African Bank
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African Bank Holdings Limited and African Bank Limited

Public Pillar III Disclosures in terms of the Banks Act, Regulation 43 as at 31 December 2017

CONTENTS

1. EXECUTIVE SUMMARY

1.1. OVERVIEW

African Bank Holdings Limited (ABH or the ABH Group) and its 100% held banking subsidiary, African Bank Limited ("ABL" or "the Bank") commenced business on 4 April 2016. ABH was capitalised with a cash subscription for ordinary shares in the amount of R10 billion and, in turn, ABH elected to capitalise ABL with the same amount, also in return for ordinary shares. An extended liability term structure was established as a result of the restructuring of the old African Bank that was placed under curatorship on 10 August 2014 and subsequently renamed Residual Debt Services Limited (in curatorship) (RDS), (the Restructuring). ABL acquired a portfolio of assets from RDS in terms of the Restructuring, which included the more credit-worthy retail advances book.

Significant improvements in the credit underwriting and provisioning methodologies were immediately applied and continue to be applied in ABL, based on the changing dynamics of the market, the customer profile and the risk experience in respect of the retail advances on book.

The overall balance sheet of ABL therefore remains strong, with advances well provided for, strong capital adequacy and available cash holdings, including surplus liquid assets, of R9.2 billion. Liquidity risk, interest rate risk and foreign exchange risks are also managed within a conservative risk appetite framework.

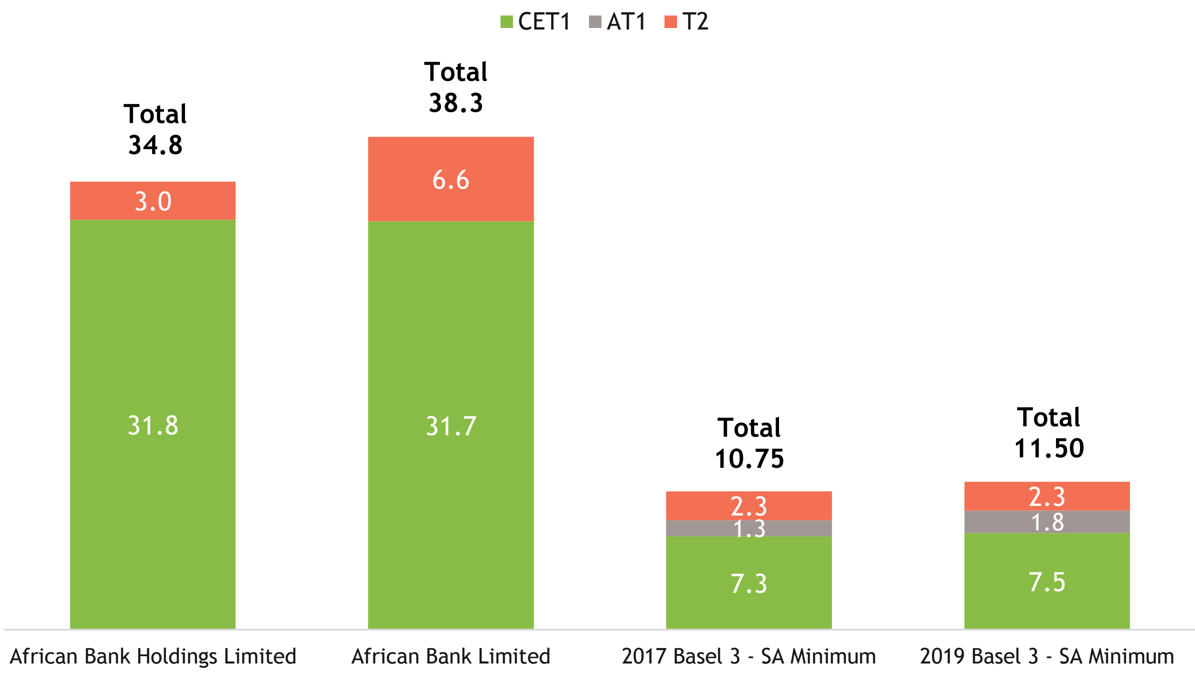
The overall impact of the strong balance sheet structure, as expressed in the conservative risk appetite, is evidenced in the various sections of this report which, as of 31 December 2017, include CET1 ratio of 31.7%, a leverage ratio of 25.6%, a liquidity coverage ratio of 2,086% (Sep 2017: 964%) and a net stable funding ratio of 144% (Sep 2017: 144%) at the ABL level.

1.2. CAPITAL ADEQUACY RATIOS

The capital adequacy ratios and qualifying regulatory capital for ABH and ABL as at 31 December 2017 are set out in the graph and table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 31.8% and 31.7% at a consolidated ABH Group and Bank level, respectively. The corresponding total capital adequacy ratios are 34.8% and 38.3% at a consolidated ABH Group and Bank level, respectively.

The lower total capital adequacy for the ABH in comparison to that of ABL is as a result of the exclusion of the minority interest attributed the Tier 2 capital issued at ABL in the computation of the total ABH capital adequacy ratio.

Capital Adequacy by Tier (%)



The following table sets out the composition of the qualifying regulatory capital

	African Bank Holdings Limited		African Bank Limited	
R'm	31 Dec 2017	30 Sep 2017	31 Dec 2017	30 Sep 2017
Composition of qualifying regulatory capital				
Ordinary share capital	10,000	10,000	10,000	10,000
Regulatory adjustments	(1,260)	(1,336)	(1,543)	(1,596)
Common Equity Tier 1 capital (CET1)	8,740	8,664	8,457	8,404
Total qualifying subordinated debt	547	571	1,485	1,485
Portfolio Impairments	265	280	265	280
Tier 2 capital (T2)	812	851	1,750	1,765
Qualifying regulatory capital	9,552	9,515	10,207	10,169

Refer to 6.2 of the detailed disclosure for a detailed breakdown of the above table

1.3. LEVERAGE RATIO

The Basel III leverage ratio is defined as the capital measure (Tier 1 capital), divided by the exposure measure (total exposures) and is expressed as a percentage. This measure acts as a backstop to the risk-based leverage capital adequacy ratio, by acting as a floor to restrict the build-up of excessive leverage by banks.

The increase in the leverage ratio from the prior reporting period, for both Group and Bank, is as a result of an overall increase in capital arising predominantly from an increase in retained earnings driven by profits for the year and a reduction in the balance sheet driven by a reduction in derivative exposures and cash balances.

Cash balances, reported in ZAR equivalent, have reduced as result of ZAR liability buy backs amounting to R0.4 billion, a decrease in the ZAR equivalent value of foreign currency denominated cash of R0.4 billion, and a decrease in collateral balances related to foreign currency hedging swaps of R0.3 billion. The latter two movements were as a direct result of ZAR strengthening relative to foreign currency balances held, in the latter part of December 2017.

	African Bank Holdings Limited		African Bank Limited	
R'm	31 Dec 2017	30 Sep 2017	31 Dec 2017	30 Sep 2017
Capital and total exposures				
Tier 1 capital	8,740	8,664	8,457	8,404
Total exposures	33,013	33,906	33,011	33,928
Basel III leverage ratio	**26.5%**	**25.6%**	**25.6%**	**24.8%**
Basel III leverage ratio regulatory minimum requirement	**4.0%**	**4.0%**	**4.0%**	**4.0%**

Refer to 7.2 of the detailed disclosure for a detailed breakdown of the above table

1.4. LIQUIDITY COVERAGE RATIO ("LCR")

The LCR is a 30-day stress test, which requires the Bank to hold sufficient high-quality liquidity assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

The decrease in the LCR from the previous reporting period was primarily as a direct result of decreasing the holdings of high quality liquid assets over and above the minimum SARB requirements in terms of the Banks Act.

African Bank Limited R'm	Total weighted value (average) 31 Dec 2017	Total weighted value (average) 30 Sep 2017
Total high-quality liquid assets	3,532	3,687
Total net cash outflows	238	250
Liquidity coverage ratio (%)	**1,546%**	**1,740%**
Regulatory minimum requirement	80%	80%

Refer to 8.1 of the detailed disclosure for a detailed breakdown of the above table

2. BASIS OF COMPILATION

The information contained in this report is based on the December 2017 month end and, in some instances, average balances as contained in the regulatory returns. Accordingly, this information may not agree to the information contained in the respective sets of Annual Financial Statements, which are prepared on an IFRS basis.

Analysis of advances to customers as at 31 December 2017 R'm	Term loans	Credit Cards	Total
Gross amount due by customers	21,605	5,308	26,913
Impairment attributable to acquired advances and deferred fees	(4,612)	(772)	(5,384)
Gross advances	**16,993**	**4,535**	**21,529**
Impairment and deferred fees attributable to originated advances	(1,723)	(635)	(2,358)
Net advances	**15,270**	**3,900**	**19,171**

Unless where otherwise indicated, all figures reported are reported in ZAR millions ("R'm")

3. SUPPLEMENTARY INFORMATION INCLUDING RISK MANAGEMENT

Additional information providing context for disclosures contained herein is included in the following documents published by the ABH Group, available on the investor relations portion of the Bank website at https://www.africanbank.co.za/ which contains information as listed under each report.

African Bank Holdings Limited Integrated Report 2017

- Overview and business model
- Material matters
- Strategy
- Governance and compliance
- People and remuneration

African Bank Holdings Limited: consolidated annual financial statements 30 September 2017, and

African Bank Limited: annual financial statements 30 September 2017

The reference to the various sections are given by way of a reference to the specific note in the annual financial statements of both African Bank Holdings Limited and African Bank Limited.

- Accounting policies (Note 1)
- Risk management approach (Note 26)
- Credit risk approach including approach to impairment provisioning (Note 26.1)
- Market risk (Note 26.2)
- Interest rate risk management (Note 26.2.1)
- Foreign currency risk management (note 26.2.2)
- Liquidity risk management (Note 26.3)

The ABH integrated report gives a comprehensive overview of the areas covered while the ABL and ABH Annual Financial Statements give further detail of the approach to risk management and the risk types. This information should be read in conjunction with the detailed information in this report.

4. PERIOD OF REPORTING

This report covers the period from 1 October 2017 to 31 December 2017 for the ABH Group and its 100% held banking subsidiary, ABL. The Group and the Bank commenced operations on 4 April 2016 and published financial statements for the period from this date to 30 September 2016. Comparative disclosures are related to the period as at 30 September 2017.

5. SCOPE OF REPORTING

This report contains capital adequacy information for ABH and its 100% held banking subsidiary, ABL. The additional disclosures for ABL include the leverage ratio, the liquidity coverage ratio, credit disclosures, liquidity disclosures and foreign exchange exposures, which also materially reflect the position of the ABH Group.

All subsidiaries are consolidated in the same manner for both accounting and supervisory reporting purposes. All companies are incorporated in the Republic of South Africa. The registered banking subsidiary of the Group, ABL, has no subsidiaries.

6. REGULATORY CAPITAL ADEQUACY

The capital adequacy ratios and qualifying regulatory capital for ABH and ABL as at 31 December 2017 are set out in the graph and table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 31.8% and 31.7% at a consolidated Group and Bank level, respectively. The corresponding total capital adequacy ratios are 34.8% and 38.3% at a consolidated Group and Bank level, respectively.

6.1. OVERVIEW OF RISK WEIGHTED ASSETS

The following table gives an overview of the risk weighted asset requirements at the respective reporting dates. The predominant risk exposure for the Group is credit risk, which comprises loans, credit cards and interbank deposits.

	African Bank Holdings Limited			African Bank Limited		
R'm	RWA		Minimum capital requirements (1)	RWA		Minimum capital requirements (1)
	Dec-17	Sep-17	Dec-17	Dec-17	Sep-17	Dec-17
Credit risk (excluding counterparty credit risk)	**20,941**	**22,173**	**2,251**	**20,941**	**22,173**	**2,251**
Of which standardised approach (SA) (5)	20.941	22,173	2,251	20,941	22,173	2,251
Of which internal rating-based (IRB) approach	-	-	-	-	-	-
Counterparty credit risk	**338**	**327**	**36**	**338**	**327**	**36**
Of which standardised approach for counterparty credit risk (SA-CCR) (2)	338	327	36	338	327	36
Of which internal model method (IMM)	-	-	-	-	-	-
Market risk	**440**	**545**	**47**	**440**	**545**	**47**
Of which standardised approach (SA)	440	545	47	440	545	47
Of which internal model approach (IMM)	-	-	-	-	-	-
Operational risk	**3,295**	**3,469**	**354**	**3,199**	**3,373**	**344**
Of which basic indicator approach	-	-	-	-	-	-
Of which standardised approach (3)	3,295	3,469	354	3,199	3,373	344
Of which advanced measurement approach	-	-	-	-	-	-
Other risk (4)	**2,444**	**2,397**	**263**	**1,741**	**1,694**	**187**
Total	**27,458**	**28,911**	**2,951**	**26,659**	**28,112**	**2,865**

(1) The minimum capital requirement per risk category for 2017 is 10.75% which comprises the base minimum (8.00%) plus the Pillar 2A systemic risk add-on (1.50%) plus capital conservation buffer (1.25%)
(2) ABL currently applies the current exposure method to calculate counterparty credit risk
(3) ABL currently applies the alternative standardised approach in calculating its operational risk
(4) Other risk includes accounting other assets, deferred tax asset and threshold deduction items
(5) Refer below for a further split of credit risk exposures

R'm	African Bank Holdings Limited RWA		Minimum capital requirements (1)	African Bank Limited RWA		Minimum capital requirements (1)
	Dec-17	Sep-17	Dec-17	Dec-17	Sep-17	Dec-17
Of which standardised approach (SA)	**20,941**	**22,173**	**2,251**	**20,941**	**22,173**	**2,251**
Retail Exposures	15,595	15,385	1,676	15,595	15,385	1,676
Interbank Exposures	5,346	6,788	575	5,346	6,788	575

6.2. COMPOSITION OF REGULATORY CAPITAL

The qualifying regulatory capital and capital adequacy ratios for ABH and ABL as at 31 December 2017 are set out in the table below. The Group remains well capitalised with CET1 and Tier 1 ratios of 31.8% and 31.7% at a consolidated ABH Group and Bank level, respectively. The corresponding total capital adequacy ratios are 34.8% and 38.3% at a consolidated ABH Group and Bank level, respectively.

R'm	African Bank Holdings Limited 31 Dec 2017	African Bank Holdings Limited 30 Sep 2017	African Bank Limited 31 Dec 2017	African Bank Limited 30 Sep 2017
Composition of qualifying regulatory capital				
Ordinary share capital	10,000	10,000	10,000	10,000
Accumulated profit	-	-	-	-
	10,000	10,000	10,000	10,000
Regulatory adjustments				
- Intangible assets in terms of IFRS	(90)	(75)	(90)	(75)
- Other regulatory adjustments, including accumulated losses	(1,170)	(1,261)	(1,453)	(1,521)
Common Equity Tier 1 capital (CET1)	**8,740**	**8,664**	**8,457**	**8,404**
Additional Tier 1 capital (AT1)	-	-	-	-
Tier 1 capital (T1)	**8,740**	**8,664**	**8,457**	**8,404**
Issued subordinated debt	1,485	1,485	1,485	1,485
Surplus capital attributable to minorities/third parties	(938)	(914)	-	-
Total subordinated debt	**547**	**571**	**1,485**	**1,485**
Portfolio Impairments	265	280	265	280
Tier 2 capital (T2)	**812**	**851**	**1,750**	**1,765**
Qualifying regulatory capital	**9,552**	**9,515**	**10,207**	**10,169**
CET1%	31.8	30.0	31.7	29.9
AT1%	0.0	0.0	0.0	0.0
T1%	31.8	30.0	31.7	29.9
T2%	3.0	2.9	6.6	6.3
Total capital adequacy %	**34.8**	**32.9**	**38.3**	**36.2**

7. LEVERAGE RATIO

Public disclosure of the leverage ratio (calculated using the prescribed leverage ratio template) and its components has been required since 1 January 2015. The Basel III leverage ratio is defined as the capital measure (Tier 1 capital), divided by the exposure measure (total exposures) and is expressed as a percentage. This measure acts as a backstop to the risk-based leverage capital adequacy ratio (see section 6 above), by acting as a floor to restrict the build-up of excessive leverage by banks.

The increase in the leverage ratio from the prior reporting period, for both Group and Bank is as a result of an overall increase in capital, arising predominantly from an increase in retained earnings driven by profits for the year and a reduction in the balance sheet, driven by a reduction in derivative exposures and cash balances.

Cash balances, reported in ZAR equivalent, have reduced as result of ZAR liability buy backs, amounting to R0.4 billion, a decrease in the ZAR equivalent value of foreign currency denominated cash of R0.4 billion and a decrease in collateral balances related to foreign currency hedging swaps of R0.3 billion. The latter two movements were as a direct result of ZAR strengthening relative to foreign currency balances held, in the latter part of December 2017.

The exposure used in the calculation of the ratio (see 7.2) differs from the total assets, as measured using IFRS as shown below.

7.1 SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

		African Bank Holdings Limited		African Bank Limited	
Line #	R'm	31 Dec 2017	30 Sep 2017	31 Dec 2017	30 Sep 2017
1	Total consolidated assets as per published financial statements	32,169	32,954	31,357	32,324
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(810)	(651)	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-	-
4	Adjustments for derivative financial instruments	(284)	(537)	(284)	(537)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	143	314	143	314
7	Other adjustments (1)	1,795	1,826	1,795	1,826
8	Leverage ratio exposure	33,013	33,906	33,011	33,927

(1) Other adjustments reflect differences between regulatory and accounting basis of preparation (refer Basis of compilation). This impacted the values relating to general provisions and intangible assets.

7.2 LEVERAGE RATIO DISCLOSURE

		African Bank Holdings Limited		African Bank Limited	
Line #	**R'm**	**31 Dec 2017**	**30 Sep 2017**	**31 Dec 2017**	**30 Sep 2017**
	On-balance sheet exposures				
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	32,739	33,456	32,737	33,477
2	Asset amounts deducted in determining Basel III Tier 1 capital	(90)	(75)	(90)	(75)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**32,649**	**33,381**	**32,647**	**33,402**
	Derivative exposures				
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	210	210	220	210
5	Add-on amounts for PFE associated with all derivatives transactions	1	1	1	1
6	Gross-up for derivatives collateral provided where deducted from the balance sheet asset pursuant to the operative accounting framework	-	-	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**221**	**211**	**221**	**211**
	Securities financing transaction exposures				
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-	-
14	CCR exposure for SFT assets	-	-	-	-
15	Agent transaction exposures	-	-	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	**-**	**-**	**-**
	Other off-balance sheet exposures				
17	Off-balance sheet exposure at gross notional amount	714	1,078	714	1,078
18	(Adjustments for conversion to credit equivalent amounts)	(571)	(764)	(571)	(764)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**143**	**314**	**143**	**314**
20	Tier 1 capital	8,739	8,664	8,456	8,404
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**33,013**	**33,906**	**33,011**	**33,927**
	Leverage ratio				
22	**Basel III leverage ratio**	**26.5%**	**25.6%**	**25.6%**	**24.8%**

8. LIQUIDITY MEASUREMENTS

8.1 LIQUIDITY COVERAGE RATIO (LCR) – COMMON DISCLOSURE TEMPLATE

The LCR is a 30-day stress test, which requires the Bank to hold sufficient high-quality liquid assets to cover envisaged net outflows. These outflows are calibrated using prescribed Basel factors applied to assets and liabilities in a static run-off model. Basel definitions are used to identify high-quality liquid assets.

The decrease in the LCR from the previous reporting period was primarily as a direct result of decreasing the holdings of high quality liquid assets over and above the minimum SARB requirements in terms of the Banks Act.

African Bank Limited	Total Un-weighted value (average) (1)	Total weighted value (average) (1)	Total weighted value (average) (1)
R'm	**31 Dec 2017**	**31 Dec 2017**	**30 Sep 2017**
Total high-quality liquid assets (HQLA) (see 7.4.1)		**3,532**	**3,687**
Cash outflows			
Retail deposits and deposits from small business customers, of which:	32	3	2
Stable deposits	-	-	-
Less-stable deposits	32	3	2
Unsecured wholesale funding, of which:	667	667	693
Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-
Non-operational deposits (all counterparties)	-	-	-
Unsecured debt	667	667	693
Secured wholesale funding	-	-	-
Additional requirements, of which:	-	-	-
Outflows related to derivative exposures and other collateral requirements	86	86	171
Outflows related to loss of funding on debt products	-	-	-
Credit and liquidity facilities	894	183	117
Other contractual funding obligations	304	15	15
Other contingent funding obligations	-	-	-
Total cash outflows	**1,898**	**954**	**999**
Cash inflows			
Secured lending (e.g. reverse repos)	-	-	-
Inflows from fully performing exposures	2,271	2,004	3,499
Other cash inflows	0	0	0
Total cash inflows	**2,271**	**2,004**	**3,499**
		Total Adjusted Value	Total Adjusted Value
Total HQLA		**3,532**	**3,687**
Total net cash outflows (2)		**238**	**250**
Liquidity coverage ratio (%) (3)		**1,546%**	**1,740%**

(1) The average numbers are calculated using the daily LCR figures for the quarter ended 31 December 2017
(2) ABL has a net cash inflow after applying the run-off factors, outflows for the purpose of the ratio are therefore deemed to be 25% of gross outflows
(3) There is no material difference between Bank and Group

8.1.1 Composition of high-quality liquid assets

The high-quality liquid assets include only those with a high potential to be converted easily and quickly into cash. There are three categories of high-quality liquidity assets with decreasing levels of quality: level 1, level 2A and level 2B assets.

R'm	31 Dec 2017	30 Sep 2017
Total level one qualifying high-quality liquid assets [1]	3,532	3,687
Cash	2	1
Qualifying central bank reserves	409	405
Specified debt securities issued in Rand by the central government of the RSA or the Reserve Bank	3,121	3,281

(1) ABL does not have any investments in level 2 high-quality liquid assets