CORPORATION FOR PUBLIC DEPOSITS

Annual Financial Statements
for the year ended
31 March 2020

SOUTH AFRICAN RESERVE BANK

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Contents

Produced by the Publishing Section,
South African Reserve Bank

Approval and statement of responsibility

The Board of Directors (Board) of the Corporation for Public Deposits (CPD) is 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 (IFRS).

The annual financial statements are prepared in accordance with IFRS and in the manner required by the Corporation for Public Deposits Act 46 of 1984 (CPD Act), on the going-concern basis. The Board has 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 Board is satisfied that the information contained in the annual financial statements fairly presents the results of operations for the period and the financial position of the CPD at the reporting date.

The Board is also responsible for ensuring that adequate systems of internal financial control exist for the CPD. These systems are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual 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 Board to indicate that any material breakdown in the functioning of these controls, procedures and systems occurred during the year under review.

The annual financial statements have been audited by an independent auditing firm, SNG Grant Thornton Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board and of the shareholder, that is, the South African Reserve Bank (SARB). The Board believes 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:

N Tshazibana
Chairperson

A M Maseko
Director

Pretoria
22 June 2020

Directors' report

for the year ended 31 March 2020

The Board presents the CPD's 36th annual financial statements for the year ended 31 March 2020.

Nature of business

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

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

Board of directors

The 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 who hold the office of Governor or Deputy Governor of the SARB, or who are officers of the SARB, and two are officers of National Treasury.

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

The Chairperson of the Board is appointed by the Minister.

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

Directors of the CPD, 2019/20

Directors	Position and Office	Date of appointment/ reappointment	Alternate director
A D Mminele[1]	Deputy Governor of the SARB and Chairperson of the Board	24 March 2019	K Naidoo
N Tshazibana	Deputy Governor of the SARB and Chairperson of the Board	1 August 2019	K Naidoo
L R Myburgh[2]	Officer of the SARB	1 March 2019	M Nkuna
Z Parker	Officer of the SARB	1 August 2019	M Nkuna
A M Maseko	Officer of National Treasury	4 April 2012	B Mokwala
J D Redelinghuys	Officer of National Treasury	1 May 2016	W H Moolman

1 A D Mminele's term as Deputy Governor of the SARB ended on 30 June 2019.
2 L R Myburgh resigned from the SARB on 30 June 2019.

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

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

Directors are not remunerated for services rendered to the CPD.

Attendance schedule of directors for CPD Board meetings, 2019/20

	15/05/2019	3/09/2019	28/11/2019	4/03/2020
A D Mminele	√			
N Tshazibana		√	√	√
L R Myburgh	√			
Z Parker		√	×+	√
A M Maseko	√	×+	√	√
J D Redelinghuys	√	×+	√	√

√ Present
× Absent with apology
+ Alternate representative director in attendance

Accountability

The annual financial statements of the CPD are required to be submitted to the Minister within six months after the end of the financial year, where after the Minister tables them in Parliament. The March 2019 annual financial statements were tabled in Parliament on 23 January 2020.

Internal controls

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

Administration and accounting

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

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

Contingency reserve

In terms of section 15 of the CPD Act, a contingency reserve is maintained to provide against risks to which the CPD is exposed. Due to the accumulated loss incurred during the current year, the CPD utilised its contingency reserve of R150.0 million (2019: R0) and was unable to make any transfers into the reserve (2019: R50.0 million). Movements in the contingency reserve are set out in the statement of changes in equity on page 11 of the annual financial statements.

Financial results and performance

The financial results and performance of the CPD are set out in the annual financial statements. The comprehensive loss for the year amounted to R2.8 billion (2019: R92.1 million profit). There were no surplus funds avaliable for transfer to government (2019: R41.9 million) and no amounts transferred to the contingency reserve (2019: R50.0 million). The surplus amounts in the prior year were paid to government in terms of the CPD Act.

Share capital

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

Dividend

A dividend of 10 cents per ordinary share was declared during the year and paid on 27 March 2020. Owing to the solvency issue as noted below, this was subsequently rescinded by the Board on 29 May 2020 and is receivable from the SARB.

Going concern and events after the reporting date

The coronavirus disease 2019 (COVID-19) has had a significant impact on the CPD's operations and the 2019/20 financial results.

In April 2020 a counterparty defaulted on its guarantees under its Domestic Medium Term Notes Programme as a result of liquidity issues which were exacerbated by the COVID-19 pandemic. The downgrade of the counterparty has resulted in promissory notes (PNs) no longer being eligible instruments in terms of the CPD Investment Guidelines. The market value of the CPD's exposure to the counterparty's PNs was R899 million as at 31 March 2020 with a nominal value of R910 million. The Board approved a recovery rate of 30 cents to the rand based on the counterparty's revised corporate plan, resulting in a fair value loss of R629 million. Additional PNs were purchased in April 2020 prior to the default, increasing the CPD's exposure to R1.14 billion with a nominal value of R1.15 billion. The fair value adjustments related to the April 2020 purchases will be processed in the 2020/21 financial year using the same recovery rate.

In addition to the above, there has been a significant increase in credit risk to the value of R1.3 billion and an additional R1.0 billion as a result of the COVID-19 pandemic, which significantly increases the expected credit loss (ECL) for the CPD.

The fair value loss and ECL will partly be disbursed as follows:

- R175 million from comprehensive income; and
- R150 million from the contingency reserve.

The remaining balance of R2.6 billion has rendered the CPD technically insolvent as its liabilities now exceed its assets. As a remedy, the SARB has issued a guarantee in favour of the CPD to the value of R3.45 billion for all amounts required by it for the due and punctual performance of its obligations under the CPD Act. This guarantee is a continuing covering security and will remain in force for 12 months after the signature date of 11 June 2020.

Refer to Note 15 for more information.

Secretary

M A Masibi-Malotle

Registered office

South African Reserve Bank
370 Helen Joseph Street, Pretoria
Republic of South Africa, 0002

Reporting framework

The annual financial statements have been prepared in accordance with the CPD Act and the accounting policies set out in Note 1.

The CPD has chosen to use IFRS as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its annual financial statements. However, due to the sensitivity around certain IFRS disclosures and as a result of the CPD being a wholly owned subsidiary of the SARB, the CPD considers certain IFRS disclosures inappropriate to its functions. The CPD's annual financial statements, therefore, disclose less detail than would be required under IFRS.

The significant departures from IFRS as a consequence of the above are summarised as follows:

Presentation

In the annual financial statements, not all information as required by *IFRS 7, Financial Instruments Disclosures*, is disclosed. This relates specifically to:

- market risk: the sensitivity analysis for each type of market risk to which the CPD is exposed at the reporting date, showing how profit or loss would have been affected by changes in the relevant risk variables that were reasonably possible at that date; and
- credit risk: the credit quality per counterparty (issuer) and instrument class, the historical information about the counterparty default rates and a breakdown of instruments per counterparty.

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Independent auditor's report

to the shareholder of the Corporation for Public Deposits

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Corporation for Public Deposits (CPD) set out on pages 10 to 32, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the CPD as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with the basis of accounting described in Note 1 to the financial statements and the requirements of the Corporation for Public Deposits Act No. 46 Of 1984.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the CPD in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Statement of profit or loss and other comprehensive income and the Statement of financial position in the financial statements, which indicates that the CPD incurred a net loss of R2.8 billion during the year ended 31 March 2020 and as of that date, the CPD's current liabilities exceeded its total assets by R2.6 billion. These events or conditions, along with other matter as set forth in Note 15.3, indicate that a material uncertainty exists that may cast significant doubt on the CPD's ability to continue as a going concern. However, the South African Reserve Bank has issued a guarantee of R3.45 billion in favour of the CPD. Our opinion is not modified in respect of this matter.

Emphasis of matter – basis of accounting

We draw attention to Note 1 to the annual financial statements, which describes the basis of accounting. The annual financial statements are prepared for the purpose as described therein. As a result, the financial statements may not be suitable for any other purpose. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the document titled "Corporation for Public Deposits Annual Financial Statements for the year ended 31 March 2020", which includes the Directors' Report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Corporation for Public Deposits Act 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.

In preparing the annual financial statements, the Directors are responsible for assessing the CPD's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the CPD or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CPD's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the CPD to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Alethia Chetty
Registered Auditor
Chartered Accountant (SA)

22 June 2020

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Statement of financial position

at 31 March 2020

	Notes	2020 R'000	2019 R'000
Assets			
Cash and cash equivalents	2	37 048 516	37 418 853
Money market investments	3	342 368	5 778 090
Short-term deposits	4	7 026 933	11 070 414
Loans and advances	5	25 413 861	17 575 766
Total assets		69 831 678	71 843 123
Liabilities			
Bank overdraft	2	0	17 639
Deposit accounts	6	72 449 274	71 631 549
Surplus due to government	7	0	41 935
Total liabilities		72 449 274	71 691 123
Capital and reserves			
Share capital	8	2 000	2 000
Contingency reserve		0	150 000
Accumulated loss		(2 619 596)	0
Total capital and reserves		(2 617 596)	152 000
Total liabilities, capital and reserves		69 831 678	71 843 123

Statement of profit or loss and other comprehensive income

for the year ended 31 March 2020

Interest income	9	5 629 290	5 420 464
Other income	10	140 898	150 337
Interest expense	11	(5 589 388)	(5 476 759)
Net interest income		180 800	94 042
Unrealised (loss)/profit on investments		(630 625)	1 995
Credit-impaired losses		(2 315 341)	0
Total (loss)/income		(2 765 166)	96 037
Operating costs	12	(4 230)	(3 902)
(Loss)/profit for the year		(2 769 396)	92 135
Taxation	13	0	0
Total comprehensive (loss)/income for the year		(2 769 396)	92 135

Statement of changes in equity

for the year ended 31 March 2020

	Share capital	Accumulated (loss)/profit	Contingency reserve	Total
	R'000	R'000	R'000	R'000
Balance at 31 March 2018	2 000	0	100 000	102 000
Total comprehensive income for the year	0	92 135	0	92 135
Transfer to government	0	(41 935)	0	(41 935)
Transfer to reserves	0	(50 000)	50 000	0
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2019	2 000	0	150 000	152 000
Total comprehensive loss for the year	0	(2 769 396)	0	(2 769 396)
Transfer to government	0	0	0	0
Transfer from reserves	0	150 000	(150 000)	0
Dividends paid	0	(200)	0	(200)
Balance at 31 March 2020	2 000	(2 619 596)	0	(2 617 596)

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 2020, an amount of R0 million (2019: R50 million) was transferred from accumulated profit to the contingency reserve.

Dividend paid

As per paragraph 3(c) of the CPD Act, the CPD has the power to pay the shareholder annually, from its net profits, a dividend of R200 000 on the paid-up capital of the CPD. A dividend of 10 cents per ordinary share was declared during the year and paid on 27 March 2020. Due to the solvency issue as noted in the Directors' report, this was subsequently rescinded by the Board on 29 May 2020 and is receivable from the SARB.

Transfer to government

In terms of section 15 of the CPD Act, the surplus remaining after transfers to reserves and the payment of dividends has to be paid to government. For the year ended 31 March 2020, an amount of zero (2019: R41.9 million) was due to government.

Statement of cash flows

for the year ended 31 March 2020

	Notes	2020	2019
		R'000	R'000
Cash flows from operating activities			
Cash (utilised)/generated from operating activities	14.1	(7 024 600)	2 892 071
Interest received		5 629 290	5 420 464
Other income		140 898	150 337
Interest paid		(5 589 388)	(5 476 759)
Credit-impaired losses		(2 315 341)	0
Dividends paid		(200)	(200)
Transfer to government payment[1]		(41 935)	(91 195)
Net cash flows (utilised)/generated from operating activities		(9 201 276)	2 894 718
Cash flows generated/(utilised) in investing activities		8 848 578	(10 940 306)
Decrease/(increase) in money market investments	14.2	4 805 097	(2 899 284)
Decrease/(increase) in short-term deposits		4 043 481	(8 041 022)
Net decrease in cash and cash equivalents		(352 698)	(8 045 588)
Cash and cash equivalents at beginning of the year		37 401 214	45 446 802
Cash and cash equivalents at end of the year		37 048 516	37 401 214

[1]Payment made to government on annual basis as per the explanatory note above.

Notes to the annual financial statements

for the year ended 31 March 2020

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. During the year, the CPD was required to raise an ECL allowance in accordance with *IFRS 9, Financial Instruments*. Due to the sensitivity around the disclosure and as a result of the CPD being a wholly owned subsidiary of the SARB, the decision to align the reporting framework to that of the SARB has become a requirement. Refer to page 6 for the reporting framework.

1.1 Basis of preparation

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These accounting policies should be read together with the reporting framework on page 6. These annual financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS (except for the significant departures in the reporting framework) in the manner required by the CPD Act and the accounting policies set out below, on the going-concern basis. The annual financial statements have been prepared on the historical cost basis, except for certain investments carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets at initial recognition.

The preparation of annual financial statements in conformity with IFRS 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 by order of liquidity, in South African rand, which is the functional currency of the CPD, and the amounts are rounded off to the nearest thousand unless otherwise stated.

1.2 New standards and interpretations

1.2.1 New and amended standards adopted by the CPD

A number of new standards, amendments and interpretations, listed below, became effective for annual periods beginning after 1 April 2019.

- *IFRS 16, Leases*
- *IAS 19, Employee Benefits*
- *IAS 28, Investment in Associates*
- *IAS 12, Income Taxes*
- *IFRIC 23, Uncertainty Over Income Tax Treatments*
- *Annual Improvements 2015–2017 Cycle*

The CPD management assessed the impact of the standards and concluded that they were not relevant to the CPD, and therefore not applicable.

There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the CPD.

1.3 Financial instruments

1.3.1 Financial assets

1.3.1.1 Classification

The CPD applies *IFRS 9, Financial Instruments,* and classifies its financial assets into the following measurement categories:

- amortised cost; and
- fair value through profit or loss.

For debt instruments, the business model test and the solely payments of principal and interest (SPPI) test are applied by the entity in determining the category which best applies to the financial instruments that it holds and/or trades. Under the business model test, the entity determines the objective for which it holds financial instruments (i.e. hold the financial asset to collect the contractual cash flows, rather than sell the instrument prior to its contractual maturity to realise its fair value changes, or both). Factors considered by the CPD in determining the business model of a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated. The business model test is performed before the SPPI test.

Under the SPPI test, the entity must determine whether the collection of contractual cash flows represents SPPI on specified dates. In making this assessment, the CPD considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for time, value of money, credit risk, other basic lending risks, and a profit margin that is consistent with a basic lending arrangement).

Management determines the classification of financial assets at initial recognition. The CPD reclassifies debt instruments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

The classification depends on the purpose for which the financial assets were acquired. Management applies principles contained in the Investment Guidelines of the CPD to determine the number of days used to classify cash and cash equivalents as well as short-term deposits, and to determine the maturity structure of financial assets in the annual financial statements of the CPD. Instruments with maturities of less than three months at the inception of the deal are classified as cash and cash equivalents, and instruments with maturities of more than three months are classified as short-term deposits. These principles align the classification with the definition of cash and cash equivalents in *IAS 7, Statement of Cash Flows*.

Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost, as disclosed in Note 16.4, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the CPD recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not specifically excluded in terms of the CPD Act or designated at fair value through profit or loss, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance which is recognised and measured, as disclosed in Note 16.4. Interest income using the effective interest method from these financial assets is recognised in profit or loss.

The following categories of financial assets have been classified as 'amortised cost':

- cash and cash equivalents; and
- loans and advances.

Cash and cash equivalents

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

The objective of the CPD's business model is to hold cash and cash equivalents to collect the contractual cash flows (rather than to sell the instruments to realise fair value changes). Cash is primarily held to facilitate trading activities in the portfolios. The contractual terms of cash and cash equivalents give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the CPD provides loans directly to a debtor with no intention of trading the receivable. The objective of the CPD's business model is to hold the loans and advances to collect the contractual cash flows (rather than to sell the instruments to realise fair value changes). The contractual terms of loans and advances give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Fair value through profit or loss

Positive derivatives and assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. Assets are designated at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency, or if the financial asset forms part of a held-for-trading portfolio. A gain or a loss on a debt instrument subsequently measured at fair value through profit or loss and which is not part of a hedging relationship is recognised in profit or loss. Interest income using the effective interest method from these financial assets is included in profit or loss.

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

- Money market investments

  This portfolio consists of commercial project bills, PNs, Treasury bills, other discount instruments, negotiable certificates of deposit (NCDs) and bridging bonds which are highly liquid.

  The money market investments are managed alongside other investments on a fair value basis as one portfolio and reported as such to management. The strategy of the CPD is to maximise returns on its investments portfolio.

  The objective of the CPD's business model for this portfolio is to actively manage duration so as to be able to meet the main objective of repaying public deposits on demand with interest.

  The performance of this portfolio is managed on a market/fair value basis in order to assess the liquidity position on a daily basis and is reported as such to management. The contractual terms of money market investments give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. This portfolio should be categorised under financial instruments measured at 'fair value through profit or loss' because it is reported on a fair value basis to management and managed on that basis.

- Short-term deposits

  This portfolio consists of fixed deposits with commercial banks. Instruments with original maturities of more than three months are classified as short-term deposits and are reported to management as 'investments'.

  The performance of these short-term deposits is managed on a market value basis and is reported as such to management. Short-term deposits are managed alongside other investments on a portfolio basis and reported as such. Due to the short-term nature of the investments, amortised cost approximates fair value. The strategy of the CPD is to maximise returns on its investments portfolio. The contractual terms of short-term deposits give rise on specified dates to cash flows that are SPPI.

  This portfolio should be categorised under financial instruments designated at 'fair value through profit or loss' because it is reported on a fair value basis to management as part of investments and managed on that basis. Management applies the principles contained in the Investment Guidelines of the CPD to determine the number of days used to classify short-term deposits and the maturity structure of annual financial assets in the annual financial statements of the CPD.

1.3.1.2 Measurement

Initial measurement

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

Purchases and sales of financial assets that require delivery are recognised on the trade date, namely the date on which the CPD commits itself to purchasing or selling the assets. From this date, any gains or losses arising from changes in the fair value of the assets and liabilities are recognised.

Subsequent measurement

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

1.3.1.3 Recognition and derecognition

Financial assets are recognised when the CPD becomes party to the contractual provisions of the instruments. Purchases and sales of financial assets entered into during the normal course of business are recognised on the trade date, that is, the date on which the CPD commits to purchasing or selling assets. 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.

1.3.1.4 Impairment of financial assets

The CPD applies *IFRS 9, Financial Instruments,* and assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost, and with the exposure arising from loan commitments and financial guarantee contracts. The CPD recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Refer to Note 16.4 for further detail on the measurement of the ECL allowance.

1.3.2 Financial liabilities

1.3.2.1 Classification

The CPD applies *IFRS 9, Financial Instruments,* and classifies its financial liabilities at amortised cost.

The CPD classifies a financial instrument that it issues as a financial liability in accordance with the substance of the contractual agreement. Management determines the classification of financial liabilities at initial recognition.

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

Amortised cost

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

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

Amortised cost is calculated using the effective interest method that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial liability (refer to Note 1.3.3).

Financial liabilities are measured at amortised cost, which approximates fair value, except as set out below:

- Non-interest-bearing deposit accounts and amounts due to depositors are accounted for at cost, as these do not have fixed maturity and are repayable on demand.

The CPD classifies all financial liabilities as subsequently measured at amortised cost and they are reported as such to management.

1.3.2.2 Measurement

Initial measurement

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

Subsequent measurement

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

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

- Money market investments and South African government bonds: Management utilises 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 value. Non-interest-bearing Treasury bills are stated at nominal value, since they do not have fixed maturity dates.
- Short-term deposits: These instruments are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.
- Loans and advances and non-trading liabilities: Loans and advances and non-trading liabilities are measured at amortised cost, which approximates fair values.

1.3.2.3 Recognition and derecognition

The CPD recognises financial liabilities when it becomes a party to the contractual provisions of the instruments.

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

1.3.3 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 flows (excluding ECL, but 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 of the financial asset or liability. For purchased or originally credit-impaired financial assets, the CPD calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset, instead of its gross carrying amount, and incorporates the impact of ECLs in estimated future cash flows.

When the CPD revises the estimates of future cash flows, the carrying amount of the respective financial instruments is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

1.3.4 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset 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 Related parties

As per *IAS 24, Related Party Disclosures* (IAS 24), the annual financial statements contain the disclosures necessary to draw attention to the possibility that the CPD's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances with such parties.

Related parties include, but are not limited to, the holding company, fellow subsidiaries and members of management who hold positions of responsibility within the CPD, including those charged with governance in accordance with legislation, National Treasury and members of management who are responsible for the strategic direction and operational management of the CPD and are entrusted with significant authority. A director or alternate director shall receive no remuneration or allowances in respect of his/her services as a director. However, the Board may, at its discretion, compensate a director for actual expenses incurred by him/her with respect to his/her functions as a director. Their responsibilities, however, may enable them to influence the benefits of office that flow to them and their related parties or parties that they represent on the governing body.

1.5 Share capital

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

1.6 Interest income and expense recognition

Interest income and interest expense are recognised on a time-proportion basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. Interest income and interest expense are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Interest income includes changes in the fair value of the CPD's financial assets. Where financial assets have been impaired, interest income continues to be recognised on the impaired value, based on the original effective interest rate. Interest income and interest expense include the 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.

1.7 Fair value

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

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

Fair values are determined according to the fair value hierarchy based on the requirements in *IFRS 13, Fair Value Measurement*. Refer to Note 16 for further details.

1.8 Key accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Other than the items listed below, there were no significant changes to the CPD's estimates and assumptions in the current or prior year.

The preparation of annual financial statements in conformity with IFRS 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.

Measurement of expected credit loss allowance

The measurement of the ECL allowance for financial assets measured at amortised cost is an area that requires complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 16.4.3, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for a significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Refer to Note 16 for further detailed information about the judgements and estimates made by the CPD in the above areas.

2. Cash and cash equivalents

	2020	2019
	R'000	R'000
Current account with the SARB	33 088	0
Call deposit with the SARB	17 204 901	826 588
Short-term deposits at commercial banks	19 205 000	36 205 000
Money market investments	494 168	0
Accrued interest	111 359	387 265
	37 048 516	37 418 853

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

Cash and cash equivalents	37 048 516	37 418 853
Overdraft with the SARB	0	(17 639)
	37 048 516	37 401 214

As per the accounting policy, instruments with original maturity of less than three months are classified as cash and cash equivalents. The call deposit with the SARB earns interest at a rate equal to the average of the prevailing yield on 91-day Treasury bills and the average rate paid on the most recent 28-day reverse repurchase transactions conducted by the SARB with market counterparts. The 91-day Treasury bill yield will be applicable if this average rate falls below the Treasury bill yield. The short-term deposits at commercial banks earn interest at market-related rates.

Included in the money market investments are repurchase agreements of R494 million (2019: R0 million). The following table presents details thereof:

Fair value of repurchase agreements	494 168	0
Fair value of collateral received	528 477	0
Fair value of collateral permitted to sell or repledge at the reporting date	528 477	0
Collateral cover	107%	0%
Maturity date	2 April 2020	n/a

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 a default.

3. Money market investments

	2020 R'000	2019 R'000
Non-interest-bearing Treasury bills	72 585	72 585
Promissory notes	269 783	1 209 665
Negotiable certificates of deposit	0	2 022 910
Treasury bills	0	2 112 239
Commercial project bills	0	360 691
	342 368	5 778 090
Maturity structure of money market investments[1]		
1 month and less	99 494	331 786
Between 1 and 3 months	163 391	2 584 047
Between 3 and 6 months	79 483	2 862 257
	342 368	5 778 090
Investments that meet the definition of financial assets designated at fair value:		
Maximum exposure to credit risk	342 368	5 778 090

Non-interest-bearing Treasury bills are funded by non-interest-bearing deposits in terms of an agreement with National Treasury. Money market instruments with a maturity of less than three months from inception are classified as cash and cash equivalents.

[1] The maturity structure is calculated from the last day of the financial year (31 March 2020) to the maturity date of the financial instrument.

4. Short-term deposits

Fixed deposits at commercial banks	7 000 000	11 000 000
Accrued interest	26 933	70 414
	7 026 933	11 070 414
Maturity structure of short-term deposits[1]		
1 month and less	0	1 524 302
Between 1 and 3 months	0	9 546 112
More than 3 months (more than 91 days)	7 026 933	0
	7 026 933	11 070 414

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

[1] The maturity structure is calculated from the last day of the financial year (31 March 2020) to the maturity date of the financial instrument.

5. Loans and advances

Interest-bearing loans	25 413 861	17 575 766

These loans are unsecured and, at the reporting date, were not past due. In terms of the current interest rate policies as approved by the Board, these loans earn interest at a rate equal to the yield on 91-day Treasury bills. The prevailing rate at the reporting date was 5.68% (2019: 7.10%).

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

6. Deposit accounts

	2020 R'000	2019 R'000
Interest-bearing deposits: IGCC and other deposit accounts	71 411 724	70 990 302
Interest-bearing deposits: ETP (JSE Limited margin)	964 965	568 662
Non-interest-bearing deposits	72 585	72 585
	72 449 274	71 631 549
Maturity structure of deposit accounts		
1 month and less	72 449 274	71 631 549
	72 449 274	71 631 549

Deposit accounts are repayable on demand in terms of section 3.1 of the CPD Act.

In terms of the current interest rate policies as approved by the Board, IGCC and other deposit accounts earn interest at a rate of 10 basis points less than the yield on 91-day Treasury bills, whereas the Electronic Trading Platform (ETP) earns the repurchase rate less 25 basis points. The prevailing rates at the reporting date for IGCC and other deposit accounts were 5.58% (2019: 7.00%) and 5.0% (2019: 6.30%) respectively. Non-interest-bearing deposits fund the non-interest-bearing Treasury bills included in Note 3.

7. Surplus due to government

Surplus due to government	0	41 935

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 within the next financial year.

8. Share capital

Authorised 2 000 000 (2019: 2 000 000) ordinary shares at R1 per value each	2 000	2 000
Issued 2 000 000 (2019: 2 000 000) ordinary shares at R1 per value each	2 000	2 000

9. Interest income

Interest on call and fixed deposits	2 453 388	2 260 184
Interest on money market instruments	179 114	183 992
Interest on loans and advances	2 996 788	2 976 288
	5 629 290	5 420 464

10. Other income

Discount received	140 898	150 337
	140 898	150 337

11. Interest expense

	2020 R'000	2019 R'000
Interest on deposit accounts: IGCC and other deposit accounts	5 534 178	5 464 052
Interest on deposit accounts: ETP (JSE Limited margin)	53 867	12 370
Interest on margin call	1 085	187
Interest on overdraft	258	150
	5 589 388	5 476 759

Refer to Note 6 for further details on how interest on deposit accounts is calculated.

Interest on the overdraft with the SARB is calculated at a rate of 40 basis points less than the average rate on 91-day Treasury bills. The prevailing rate at the reporting date was 6.64% (2019: 6.70%).

12. Operating costs

Audit fees	422	258
Management fee	3 808	3 644
	4 230	3 902

13. Taxation

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

14. Notes to the statement of cash flows

14.1 Cash (utilised)/generated from operating activities

(Loss)/profit for the year	(2 769 396)	92 135
Adjustments for:		
Interest income	(5 629 290)	(5 420 464)
Other income	(140 898)	(150 337)
Interest expense	5 589 388	5 476 759
Unrealised loss/(profit) on investments	630 625	(1 995)
Credit-impaired losses	2 315 341	0
	(4 230)	(3 902)
Changes in working capital:		
Increase in loans and advances	(7 838 095)	(63 980)
Increase in deposit accounts	817 725	2 959 953
	(7 024 600)	2 892 071

14.2 Decrease/(increase) in money market investments

Decrease/(increase) in money market investments	5 435 722	(2 901 279)
Adjustment for non-cash item:		
Unrealised (loss)/profit on money market investments	(630 625)	1 995
	4 805 097	(2 899 284)

15. Events after the reporting date

Other than the items listed below, no other material events occurred between 31 March 2020 and the date of signing this report that required disclosure in, or adjustment to, the annual financial statements for the year ended 31 March 2020.

15.1 Impact of COVID-19

The global COVID-19 pandemic developed rapidly in 2020, with South Africa recording its first case in March 2020. There was subsequently a significant rise in the number of infections, which prompted the South African government to implement a countrywide lockdown measure to contain the spread of the virus, but which led to a major economic downturn.

The COVID-19 pandemic has had a significant impact on the CPD's operations and on its 2019/20 financial results.

The Monetary Policy Committee of the SARB reduced the repurchase rate by 100 basis points on 14 April 2020 and 50 basis points on 21 May 2020. This reduction has resulted in a significant decline in the Treasury bills yields, which in turn has reduced the interest payments to depositors.

Given the current fiscal landscape and economic situation, it is highly likely that depositors may have greater demand for funds, which could lead to a significant amount of funds being withdrawn, resulting in a significant decline in IGCC deposits. As a signature date, funds to the value of R129.0 billion have been withdrawn by a number of depositors.

The actions taken by the SARB to inject liquidity into the market have resulted in a substantial increase in money market liquidity, which may result in lower rates offered by banks for term deposits and reducing the net interest margins of the CPD.

The deteriorating economic environment may result in further credit rating downgrades of counterparties, limiting the investment universe. The current credit risk downgrades included in the CPD portfolio are mainly driven by the anticipated impact of COVID-19 on the sovereign as well as the banks. The main risk is further downgrades, which could be possible if the country remains on lockdown for a significant extended period and/or if the measures taken to combat COVID-19 do not lead to expected results.

15.2 Counterparty defaults

As a result of a couterparty default subsequent to year-end, the CPD management and Board approved a 70% impairment on the additional PNs to the value of R420.0 million purchased subsequent to year end, but before the default was public knowledge, which will be impaired in the 2020/21 financial year.

15.3 Going concern and guarantee

As discussed in the Directors' report, the significant increase in credit risk to the value of R2.3 billion (refer to Note 16), the impact of COVID-19 (refer to Note 15.1) and counterparty defaults (refer to Note 15.2) has rendered the CPD technically insolvent as its liabilities exceed its assets. As a remedy, the SARB has issued a guarantee in favour of the CPD to the value of R3.45 billion for all amounts required by it for the due and punctual performance of its obligations under the CPD Act. This guarantee is a continuing covering security and will remain in force for 12 months after the signature date of 11 June 2020.

15.4 Dividend rescinded

A dividend of 10 cents per ordinary share was declared during the year and paid on 27 March 2020. Due to the solvency issue as noted in the Directors' report, this was subsequently rescinded by the Board on 29 May 2020 and is receivable from the SARB.

16. Risk management in respect of financial instruments

Risk governance policies and procedures are performed by the Risk Management and Compliance Department with oversight by the Risk Management Committee and the Board Risk and Ethics Committee. Certain aspects of risk management specific to financial instruments are described below.

16.1 Credit risk

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

Credit risk is mitigated in the CPD by specifying, in the Investment Guidelines, a list of eligible securities and the minimum credit rating that securities should meet. The minimum counterparty credit rating for investment in the CPD is a composite rating derived from Standard & Poor's or its Moody's Investors Service and Fitch Ratings equivalents.

The CPD portfolio had one counterparty that was below the minimum rating during the current financial year. On 31 March 2020, Fitch Ratings downgraded the National Scale Rating (NSR) of five of South Africa's banks and revised their outlook to negative. This resulted in a breach of the Investment Guidelines as the counterparty had a rating of AA-, which is more than two notches below the sovereign's credit rating of AAA. Exposure to the counterparty in the CPD's portfolio amounted to R1 million against an allocated limit of R20.9 billion. The passive breach is still active and will be resolved at the annual CPD Investment Guidelines review by amending the credit ratings minimum to accommodate the recent decline in the sovereign's ratings, which has had a similar impact on eligible counterparties.

16.2 Interest rate management

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

16.3 Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and the default correlations. The CPD measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is similar to the approach used for the purposes of measuring ECL under *IFRS 9, Financial Instruments*. Refer to Note 16.4.3 for further details.

The CPD uses external credit risk gradings that reflect its assessment of the PD of individual counterparties. The CPD uses rating models tailored to the various categories of the counterparty. Borrower- and loan-specific information collected at the time of application (such as level of collateral) are inputs into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable judgement to be factored into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model. The credit grades are calibrated so that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

16.4 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continually monitored by the CPD.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2', but is not yet deemed to be credit-impaired. Refer to Note 16.5.1 for a description of how the CPD determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Refer to Note 16.4.2 for a description of how the CPD defines 'credit-impaired' and 'default'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis. Refer to Note 16.4.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with *IFRS 9, Financial Instruments,* is that it should consider forward-looking information. Note 16.4.4 includes an explanation of how the CPD has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

16.4.1 Significant increase in credit risk

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

Quantitative criteria
A three-notch credit rating movement is used as an indicator, as a three-notch rating movement is a guaranteed change in an issuer's credit worthiness along the credit rating scale used by rating agencies. The short-term nature of exposure makes it unlikely that credit risk will move significantly. This is, however, reviewed frequently.

Qualitative criteria
This is used if the borrower is on the watch list and/or the instrument meets one or more of the following criteria:

- negative outlook by two or more rating agencies in the past six months;
- significant increase in credit spread;
- significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- actual or expected forbearance or restructuring;
- actual or expected significant adverse change in operating results of the borrower;
- significant change in collateral value (secured facilities only) which is expected to increase the risk of default; and
- early signs of cash flow/liquidity problems such as a delay in the servicing of trade creditors/loans.

The CPD recognised a significant increase in credit risk for its financial instruments following the default and other quantitative and qualitative credit risk criteria. The CPD did not use the low credit risk exemption for any financial instruments in the year ended 31 March 2020 (2019: none).

16.4.2 Definition of default and credit-impaired assets

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

Quantitative criteria
The borrower is more than 30 days past due on its contractual payments.

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

- the borrower is in long-term forbearance;
- the borrower is in breach of financial covenant(s), if applicable;
- it is becoming probable that the borrower will enter bankruptcy;
- financial assets are purchased or originated at a deep discount that reflects the incurred credit losses; and
- an active market for that financial asset has disappeared.

The criteria above have been applied to all financial instruments classified at amortised cost held by the CPD and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the CPD's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months was determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

16.4.3 Measuring ECL: explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis, depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

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

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed.

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

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. Refer to Note 16.4.4 for an explanation of forward-looking information and its inclusion in ECL calculations. The assumptions underlying the ECL calculation (such as how the maturity profile of the PDs and how collateral values change) are monitored and reviewed periodically.

No significant changes in estimation techniques or significant assumptions were made during the reporting period.

16.4.4 Forward-looking information incorporated in the ECL models

The current assessment on ECL impairment calculation and the computation of the significant increase in credit risk do not generally incorporate forward-looking factors due to the structure of the assets, undue cost and effort required. Given the short-term nature of the assets, forward-looking factors are expected to have a minor impact on the required impairment. However, in the current year, the impact of COVID-19 has been factored into the ECL model as part of the incorporation of forward-looking information. This has resulted in an additional R1.0 billion ECL allowance being recognised. A one-notch credit rating downgrade is applied and the corresponding PDs as at the reporting date are used for impairment variance due to a decline in credit quality. This approach is deemed to be sufficient by management and is reviewed on an annual basis or when there is a change in the maturity structure of the assets. The other motivating factor is driven by the liquidity requirement of the portfolio as the Investment Guidelines state that at least 60% of the investments should mature within three months. Furthermore, the factors that could drive change in this approach could be those driven by certain market or risk events and these could lead to an incorporation of forward-looking factors which would include the modelling of certain macroeconomic variables.

16.5 Credit risk exposure

16.5.1 Maximum exposure to credit risk: financial instruments subject to impairment

As a result of the downgrade of the sovereign and the negative outlook of the South African economy and Gross Domestic Product, there has been a significant increase in credit risk to the value of R1.3 billion. This was exasperated by the impact of the COVID-19 pandemic, resulting in an additional R1.0 billion increase.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

The closing balance of the credit-impaired loss allowance as at 31 March 2020 is reconciled as follows:

Loss allowance as at 1 April 2018 calculated under IAS 39	**0**
IFRS 9 transition adjustment	0
Opening loss allowance as at 1 April 2018	**0**
Loss allowance recognised during the year	0
Loss allowance as at 31 March 2019	**0**
Loss allowance recognised during the year	2 315 341
Loss allowance unused and reversed during the year	0
Loss allowance as at 31 March 2020	**2 315 341**

Credit-impaired loss allowance	12-month expected credit losses	Lifetime expected credit losses (collectively assessed)	Lifetime expected credit losses (individually assessed)	Credit-impaired financial assets (lifetime expected credit losses)
Loss allowance as at 1 April 2018	**0**	**0**	**0**	**0**
Changes due to the financial instruments recognised as at 1 April 2018				
Transfer to lifetime expected credit losses	0	0	0	0
Transfer to credit-impaired financial assets	0	0	0	0
Transfer to 12-month expected credit losses	0	0	0	0
Financial assets that have been derecognised during the period	0	0	0	0
New financial assets originated or purchased	0	0	0	0
Write-offs	0	0	0	0
Changes in models/risk parameters	1 000 000	0	0	1 315 341
Foreign exchange and other movements	0	0	0	0
Loss allowance as at 31 March 2020	**1 000 000**	**0**	**0**	**1 315 341**

The CPD writes off financial assets when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators thereof include ceasing enforcement activity or where the collateral value indicates that there is no reasonable expectation of recovery.

16.5.2 Collateral and other credit enhancements

The CPD employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The CPD has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The CPD's policies regarding obtaining collateral did not change significantly during the reporting period, and there had been no significant change in the overall quality of the collateral held by the CPD since the prior period.

16.6 Loss allowance

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

- transfers between stage 1 and stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up' (or 'step down') between 12-month and lifetime ECL;
- additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- impacts on the measurement of ECL due to changes made to models and assumptions;
- discounted unwinding within ECL due to the passage of time, as ECL is measured on a present value basis; and
- financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

16.7 Deposit accounts

In terms of the current interest rate policies as approved by the Board, IGCC and other deposit accounts earn interest at a rate of 10 basis points less than the yield on 91-day Treasury bills, whereas the ETP earns interest at the repurchase rate less 25 basis points.

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

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

The CPD also invests funds in the market on a buy- or sell-back basis at market-related yields. With respect to call deposit transactions between the SARB and the CPD, the SARB pays interest to the CPD at a rate equal to 91-day Treasury bills.

The 91-day Treasury bill yield will be applicable if this average rate falls below the Treasury bill yield. In terms of the current interest rate policies as approved by the Board, loans and advances earn interest at a rate equal to the yield on 91-day Treasury bills.

The CPD's financial assets and liabilities earn and bear interest 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.

The CPD's management carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team that reports regularly to the Board.

16.9 Call and fixed deposits

The CPD invests in banks that have capital and reserves in excess of R2 billion, and limits its exposure to 20% per bank. The exposure to call and fixed deposits at commercial banks at 31 March 2020 was R26.2 billion (2019: R47.2 billion), excluding accrued income. The CPD also places call deposits with the SARB. The total exposure to call deposits at the SARB at 31 March 2020 was R17.2 billion (2019: R0.8 billion), excluding accrued income.

16.10 Money market instruments, including cash and cash equivalents

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

In terms of the Investment Guidelines approved by the Board, all investments are placed within the minimum NSR, which is currently two notches below the sovereign credit rating. The CPD utilises banking institutions with a minimum composite NSR that is not below the sovereign credit rating by two notches.

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

16.11 Liquidity risk management

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

Refer to notes 2, 3 and 4 for further details on the maturity structure of investments at 31 March 2020.

16.12 Deposit accounts

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

16.13 Sensitivity analysis

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

	Increase in basis points	Sensitivity of net income: increase/ (decrease)	Decrease in basis points	Sensitivity of net income: increase/ (decrease)
		R'000		R'000
2020				
Money market investments	+100	(1 861)	-100	1 861
2019				
Money market investments	+100	(13 177)	-100	13 202

17. Fair value hierarchy disclosures

The table below analyses the assets and liabilities of the CPD carried at fair value and amortised cost by the level of the 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 (i.e. unobservable inputs).

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available, and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

The specific valuation techniques used to value the financial instruments include the following:

- Dealer quotes are used to value items included in cash and cash equivalents, loans and advances, and liabilities held.
- The fair value of money market instruments is calculated as the present value of the estimated future cash flows based on observable 91-day Treasury bill yields.
- The fair value of short-term deposits is calculated as the present value of the estimated future cash flows based on observable 91-day Treasury bill yields.

The CPD's policy is to recognise transfers into, and transfers out of, the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. During the year under review, the CPD reclassified cash and cash equivalents to the value of R37 048 516 and short-term deposits to the value of R7 026 933 from Level 1 to Level 2 (2019: cash and cash equivalents to the value of R37 418 853; short-term deposits to the value of R11 070 414).

Financial instruments

2020	Total R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Items measured at fair value on a recurring basis				
Financial assets				
Money market investments	342 368	0	342 368	0
Short-term deposits	7 026 933	0	7 026 933	0
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	37 048 516	0	37 048 516	0
Loans and advances	25 413 861	0	25 413 861	0
Financial liabilities				
Deposit accounts	72 449 274	0	72 449 274	0
2019				
Items measured at fair value on a recurring basis				
Financial assets				
Money market investments	5 778 090	0	5 778 090	0
Short-term deposits	11 070 414	0	11 070 414	0
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	37 418 853	0	37 418 853	0
Loans and advances	17 575 766	0	17 575 766	0
Financial liabilities				
Deposit accounts	71 631 549	0	71 631 549	0

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

	Total R'000	Fair value through profit or loss (Designated) R'000	Amortised cost R'000	Other liabilities R'000
2020				
Interest income	5 770 188	876 987	4 893 201	0
Interest expense	(5 589 388)	0	0	(5 589 388)
Unrealised loss on investments	(630 625)	(630 625)	0	0
Credit-impaired losses	(2 315 341)	(2 315 341)	0	0
2019				
Interest income	5 570 801	583 283	4 987 518	0
Interest expense	(5 476 759)	0	0	(5 476 759)
Unrealised profit on investments	1 995	1 995	0	0

19. Classification of financial assets and liabilities

	Carrying amounts			
	Total	Fair value through profit or loss (Designated)	Amortised cost	Other liabilities at amortised cost
	R'000	R'000	R'000	R'000
2020				
Financial assets				
Cash and cash equivalents	37 048 516	0	37 048 516	0
Money market investments	342 368	342 368	0	0
Short-term deposits	7 026 933	7 026 933	0	0
Loans and advances	25 413 861	0	25 413 861	0
Financial liabilities				
Deposit accounts	72 449 274	0	72 449 274	0
2019				
Financial assets				
Cash and cash equivalents	37 418 853	0	37 418 853	0
Money market investments	5 778 090	5 778 090	0	0
Short-term deposits	11 070 414	11 070 414	0	0
Loans and advances	17 575 766	0	17 575 766	0
Financial liabilities				
Bank overdraft	17 639	0	0	17 639
Deposit accounts	71 631 549	0	0	71 631 549

20. Related party disclosures

Name	Relationship
South African Reserve Bank	Holding company, key management Personnel services provider
South African Mint Company (RF) Proprietary Limited	Fellow subsidiary
South African Bank Note Company (RF) Proprietary Limited	Fellow subsidiary
South African Reserve Bank Retirement Fund	Retirement fund of holding company
National Treasury	Significant influence
Fundi Tshazibana (South African Reserve Bank)	Key management personnel
Zafar Parker (South African Reserve Bank)	Key management personnel
Aubrey Mkhulu Maseko (National Treasury)	Key management personnel
Johan Redelinghuys (National Treasury)	Key management personnel

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

	Expenditure paid to	Interest income	Interest expense	Amounts owed by	Amounts owed to
	R'000	R'000	R'000	R'000	R'000
2020					
South African Reserve Bank[1]	3 808	772 333	258	17 315 773	33 088
South African Mint Company (RF) Proprietary Limited	0	0	31 368	0	4 721
South African Bank Note Company (RF) Proprietary Limited	0	0	72 022	0	596 968
South African Reserve Bank Retirement Fund	0	0	642	0	5 673
National Treasury	0	2 996 788	4 236 408	27 729 202	37 884 006
2019					
South African Reserve Bank	3 644	664 710	150	857 656	0
South African Mint Company (RF) Proprietary Limited	0	0	9 178	0	653 278
South African Bank Note Company (RF) Proprietary Limited	0	0	59 451	0	516 093
South African Reserve Bank Retirement Fund	0	0	743	0	5 575
National Treasury	0	2 976 288	4 232 535	17 575 766	52 482 199

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] The amount of R3 808 million above is the key management compensation paid to the SARB.

Abbreviations

Board	Board of Directors of the Corporation for Public Deposits
COVID-19	coronavirus disease 2019
CPD	Corporation for Public Deposits
CPD Act	Corporation for Public Deposits Act 46 of 1984
EAD	exposure at default
ECL	expected credit loss
ETP	Electronic Trading Platform
IAS	International Accounting Standard
ISA	International Standards on Auditing
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGCC	Inter-Governmental Cash Coordination
IRBA	Independent Regulatory Board for Auditors
LGD	loss given default
Minister	Minister of Finance
NCD	negotiable certificate of deposit
NSR	National Scale Rating
PD	probability of default
PN	promissory notes
RF	ring-fenced
SARB	South African Reserve Bank
SPPI	solely payments of principal and interest