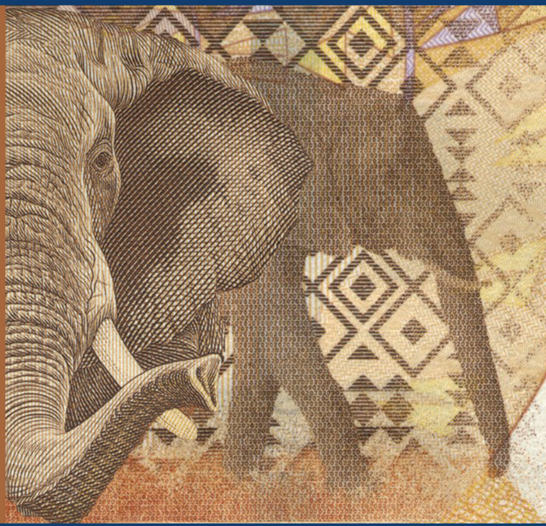
Corporation for Public Deposits



Annual Financial Statements for the year ended 31 March 2013

South African Reserve Bank

Corporation for Public Deposits

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South African Reserve Bank

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Approval and statement of responsibility

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

The annual financial statements are prepared in accordance with IFRSs and in the manner required by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984) (the CPD Act), on the going-concern basis. The directors have every reason to believe that the CPD has adequate resources in place to continue to operate for the foreseeable future. The annual financial statements are based on appropriate accounting policies, and supported by reasonable and prudent judgements and estimates. The directors are satisfied that the information contained in the financial statements fairly represents the results of operations for the period and the financial position of the CPD at year-end.

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

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

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

A D Mminele
Chairperson

M Ratsoma
Director

Pretoria
9 May 2013

Directors’ report
for the year ended 31 March 2013

The directors present the CPD’s 29th annual financial statements for the year ended 31 March 2013.

Nature of business

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

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

Board of Directors

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

The term of office of directors who are officers of the Bank is three years, and these directors are eligible for reappointment. The term of office of directors who are officers of National Treasury is decided by the Minister.

The Chairperson of the Board is appointed by the Minister.

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

The following served as directors of the CPD during the financial year:

- Aaron Daniel Mminele: Deputy Governor of the Bank and Chairperson of the CPD Board; reappointed on 24 March 2013.
- Leon Reinier Myburgh: the Bank; appointed on 1 March 2013.[1]
- Lungisa Fuzile: National Treasury; appointed on 30 September 2008; replaced by Monale Ratsoma who was appointed on 4 April 2012.
- Mkhulu Maseko: National Treasury; appointed on 4 April 2012.

Alternate directors during the financial year were as follows:
- Naidene Ford-Hoon (alternate to A D Mminele): appointed on 27 August 2010.
- Johannes David Redelinghuys (alternate to M Ratsoma): appointed on 23 March 2004.
- Johan Hendrik Krynauw (alternate to M Maseko): appointed on 23 March 2004.

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

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

Directors are not remunerated for services rendered to the CPD.

[1] Prior to 1 March 2013 a vacancy existed for a director from the Bank.

Attendance schedule of directors for CPD Board meetings, 2012/13

	7/5/12	2/8/12	12/11/12	19/2/13
A D Mminele	√	√	√	√
M Ratsoma	√	√	×	×
M Maseko	×	√	√	√

√ Present
× Absent with apology, no alternate representative

Accountability

The financial statements of the CPD are required to be submitted to the Minister within six months after the end of the financial year, whereafter the Minister tables them in Parliament.

Internal controls

The Internal Audit Department of the Bank evaluates internal controls. The Risk Management and Compliance Department assesses the risk management processes of the CPD. The Audit Committee of the Bank is responsible for evaluating and monitoring internal controls of the CPD.

Administration and accounting

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

The administration and accounting of funds under the control of the CPD are performed by the Financial Services Department and the investment of funds is the responsibility of the Financial Markets Department, both of which are departments of the Bank.

Contingency reserve

In terms of section 15 of the CPD Act, a contingency reserve is maintained to provide against risks to which the CPD is exposed. Movements in the contingency reserve are set out in Note 8 on page 14 of the financial statements.

Financial results and performance

The financial results and performance of the CPD are set out in the financial statements. The surplus remaining after the payment of a dividend and transfer to the contingency reserve amounted to R86,9 million (2012: R50,1 million), which will be paid to government in terms of the CPD Act.

Share capital

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

Dividend

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

Secretary

Mhitlhiemang Abigail Masibi-Malotle

Registered office

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

Independent auditor's report

to the shareholder of the Corporation for Public Deposits

We have audited the annual financial statements of the Corporation for Public Deposits, set out on pages 6 to 19, which comprise the statement of financial position as at 31 March 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984), 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 annual 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 annual 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 controls 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 controls. 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, the financial statements present fairly, in all material respects, the financial position of the Corporation for Public Deposits as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984).

Other reports

As part of our audit of the annual financial statements for the year ended 31 March 2013, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. This report is the responsibility of the preparer. Based on our reading of this report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on this report.

SizweNtsalubaGobodo Inc.

SizweNtsalubaGobodo Inc.
Director: Pravesh Hiralall
Registered Auditor
Chartered Accountant (SA)
Pretoria

9 May 2013

Statement of financial position

at 31 March 2013

	Notes	2013 R'000	2012 R'000
Current assets			
Money-market investments	2	13 945 855	11 480 662
Short-term deposits	3	5 216 146	10 361 520
Total assets		19 162 001	21 842 182
Liabilities			
Deposit accounts	4	18 872 343	21 460 817
Other liabilities	5	0	229
Bank overdraft		110 749	250 016
Surplus due to government	6	86 909	50 120
Total liabilities		19 070 001	21 761 182
Capital and reserves			
Share capital	7	2 000	2 000
Contingency reserve	8	90 000	79 000
Total capital and reserves		92 000	81 000
Total liabilities, capital and reserves		19 162 001	21 842 182

Statement of comprehensive income

for the year ended 31 March 2013

	Notes	2013	2012
Interest income	9	2 796 609	2 194 282
Interest expense	10	(2 697 694)	(2 142 977)
Net interest income		98 915	51 305
Unrealised loss on money-market investments		(76)	(61)
Realised loss on money-market investments		(91)	0
Total income	11.1	98 748	51 244
Operating costs	11.2	(639)	(924)
Profit for the year	11	98 109	50 320
Taxation	12	0	0
Total comprehensive income for the year		98 109	50 320

Statement of changes in equity

for the year ended 31 March 2013

	Share capital	Accumulated profit	Contingency reserve	Total
	R'000	R'000	R'000	R'000
Balance at 31 March 2011	2 000	0	79 000	81 000
Total comprehensive income for the year	0	50 320	0	50 320
Transfer to government	0	(50 120)	0	(50 120)
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2012	2 000	0	79 000	81 000
Total comprehensive income for the year	0	98 109	0	98 109
Transfer to government	0	(86 909)	0	(86 909)
Transfer to reserves	0	(11 000)	11 000	0
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2013	2 000	0	90 000	92 000

Explanatory notes

Contingency reserve

In terms of section 15 of the CPD Act, a contingency reserve is maintained to provide against risks to which the CPD is exposed. For the year ended 31 March 2013, an amount of R11,0 million (2012: R0,0 million) was transferred from accumulated profit to the contingency reserve.

Transfer to government

In terms of section 15 of the CPD Act, the surplus remaining after transfers to reserves and payment of dividends has to be paid to government. For the year ended 31 March 2013, an amount of R86,9 million (2012: R50,1 million) was transferred to government.

Statement of cash flows

for the year ended 31 March 2013

	Notes	2013	2012
		R'000	R'000
Cash flows from operating activities			
Cash utilised by operating activities	13.1	(868)	(787)
Interest received		2 796 609	2 194 282
Interest paid		(2 697 694)	(2 142 977)
Dividends paid		(200)	(200)
Transfer to government		(50 120)	(52 870)
Cash flows generated from/(utilised by) operating activities		47 727	(2 552)
Cash flows generated from/(utilised by) investing activities		2 680 014	(10 726 987)
Increase in money-market investments	13.2	(2 465 360)	(3 374 204)
Decrease/(Increase) in short-term deposits		5 145 374	(7 352 783)
Cash flows (utilised by)/generated from financing activities			
(Decrease)/Increase in deposit accounts		(2 588 474)	10 629 375
Net increase/(decrease) in cash and cash equivalents		139 267	(100 164)
Bank overdraft at beginning of the year		(250 016)	(149 852)
Bank overdraft at end of the year		(110 749)	(250 016)

Notes to the financial statements

for the year ended 31 March 2013

1. Accounting policies

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

1.1 Basis of preparation

These annual financial statements have been prepared in accordance with IFRSs and the accounting policies set out in this note. The financial statements have been prepared on the historical cost basis, except for certain investments carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

The annual financial statements of the CPD are presented in South African rand, which is the functional currency of the CPD.

1.2 Changes in accounting policy and disclosure

New and amended standards adopted

There are no IFRSs or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that have a material impact on the CPD.

New standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2013, and have not been early adopted in preparing these financial statements. The majority of the new standards, amendments and interpretations are not expected to have a significant impact on the financial statements of the CPD, except for the following:

- IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces those parts of International Accounting Standards (IAS) 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: (i) those measured at fair value; and (ii) those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash-flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in 'other comprehensive income' rather than profit or loss, unless this creates an accounting mismatch. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, this was allowed.

The CPD is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The CPD will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board (IASB).

– IFRS 13, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and United States Generally Accepted Accounting Principles (US GAAP), do not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is effective for annual periods beginning on or after 1 January 2013.

– Amendments to IAS 1, *Financial Statement Presentation*, regarding Other Comprehensive Income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially re-classifiable to profit or loss (reclassification adjustments) or not. The amendments do not address which items are presented in Other Comprehensive Income.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the CPD.

1.3 Financial instruments

Classification

Financial instruments as reflected in the statement of financial position include all financial assets and financial liabilities. The classification of financial instrument categories depends on the purpose for which the financial instruments were acquired. Management determines the classification at initial recognition of the financial instrument and re-evaluates this classification at each reporting date.

Financial instruments are classified as follows:

Financial assets

Financial assets at fair value through profit or loss

This category comprises two subcategories: (i) financial assets held-for-trading; and (ii) those designated at fair value through profit or loss at inception.

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

A financial asset is designated as 'fair value through profit or loss' when either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or it forms part of a portfolio of financial assets that is managed and whose performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel.

The following categories of financial assets have been classified as 'designated at fair value':

– Money-market investments
– Short-term deposits.

Financial liabilities

Financial liabilities at amortised cost

The following liabilities have been classified as financial liabilities:

- Deposit accounts
- Other liabilities (accruals).

Financial liabilities are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents consists of a bank overdraft.

Recognition

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

Other financial liabilities are recognised on the day on which they are transferred to the CPD or the day on which the funds are advanced.

Measurement

(a) Initial measurement

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

Purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the CPD commits itself to purchasing or selling the asset. From this date, any gains or losses arising from changes in the fair value of the assets and liabilities are recognised. Financial assets are derecognised when the rights to receive cash flows from the assets have expired, or where the CPD has transferred substantially all risks and rewards of ownership. The CPD derecognises financial liabilities when, and only when, the CPD's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(b) Subsequent measurement

Financial assets are subsequently carried at fair value. Financial liabilities are subsequently carried at amortised cost. Fair values are determined according to the hierarchy based on the requirements in IFRS 7, *Financial Instruments: Disclosures* as set out in Note 15 to the financial statements.

Fair values are established as follows:

- Money-market investments: The fair values of money-market investments are quoted fair values as obtained in the market. The managers utilise quoted market prices for quoted financial instruments and market-acceptable valuation techniques for unquoted financial instruments. Where these instruments are bank deposits, they are valued at nominal values plus accrued interest based on market rates.

These values approximate fair values. Non-interest-bearing Treasury bills are stated at nominal value, since they do not have fixed maturity dates.

– Non-trading liabilities: Non-trading liabilities are measured at amortised cost.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The CPD assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each reporting date. Any impairment loss is recognised in profit or loss. If, in a subsequent period, the amount relating to an impairment loss can be linked objectively to an event occurring after the writedown, the writedown is reversed through profit or loss.

Gains and losses on subsequent measurement

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

Hedge accounting

Hedge accounting has not been applied to any transactions for the year under review.

Effective interest method

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

Set-off

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

1.4 Share capital

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

1.5 Revenue recognition

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

1.6 Contingencies and commitments

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

2. Money-market investments

	2013 R'000	2012 R'000
Non-interest-bearing Treasury bills	47 359	47 359
Land Bank promissory notes	465 924	356 523
Negotiable certificates of deposit	8 799 190	3 752 615
Bridging bonds	201 275	0
Repurchase agreements [(1)]	0	5 276 349
Treasury bills	2 998 845	357 986
Other discount instruments	1 433 262	1 689 830
	13 945 855	11 480 662
Maturity structure of money-market investments		
1 month and less	2 977 674	6 479 951
Between 1 and 3 months	5 719 616	1 932 084
Between 3 and 6 months	5 248 565	3 068 627
	13 945 855	11 480 662
For investments that meet the definition of financial assets designated at fair value:		
Maximum exposure to credit risk	13 945 855	11 480 662

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

The following table presents details of collateral received for repurchase agreements:

Fair value of collateral received	0	5 302 009
Fair value of collateral permitted to sell or repledge at the reporting date	0	5 302 009
Collateral cover	0	100,49%
Maturity date	0	5 April 2012

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

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

[(1)] All the repurchase agreements matured on the last working day of March 2013, with no reinvestment being made before year-end. As a result of this, at the reporting date, the CPD had no investments in repurchase agreements.

3. Short-term deposits

	2013 R'000	2012 R'000
Call deposit with the Bank	5 127 000	8 237 000
Call deposits at commercial banks	5 000	2 076 000
Accrued income	84 146	48 520
	5 216 146	10 361 520
Maturity structure of short-term deposits		
On demand	5 132 000	10 313 000
1 month and less	84 146	48 520
	5 216 146	10 361 520

Short-term deposits are made for varying periods, depending on the CPD's immediate cash requirements.

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

4. Deposit accounts

Interest-bearing deposits	18 824 587	21 413 061
Non-interest-bearing deposit	47 756	47 756
	18 872 343	21 460 817

Maturity structure of deposit accounts

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

In terms of the current interest rate policies as approved by the Board, deposit accounts earn interest at a rate of 10 basis points less than the yield on 91-day Treasury bills. The prevailing rate at the reporting date was 5,07 per cent (2012: 5,55 per cent). Non-interest-bearing deposits fund the non-interest-bearing Treasury bills referred to in Note 2 on page 12.

5. Other liabilities

Accrual (1)	0	229
Maturity structure of other liabilities		
Between 1 and 3 months	0	229

(1) The accrual at 31 March 2012, related to audit fees. No such accrual was made in the current year for reasons as set out in Note 11.2 on page 14.

6. Surplus due to government

Surplus due to government	86 909	50 120

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

7. Share capital

	2013 R'000	2012 R'000
Authorised 2 000 000 (2012: 2 000 000) ordinary shares at R1 each	2 000	2 000
Issued 2 000 000 (2012: 2 000 000) ordinary shares at R1 each	2 000	2 000

8. Contingency reserve

An amount of R11,0 million (2012: R0,0 million) was transferred from accumulated profit to the contingency reserve.

Balance at beginning of the year	79 000	79 000
Transfer from accumulated profit	11 000	0
Balance at end of the year	90 000	79 000

9. Interest income

Interest on call deposits	833 082	434 800
Interest on financial instruments	1 706 146	1 702 564
Discount	257 381	56 918
	2 796 609	2 194 282

10. Interest expense

Interest on deposit accounts	2 690 277	2 135 239
Interest on margin call	46	0
Interest on overdraft	7 371	7 738
	2 697 694	2 142 977

Interest on deposit accounts is calculated as set out in Note 4 on page 13.

Interest on overdraft is calculated at a rate of 40 basis points less than the average rate on 91-day Treasury bills. The prevailing rate at the reporting date was 4,70 per cent (2012: 5,17 per cent).

11. Profit for the year

11.1 Total income is stated after

Realised loss on money-market investments [1]	(91)	0
Unrealised loss on money-market investments	(76)	(61)

11.2 Operating costs include

Audit fees [2]	(24)	261
Other operating costs	663	663
	639	924

(1) The CPD has the intention to hold money-market instruments until maturity. During the year under review, certain money-market instruments were realised before maturity to accommodate depositors' cash requirements. This resulted in a realised loss of R91 thousand for the year ended 31 March 2013.

(2) At 31 March 2012 the CPD provided R229 thousand in respect of audit fees. For the year beginning 1 April 2012 no such provision was made in order to align the treatment of audit fees with that of the Bank, which is to account for audit fees when incurred. Actual costs amounted to R205 thousand. The over-provision of R24 thousand was accounted for as a credit in profit or loss.

12. Taxation

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

13. Notes to the statement of cash flows

13.1 Cash utilised by operating activities

	2013 R'000	2012 R'000
Profit for the year	98 109	50 320
Adjustment for:		
Interest income	(2 796 609)	(2 194 282)
Interest expense	2 697 694	2 142 977
Unrealised loss on money-market investments	76	61
Realised loss on money-market investments	91	0
	(639)	(924)
Changes in working capital:		
Other liabilities	(229)	137
	(868)	(787)

13.2 Increase in money-market investments

Increase in money-market investments	(2 465 193)	(3 374 143)
Adjustment for non-cash items:		
Unrealised loss on money-market investments	(76)	(61)
Realised loss on money-market investments	(91)	0
	(2 465 360)	(3 374 204)

14. Events after the reporting date

No material events occurred between 31 March 2013 and 9 May 2013 requiring disclosure in, or adjustment to, the annual financial statements for the year ended 31 March 2013.

15. Risk management

Interest rate management

Deposit accounts

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

Investments

Interest-bearing deposits are invested in call deposits and other money-market investments at market-related yields. Interest earned on special Treasury bills is at the prevailing yield less 10 basis points on 91-day Treasury bills. An amount equal to the non-interest-bearing deposits is invested in non-interest-bearing Treasury bills.

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

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

Credit risk management

Call deposits

The CPD invests in banks that have capital and reserves in excess of R1 billion, and limits its exposure to 10 per cent thereof. The exposure to call deposits at banks at 31 March 2013 was R5 million (2012: R2 076 million), excluding accrued income. The CPD also places call deposits with the Bank. The total exposure to call deposits at 31 March 2013 was R5 127 million (2012: R8 237 million), excluding accrued income.

Other money-market instruments

The CPD may have significant investment exposure to other money-market instruments, such as promissory notes and negotiable certificates of deposit. Where applicable, the exposure to these instruments is subject to, and forms part of, the same 10 per cent limit as the call deposits referred to above.

In terms of the Investment Guidelines approved by the Board, all investments are placed with Investment Grade institutions and with the Bank. The Fitch Short-Term National Credit Ratings for institutions primarily utilised are all F1+, which is the highest rating available in the short term. The majority of investments is in the short term with maturities of less than three months. The profitability of the CPD is monitored regularly and the Board has the authority to adjust the interest rate payable to depositors in order to maintain the desired results.

Liquidity risk

In view of the short-term nature of the CPD's liabilities, its investment policy is to invest in assets with a maturity of less than three years and further to invest at least 60 per cent of all funds in assets with a maturity of less than three months. The maturity structure of investments at 31 March is shown in Note 2.

Deposit accounts

The business of the CPD is to accept call deposits and invest the funds so obtained in short-term money-market instruments, Treasury bills and with the Bank.

The Financial Markets Department of the Bank is responsible for investing funds deposited with the CPD according to the Investment Guidelines approved by the Board. The Financial Markets Department endeavours to invest funds in an optimal manner, taking into account the expected cash flow of the CPD, the interest rate cycle, the possible liquidity impact and market tendencies. To minimise risk, investments are only made with Investment Grade institutions and with the Bank. These institutions are reviewed regularly to ensure that Investment Guidelines are adhered to.

Sensitivity analysis

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

	Increase in basis points	Sensitivity of net interest income Increase/ (Decrease) R'000	Decrease in basis points	Sensitivity of net interest income Increase/ (Decrease) R'000
2013				
Money-market investments	+100	(25 836)	-100	25 995
2012				
Money-market investments	+100	(13 738)	-100	14 403

Fair value hierarchy disclosures

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

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

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

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

	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
2013				
Financial assets				
Money-market investments	13 945 855	0	13 945 855	0
Short-term deposits [(1)]	0	0	0	0
2012				
Financial assets				
Money-market investments	11 480 662	0	11 480 662	0
Short-term deposits [(1)]	0	0	0	0

[(1)] Short term deposits of R5 216 million (2012: R10 362 million) have not been included in the fair value hierarchy as the carrying value of the instruments approximates fair value.

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

	Total R'000	Designated at fair value R'000	Other liabilities R'000
2013			
Interest income	2 796 609	2 796 609	0
Interest expense	(2 697 694)	0	(2 697 694)
Unrealised loss on money-market investments	(76)	(76)	0
Realised loss on money-market investments	(91)	(91)	0
2012			
Interest income	2 194 282	2 194 282	0
Interest expense	(2 142 977)	0	(2 142 977)
Unrealised loss on money-market investments	(61)	(61)	0

17. Classification of financial assets and liabilities

	Total R'000	Designated at fair value R'000	Other liabilities R'000	Fair value R'000
2013				
Financial assets				
Money-market investments	13 945 855	13 945 855	0	13 945 855
Short-term deposits	5 216 146	5 216 146	0	5 216 146
	19 162 001	19 162 001	0	19 162 001
Financial liabilities				
Deposit accounts	18 872 343	0	18 872 343	18 872 343
Bank overdraft	110 749	0	110 749	110 749
	18 983 092	0	18 983 092	18 983 092
2012				
Financial assets				
Money-market investments	11 480 662	11 480 662	0	11 480 662
Short-term deposits	10 361 520	10 361 520	0	10 361 520
	21 842 182	21 842 182	0	21 842 182
Financial liabilities				
Deposit accounts	21 460 817	0	21 460 817	21 460 817
Other liabilities	229	0	229	229
Bank overdraft	250 016	0	250 016	250 016
	21 711 062	0	21 711 062	21 711 062

18. Related party disclosures

Name	Relationship
South African Reserve Bank	Holding company
South African Mint Company (RF) [1] (Pty) Limited	Fellow subsidiary
South African Bank Note Company (RF) [1] (Pty) Limited	Fellow subsidiary
South African Reserve Bank Captive Insurance Company (RF) [1] Limited	Fellow subsidiary
Pension Fund of the South African Reserve Bank	Pension fund of holding company
South African Reserve Bank Retirement Fund	Retirement fund of holding company

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

	Expenditure paid to	Interest income	Interest expense	Amounts owed by	Amounts owed to
	R'000	R'000	R'000	R'000	R'000
2013					
South African Reserve Bank	663	805 860	7 371	5 209 369	110 749
South African Mint Company (RF) [1] (Pty) Limited	0	0	6 286	0	122 156
South African Bank Note Company (RF) [1] (Pty) Limited	0	0	7 648	0	247 827
South African Reserve Bank Captive Insurance Company (RF) [1] Limited	0	0	905	0	26 883
Pension Fund of the South African Reserve Bank	0	0	6	0	115
South African Reserve Bank Retirement Fund	0	0	2 288	0	5 000
2012					
South African Reserve Bank	663	423 621	7 738	8 279 960	250 016
South African Mint Company (RF) [1] (Pty) Limited	0	0	6 298	0	134 870
South African Bank Note Company (RF) [1] (Pty) Limited	0	0	9 440	0	267 735
South African Reserve Bank Captive Insurance Company (RF) [1] Limited	0	0	332	0	5 487
Pension Fund of the South African Reserve Bank	0	0	17	0	229
South African Reserve Bank Retirement Fund	0	0	2 276	0	9 332

Terms and conditions of transactions with related parties

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

[1] Pursuant to the provisions of section 11 (3) (b) of the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act), the names of subsidiaries that are companies by definition will be followed by the expression 'RF', being the abbreviation for 'ring fenced'. This indicates that the companies' Memorandum of Incorporation (MoI) includes provisions contemplated in section 15 (2) (b) or (c), restricting or prohibiting the amendment of any particular provision of the MoI. This change is effective from the date that the companies' previous MoI and Articles of Association were repealed and substituted with its revised MoI, that date being 22 March 2013.

Abbreviations

CPD	Corporation for Public Deposits
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
MoI	Memorandum of Incorporation
RF	ring fenced
US GAAP	United States Generally Accepted Accounting Principles

Glossary

Companies Act	Companies Act, 2008 (Act No. 71 of 2008)
CPD Act	Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984)
the Bank	South African Reserve Bank
the Board	Board of Directors [of the Corporation for Public Deposits]
the Minister	Minister of Finance