CORPORATION FOR PUBLIC DEPOSITS

Annual financial statements
for the year ended
31 March 2021

SOUTH AFRICAN RESERVE BANK

SARB 100 YEARS 1921–2021
A purposeful journey

Contents

Designed and printed by the Publishing Section
of the 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 for 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 presentation of the annual financial statements in conformity with the basis of accounting described in note 1 to the annual financial statements and the requirements of the Corporation for Public Deposits Act 46 of 1984.

The annual financial statements are prepared in accordance with the reporting framework as set out on page 6 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 operating 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 presents the results of operations for the period under review and the financial position of the CPD at the reporting date in conformity with the basis of accounting described in note 1 to the annual financial statements and the requirements of the Corporation for Public Deposits Act 46 of 1984.

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, 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, being, 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:

NTshazibana

N Tshazibana
Chairperson

A M Maseko
Director

Pretoria
10 June 2021

Directors' report

for the year ended 31 March 2021

The Board is pleased to present the CPD's 37th annual financial statements.

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, in statutory liquid assets accepted by the Bank as collateral during its refinancing operations and securities issued by public entities as governed by the CPD investment guidelines. 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 of the SARB (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, 2020/21

Directors	Position and office	Date of appointment/ reappointment	Alternate director
N Tshazibana	Deputy Governor of the SARB and Chairperson of the Board	1 August 2019	Vacant[1]
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[2]	Officer of National Treasury	1 May 2016	W H Moolman
W H Moolman	Officer of National Treasury	6 July 2020	G Mabundza

[1] K Naidoo resigned from the SARB on 30 November 2020. The position of an alternate director has been vacant since 1 December 2020.
[2] J D Redelinghuys retired from National Treasury on 31 May 2020.

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 the CPD's approved Investment Guidelines.

Directors are not remunerated for services rendered to the CPD.

Attendance schedule of directors for CPD Board meetings, 2020/21

	29/04/2020	08/05/2020	13/05/2020	29/05/2020	05/06/2020	13/07/2020	20/08/2020	25/11/2020	04/03/2021
	Special		Special	Special	Special	Special			
N Tshazibana	√	√	√	√	√	√	√	√	√
Z Parker	√	√	√	√	√	√	√	√	√
A M Maseko	√	√	√	√	√	√	√	√	√
J D Redelinghuys	√	√	√	√					
W H Moolman						√	√	√	√

√ Present

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, whereafter the Minister tables them in Parliament. The March 2020 annual financial statements were tabled in Parliament on 9 September 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 (RMCD) of the SARB assesses the risk management processes of the CPD. The Audit Committee of the SARB is responsible for monitoring and evaluating 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 (FSD) and the investment of funds is the responsibility of the Financial Markets Department (FMD), 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, the CPD was unable to make any transfers to the reserves. 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 income for the year amounted to R1.5 billion (2020: R2.8 billion loss). There were no surplus funds available for transfer to government (2020: Rnil) and no amounts were transferred to the contingency reserve (2020: Rnil). The current year's improved financial performance was as a result of a R1.5 billion expected credit loss (ECL) allowance reversal. The total liabilities exceeded the total assets by R1.1 billion (2020: R2.6 billion), resulting in the CPD being technically insolvent.

Share capital

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

Dividend

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. The CPD did not declare a dividend in the current year (2020: Rnil) due to its technical insolvency position.

Going concern and events after the reporting date

The impact of the coronavirus disease 2019 (COVID-19) pandemic continues to have a lasting and detrimental effect on the economy and the CPD operations.

The Governors' Executive Committee (GEC) approved an extension to the R3.5 billion financial guarantee issued by the SARB for a further 12 months to 11 June 2022 as a result of the continued technical insolvency position of the CPD.

The CPD's total liabilities exceed the total assets by R1.1 billion (2020: R2.6 billion), resulting in the CPD being technically insolvent. In the prior year, expected credit and fair value losses of R2.9 billion were incurred, the expected credit losses are expected to reverse as the macro-economic and risk factors improves. In the current year R1.5 billion of the expected credit loss allowance has been reversed. The guarantee provided by SARB remedies the technically insolvency of the CPD.

Secretary

M A Masibi-Malotle

Registered office

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

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 the information 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 any 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 2021, 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 financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the Corporation for Public Deposits for the year ended 31 March 2021 have been prepared, in all material respects, 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 (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the CPD in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. 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 financial position in the financial statements, which indicates that the CPD's liabilities exceeded its total assets by R1.1 billion as at 31 March 2021. These events or conditions, along with other matter as set forth in Note 17, indicate that a material uncertainty exists that may cast significant doubt on the CPD's ability to continue as a going concern. The South African Reserve Bank has, however, 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 financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the CPD's own accounting policies to satisfy the financial information needs of the shareholder. As a result, the financial statements may not be suitable for another 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 2021", 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 of the financial statements 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, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the CPD's ability to continue as a going concern, disclosing, as applicable, matters 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPD's internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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.

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

10 June 2021

20 Morris Street East
Woodmead

Statement of financial position

as at 31 March 2021

	Notes	2021 R'000	2020 R'000
Assets			
Cash and cash equivalents	2	76 168 458	37 048 516
Money market investments	3	290 825	342 368
Short-term deposits	4	6 010 618	7 026 933
Loans and advances	5	0	25 413 861
Total assets		82 469 901	69 831 678
Liabilities			
Deposit accounts	6	82 449 248	72 449 274
Provision for ECL allowance	7	745 290	0
Other liabilities	8	351 142	0
Total liabilities		83 545 680	72 449 274
Capital and reserves			
Share capital	9	2 000	2 000
Accumulated loss		(1 077 779)	(2 619 596)
Total capital and reserves		(1 075 779)	(2 617 596)
Total liabilities, capital and reserves		82 469 901	69 831 678

Statement of profit or loss and other comprehensive income

for the year ended 31 March 2021

Interest income	10	4 237 122	5 629 290
Interest expense	11	(4 004 166)	(5 589 388)
Net interest income		232 956	39 902
Other income	12	18 012	140 898
Unrealised losses on money market investments		(252 418)	(630 625)
Credit-impaired losses		1 548 203	(2 315 341)
Profit/(loss) before operating costs		1 546 753	(2 765 166)
Operating costs	13	(4 936)	(4 230)
Net profit/(loss) for the year		1 541 817	(2 769 396)
Taxation	14	0	0
Total comprehensive income/(loss) for the year		1 541 817	(2 769 396)

Statement of changes in equity

for the year ended 31 March 2021

	Share capital	Accumulated (loss)	Contingency reserve	Total
	R'000	R'000	R'000	R'000
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 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)
Total comprehensive income for the year	0	1 541 817	0	1 541 817
Balance at 31 March 2021	2 000	(1 077 779)	0	(1 075 779)

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. Due to the accumulated loss, the CPD will not be able to make any transfer to the reserve (2020: Rnil).

Dividends 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. The CPD did not declare a dividend in the current year (2020: Rnil) due to its technical insolvency position.

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 2021, an amount of Rnil (2020: Rnil) was due to government.

Statement of cash flows

for the year ended 31 March 2021

	Notes	2021	2020
		R'000	R'000
Cash flows generated from/(utilised in) operating activities			
Cash generated from/(utilised in) operating activities	15.1	38 053 534	(9 339 941)
Interest received		4 237 122	5 629 290
Other income		18 012	140 898
Interest paid		(4 004 166)	(5 589 388)
Dividends paid		0	(200)
Transfer to government payment[1]		0	(41 935)
Net cash flows generated from/(utilised in) operating activities		38 304 502	(9 201 276)
Cash flows generated from investing activities		815 440	8 848 578
(Increase)/decrease in money market investments	15.2	(200 875)	4 805 097
Decrease in short-term deposits		1 016 315	4 043 481
Net increase/(decrease) in cash and cash equivalents		39 119 942	(352 698)
Cash and cash equivalents at beginning of the year		37 048 516	37 401 214
Cash and cash equivalents at end of the year		76 168 458	37 048 516

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

Notes to the annual financial statements

for the year ended 31 March 2021

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 the years presented, unless otherwise stated. On an annual basis, the CPD is 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), and in the manner required by the CPD Act and the accounting policies set out below, on a 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 the 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 June 2020.

- IFRS 17 – Insurance Contracts (IFRS 17)
- *Amendments to IFRS 16: Leases (IFRS 16) – Rent Concessions related to COVID-19*
- *Amendments to International Accounting Standard IAS 1: Presentation of Financial Statements (IAS 1) – Classification of Liabilities as Current or Non-Current*
- *Amendments to IAS 16: Property, Plant and Equipment (IAS 16)*
- *Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract*
- *Annual Improvements to IFRS Standards 2018–2020*

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 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. it holds the financial asset to collect the contractual cash flows rather than selling 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, the 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 the 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 investments, and to determine the maturity structure of the financial assets in the annual financial statements. Instruments with maturities of less than three months at inception are classified as cash and cash equivalents, and instruments with maturities of more than three months are classified as short-term investments. 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 18.4, 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 the deferred day-one profit or loss is determined individually. It is 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 the 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 18.4. 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, other than short-term financial instruments that are initially classified as designated at fair value through profit or loss; 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 or less) and that have not been initially classified as designated at fair value through profit or loss. 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 as 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 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 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, promissory notes (PNs), Treasury bills, other discount instruments, negotiable certificates of deposit (NCDs) and bridging bonds which are highly liquid.

  Money market investments are managed alongside other investments on a fair-value basis as one portfolio, and are reported as such to management. The strategy of the CPD is to maximise the 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 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 fair-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 the 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 is 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 the financial assets in the annual financial statements.

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 the 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.

The 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 any changes in the fair value of the assets and liabilities are recognised.

Subsequent measurement

Loans and advances 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 the 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. The purchases and sales of financial assets entered into during the normal course of business 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 any 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 substantially transferred 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 18.4 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 1.3.4).

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. The carrying amount represents its fair value.

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 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 19 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 values. Non-interest-bearing Treasury bills are stated at nominal value, since they do not have fixed maturity dates.
- Short-term deposits are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.
- Loans and advances as well as non-trading liabilities are measured at amortised cost, which approximates fair values.

1.3.4 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 originated 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 ECL in estimated future cash flows.

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

1.3.5 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*, 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 alternative 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 the effective interest basis.

1.7 Fair value

The fair value is the price that would be received to sell an asset or that would be 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 their highest and best use, or by selling them to another market participant that would use the instruments in their 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 19 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 financial 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 the ECL 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 detailed in Note 18.4.3, which also sets out the 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 the 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 18 for further detailed information about the judgements and estimates made by the CPD in the above areas.

2. Cash and cash equivalents

	2021 R'000	2020 R'000
Current account with the SARB	10 895	33 088
Call deposit with the SARB	38 185 541	17 204 901
Short-term deposits at commercial banks	7 505 000	19 205 000
Money market investments	30 267 529	494 168
Accrued interest	199 492	111 359
	76 168 458	37 048 516

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

Cash and cash equivalents	76 168 458	37 048 516

As per the accounting policy, instruments with an 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 money market investments are repurchase agreements of R30.3 billion (2020: R0.5 billion). The following table presents details thereof:

Fair value of repurchase agreements	30 267 529	494 168
Fair value of collateral received	30 418 090	528 477
Fair value of collateral permitted to sell or repledge at the reporting date	30 418 090	528 477
Collateral cover	101%	107%
Maturity date	13 April 2021	2 April 2020

At the reporting date, none of the collateralised money market investments were past due or impaired.

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

Non-interest-bearing Treasury bills	72 585	72 585
Promissory notes	218 240	269 783
	290 825	342 368
Maturity structure of money market investments[1]		
1 month and less[2]	290 825	99 494
Between 1 and 3 months	0	163 391
Between 3 and 6 months	0	79 483
	290 825	342 368
Investments that meet the definition of financial assets designated at fair value:		
Maximum exposure to credit risk	290 825	342 368

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 to the maturity date of the financial instrument.
[2] Includes promissory notes of R218 million (2020: R270 million) subject to a successful implementation of the new liability solution by the counterparty and approval of CPD participation by the Board.

4. Short-term deposits

	2021 R'000	2020 R'000
Fixed deposits at commercial banks	6 000 000	7 000 000
Accrued interest	10 618	26 933
	6 010 618	7 026 933
Maturity structure of short-term deposits[1]		
Between 1 and 3 months	6 010 618	0
More than 3 months (more than 91 days)	0	7 026 933
	6 010 618	7 026 933

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 2021) to the maturity date of the financial instrument. The short-term deposit had a maturity of greater than three months from inception on initial recognition.

5. Loans and advances

Interest-bearing loans	0	25 413 861

These loans are unsecured and, at the reporting date, were not past due. In terms of the current interest rate policies 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 3.85% (2020: 5.68%).

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 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

Interest-bearing deposits: IGCC and other deposit accounts	81 611 642	71 411 724
Interest-bearing deposits: ETP (JSE Limited margin)	765 021	964 965
Non-interest-bearing deposits	72 585	72 585
	82 449 248	72 449 274
Maturity structure of deposit accounts		
1 month and less	82 449 248	72 449 274
	82 449 248	72 449 274

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

In terms of the current interest rate policies 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 15 basis points. The prevailing rates at the reporting date for IGCC and other deposit accounts as well as the ETP were 3.75% (2020: 5.58%) and 3.25% (2020: 5.00%) respectively. Non-interest-bearing deposits fund the non-interest-bearing Treasury bills included in Note 3.

7. Provision for ECL allowance

	2021 R'000	2020 R'000
ECL allowance	767 138	0
Loans and advances	(21 848)	0
	745 290	0

The ECL allowance is calculated using the average utilisation of the IGCC loan facility for each year over the lifetime of the facility. The prior-year loans and advances balance was reported in Note 5.

8. Other liabilities

Cash received - margin call	349 901	0
Interest accrued - margin call	1 241	0
	351 142	0

9. Share capital

Authorised 2 000 000 (2020: 2 000 000) ordinary shares at R1 each	2 000	2 000
Issued 2 000 000 (2020: 2 000 000) ordinary shares at R1 each	2 000	2 000

10. Interest income

Interest on call and fixed deposits	1 783 454	2 453 388
Interest on money market instruments	558 427	179 114
Interest on loans and advances	1 895 241	2 996 788
	4 237 122	5 629 290

11. Interest expense

Interest on deposit accounts: IGCC and other deposit accounts	3 970 216	5 534 178
Interest on deposit accounts: ETP (JSE Limited margin)	28 942	53 867
Interest on margin call	4 043	1 085
Interest on overdraft	965	258
	4 004 166	5 589 388

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 3.45% (2020: 6.64%).

12. Other income

	2021 R'000	2020 R'000
Discount received	17 812	140 898
Receipt of dividend previously declared[1]	200	0
	18 012	140 898

[1] A dividend of 10 cents per ordinary share was declared during the prior financial year and paid on 27 March 2020. Due to the solvency issue noted in the directors' report, this was subsequently rescinded by the Board on 29 May 2020 and repaid by the SARB on 2 November 2020.

13. Operating costs

Audit fees	976	422
Management fee	3 960	3 808
	4 936	4 230

14. Taxation

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

15. Notes to the statement of cash flows

15.1 Cash generated from/(utilised in) operating activities

Net profit/(loss) for the year	1 541 817	(2 769 396)
Adjustments for:		
Interest income	(4 237 122)	(5 629 290)
Other income	(18 012)	(140 898)
Interest expense	4 004 166	5 589 388
Unrealised loss on money market investments	252 418	630 625
Credit-impaired losses	(1 548 203)	2 315 341
	(4 936)	(4 230)
Changes in working capital:		
Decrease/(increase) in loans and advances	27 707 354	(10 153 436)
Increase in deposit accounts	9 999 974	817 725
Increase in other liabilities	351 142	0
	38 053 534	(9 339 941)

15.2 (Increase)/decrease in money market investments

Decrease in money market investments	51 543	5 435 722
Adjustment for non-cash item:		
Unrealised (loss) on money market investments	(252 418)	(630 625)
	(200 875)	4 805 097

16. Events after the reporting date

The GEC approved an extension to the R3.5 billion financial guarantee issued by the SARB for a further 12 months to 11 June 2022 as a result of the continued technical insolvency position of the CPD.

17. Going concern

The impact of the coronavirus disease 2019 (COVID-19) pandemic continues to have a lasting and detrimental effect on the economy and the CPD operations.

The CPD's total liabilities exceed the total assets by R1.1 billion (2020: R2.6 billion), resulting in the CPD being technically insolvent. In the prior year, expected credit and fair value losses of R2.9 billion were incurred, the expected credit losses are expected to reverse as the macro-economic and risk factors improves. In the current year R1.5 billion of the expected credit loss allowance has been reversed. The guarantee provided by SARB remedies the technically insolvency of the CPD.

18. Risk management in respect of financial instruments

Risk governance policies and procedures are performed by the RMCD of the SARB, with oversight by the Risk Management Committee (RMC) and the Board Risk and Ethics Committee (BREC). Certain aspects of risk management specific to financial instruments are described below.

18.1 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 the activities undertaken by the CPD, such as loans and advances to, and deposits made with, other institutions, and the settlement of financial market transactions.

Credit risk is mitigated in the CPD by specifying a list of eligible securities, the minimum credit ratings for securities, and sector concentration limits in the CPD's Investment Guidelines. The minimum counterparty credit rating for investment is a composite rating derived from Fitch, Moody's Investors Service and Standard & Poor's Ratings.

The CPD portfolio had one counterparty that was below the minimum rating during the current financial year. On 31 March 2020, Fitch downgraded the National Scale Rating (NSR) of five of South Africa's banks and revised their outlook to negative. This resulted in one banking counterparty being in breach of the Investment Guidelines as the counterparty had a rating of AA-, which was 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 was subsequently resolved when Fitch upgraded the NSR ratings of these five South African banks on 28 April 2020. On 23 April 2020, a counterparty issued a confirmation that an event of default had occurred. Consequently, Moody's conducted multiple-notch downgrades to the counterparty's credit ratings, which resulted in its NSR being BB, which is below the minimum credit rating requirement stipulated in the Investment Guidelines. Exposure to the counterparty amounts to R0.2 billion (2020: R0.3 billion). An active breach of the CPD Investment Guidelines was reported in January 2021. The reported capital and reserve funds for a certain banking counterparty were R38.7 billion and its limit was set at R7.7 billion (20% of R38.7 billion). The CPD had already utilised 97.24% of its limits for the counterparty. The CPD invested another R2.0 billion in a fixed deposit with the counterparty, which led to a total exposure of R9.5 billion. This resulted in a limit breach of 23%, or R1.8 billion more than the set limit of R7.7 billion. A recommendation was approved to hold the breaching exposure to maturity, and an exposure of R2.0 billion matured on 15 February 2021. Consequently, the CPD portfolio was aligned with the Investment Guidelines.

18.2 Interest rate management

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

18.3 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 the 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 18.4.3 for further details.

The CPD uses external credit risk ratings that reflect its assessment of the PD of individual counterparties. The CPD uses rating models tailored to the various categories of counterparty. Borrower- and loan-specific information collected at the time of application (such as the level of collateral) is fed 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 fed into the final internal credit rating for each exposure. This allows for considerations which may otherwise 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.

18.4 ECL 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'. Its credit risk is continuously 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 18.4.1 for a description of how the CPD determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, it moved to 'Stage 3'. Refer to Note 18.4.2 for a description of how the CPD defines, default' and 'credit-impaired'.
- 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 a lifetime basis. Refer to Note 18.4.3 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 18.4.4 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:

18.4.1 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
These are used if the borrower is on a watch list and/or if the financial instrument meets one or more of the following criteria:

- a negative outlook by two or more rating agencies in the past six months;
- a significant increase in credit spread;
- significant adverse changes in the business, financial and/or economic conditions in which the borrower operates;
- actual or expected forbearance or restructuring;
- actual or expected significant adverse changes in the operating results of the borrower;

- a significant adverse change in the collateral value (secured facilities only) which is expected to increase the risk of default; and
- early signs of cash-flow or liquidity problems (such as a delay in the servicing of trade creditors or 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 2021.

18.4.2 The definition of 'default' and 'credit-impaired'

The CPD defines a financial instrument as being 'in default', which is fully aligned with the definition of being 'credit-impaired', when the instrument 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 'unlikely to pay' criteria, which indicates that 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.
- An active market for that financial asset has disappeared.

The criteria listed 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 ECL calculations.

A financial 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 considered the likelihood of a financial instrument returning to a default status after 'cure' using different possible 'cure' definitions.

18.4.3 Measuring ECL: an explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or a 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.

In the current financial year, a revision in the model and risk parameters resulted in a movement in the ECL allowance from R2.3 billion to R0.8 billion. A revision of the model was brought about by the fact that in the prior year, the ECL measurement was based on management judgment and overlay. It was decided to adopt a more statistical approach which would result in a more appropriate measurement of ECL. A Monte Carlo simulation model was thus implemented.

The information below provides detail about the inputs, assumptions and estimation techniques of the revised ECL model. Based on the SARB's SICR criteria, the CPD's exposure has been assessed as being in stage 2. The impairment is thus measured based on lifetime ECLs.

A Monte Carlo simulation model has been used to calculate the ECL. This approach applies loss distributions based on certain assumptions in the model. The distribution of possible losses given variation in the said assumptions can be assessed using this model.

Using the Monte Carlo simulation model, every simulation chooses a value per assumption based on the distribution. The simulation is then run 10,000 times for each scenario to produce a loss distribution for the ECL.

The below key components were used in the model:

- EAD, derived by the average utilisation on the CPD's loan facility for each year over the lifetime of the facility;
- Point-in-time (PIT) PD, derived by multiplying a Through-The-Cycle (TTC) PD by the PIT adjustment;
- LGD;
- Discount rate, being the effective interest rate determined at initial recognition or an approximation thereof; and
- An assigned term, as explained below.

EAD

The exposure has been calculated as the average month-end outstanding balance of the CPD's loan facility over the last 24 months.

PIT PD

TTC PD

The PD curve was obtained from a default study of a rating agency. The cumulative PD curve is also converted to conditional PDs by taking into account survival factors in the cumulative curve.

PIT adjustment

The PIT PD provides the PD curve by taking into account recent trends. Therefore, the curve is adjusted to allow for deviations of the recent observed PDs in comparison to the TTC PD.

Scenario impact

The CPD formulated three economic scenarios: a base scenario which is the central scenario, and two less likely scenarios being one upside and one downside scenario.

The scenario probability weightings applied in measuring the PIT PD are as follows:

At 31 March 2021.

Scenario probability weighting: Base (40%) Upside (30%) Downside (30%).

LGD

A benchmark LGD for large unsecured corporate facilities has been applied as a proxy.

Discount rate

The discount rate has been determined as the prevailing Repo rate.

Assigned term

The CPD's facility is a revolving credit facility and thus there is no defined contractual period.

Although there are no similar financial instruments in the South African market to compare this instrument to, there are similar instruments in countries with a similar risk profile. Therefore, Sovereign defaults from these countries have been used as an approximation for the time taken to default. The following assumptions have been used:

- Only Sovereigns that have defaulted will be considered;
- Only first-time defaults will be considered; and
- A significant increase in credit risk will be the movement into a Ba (Moody's) or BB (S&P or Fitch) rating from a Baa (Moody's) or BBB (S&P or Fitch) prior to default.

Using the above assumptions, the time in movement between rating classes (Ba rating class to default) has been calculated for similar emerging markets to obtain an average time to default. The time to move from each rating to the next notch was calculated per country, and the average time and standard deviation was calculated.

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 EAD, LGD and PD. Refer to Note 18.4.4 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 PDs and how collateral values change etc.) are monitored and reviewed periodically.

18.4.4 Forward-looking information incorporated in ECL models

Forward-looking information is incorporated into each of the model's scenarios, i.e. the base, upside and downside scenarios.

Periodically, stress testing is carried out of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises senior management.

A second wave of Covid-19 infections has since peaked in many countries and despite further expected waves, the start of vaccinations globally has resulted in an optimistic economic outlook and forecast for growth in global domestic product has been revised.

18.5 Credit risk exposure

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

In the prior financial year, the sovereign credit downgrades to sub-investment grade and the negative outlook of the South African economy and the gross domestic product (GDP) resulted in a significant increase in credit risk. This was exacerbated by the impact of the COVID-19 pandemic. These factors contributed to an ECL allowance charge of R2.3 billion in the prior year. A second wave of COVID-19 infections has since peaked in many countries. Despite further expected waves, the start of vaccinations globally has resulted in an optimistic economic outlook, and forecast for growth in global GDP has been revised. In the current financial year, a revision in the model and risk parameters resulted in a reversal of R1.5 billion in the ECL allowance to R0.8 billion.

The table in 18.5.2 contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

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 the ceasing of enforcement activity and instances where the collateral value indicates that there is no reasonable expectation of recovery.

18.5.2 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 in place on the acceptability of specific classes of collateral or credit risk mitigation.

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

The closing balance of the credit-impaired loss allowance as at 31 March 2021 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 2019	0
Loss allowance recognised during the year	2 315 341
Loss allowance as at 31 March 2020	2 315 341
Loss allowance reversed during the year	(1 548 203)
Loss allowance as at 31 March 2021	767 138

	Stage 1 lifetime ECLs	Stage 2 lifetime ECLs	Stage 3 lifetime ECLs	Purchased credit-impaired	Total
2021	R'000	R'000	R'000	R'000	R'000
Loss allowance as at 1 April 2020	0	2 315 341	0	0	2 315 341
Loss allowance reversal recognised during the year	0	(1 548 203)	0	0	(1 548 203)
	0	767 138	0	0	767 138
2020					
Loss allowance as at 1 April 2019	0	0	0	0	0
Loss allowance recognised during the year	0	2 315 341	0	0	2 315 341
	0	2 315 341	0	0	2 315 341

18.6 Loss allowance

The loss allowance recognised in the period under review 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 under review, as well as releases for financial instruments derecognised in the period;
- the impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period under review, arising from the regular refreshing of inputs to models;
- the impact on the measurement of ECL due to changes made to models and assumptions; and
- discounted unwinding within ECL due to the passage of time, (as ECL is measured on a present value basis).

As at 31 March 2021, the CPD recognised a loss allowance of R0.8 billion (2020: R2.3 billion).

18.7 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 15 basis points.

18.8 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 financial liabilities earn and bear interest respectively 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. Credit risk management and control are centralised in a credit risk management team that reports regularly to the Board.

18.9 Call and fixed deposits

The CPD invests in banks that have capital and reserves in excess of R2.0 billion, and limits its exposure to 20% per bank. The total exposure to call and fixed deposits at commercial banks as at 31 March 2021 was R13.5 billion (2020: R26.2 billion), excluding accrued income. The CPD also places call deposits with the SARB. The total exposure to call deposits at the SARB as at 31 March 2021 was R38.2 billion (2020: R17.2 billion), excluding accrued income.

18.10 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.

18.11 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 as at 31 March 2021.

18.12 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 FMD of the SARB is responsible for investing the funds deposited with the CPD according to the Investment Guidelines approved by the Board. FMD 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.

18.13 Sensitivity analysis

The CPD is subject to interest rate risk for money market instruments. The table below shows the sensitivity of the portfolio of money market investments to a reasonably possible 100 basis points increase or decrease in interest rates.

	Increase in basis points	Sensitivity of net income: increase/ (decrease) R'000	Decrease in basis points	Sensitivity of net income: increase/ (decrease) R'000
2021				
Money market investments[1]	+100	0	-100	0
2020				
Money market investments	+100	(1 861)	-100	1 861

[1] No interest is accrued on the promissory notes, therefore the valuation is not sensitive to interest rate movements.

19. Fair-value hierarchy disclosures

The table below analyses the assets and liabilities of the CPD carried at fair-value and the amortised cost by 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 specific instruments. The different levels are defined as follows:

Level 1: The fair value is based on the 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: The fair value is based on input other than the 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: The 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 the significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

The specific valuation techniques used to value 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, there were no transfers between the levels (2020: cash and cash equivalents of R37 048 516 and short-term deposits of R7 026 933 were transferred from Level 1 to Level 2).

Financial instruments

	Total	Level 1	Level 2	Level 3
2021	R'000	R'000	R'000	R'000
Items measured at fair value on a recurring basis				
Financial assets				
Cash and cash equivalents	37 812 914	0	37 812 914	0
Money market investments	290 825	0	290 825	0
Short-term deposits	6 010 618	0	6 010 618	0
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	38 355 544	0	38 355 544	0
Financial liabilities				
Deposit accounts	82 449 248	0	82 449 248	0
Other liabilities	351 142	0	351 142	0
2020				
Items measured at fair value on a recurring basis				
Financial assets				
Cash and cash equivalents	8 526 283	0	8 526 283	0
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	28 522 233	0	28 522 233	0
Loans and advances	25 413 861	0	25 413 861	0
Financial liabilities				
Deposit accounts	72 449 274	0	72 449 274	0

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

	Total	Fair value through profit or loss (designated)	Amortised cost	Other liabilities
	R'000	R'000	R'000	R'000
2021				
Interest income	4 237 122	1 069 329	3 167 793	0
Interest expense	(4 004 166)	0	0	(4 004 166)
Unrealised loss on investments	(252 418)	(252 418)	0	0
2020				
Interest income	5 629 290	1 839 346	3 789 944	0
Interest expense	(5 589 388)	0	0	(5 589 388)
Unrealised profit on investments	(630 625)	(630 625)	0	0

21. Classification of financial assets and liabilities

	Carrying amounts		
	Total	Fair value through profit or loss (designated)	Amortised cost
	R'000	R'000	R'000
2021			
Financial assets			
Cash and cash equivalents	76 168 458	37 812 914	38 355 544
Money market investments	290 825	290 825	0
Short-term deposits	6 010 618	6 010 618	0
Financial liabilities			
Deposit accounts	82 449 248	0	82 449 248
Other liabilities	351 142	0	351 142
2020			
Financial assets			
Cash and cash equivalents	37 048 516	8 526 283	28 522 233
Money market investments	342 368	342 368	0
Short-term deposits	7 026 933	7 026 933	0
Loans and advances	25 413 861	0	25 413 861
Financial liabilities			
Deposit accounts	72 449 274	0	72 449 274

22. 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
N Tshazibana (South African Reserve Bank)	Key management personnel
Z Parker (South African Reserve Bank)	Key management personnel
A M Maseko (National Treasury)	Key management personnel
W H Moolman (National Treasury)	Key management personnel

The table below provides a summary of the transactions that were entered into with related parties during the relevant financial year:

	Expenditure paid to R'000	Interest income R'000	Interest expense R'000	Amounts owed by R'000	Amounts owed to R'000
2021					
South African Reserve Bank	3 960[1]	1 266 517	965	38 350 532	0
South African Mint Company (RF) Proprietary Limited	0	0	4 924	0	381 713
South African Bank Note Company (RF) Proprietary Limited	0	0	40 522	0	705 804
South African Reserve Bank Retirement Fund	0	0	786	0	6 457
National Treasury	0	1 895 241	3 131 775	21 848	66 167 942
2020					
South African Reserve Bank	3 808[1]	772 333	258	17 315 573	0
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

The terms and conditions of transactions with related parties

Any outstanding balances as 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 R4 million (2020: R4 million) is the key management personnel compensation paid to the SARB.

Abbreviations

Board	Board of Directors of the Corporation for Public Deposits
BREC	Board Risk and Ethics Committee
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
FMD	Financial Markets Department
FSD	Financial Services Department
FVOCI	Fair Value through Other Comprehensive Income
GDP	Gross domestic product
GEC	Governor's Executive Committee
IAD	Internal Audit Department
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IGCC	Inter-Governmental Cash Coordination
ISA	International Standards on Auditing
LGD	Loss given default
Minister	Minister of Finance
NCD	Negotiable Certificate of Deposits
NSR	National Scale Rating
PD	Probability of default
PN	Promissory notes
RMC	Risk Management Committee
RMCD	Risk Management and Compliance Department
SARB	South African Reserve Bank
SIC	Standing Interpretation Committee
SPPI	Solely payments of principal and interest