million. These results were achieved on the back of a struggling economy which is still finding its feet after the last financial meltdown. The economy continues to grow at a slow pace and the outlook is that this will continue in the foreseeable future. Ability to save amongst South African's is still a challenge which affects negatively on the bank's ability to attract deposits.

### Turnaround Strategy

During the 2012/13 financial year, the bank approved a turnaround strategy to reverse the negative profitability and reposition the bank. The turnaround strategy has started to yield results as a profit of R1 million was reported during the year compared to a loss of R1.8 million in the previous financial year. Total Assets grew by 20 % in the current financial which demonstrates that the turnaround strategy is working.

### Bank Repositioning

Previously the bank operated on an outdated building society model. During the current financial year the bank introduced new lending products which are aimed at small and medium enterprises (SMEs). In September of 2013 a corporate banking division was launched by the bank which aims at offering solutions to SME's. In addition to the 3 products (Fuel Guarantees, Bridging finance/Contract finance, Invoice discounting) that underpin this division, the bank offered a limited structured finance solutions as well as fully fledged transactional banking solutions to SMEs. These products contributed immensely to the turnaround results of the bank.

### Funding

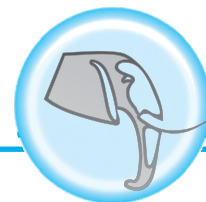
Due to the limited savings that are available from the general public, the bank changed its strategy of sourcing deposits and funding. A focus was placed on sourcing funding from institutions and municipalities. This strategy has worked as we have managed to obtain funding to the tune of R31 million from municipalities and R15 million from an institutional depositor.

During the current financial year, we concluded a revolving facility of R350 million from PIC (major shareholder). This facility is aimed at financing fuel and energy related transactions.

Cash holdings increased by 54% in the current financial year, mainly due to marketing collaborations and interventions of His Majesty the King through Dyambeu investments.

I would like to thank the Board and the entire staff for their efforts and contributions in the Turnaround results. Although the bank is starting to turn the corner, there is still a lot of work to be done to ensure that the turnaround strategy is a success.

**Mr A.M.A Ramavhunga**  
Chief Executive Officer  
26 June 2015



### Overview

Lower than anticipated economic growth rates, unemployment trends, rising costs and greater consumer indebtedness all contributed to a tough economic environment. Even though the bank and its clients have not been immune to this the bank still managed to generate a profit due to the implementation of a turnaround strategy.

The low interest rate environment exerted further pressure on the bank's high reliance on interest income. A renewed focus has been placed on correcting the revenue mix between interest and non-interest income.

The profit after taxation for the year amounted to R1,03 million as opposed to a loss of R1,87 million for 2014. New initiatives around the fuel guarantee and contract finance space impacted positively on the turnaround achieved during the past financial year.

### Balance sheet Growth

Total assets increased by 20% (2014 - 4%) or R67 million (2014 - R13 million) year on year as the bank strengthened its liquidity position for future on-lending activities. As this continued, advances increased by 5% (2014 - 12% decrease) or R11,3 million (2014 - R27,7 million decrease). Cash and cash equivalents grew by 50% (2014 - 73%) or R48,4 million (2014 - R40,6 million).

Funding from clients grew by 24% (2014 - 4%) or R67 million (2014 - R10,4 million). Relationships with major shareholders as included in the board approved turnaround strategy will be key going forward.

### Profitability

The interest margin increased by 18% (2014 - 4%) or R3 million (2014 - R616,413). This is mainly due to the interest income from short term money market assets increasing by R2,9 million. There was also an increase of R1,1 million (2014 - R 291,609 decrease) on the interest income on loans and advances.

Non-interest revenue increased with 78% (2014 - 21% decrease) or R3,9 million (2014 - R 1,3 million decrease). The increase in additional non-interest revenue relates mainly to the fees generated from the fuel guarantee and contract financing business.

The impairment charge decreased year on year by R50,385 (2014 - R40,713 increase). The impairment charge as a percentage of total advances was 0.06% (2014 - 0.09%) underlining the limited effect of impairments on profitability for the year.

Operating expenditure increased by 17% (2014 - 3%) year-on-year in line with the new strategic initiatives around the fuel guarantees and contract financing business. Efforts to achieve operational effectiveness continue.

There was a net increase of cash and cash equivalents of R49 million (2014 - R40 million) as the bank re-established its liquidity buffers. The positive cash flow is made up largely of R52 million (2014 - R36 million) generated from operating activities.

### Credit Risk

Maintained focus on the management of collections resulted in a limited increase in impairment. Even though there was an increase year on year on overdues, impairments relating thereto were limited.

The impairment balance relates largely to mortgage bonds. All of these overdue at year end related to positive risk, where the account balance did not exceed the approved bond amount. In addition, the security values held on these accounts were in excess of 100%. Portfolio and specific impairment reviews are conducted on a monthly basis and the model remains prudent.

Death and disability insurance cover is in place for all mortgage bonds. This is either arranged by the bank or involved the client ceding his own policy, which provides additional comfort on amounts advanced.

Collection efforts will remain a focus area as rising interest rates will place an increased burden on clients.

### Interest Rate Risk

Though the bank remained highly reliant on interest income, there has been an improvement in the level of reliance where net interest income amounted to 68% (2014 - 77%) and transactional revenue to 32% (2014 - 23%). Increases in central bank rates may result in the widening of the interest margin and improve profitability. Non-interest revenues are projected to grow to mitigate the effect of interest rate movements.

### Liquidity Risk

Due to a more conservative liquidity model introduced by the bank during 2014 the bank retained funding rather than engaging in on-lending to ensure that liquidity buffer elements were sufficiently provided for.

At year-end 42% (2014 - 35%) of total assets are represented by cash and cash equivalents or short term money market assets (liquid holdings).

Mr. P.N. Truter

Chief Financial Officer

26 June 2015



# VBS MUTUAL BANK

## DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements of VBS Mutual Bank, comprising the statement of financial position at 31 March 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes and the directors' report, in accordance with International Financial Reporting Standards and the requirements of the Mutual Bank's Act of South Africa.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

### Approval of annual financial statements

The annual financial statements of VBS Mutual Bank, as identified in the first paragraph, were approved by the board of directors on 26 June 2015 and signed by:

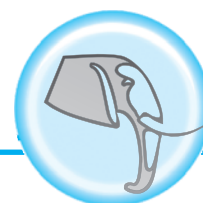
**M.W. Muvhulawa**

Chairman: Board of Directors

**A.M.A. Ramavhunga**

Chief Executive Officer





The directors present their annual report which forms part of the annual financial statements of the bank for the year ended 31 March 2015.

## Nature of business

The bank has continued to deliver services in accepting savings money and other deposits, and granting mortgage loans against registered bonds and other medium and short term advance products.

## Financial results

Operating results for the year under review are set out in the attached annual financial statements.

### Interest paid to shareholders

Dividends paid on permanent interest bearing shares:

2015	2014
R	R
1 269 549	1 522 403

### Share Capital

Permanent interest bearing shares

2015	2014
R	R
23 750 000	23 750 000

Permanent interest bearing shares qualify as Tier 1 Capital in line with the Mutual Banks Act. Permanent interest bearing shares are not redeemable. Dividends accrue monthly on the capital balance and are paid out as per the shareholders election. The prevailing rate of dividends is the South African Reserve Bank repurchase rate plus 1,5%.

## Directors

The following persons served as directors for the year under review and at the date of this report:

	Appointed / Re - appointed	Resigned / Term expiry	2015 R Permanent interest bearing shares	2014 R Permanent interest bearing shares
<b>Non-executive directors</b>				
A. R. Prinsloo (Chairman up to 29 July 2014))	29 Jul 2011	29 Jul 2014	16 750	16 750
M. W. Muvhulawa (Chairman from 14 August 2014)	25 Jul 2014	25 Jul 2017	80 250	80 250
L.N. Mudau	25 Jul 2014	25 Jul 2017	16 000	16 000
P.A. Ramikosi	1 Oct 2013	1 Oct 2016	-	-
M. Mavuso	1 Oct 2013	1 Oct 2016	-	-
T.E.Nesane (PIC Representative)	30 Jul 2013	30 Jul 2016	Refer to Note 16 on PIC Shareholding	
P.N.Magula (PIC Representative)	20 Nov 2014	25 Jul 2015	Refer to Note 16 on PIC Shareholding	
N.Manyonga	1 Aug 2014	26 Nov 2014	-	-
B.L.Mapongwana	9 Mar 15	25 Jul 2015	-	-
T.Ramuedzisi	9 Mar 15	25 Jul 2015	-	-
W.H.Meyer	9 Mar 15	25 Jul 2015	-	-
<b>Executive directors</b>				
V. N. Sandamela (Chief Executive Officer up to 31 July 14)	29 Jul 2011	31 July 2014	30 000	30 000
A.M.A.Ramavhunga (Chief Executive Officer since 1 Aug 14)	1 Aug 2014		-	-
P.N.Truter (Chief Financial Officer)	1 Sep 2014		-	-

### Company secretary

P.N.Truter (Chief Financial Officer)

### Registered office

The bank's registered office is situated at 25A Erasmus Street, Makhado.

The bank's postal address is PO Box 3618, Makhado, 0920.

## Independent Auditor's Report

### To the Shareholders of VBS Mutual Bank

We have audited the financial statements of VBS Mutual Bank, which comprise the statement of financial position at 31 March 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 46.

#### *Directors' Responsibility for the Financial Statements*

The bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act of South Africa, 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

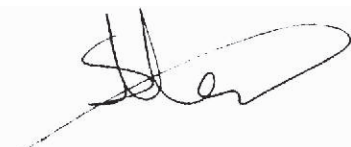
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of VBS Mutual Bank at 31 March 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Mutual Banks Act of South Africa.

KPMG Inc.



Per NKS Malaba  
Chartered Accountant (SA)  
Registered Auditor  
Director  
26 June 2015

KPMG Inc, a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

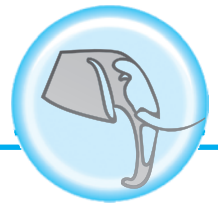
Registration number 1999/021543/21

Policy Board:  
Chief Executive: TH Hoole  
Executive Directors: M Letsitsi, SL Louw, NKS Malaba, MM Mapaya, M Oddy, CAT Smit  
Other Directors: LP Fourie, N Fubu, A Jaffer (Chairman of the Board), FA Karreem, ME Magondo, AMS Mokgabudi, GM Pickering, JN Pierce

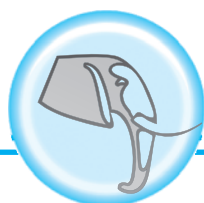
The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

# VBS MUTUAL BANK

STATEMENT OF FINANCIAL POSITION  
as at 31 March 2015



	Notes	2015 R	2014 R
<b>ASSETS</b>			
Cash and cash equivalents	2	144 605 164	96 177 810
Short term money market assets	3	24 061 803	20 295 085
Loans and advances	4	221 032 365	209 781 110
Other operating assets	6	5 401 101	2 493 370
Property and equipment	7	1 451 051	440 466
Intangible assets	8	919 680	704 217
Deferred taxation	12	306 534	288 706
<b>TOTAL ASSETS</b>		<b>397 777 698</b>	<b>330 180 764</b>
<b>LIABILITIES AND EQUITY</b>			
<b>EQUITY</b>			
Permanent interest bearing shares	13.1	23 750 000	23 750 000
Reserves	13.2	14 872 551	15 114 984
<b>Total equity</b>		<b>38 622 551</b>	<b>38 864 984</b>
<b>LIABILITIES</b>			
Current account overdrafts		329 771	906 643
Amounts owed to depositors	9	352 301 042	285 218 985
Other liabilities	10	5 140 070	3 980 478
Employee benefit liabilities	11	1 384 264	1 209 674
<b>Total liabilities</b>		<b>359 155 147</b>	<b>291 315 780</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>397 777 698</b>	<b>330 180 764</b>



# VBS MUTUAL BANK

STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 March 2015

	Notes	2015 R	2014 R
Interest income	14.1	28 051 599	23 955 599
Interest expenditure	14.2	(8 623 043)	(7 517 035)
<b>Net interest income</b>		<b>19 428 556</b>	<b>16 438 564</b>
<b>Non-interest revenue</b>	14.3	<b>8 945 330</b>	<b>5 020 311</b>
<b>Operating income before impairments</b>		<b>28 373 886</b>	<b>21 458 875</b>
Impairment charge on loans and advances	14.4	(140 461)	(190 846)
<b>Operating income after impairments</b>		<b>28 233 425</b>	<b>21 268 029</b>
Operating expenditure	14.5	(27 216 608)	(23 181 070)
Other income	14.6	(7 528)	55 511
<b>Profit / (Loss) before taxation</b>		<b>1 009 289</b>	<b>(1 857 530)</b>
Taxation	12.3	17 827	(14 452)
<b>Profit / (Loss) for the year</b>		<b>1 027 116</b>	<b>(1 871 982)</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive Income / (loss) for the year</b>		<b>1 027 116</b>	<b>(1 871 982)</b>

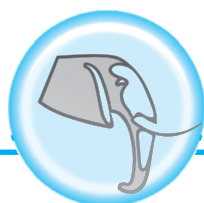
# VBS MUTUAL BANK

## STATEMENT OF CASH FLOWS for the year ended 31 March 2015



	Notes	2015 R	2014 R
<b>Cash flows from operating activities</b>			
Cash received from customers	17.1	36 757 430	29 116 018
Cash paid to customers, suppliers and employees	17.2	(34 763 048)	(30 169 422)
(Increase) / Decrease in income earning assets	17.3	(17 688 895)	26 866 311
Increase in deposits and other liabilities	17.4	68 088 344	10 330 488
<b>Cash flows generated by / (utilised by) operating activities before taxation</b>		<b>52 393 831</b>	<b>36 143 395</b>
<b>Taxation paid</b>	17.6	-	-
<b>Cash flows generated by / (utilised by) operating activities</b>		<b>52 393 831</b>	<b>36 143 395</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(1 309 375)	(38 031)
Acquisition of intangible assets		(623 294)	(180 320)
Proceeds from the sale of equipment		-	-
<b>Cash flows utilised by investing activities</b>		<b>(1 932 669)</b>	<b>(218 351)</b>
<b>Cash flows from financing activities</b>			
Increase in permanent interest bearing shares		-	5 990 620
Dividends paid on permanent interest bearing shares	17.5	(1 456 936)	(1 427 391)
<b>Cash flows generated by financing activities</b>		<b>(1 456 936)</b>	<b>4 563 229</b>
<b>Net increase in cash and cash equivalents</b>		<b>49 004 226</b>	<b>40 488 273</b>
Cash and cash equivalents at beginning of year		95 271 167	54 782 894
<b>Cash and cash equivalents at end of year</b>	17.7	<b>144 275 393</b>	<b>95 271 167</b>

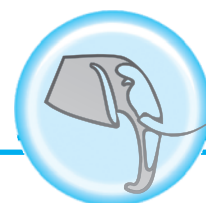




# VBS MUTUAL BANK

## STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY for the year ended 31 March 2015

	Permanent interest bearing shares R	General reserve R	Retained income R	Total equity R
<b>Balance at 1 April 2013</b>	<b>17 759 380</b>	<b>17 700 000</b>	<b>809 369</b>	<b>36 268 749</b>
Contributions from permanent interest bearing shareholders	5 990 620	-	-	5 990 620
Loss for the year	-	-	(1 871 982)	(1 871 982)
Dividends declared to permanent interest bearing shareholders	-	-	(1 522 403)	(1 522 403)
Other comprehensive income, net of income tax	-	-	-	-
Transfer from general reserve	-	(2 700 000)	2 700 000	-
<b>Balance as at 31 March 2014</b>	<b>23 750 000</b>	<b>15 000 000</b>	<b>114 984</b>	<b>38 864 984</b>
Contributions from permanent interest bearing shareholder	-	-	-	-
Profit for the year	-	-	1 027 116	1 027 116
Dividends declared to permanent interest bearing shareholders	-	-	(1 269 549)	(1 269 549)
Transfer from general reserve	-	(150 000)	150 000	-
<b>Balance as at 31 March 2015</b>	<b>23 750 000</b>	<b>14 850 000</b>	<b>22 551</b>	<b>38 622 551</b>



## 1. Accounting Policies

### Reporting entity

VBS Mutual Bank ("the bank") is a mutual bank domiciled in South Africa. The address of the bank's registered office is 25A Erasmus Street, Makhado, 0920.

### Basis of preparation

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).  
The annual report was authorised for issue by the Board of Directors on 26 June 2015.

#### Basis of measurement

The financial statements of the bank are prepared on the going concern principle under the historical cost basis except for financial instruments that are measured at their fair value. The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The financial statements are presented in South African Rands, which is the bank's functional currency.

#### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 5 – valuation of financial instruments;
- Notes 11 and 16.1 – provisions and contingencies; and
- Note 16.2 – lease classification.

### Financial instruments

Financial instruments are recognised on the statement of financial position when the bank becomes a party to the contractual provisions of a financial instrument.

Financial instruments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability (in the case of a financial asset or financial liability not at fair value through profit or loss).

#### > Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The bank has classified the bulk of its financial assets as loan and receivables which are subsequently measured at amortised cost using the effective interest method less any impairment losses. The bank does not intend to sell these financial assets immediately or in the near future.

#### > Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity date that the bank has the positive intent and ability to hold to maturity, other than those which on initial recognition were designated as at fair value through profit or loss, available for sale, or that meet the definition of loans and receivables. Such investments are measured subsequently at amortised cost using the effective interest method, less any impairment losses.



# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2015 (continued)

### Financial instruments (continued)

#### > Held to maturity (continued)

A sale or reclassification of more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the bank from classifying investment securities as held to maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- sales or reclassifications after the bank has collected substantially all of the asset's original principal
- sales or reclassifications attributable to non-recurring isolated events beyond the bank's control that could not have been reasonably anticipated.

#### > Cash and cash equivalents

Cash and cash equivalents comprises coins and bank notes, money at call and balances with the central bank. Bank overdrafts that are repayable on demand and form an integral part of the bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

#### > Available for sale

Financial assets are classified as available for sale where the intention, origination and designation of the instrument does not fall within the ambit of the other financial asset categories. Available for sale instruments are typically assets that are held for a longer period and in respect of which short term fluctuations in value do not affect the bank's hold or sell decision. Available for sale assets are subsequently recognised at their fair value, with fair value movements (other than impairment losses) recognised in other comprehensive income and presented within equity in the fair value reserve.

#### > Non trading financial liabilities

All financial liabilities, other than those classified as at fair value through profit or loss, are classified as non trading financial liabilities and are subsequently measured at amortised cost using the effective interest method.

### Derecognition

The bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

### Offsetting

Financial assets and liabilities are off set and the net amount presented in the statement of financial position when, and only when, the bank has a legal right to off set the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenditure are presented on a net basis only when permitted under the IFRS, or for gains and losses arising from a group of similar transactions such as the bank's trading activity.

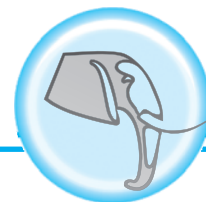
### Fair value measurement principles

The fair value of listed financial instruments is based on their quoted bid or offer price at the reporting date without any deduction for transaction costs that may be incurred on sale or other disposal. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For unlisted instruments or if a market for a financial instrument is not active, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. When discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

### Impairment

At each reporting date the bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the bank, or economic conditions that correlate with defaults in the bank.



### Financial instruments (continued)

#### Impairment (continued)

The bank considers evidence of impairment for loans and advances and held to maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held to maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held to maturity investment securities with similar risk characteristics.

In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4 Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. A liability adequacy test should be performed at each reporting date. The amount recognised is the best estimate of the expenditure required to settle the contract at the reporting date. Where the effect of discounting is material, the liability is discounted.

### Intangible assets

Generally, costs associated with developing computer software programs are recognised as an expense when incurred. However information technology development costs clearly associated with an identifiable and unique system or program and which has a probable economic benefit exceeding one year, the cost of the asset and costs to complete the development can be measured reliably, and the bank is able to demonstrate its intention and ability to complete the development are recognised as intangible assets. Development costs incurred on the establishment of the bank's debit card (ATM) system are capitalised. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Computer software and banking system development recognised as assets are amortised on the straight-line basis at rates appropriate to the useful lives of the assets (5 years), and are measured at cost less accumulated amortisation and impairment losses. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Amortisation and impairment losses are recognised in profit and loss.

### Property and equipment

Property and equipment, such as motor vehicles, leasehold improvements, computer equipment and office furniture are measured at cost less accumulated depreciation and impairment losses and are depreciated on a straight-line basis over their expected useful lives (5 years). Useful lives, residual values and depreciation methods are assessed on an annual basis. Depreciation and impairment losses are included in profit or loss.

The bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the bank and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.



# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2015 (continued)

### **Impairment of non-financial assets**

The carrying amounts of the bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Any impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Properties in possession**

Properties in possession are classified as inventory and are valued at the lower of cost price plus related costs or net realisable amount.

### **Taxation**

Income tax for the year comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Income tax is recognised in profit or loss except to the extent it relates to items recognised directly in equity, or in other comprehensive income.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Revenue and expenditure**

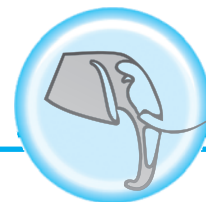
Revenue is derived substantially from the business of banking and related activities and comprises net interest income and non interest revenue.

### **Net interest income**

Interest income and expenses are recognised in profit or loss for all interest bearing instruments using the effective interest method.

### **Non interest revenue**

Non interest revenue include fees, commission from banking activities and dormant accounts written off. Non interest revenues are recognised when the significant risks and rewards of ownership has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Dormant accounts older than 5 years are taken to profit as per the bank's transfer of dormant accounts to income policy which was approved by the board of directors.



### Post employment benefits

The bank has established a defined contribution pension plan, that was registered on 30 March 2001 in terms of the Pension Funds Act, 1956. A defined contribution plan is a post employment benefit plan under which the bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Membership is compulsory for all employees. Obligations for contributions to this plan are recognised as an expense in profit or loss in the periods during which the related services are rendered.

### Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent lease payments are recognised in profit or loss as incurred.

### Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term bonus if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Leave pay accrual

Employee benefits in the form of annual leave entitlements are recognised when they accrue to employees as a result of services rendered, measured on an undiscounted basis and expensed as the related service is provided.

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these financial statements.

#### - Years beginning on or after 31 December 2016:

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27 Equity method in Separate Financial Statements
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between Investor and its Associate or Joint Venture
- Amendments to various standards - Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IFRS 10, IFRS12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 1 Disclosure Initiatives

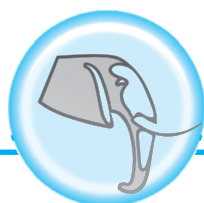
#### - Years beginning on or after 31 December 2017:

- IFRS 15 Revenue from Contracts with Customers

#### - Years beginning on or after 31 December 2018:

- IFRS 9 Financial Instruments





# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2015 (continued)

	2015 R	2014 R
<b>2 Cash and cash equivalents</b>		
Coins and bank notes	3 328 990	2 317 220
Money at call and at short notice	135 926 174	88 510 590
SARB General Reserve	5 350 000	5 350 000
	<b>144 605 164</b>	<b>96 177 810</b>

Money at short notice constitutes amounts available on demand. Mandatory reserve deposits (SARB General Reserve) are not available for use in the bank's day-to-day operations. Due to the short term nature of cash and cash equivalents the carrying value approximates the fair value.

	Effective interest %		
<b>3 Short term money market assets</b>			
Treasury bills : Market value R 17,937,731 (2014 - R 14,196,798)	5.75%	18 061 803	14 295 085
Term deposits	5.78%	6 000 000	6 000 000
		<b>24 061 803</b>	<b>20 295 085</b>

Short term money market assets are held to maturity. Due to the short term nature of term deposits the carrying value approximates the fair value. The market value shown is the value of treasury bills calculated using the interest rates provided by the South African Reserve Bank (SARB).

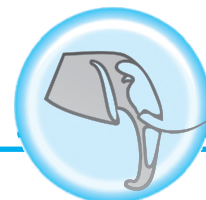
<b>4 Loans and advances</b>		
Loans and advances	221 714 242	210 364 202
Less : Impairments - (refer note 5)	(681 877)	(583 092)
Loans and advances after impairment	<b>221 032 365</b>	<b>209 781 110</b>

### Geographical analysis

Limpopo Province	205 604 414	192 497 871
Gauteng Province	15 350 678	17 174 763
North West Province	759 150	691 568
	<b>221 714 242</b>	<b>210 364 202</b>

	Effective interest %		
<b>Classification of loans and advances</b>			
Home loans	9.06%	189 590 166	207 854 580
Contract Financing	11.17%	23 039 775	-
Short term personal loans and Investment loans	12.95%	9 084 302	2 509 622
		<b>221 714 243</b>	<b>210 364 202</b>

Home loans are secured through mortgage bonds. Investment loans are secured through cessions on term and fixed deposits as per note 9. Contract Financing is secured through sessions with contracting parties. Short term personal loans are unsecured. The carrying value approximates fair value.



5

### Impairment of loans and advances

Balance at the beginning of the year  
Statement of comprehensive income (charge) / reversal  
Loans and advances  
Amounts written off against impairment  
Impairment at the end of the year

Total		Specific impairment		Portfolio impairment	
2015	2014	2015	2014	2015	2014
R	R	R	R	R	R
(583 091)	(440 425)	(476 368)	(285 049)	(106 723)	(155 376)
(98 786)	(142 666)	(69 428)	(191 319)	(29 358)	48 653
(98 786)	(142 666)	(69 428)	(191 319)	(29 358)	48 653
-	-	-	-	-	-
(681 877)	(583 091)	(545 796)	(476 368)	(136 081)	(106 723)

### Impairments by classification

Home loans  
Short term loans  
Investment loans  
Impairment at the end of the year

(551 821)	(525 448)	(435 681)	(457 092)	(116 140)	(68 356)
(130 056)	(57 643)	(110 115)	(19 276)	(19 941)	(38 367)
-	-	-	-	-	-
(681 877)	(583 091)	(545 796)	(476 368)	(136 081)	(106 723)

The credit impairment policy is divided into two types of impairment methods:

#### Specific impairments

The specific impairment is the amount the bank expects to lose on its identified non performing loans, after taking into account the discounted value of future recoveries.

#### Portfolio impairments

This type of impairment is based on that part of the performing portfolio where historical data analysis, together with current objective determinable events indicate that an impairment event has occurred, and a loss cannot be identified on an individual basis.

### Analysis of past due but not impaired loans:

	Home loans	Security held at fair value	Short term loans
	R	R	R
0 - 30 days	2 980 477	4 065 995	-
30 - 60 days	-	-	-
60 - 90 days	-	-	-
90 - 180 days	-	-	-
180+ days	759 150	849 999	4 116
	3 739 627	4 915 994	4 116

### Analysis of non-performing advances

	Carrying amount before impairment	Security held at fair value	Impairments
	R	R	R
<b>Analysis by classification</b>			
Home loans	9 984 491	14 989 986	(551 821)
Short term advances	113 345	-	(130 056)
2015 Non-performing lending	10 097 836	14 989 986	(681 877)
2014 Non-performing lending	8 452 923	13 547 989	(583 091)

### Interest income on impaired financial assets

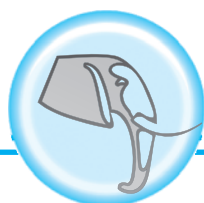
	2015	2014
	R	R
Interest income earned on impaired home loans	190 514	115 977

6

### Other operating assets

Properties in possession		
Unsold	-	611 318
Less: Impairment	-	(144 939)
Prepaid expenses	464 961	372 767
Other receivables	223 842	127 810
Interbank settlement accounts receivable	4 712 298	1 526 414
	5 401 101	2 493 370

Due to the short term nature of these operating assets the carrying value approximates the fair value.



# VBS MUTUAL BANK

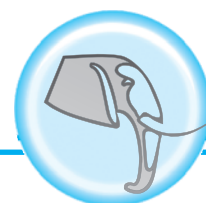
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
as at 31 March 2015 (continued)

7

## Property and equipment

	Cost R	Accumulated depreciation and impairment losses R	Carrying amount R
<b>2015</b>			
Computer equipment	1 443 623	1 200 527	243 096
Motor vehicles	384 146	115 848	268 298
Leasehold improvements	419 558	147 357	272 201
Office furniture and equipment	3 715 196	3 047 740	667 456
<b>Total</b>	<b>5 962 523</b>	<b>4 511 472</b>	<b>1 451 051</b>
<b>2014</b>			
Computer equipment	1 359 966	1 230 572	129 394
Motor vehicles	166 750	166 748	2
Leasehold improvements	128 048	128 048	-
Office furniture and equipment	3 335 306	3 024 236	311 070
<b>Total</b>	<b>4 990 070</b>	<b>4 549 604</b>	<b>440 466</b>

	Computer equipment and furniture R	Leasehold improvements R	Motor vehicles R	2015 Total R	2014 Total R
<b>Movement in property and equipment</b>					
Cost at beginning of year	4 695 588	128 048	166 750	4 990 386	5 182 833
Additions	700 360	316 329	292 687	1 309 376	38 031
Disposals	(49 545)	(24 819)	(75 291)	(149 655)	(27 393)
Write-offs	(187 267)	-	-	(187 267)	(203 085)
Cost at end of year	5 159 136	419 558	384 146	5 962 840	4 990 386
Accumulated depreciation and impairment losses at beginning of year	(4 255 124)	(128 048)	(166 748)	(4 549 920)	(4 571 486)
Depreciation charge for the year	(218 892)	(21 001)	(24 390)	(264 283)	(205 070)
Disposals	225 433	1 692	75 290	302 415	226 636
Write-offs	-	-	-	-	-
Accumulated depreciation and impairment losses at end of year	(4 248 583)	(147 357)	(115 848)	(4 511 788)	(4 549 920)
<b>Carrying amount at end of year</b>	<b>910 553</b>	<b>272 201</b>	<b>268 298</b>	<b>1 451 052</b>	<b>440 466</b>

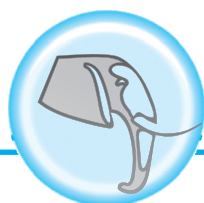


8

## Intangible assets

	Cost R	Accumulated amortisation and impairment losses R	Carrying amount R
<b>2015</b>			
Banking system development	3 672 207	2 821 633	850 574
Computer software	326 040	256 934	69 106
<b>Total</b>	<b>3 998 247</b>	<b>3 078 567</b>	<b>919 680</b>
<b>2014</b>			
Banking system development	3 110 026	2 446 865	663 161
Computer software	264 927	223 871	41 056
<b>Total</b>	<b>3 374 953</b>	<b>2 670 736</b>	<b>704 217</b>

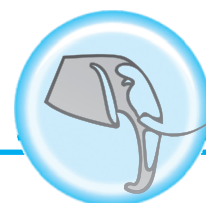
	Banking system development R	Computer software R	2015 Total R	2014 Total R
<b>Movement in intangible assets</b>				
Cost at beginning of year	3 110 026	264 927	3 374 953	3 275 104
Additions	562 181	61 113	623 294	180 320
Disposals and write-offs	-	-	-	(80 471)
<b>Cost at end of year</b>	<b>3 672 207</b>	<b>326 040</b>	<b>3 998 247</b>	<b>3 374 953</b>
Accumulated depreciation and impairment losses at beginning of year	(2 446 865)	(223 871)	(2 670 736)	(2 323 438)
Amortisation charge for the year	(374 768)	(33 063)	(407 831)	(427 536)
Disposals and write-offs	-	-	-	80 238
Accumulated depreciation and impairment losses at end of year	(2 821 633)	(256 934)	(3 078 567)	(2 670 736)
<b>Carrying amount at end of year</b>	<b>850 574</b>	<b>69 106</b>	<b>919 680</b>	<b>704 217</b>



# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS as at 31 March 2015 (continued)

			2015 R	2014 R
9	<b>Amounts owed to depositors</b>			
	<b>Classifications</b>	Effective interest %		
	Savings deposits	1.25%	187 300 827	148 329 653
	Notice and term deposits	2.56%	52 790 197	57 848 837
	Fixed deposits	5.43%	112 210 018	79 040 495
			<b>352 301 042</b>	<b>285 218 985</b>
	The carrying amount approximates the fair value.			
	Certain term and fixed deposits with a carrying value of R751 050 (2014 - R423 991) serve as security on advances as set out in note 4.			
10	<b>Other liabilities</b>			
	Accounts payable		-	3 656
	SA Revenue Service - Value Added Tax		102 313	35 443
	Interest accrued		2 865 641	2 178 664
	Dividends payable on permanent interest bearing shares		313 671	501 058
	Other payables		1 858 445	1 261 657
			<b>5 140 070</b>	<b>3 980 478</b>
	The carrying amount approximates the fair value.			
11	<b>Employee benefit liabilities</b>			
	Leave pay accrual		819 476	672 089
	Bonus accrual		564 788	537 585
			<b>1 384 264</b>	<b>1 209 674</b>
12	<b>Taxation</b>			
	<b>12.1 Deferred taxation</b>			
	Tax effect on temporary differences between the tax and carrying value of :			
	Employee benefit liabilities		(387 594)	(338 709)
	Prepaid expenses		120 770	94 956
	Straight lining of operating leases		(11 133)	(22 541)
	Doubtful debt allowances		(28 577)	(22 412)
	Net deferred tax asset		<b>(306 534)</b>	<b>(288 706)</b>
	The deferred tax asset does not include assessed losses in the current and prior periods.			
	Assessed loss accumulated plus current period profit / (loss)		<b>(6 838 815)</b>	<b>(7 143 392)</b>
	Deferred tax asset not recognised at 28%		<b>1 914 868</b>	<b>2 000 150</b>

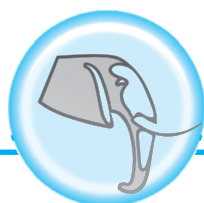


		2015 R	2014 R
12	<b>Taxation (continued)</b>		
	<b>12.2 Reconciliation of deferred tax asset balance</b>		
	Deferred tax asset at beginning of year	288 707	303 159
	Temporary differences on employee benefit liabilities and prepaid expenses recognised in profit or loss	17 827	(14 452)
	<b>Deferred tax asset at end of year</b>	<b>306 534</b>	<b>288 707</b>
	<b>12.3 South African normal taxation</b>		
	Current taxation: South African normal taxation		
	- Current year	-	-
	Deferred taxation	17 827	(14 452)
	- Reversal / (origination) of temporary differences	17 827	(14 452)
	Secondary taxation on companies (STC)	-	-
		17 827	(14 452)
	<b>12.4 Reconciliation of taxation rate</b>		
		2015	2014
	Effective tax rate per profit or loss	(5.85%)	(2.97%)
	Adjusted for :	33.85%	30.97%
	Deferred tax asset not raised for assessed losses	28.00%	28.00%
	Non deductible expense	7.57%	(1.11%)
	Additional tax deduction	(1.72%)	4.08%
	STC	-	0.00%
	Standard corporation tax rate	28.00%	28.00%
		2015	2014
		17 827	(14 452)
		(322 404)	502 419
		(304 577)	487 966
		(23 071)	(5 439)
		5 244	19 892
		-	-
		(304 577)	487 967
	<b>12.5 South African normal taxation liabilities</b>		
	Normal taxation liability at the beginning of the year	-	-
	Current taxation	-	-
	- Current year - tax liability	-	-
	- Paid in current year	-	-
	Secondary Taxation on Companies (STC)	-	-
	- Current year	-	-
13	<b>Equity</b>		
	<b>13.1 Permanent interest bearing shares</b>		
	Authorised permanent interest bearing shares for issue (R)	25 000 000	25 000 000
	Number of authorised permanent interest bearing shares	2 500 000	2 500 000
	Issued permanent interest bearing shares (R)	23 750 000	23 750 000
	Number of issued permanent interest bearing shares	2 375 000	2 375 000
	Authorised allocated permanent interest bearing shares for issue to employees (R)	1 250 000	1 250 000
	<b>13.2 Reserves</b>		
	<b>Distributable reserves</b>		
	Retained income	22 551	114 984
	General reserve	14 850 000	15 000 000
		14 872 551	15 114 984

The General reserve is a distributable reserve and consists of prior years' retained income.

The Board of directors shall transfer to the general reserves, out of any profits of the bank, such amounts as it deems necessary or desirable.

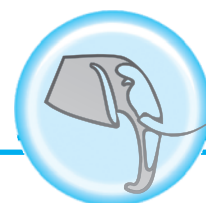




# VBS MUTUAL BANK

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
as at 31 March 2015 (continued)

		2015 R	2014 R
<b>14</b>	<b>Analysis of income and expenditure</b>		
	<b>14.1 Interest income</b>		
	<i>Interest on :</i>		
	Loans and advances	20 023 688	18 959 057
	Cash and cash equivalents	382 461	249 838
	Short term money market assets	7 645 450	4 746 704
		<u>28 051 599</u>	<u>23 955 599</u>
	<b>14.2 Interest expenditure</b>		
	<i>Interest on :</i>		
	Savings deposits	(2 121 069)	(1 739 665)
	Call and term deposits	(1 681 255)	(1 756 714)
	Fixed deposits	(4 820 719)	(4 020 656)
		<u>(8 623 043)</u>	<u>(7 517 035)</u>
	<b>14.3 Non-interest revenue</b>		
	Fees	7 988 932	4 510 032
	Dormant accounts recognised as income	254 909	(71 325)
	Commission	701 489	581 604
		<u>8 945 330</u>	<u>5 020 311</u>
	<b>14.4 Impairment (charge) / reversals</b>		
	Advances	(98 785)	(142 666)
	Properties in Possession	(48 652)	(144 939)
	Other	(6 110)	(5 289)
	Recoveries of advances previously written off	13 086	102 048
	<i>Total</i>	<u>(140 461)</u>	<u>(190 846)</u>
	<b>14.5 Operating expenditure</b>		
	<b>Auditors remuneration</b>		
	Audit fees - External	(887 803)	(559 854)
	Audit fees - Internal	(489 880)	(428 054)
		<u>(1 377 683)</u>	<u>(987 908)</u>
	<b>Depreciation</b>		
	Computer equipment	(79 673)	(70 514)
	Motor vehicles	(24 390)	(16 767)
	Office furniture and equipment	(160 219)	(117 789)
		<u>(264 282)</u>	<u>(205 070)</u>
	<b>Amortisation</b>		
	Banking system development	(374 768)	(396 045)
	Computer software	(33 063)	(31 491)
		<u>(407 831)</u>	<u>(427 536)</u>
	<b>Operating lease expenditure</b>	<u>(1 738 253)</u>	<u>(1 486 408)</u>
	<b>Professional fees</b>	<u>(1 287 487)</u>	<u>(93 241)</u>



## 14.5 Operating expenditure (continued)

### Staff costs

Salaries and allowances	(8 763 719)	(7 299 026)
Contributions to pension funds and medical aid	(793 234)	(856 836)
Other staff benefits	(283 674)	(87 884)
	<u>(9 840 627)</u>	<u>(8 243 746)</u>

### Directors' remuneration

Executive directors		
Short term benefits	(2 744 341)	(2 739 557)
Cash portion of package	(1 864 821)	(1 919 981)
Bonuses	(732 149)	(653 100)
Allowances	(147 371)	(166 476)
Post employment benefits	(84 942)	(183 835)
	<u>(2 829 283)</u>	<u>(2 923 392)</u>
Non-executive directors		
Emoluments for services as directors	(458 298)	(628 807)
Fees	(383 208)	(498 846)
Allowances	(75 090)	(129 961)
	<u>(3 287 581)</u>	<u>(3 552 199)</u>

### Administrative costs

Marketing and communication	(1 043 412)	(728 474)
Account hosting fees	(1 379 132)	(1 578 707)
Membership fees	(1 472 577)	(1 374 862)
Transaction fees	(1 418 086)	(1 345 192)
Banking and security	(816 869)	(849 000)
Printing and stationary	(280 607)	(239 734)
Bank charges	(397 263)	(344 762)
Water and electricity	(296 544)	(296 103)
Insurance	(254 236)	(288 231)
Office equipment expenses	(164 534)	(107 317)
Other administrative costs	(1 489 604)	(1 032 580)
	<u>(9 012 864)</u>	<u>(8 184 962)</u>

### Total operating expenditure

	<u>(27 216 608)</u>	<u>(23 181 070)</u>
--	---------------------	---------------------

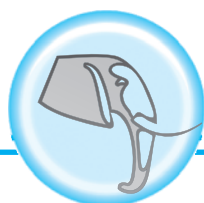
## 14.6 Other income

Profit on sale of equipment	14 999	-
Other	(22 527)	55 511
	<u>(7 528)</u>	<u>55 511</u>

15

### Related parties

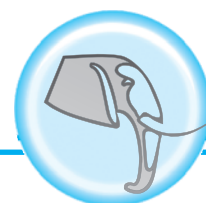
Related parties are the directors of the bank, the PIC (Public Investment Corporation) and Dyambeu Investments (Pty) Ltd. Key management consist only of executive and non-executive directors. At year end the PIC held R 6 million or 25.3% (2014 - 25.3%) and Dyambeu Investments (Pty) Ltd R5,990,620 or 25.2% (2014 - 25.2%) of the permanent interest bearing shares in the bank. For directors interests in permanent interest bearing shares refer to the Directors' report on page 9. At year end the PIC held a R4 million (2014 - R4 million) fixed deposit investment with the bank. Dyambeu Investments (Pty) Ltd held an account in which dividends payments are received and the balance at year end amounted to R31,514. The following loan transactions in the form of mortgage bonds or short term loans took place with related parties:



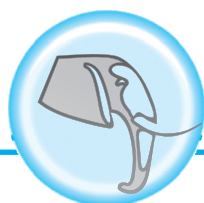
# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS as at 31 March 2015 (continued)

	2015 R	2014 R
<b>15 Related parties (continued)</b>		
<b>Executive directors</b>		
Balance beginning of year	-	-
Advances and interest for the year	103 623	-
	<u>103 623</u>	<u>-</u>
Less : Repayments thereon	(21 534)	-
Total amount outstanding at end of year	<u>82 089</u>	<u>-</u>
Loans are granted at either the prevailing client or SARS rates as determined from time to time. The repayment terms and securities provided are the same as for normal clients. There are no impairments against loans advanced to executive directors.		
<b>Non-executive directors</b>		
Balance beginning of year	-	1 540 948
Advances and interest for the year	801 875	380 442
	<u>801 875</u>	<u>1 921 390</u>
Less : Repayments thereon	(80 444)	-
Less: Directorship ended 30 Sep 13	-	(1 921 390)
Total amount outstanding at end of year	<u>721 431</u>	<u>-</u>
Loans to non-executive directors are granted at prime less one percent. The repayment terms and securities provided are the same as for normal clients. There are no impairments against loans advanced to executive directors. Refer to note 14.5 where all directors' remuneration is disclosed. Mr A.R Prinsloo is a trustee of the Prinsloo Family Trust. The Prinsloo Family Trust has a 30% shareholding in Rep-props 23 (Pty) Ltd. The head office building is rented from Rep-props 23 (Pty) Ltd.		
Rental expense	129 137	296 172
<b>Shareholders - Closed Vehicle Finance Scheme</b>		
Balance beginning of year	-	-
Advances and interest for the year	6 060 448	-
	<u>6 060 448</u>	<u>-</u>
Less : Repayments thereon	(424 504)	-
Total amount outstanding at end of year	<u>5 635 944</u>	<u>-</u>
<b>16 Contingencies and commitments</b>		
<b>16.1 Contingencies</b>		
<b>Financial guarantees</b>		
Guarantees by bank	2 629 688	2 241 959
	<u>2 629 688</u>	<u>2 241 959</u>
The bank issued guarantees secured by investment deposits held for various clients. No material losses are anticipated or probable as a result of these transactions.		
<b>16.2 Commitments</b>		
<b>Mortgage loans</b>		
Loans granted in principle, not yet advanced	13 087 883	258 984
<b>Unutilised facilities</b>		
Contract financing facilities, granted not yet advanced	24 136 349	-



	2015 R	2014 R
<b>16 Contingencies and commitments (continued)</b>		
<b>16.2 Commitments (continued)</b>		
<b>Operating leases : Office premises</b>		
Within 1 year	1 056 224	1 355 042
From 1 to 5 years	1 826 855	1 238 536
	<u>2 883 079</u>	<u>2 593 578</u>
Operating leases relate to the rental of buildings for the head office, credit department, regional office and branches.		
Operating leases have all been renewed for a period of less than five years, with the option of renewal at the end of the contract.		
The majority of the lease agreements carry an annual escalation of between 6% - 10% per annum.		
<b>17 Cash flow information</b>		
<b>17.1 Cash received from customers:</b>		
Interest income	28 202 746	24 107 355
Other income (excluding non-cash items)	8 554 684	5 008 663
	<u>36 757 430</u>	<u>29 116 018</u>
<b>17.2 Cash paid to customers, suppliers and employees:</b>		
Interest expenditure (excluding indefinite period share)	(8 340 546)	(7 517 033)
Total operating expenditure (excluding depreciation / amortisation)	(26 422 502)	(22 652 388)
	<u>(34 763 048)</u>	<u>(30 169 422)</u>
<b>17.3 Decrease / (increase) in income earning assets:</b>		
Advances, properties in possession and other operating assets	(13 922 177)	26 847 475
Short term money market assets	(3 766 718)	18 836
	<u>(17 688 895)</u>	<u>26 866 311</u>
<b>17.4 Increase in deposits and other liabilities:</b>		
Deposits and savings accounts (excluding indefinite period shares)	67 082 057	10 420 532
Other liabilities (excluding interest payable on indefinite period shares)	1 006 287	(90 044)
	<u>68 088 344</u>	<u>10 330 488</u>
<b>17.5 Dividends paid on permanent interest bearing shares:</b>		
Payable at beginning of year	(501 058)	(406 046)
Dividends accrued	(1 269 549)	(1 522 403)
Payable at end of year	313 671	501 058
	<u>(1 456 936)</u>	<u>(1 427 391)</u>
<b>17.6 Taxation paid:</b>		
Amounts owing at beginning of year	-	-
Taxation - prior year over provision	-	-
Taxation charge - current (Refer note 12.3)	-	-
Amounts owing at end of year	-	-
	<u>-</u>	<u>-</u>
<b>17.7 Cash and cash equivalents at end of year:</b>		
Cash on hand	3 328 990	2 317 220
Bank overdraft	(329 771)	(906 643)
Money at call and short notice	135 926 174	88 510 590
SARB General reserve	5 350 000	5 350 000
	<u>144 275 393</u>	<u>95 271 167</u>
SARB General reserve investment is not available to fund the day-to-day activities of the bank.		



# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS as at 31 March 2015 (continued)

18

### Risk management

#### Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances.

The bank has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Comprehensive credit evaluations are performed on all customers applying for credit. The bank's policy requires customers to provide sufficient collateral prior to the disbursement of funds for approved home loans and investment loans. For mortgage loans, the bank registers a bond over the property financed, which provides repossession rights in the event of default by the customer.

#### Concentration of credit risk

Concentrations of credit risk exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to settle contractual obligations to be similarly affected by changes in economic or other conditions. The bank does not have a significant exposure to any individual customer or counterparty. Geographic concentration risk arises because the bank mainly operates in the Limpopo province of South Africa.

#### Collateral held as security

Collateral held as security for credit risk consists of property held on the mortgage bond portfolio and cessions held on investment loans.

	2015 R	2015 R	2015 R	2014 R	2014 R	2014 R
	Carrying value	Fair value of collateral Properties	Fair value of collateral Investment Loans	Carrying value	Fair value of collateral Properties	Fair value of collateral Investment Loans
Performing loans	210 801 169	622 811 995	751 050	199 879 214	621 903 994	423 991
Non performing loans						
- Arrear loans	10 097 836	14 989 986	-	8 452 923	13 547 989	-
- Rescheduled loans	815 238	219 999	-	2 032 065	2 569 997	-
	<b>221 714 243</b>	<b>638 021 980</b>	<b>751 050</b>	<b>210 364 202</b>	<b>638 021 980</b>	<b>423 991</b>

#### Interest rate risk

Interest rate risk is the potential impact on earnings or the value of the bank's holdings of financial instruments and on future cash flow of financial instrument due to changes in the interest rate.

Interest rate risk is managed principally by the management of interest rate gaps. The bank monitors this exposure primarily through a process known as sensitivity analysis. This involves estimating the effect on profit before tax over various periods of a range of possible changes in interest rates. The sensitivity analysis model used for this purpose makes no assumptions about any interrelationships between such rates or about the way in which such changes may affect the economies involved. As a consequence, figures derived from the bank's sensitivity analysis model should be used in conjunction with other information about the bank's risk profile.

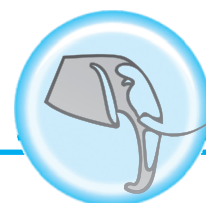
The bank accepts a degree of interest rate risk as long as the effect of various changes in the rates, as calculated using the sensitivity analysis, remain within certain prescribed ranges.

#### Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. An illiquid bank is unable to obtain sufficient funds by either raising liabilities or liquidating assets promptly at a reasonable cost to meet its commitments.

Liquidity management is a priority of the bank. The bank is holding additional liquidity and has therefore been able to maintain funding at normal market rates. Details of the composition and maturity of funding and other liabilities are provided in the notes to the annual financial statements. Liquidity risk is managed using a multifaceted approach, including:

- > prudential limits to restrict concentration of cash flows by maturity or client;
- > daily cash management procedures;
- > maintaining a stable deposit base;
- > maintaining a large amount of highly marketable assets, including surplus liquid assets determined by the board of directors; and
- > having a standby liquidity contingency plan.



## 18 Risk management (continued)

### Liquidity risk (continued)

Liquidity determines the day to day viability of the bank and remains one of the principal considerations of asset / liability management. The bank has a detailed Asset and Liability Management Policy which sets out the policies and procedures that are in place and applied within the bank's Asset and Liability management process. The authority and responsibility for liability and interest rate risk management rests with the bank's board of directors. Liquidity is managed strictly by the bank and involves prudently managing assets and liabilities, both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows.

### Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The bank operates within a risk management framework approved by the board of directors. This framework demarcates risk limits, delegations and levels of authority, which are incorporated in comprehensive operational procedures.

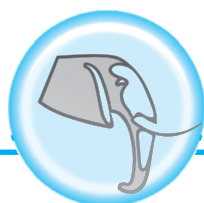
The internal audit function has been outsourced to PwC Inc. They perform an independent, objective assurance designed to add value and improve the bank's operations. Internal audit assists the bank in accomplishing its objectives by employing a systematic, disciplined approach to evaluating and improving the effectiveness of the risk management, control and governance processes.

## 19 Maturities of assets and liabilities

The following table provides an analysis of the assets and liabilities of the bank into relevant groupings based on the remaining contractual period to maturity at undiscounted amounts.

2015	Total	0 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non determinant
	R	R	R	R	R	R
<b>Assets</b>						
Cash and cash equivalents	144 605 164	139 255 164	-	-	-	5 350 000
Short term money market assets	24 061 803	24 061 803	-	-	-	-
Loans and advances	221 032 365	18 717 063	4 916 774	7 224 371	190 174 157	-
Other operating assets	5 401 101	5 401 101	-	-	-	-
<b>Total assets</b>	<b>395 100 433</b>	<b>187 435 131</b>	<b>4 916 774</b>	<b>7 224 371</b>	<b>190 174 157</b>	<b>5 350 000</b>
<b>Liabilities and equity</b>						
Current account overdrafts	329 771	329 771	-	-	-	-
Amounts owed to depositors	352 301 042	302 084 169	32 410 201	17 806 672	-	-
Other liabilities	5 140 070	5 140 070	-	-	-	-
Employee benefit liabilities	1 384 264	1 384 264	-	-	-	-
Permanent interest bearing shares	23 750 000	-	-	-	-	23 750 000
<b>Total liabilities and equity</b>	<b>382 905 147</b>	<b>308 938 274</b>	<b>32 410 201</b>	<b>17 806 672</b>	<b>-</b>	<b>23 750 000</b>
<b>Maturity mismatch</b>	<b>12 195 286</b>	<b>(121 503 143)</b>	<b>(27 493 427)</b>	<b>(10 582 301)</b>	<b>190 174 157</b>	<b>(18 400 000)</b>





# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS as at 31 March 2015 (continued)

### 19 Maturities of assets and liabilities (continued)

The following table provides an analysis of the assets and liabilities of the bank into relevant groupings based on the remaining contractual period to maturity at undiscounted amounts.

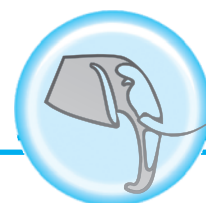
2014	Total	0 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non determinant
	R	R	R	R	R	R
<b>Assets</b>						
Cash and cash equivalents	96 177 810	90 827 810	-	-	-	5 350 000
Short term money market assets	20 295 085	20 295 085	-	-	-	-
Loans and advances	209 781 110	161 456	647 525	10 193 388	198 778 741	-
Other operating assets	2 493 370	2 493 370	-	-	-	-
<b>Total assets</b>	<b>328 747 375</b>	<b>113 777 721</b>	<b>647 525</b>	<b>10 193 388</b>	<b>198 778 741</b>	<b>5 350 000</b>
<b>Liabilities and equity</b>						
Current account overdrafts	906 643	906 643	-	-	-	-
Amounts owed to depositors	285 218 985	238 401 410	24 334 616	22 482 959	-	-
Other liabilities	3 980 478	3 980 478	-	-	-	-
Employee benefit liabilities	1 209 674	1 209 674	-	-	-	-
Permanent interest bearing shares	23 750 000	-	-	-	-	23 750 000
<b>Total liabilities and equity</b>	<b>315 065 780</b>	<b>244 498 205</b>	<b>24 334 616</b>	<b>22 482 959</b>	<b>-</b>	<b>23 750 000</b>
<b>Maturity mismatch</b>	<b>13 681 595</b>	<b>(130 720 484)</b>	<b>(23 687 091)</b>	<b>(12 289 571)</b>	<b>198 778 741</b>	<b>(18 400 000)</b>

### 20 Interest rate sensitivity and gap analysis

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for 2014.

	Profit or loss and equity	
	100 basis points increase	100 basis points decrease
31 March 2015		
Variable rate instruments	248 475	(248 475)
31 March 2014		
Variable rate instruments	452 992	(452 992)



## 20 Interest rate sensitivity and gap analysis (continued)

The following table indicates the effective interest rate at the reporting date and the periods in which the assets and liabilities reprice.

	Effective interest rate	Total	Floating interest rate	Fixed interest rate			Non-interest items
				Less than three months	Between three months and one year	More than one year	
2015		R	R	R	R	R	R
<b>Assets</b>							
Cash and cash equivalents	5.42%	144 605 164	135 926 174	-	-	-	8 678 990
Short term money market assets	8.80%	24 061 803	24 061 803	-	-	-	-
Loans and advances	9.27%	221 032 365	220 841 715	-	190 650	-	-
Other operating assets	n/a	5 401 101	-	-	-	-	5 401 101
Deferred taxation	n/a	306 534	-	-	-	-	306 534
Property and equipment	n/a	1 451 051	-	-	-	-	1 451 051
Intangible assets	n/a	919 680	-	-	-	-	919 680
		<b>397 777 698</b>	<b>380 829 692</b>	<b>-</b>	<b>190 650</b>	<b>-</b>	<b>16 757 356</b>

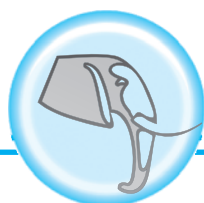
### Liabilities and equity

Current account overdrafts	5.42%	329 771	329 771	-	-	-	-
Amounts owed to depositors	2.71%	352 301 042	278 371 906	9 945 604	59 328 688	4 654 844	-
Other liabilities	n/a	5 140 070	-	-	-	-	5 140 070
Provisions	n/a	1 384 264	-	-	-	-	1 384 264
Permanent interest bearing shares	5.26%	23 750 000	23 750 000	-	-	-	-
Reserves	n/a	14 872 551	-	-	-	-	14 872 551
		<b>397 777 698</b>	<b>302 451 677</b>	<b>9 945 604</b>	<b>59 328 688</b>	<b>4 654 844</b>	<b>21 396 885</b>

	Effective interest rate	Total	Floating interest rate	Fixed interest rate			Non-interest items
				Less than three months	Between three months and one year	More than one year	
2014		R	R	R	R	R	R
<b>Assets</b>							
Cash and cash equivalents	4.92%	96 177 810	88 510 590	-	-	-	7 667 220
Short term money market assets	9.61%	20 295 085	20 295 085	-	-	-	-
Loans and advances	9.01%	209 781 110	209 550 092	-	231 018	-	-
Other operating assets	n/a	2 493 370	-	-	-	-	2 493 370
Deferred taxation	n/a	288 706	-	-	-	-	288 706
Property and equipment	n/a	440 466	-	-	-	-	440 466
Intangible assets	n/a	704 217	-	-	-	-	704 217
		<b>330 180 764</b>	<b>318 355 767</b>	<b>-</b>	<b>231 018</b>	<b>-</b>	<b>11 593 979</b>

### Liabilities and equity

Current account overdrafts	4.92%	906 643	906 643	-	-	-	-
Amounts owed to depositors	2.64%	285 218 985	233 943 866	7 898 340	33 595 901	9 780 878	-
Other liabilities	n/a	3 980 478	-	-	-	-	3 980 478
Provisions	n/a	1 209 674	-	-	-	-	1 209 674
Permanent interest bearing shares	5.26%	23 750 000	23 750 000	-	-	-	-
Reserves	n/a	15 114 984	-	-	-	-	15 114 984
		<b>330 180 764</b>	<b>258 600 509</b>	<b>7 898 340</b>	<b>33 595 901</b>	<b>9 780 878</b>	<b>20 305 136</b>



# VBS MUTUAL BANK

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS as at 31 March 2015 (continued)

### 21 Statement of financial position - categories of financial instruments (Including Fair Value Hierarchy)

	Notes	Total	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities
		R		R	R	R
<b>2015</b>						
<b>Assets</b>						
Cash and cash equivalents	2	144 605 164	-	144 605 164	-	-
Short term money market assets	3	24 061 803	24 061 803	-	-	-
Loans and advances (Level 2)	4	221 032 365	-	221 032 365	-	-
Other operating assets	6	5 401 101	-	4 936 140	-	464 961
Deferred taxation	12	306 534	-	-	-	306 534
Property and equipment	7	1 451 051	-	-	-	1 451 051
Intangible assets	8	919 680	-	-	-	919 680
<b>Total Assets</b>		<b>397 777 698</b>	<b>24 061 803</b>	<b>370 573 669</b>	<b>-</b>	<b>3 142 226</b>

#### Liabilities and equity

##### Liabilities

Current account overdrafts		329 771	-	-	329 771	-
Amounts owed to depositors	9	352 301 042	-	-	352 301 042	-
Other liabilities	10	5 140 070	-	-	5 037 757	102 313
Employee benefit liabilities	11	1 384 264	-	-	-	1 384 264
<b>Total liabilities</b>		<b>359 155 147</b>	<b>-</b>	<b>-</b>	<b>357 668 570</b>	<b>1 486 577</b>

##### Equity

Permanent interest bearing shares		23 750 000	-	-	23 750 000	-
Reserves	14	14 872 551	-	-	-	14 872 551
<b>Total equity</b>		<b>38 622 551</b>	<b>-</b>	<b>-</b>	<b>23 750 000</b>	<b>14 872 551</b>
<b>Total Liabilities and Equity</b>		<b>397 777 698</b>	<b>-</b>	<b>-</b>	<b>381 418 570</b>	<b>16 359 128</b>

	Notes	Total	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities
		R		R	R	R
<b>2014</b>						
<b>Assets</b>						
Cash and cash equivalents	2	96 177 810	-	96 177 810	-	-
Short term money market assets	3	20 295 085	20 295 085	-	-	-
Loans and advances (Level 2)	4	209 781 110	-	209 781 110	-	-
Other operating assets	6	2 493 370	-	1 654 224	-	839 146
Deferred taxation	12	288 706	-	-	-	288 706
Property and equipment	7	440 466	-	-	-	440 466
Intangible assets	8	704 216	-	-	-	704 216
<b>Total Assets</b>		<b>330 180 763</b>	<b>20 295 085</b>	<b>307 613 144</b>	<b>-</b>	<b>2 272 534</b>

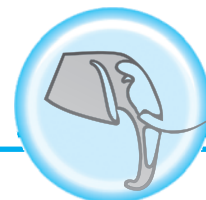
#### Liabilities and equity

##### Liabilities

Current account overdrafts		906 643	-	-	906 643	-
Amounts owed to depositors	9	285 218 985	-	-	285 218 985	-
Other liabilities	10	3 980 478	-	-	3 945 035	35 443
Employee benefit liabilities	11	1 209 674	-	-	-	1 209 674
<b>Total liabilities</b>		<b>291 315 780</b>	<b>-</b>	<b>-</b>	<b>290 070 663</b>	<b>1 245 117</b>

##### Equity

Permanent interest bearing shares		23 750 000	-	-	23 750 000	-
Reserves	14	15 114 984	-	-	-	15 114 984
<b>Total equity</b>		<b>38 864 984</b>	<b>-</b>	<b>-</b>	<b>23 750 000</b>	<b>15 114 984</b>
<b>Total Liabilities and Equity</b>		<b>330 180 764</b>	<b>-</b>	<b>-</b>	<b>313 820 663</b>	<b>16 360 101</b>



### 21 Statement of financial position - categories of financial instruments (Including Fair Value hierarchy) (Continued)

The bank measures fair values using the following hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1** :Inputs are quoted market prices (unadjusted) in active markets for identical instruments

- **Level 2** :Inputs other than quoted prices within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly observable from market data.

- **Level 3** :Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between he instruments.

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

#### Level 2 financial assets and liabilities

Instrument	Valuation basis / technique	Main assumptions
Loans and Advances	Discounted cashflow model	Discount rate Liquidity discount rate

### 22 Capital management

The bank continued its capitalization process during the year to fund future growth.

The banks shareholders approved the issue of permanent Interest-bearing shares, which are shares that qualify as primary (Tier 1) share capital in line with the Mutual Banks Act. The initial subscription was capped at R25 million.

These shares were first offered to existing Indefinite Period shareholders, after which investment clients and the general public were invited to take up in a phased approach.

At year-end permanent shares to the value of R23,750,000 were issued.

The bank has complied with all externally imposed capital requirements throughout the year.

#### Tier 1 capital

	2015 R	2014 R
Permanent interest bearings shares	23 750 000	23 750 000
General reserve	14 850 000	15 000 000
Retained income	22 551	114 984
<b>Total</b>	<b>38 622 551</b>	<b>38 864 984</b>

#### Risk weighted assets

175 864 000      131 980 800

#### Capital ratios

Total regulatory capital expressed as a percentage of total risk-weighted assets      **22.0%**      29.4%

#### Capital management policy

The bank is subject to a prudential minimal share capital and unimpaired reserve funds ratio of 10% of risk weighted assets. The bank's risk management framework, as approved by the board of directors, directs that the bank's minimum capital ratio be set at 15%

[illegible]

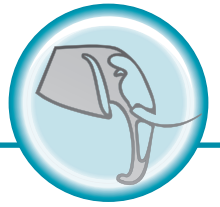
REMARKS



Lined area for writing remarks, consisting of 28 horizontal lines.

[illegible]





# **OUR VALUES**

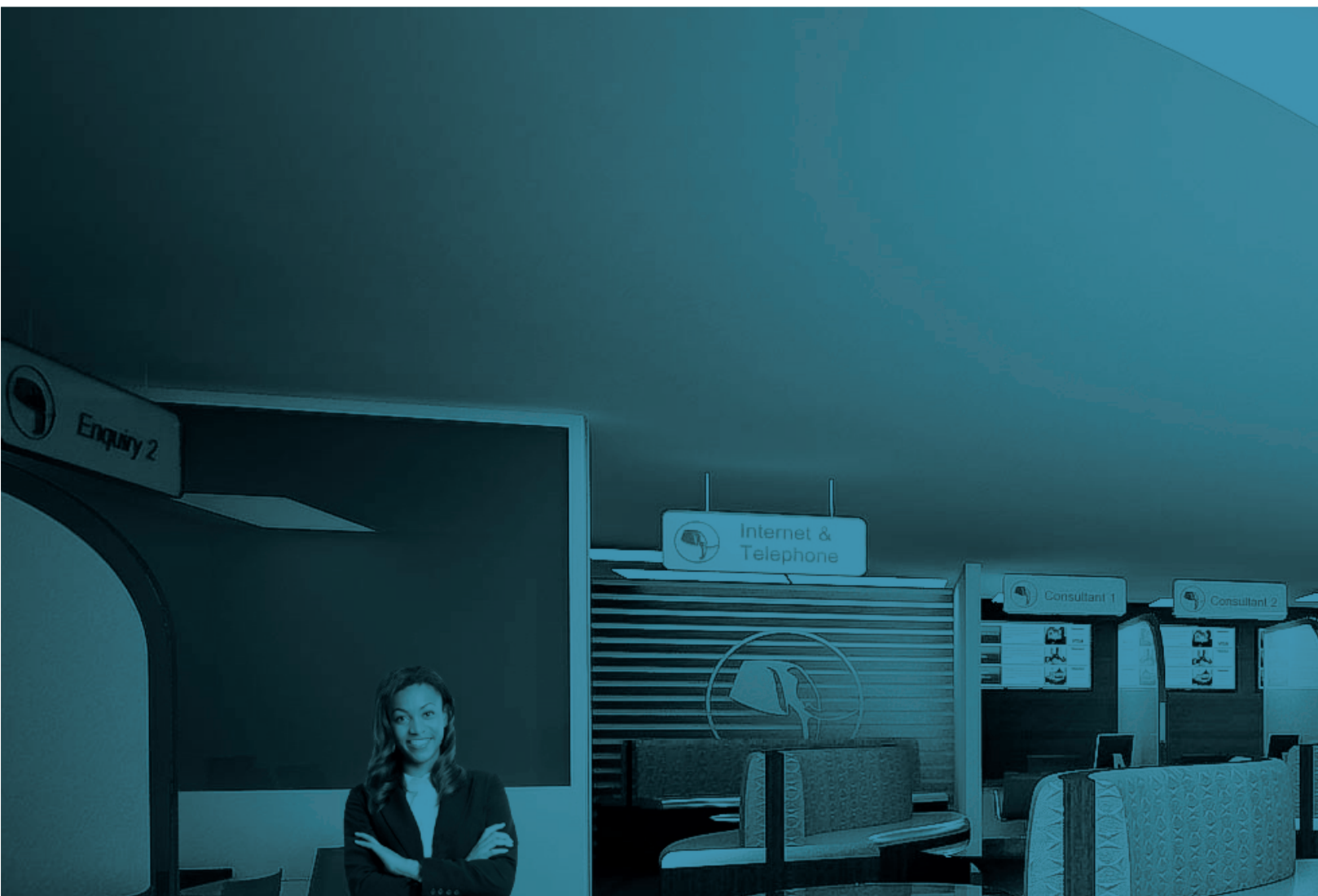
**Honesty**

**Respect**

**Passion**

**Creativity**

People with a purpose.



#### HEAD OFFICE

25A Erasmus Street  
PO Box 3618  
Makhado  
0920  
Tel: 015 516 3542  
Fax: 015 516 3541  
E-mail: vbsmbank@vbsmutualbank.co.za

#### CORPORATE OFFICE

82 Wessels Road  
Metropolitan Office Park  
G-Block 1st Floor  
Rivonia  
Tel: 011 234 3111/2227

#### CREDIT DEPARTMENT

Thohoyandou Business Area  
Stand 27, Ground Floor  
PO Box 845  
Thohoyandou, 0950  
Tel: 015 962 3231/2  
Fax: 015 962 1986  
E-mail: loans@vbsmutualbank.co.za

#### BRANCHES

##### Thohoyandou

Thohoyandou Business Area  
Stand 27, Upper Ground Floor  
PO Box 845  
Thohoyandou, 0950  
Tel: 015 962 4716/7/8  
Fax: 015 962 3685  
E-mail: switchbtho@vbsmutualbank.co.za

##### Sibasa

Gammbani Shopping Centre  
Mphephu Street  
PO Box 845  
Sibasa  
0970  
Tel: 015 963 2250  
Fax: 015 963 1219  
E-mail: sib@vbsmutualbank.co.za

##### Makhado

Shop No.2 Noor Centre  
29 Songozwi Street  
PO Box 4556  
Makhado  
0920  
Tel: 015 516 5837/8/9  
Fax: 015 516 2112  
E-mail: ltt@vbsmutualbank.co.za