African Bank Limited

Annual Financial Statements

30 September 2019

These financial statements were prepared under the supervision of G Raubenheimer CA (SA)

Registration number: 2014/176899/06. NCR Registration number NCRCP7638.
An Authorised Financial Services and Registered Credit Provider

African Bank Limited

(Registration Number 2014/176899/06)
Group Annual Financial Statements
for the year ended 30 September 2019

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

African Bank Limited and its equity accounted joint venture which was dissolved during the current reporting period ("the Group"), constituted a parent entity group of companies, as defined in terms of International Financial Reporting Standards in the prior reporting period. For comparative purposes and because the results for the current reporting period include equity accounted results from the joint venture, African Bank Limited constitute a parent entity group of companies for the current reporting period.

The directors are responsible for the preparation and fair presentation of the group annual financial statements, comprising the statement of financial position at 30 September 2019, the statement of total comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, No. 71 of 2008 ("the Companies Act").

The directors' responsibility includes:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- maintaining adequate accounting records and an effective system of risk management.

The group annual financial statements represent the financial position and financial results of African Bank Limited and its equity accounted joint venture. Neither African Bank Limited, nor its joint venture have any other subsidiaries or associated companies and the group annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation of the group annual financial statements, as set out in note 1.1.2 to these financial statements.

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

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

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The group annual financial statements found on pages 3 to 110 were approved by the board of directors on 25 November 2019 and are signed on its behalf by:

B Maluleke
Director

G Raubenheimer
Director

Midrand

A signed copy of the group annual financial statements is available for inspection at the registered office as specified in annexure D to these financial statements.

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2019, the Group has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Maliga Chetty
Company Secretary

Midrand
25 November 2019

AUDIT COMMITTEE REPORT

PURPOSE OF THE AUDIT COMMITTEE

The main purpose of the audit and compliance committee (AuditCom) is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and financial statements in compliance with all legal requirements and accounting standards.

MEMBERSHIP AND ATTENDANCE

The AuditCom consists of three members who are all independent non-executive directors. The committee meets at least four times annually with additional meetings scheduled when required or at the request of the board or a committee member or as often as deemed necessary to achieve its objectives as set out in it's terms of reference.

The names of the members and attendance at meetings are reflected below:

Name	14-Nov 2018	7-Feb 2019	10-May 2019	15-Aug 2019
Members				
FJC Truter (Chairman)	√	√	√	√
SK Mhlarhi	√	√	√	√
H Ralinala	√	√	√	√
In Attendance				
S McCloghrie	√	√	√	√
G Raubenheimer	√	√	√	√
B Maluleke	√	√	√	√

The internal and external auditors attended and reported at all meetings of the AuditCom. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, the Heads of Internal Audit and Group Compliance attended all meetings by invitation. The Chairman of the Board, Mr T Dloti, is invited to all meetings and attended the meeting in May 2019. The Chairman of the Technology and Information Committee, Mr M Harris, attended the meeting in August 2019.

The Chairperson of the AuditCom, Mr F Truter, decided to resign from the Boards of African Bank Holdings Limited and African Bank Limited with effect from 30 November 2019 and will accordingly resign as a member of the AuditCom with effect from this date. The Board approved the appointment of Ms Louisa Stephens as a member of the AuditCom with effect from 1 October 2019 and the Chairperson of the AuditCom with effect from 1 December 2019.

FUNCTIONS OF THE AUDIT COMMITTEE

Given the continued spree of governance failures and scandals within the South African business environment, the AuditCom continuously critically assesses the adequacy of it's terms of reference and the responsibilities included therein, with specific reference and consideration to the lessons which could be learnt from these regrettable events.

The AuditCom has approved the AuditCom charter and has discharged the functions in terms of the charter set out below.

AUDIT COMMITTEE REPORT

In respect of the external auditors and the external audit:

- evaluated and recommended for approval the appointment of PricewaterhouseCoopers Inc. as external auditors for the financial period ended 30 September 2019, in accordance with all applicable legal requirements;
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit process and evaluated the effectiveness of the external audit;
- obtained assurance from the external auditors that their independence was not impaired;
- considered the nature and extent of all non-audit services provided by the external auditors;
- approved proposed contracts with the external auditors for the provision of non-audit services;
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.

In respect of the financial statements:

- confirmed the going concern principle as the basis of preparation of the annual financial statements;
- examined and reviewed the annual financial statements prior to submission and approval by the board;
- reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets;
- ensured that the annual financial statements fairly present the financial position of the Group as at the end of the financial period and the results of operations and cash flows for the financial period and considered the basis on which the Group was determined to be a going concern;
- ensured that the annual financial statements comply with IFRS in all material respects;
- considered accounting treatments, significant unusual transactions and accounting judgments;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the external auditor's audit report;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal controls, content of the annual financial statements and related matters.

In respect of internal control and internal audit:

- reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter;
- considered reports of the internal and external auditors on the company's systems of internal control, including internal financial controls and maintenance of effective internal control systems;
- reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings;
- noted that there were no significant differences of opinion between the internal audit function and management;
- assessed the adequacy of the performance of the internal audit function and the adequacy of the available internal audit resources and implemented changes under a restructuring programme to ensure adequate performance of the function;
- nothing has come to the attention of the AuditCom that indicates a material breakdown in internal controls, including internal financial controls, resulting in any material loss to the company for the year under review;
- over the course of the year, met with the head of internal audit, the Group compliance officer, the chief risk officer, management and the external auditors;
- reviewed any significant legal and tax matters that could have a material impact on the financial statements;
- considered the routine independent quality assurance review of audit execution, the results of which confirmed that internal audit had generally conformed with the International Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

AUDIT COMMITTEE REPORT

In respect of legal, regulatory and compliance requirements:
- reviewed, with management, matters identified that could have a material impact on the Group;
- monitored compliance with the Companies Act, the Banks Act 94 of 1990 ("the Banks Act"), all other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this;
- noted that no complaints were received from the Group's Sustainability, Ethics and Transformation Committee concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters;
- reviewed and approved the annual compliance mandate and compliance plan;
- reviewed the JSE Report Back on Pro Active Monitoring of Financial Statements and the Group's Annual Compliance Certificate in respect of the listed debt securities;
- The Committee is satisfied that the Group has met the requirements emanating from the principles contained in the King IV Report on Corporate Governance ("King IV") and are satisfied with the disclosures contained in the King IV which can be found on the Annual Integrated Report of the Group's holding company and Company's website (www.africanbank.co.za).

In respect of risk management and IT:
- considered and reviewed reports from management on risk management, including fraud and IT risks as they pertain to financial reporting and the going concern assessment;

In respect of the coordination of assurance activities, the committee:
- reviewed the plans and work outputs of the external and internal auditors as well as compliance, and concluded that these were adequate to address all significant financial risks facing the business;
- considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these are appropriate;
- considered the appropriateness of the experience and expertise of the CFO and concluded that these are appropriate.

KEY FOCUS AREAS FOR THE AUDIT COMMITTEE

During the year under under review the audit committee focused on the following key areas:
- Implementation of IFRS9;
- Long term and short term liquidity of the Group; and
- Transactional banking risk and control issues.

INDEPENDENCE OF EXTERNAL AUDITORS

The AuditCom has satisfied itself that the auditors are independent of the company in accordance with section 94(8) of the Companies Act, which includes consideration of the auditor's previous appointments, the extent of non-audit work undertaken and compliance with criteria relating to the independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors.

Specific consideration was given to the non-audit work undertaken in respect of the development of the Group's transactional banking service offering. This non-audit work was in relation to project management and was limited solely to this function, with no strategic, executive or managerial input provided. The total fees paid to the auditors in this regard amounted to R3 million (2018: R12 million).

Requisite assurance was sought from and provided by the external auditors that the internal governance processes within the audit firm support and demonstrate its claim of independence.

In the current reporting period, Mr. Ranesh Premlall Hariparsad who was appointed as the designated audit partner, resigned from PwC. Mr. Costa Natsas replaced him with effect from 1 February 2019.

The AuditCom has assessed and satisfied itself of Mr. Natsas's experience and knowledge in terms of section 22 of the JSE Listing Requirements and his appointment was approved by the Prudential Authority.

STATEMENT ON INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND GROUP ANNUAL FINANCIAL STATEMENTS

Based on the work of the company's assurance providers, nothing has come to the attention of the committee which indicates that the company's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

AUDIT COMMITTEE REPORT

The committee is satisfied that the Group annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act and International Financial Reporting Standards, and recommended the Group financial statements for approval by the board.

This report was approved by the AuditCom and signed on its behalf by the chairman of the committee, Mr. Frans Truter, on 25 November 2019

FJC Truter
Chairperson of the audit and compliance committee
25 November 2019

DIRECTORS' REPORT

The directors present their report to the shareholders, together with the audited group annual financial statements of the Group for the financial period ended 30 September 2019.

NATURE OF THE BUSINESS

African Bank Limited is registered as a bank under the Banks Act, as amended, which operates within the Republic of South Africa. Its main business is providing unsecured personal loans to formally employed South African residents, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the bank. The Group also takes deposits from retail customers and has launched a transactional banking offering, to the public during the reporting period.

During the 2018 financial year, African Bank Limited invested in MMI Lending (Proprietary) Limited which African Bank Limited treated as an investment in a joint venture. African Bank Limited equity accounts its investment in its standalone entity account so as to present a parent entity group, as defined in terms of International Financial Reporting Standards ("the group"). During the current financial year, African Bank Limited disposed of its interest in the legal entity MMI Lending (Propriety) Limited and in doing so dissolved the joint venture.

Neither African Bank Limited, nor its joint venture have or had any other subsidiaries or associated companies and the group annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation as set out in note 1.1.2. to the group annual financial statements.

SHARE CAPITAL

The authorised share capital of the Group is 2 000 000 000 ordinary par value shares of R0.01 each (2018: 2 000 000 000 shares ordinary par value shares of R0.01 each).

No shares were issued during the current or previous financial periods. At 30 September 2019, the issued ordinary share capital totalled 500 000 000 (2018: 500 000 000) shares at par value of R0.01 each representing R5 million (2018: R5 million). The Group has 1 500 000 000 unissued ordinary shares (2018: 1 500 000 000).

HOLDING COMPANY

The group's holding company is African Bank Holdings Limited, which holds 100% of the group's issued ordinary par value shares.

FINANCIAL RESULTS

The financial results for the year ended 30 September 2019 are set out on pages 3 to 110 of these group annual financial statements. The Group reported a net profit after tax of R217 million for the 2019 financial period (2018: net profit after tax of R303 million).

International Financial Reporting Standards ("IFRS") 9 Financial Instruments, became effective for the group for the year ending 30 September 2019. The Group retrospectively applied IFRS 9 with effect from 1 October 2018 without restating comparative figures. Furthermore, the Group had assessed that the move from the incurred loss model under IAS 39 to the expected credit loss model under IFRS 9 will have the most significant impact on the date of initial application.

For regulatory capital adequacy purposes, the opening retained earnings and deferred tax adjustment was not phased in as allowed per the SARB directive 5 of 2018: "Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects".

The impact which the adoption of IFRS 9 had on retained earnings was R622 million as at 1 October 2018, which would reduce the capital adequacy ratio from 37.8% to 35.54% as measured according to the applicable regulatory requirements, as at this date.

Following the adoption of IFRS 9, the Group published a transition report, which provided more detail on the Group's application of IFRS 9 and is available on the website www.africanbank.co.za.

DIRECTORS' REPORT

International Financial Reporting Standards (IFRS) 16 Leases, will become effective for the Group for the year ending 30 September 2020. The Group will be applying IFRS 16 retrospectively with effect from 1 October 2019 without restating comparative figures; as permitted by the standard's transition requirements. The application of IFRS 16 will result in the Group recognizing a lease asset and a lease liability and is expected not to have a significant impact on the Group's financial position.

The Group has assessed the impact which the adoption of IFRS 16 will have on retained earnings and on its CAR and expects the midpoint of the range of the impact on the total risk weighted exposure, as measured according to the applicable regulatory requirements, to be approximately R319 million as at 1 October 2019; which would reduce the capital adequacy ratio from 38.29% to 37.82% as at this date.

During the current reporting period, African Bank Holdings Limited and Momentum-Metropolitan Holdings Limited, previously MMI Holdings Limited ("MomMet"), mutually decided to terminate the joint venture comprising of lending, insurance and transactional banking arrangements. The decision to terminate the joint venture was executed in terms of the provisions of the relationship agreement between African Bank Holdings Limited and MomMet. Upon termination, African Bank Limited acquired the loan advances book (part of the lending arrangement) from MMI Lending Proprietary Limited, surrendered the sinking fund insurance policy held with the MomMet group (which was within the insurance arrangement), and sold its 49.9% shareholding interest in MMI Lending (Proprietary) Limited to Momentum-Metropolitan Strategic Investment (Proprietary) Limited (a subsidiary of the MomMet group).

BORROWING POWERS

In terms of the Memorandum of Incorporation, the Group has unlimited borrowing powers.

The total borrowings of the Group at 30 September 2019 are R12 billion (2018: R21 billion). Full details of the borrowings are shown in notes 13, 14 and 15 to the annual financial statements.

EVENTS AFTER THE REPORTING DATE

The directors are not aware of any other material events occurring between the reporting date and the date of authorisation of these group annual financial statements as defined in IAS 10 – Events after the reporting period.

GOING CONCERN

The directors have satisfied themselves that the Group is in a sound financial position and that sufficient cash reserves and borrowing facilities are accessible in order to enable the Group to meet its foreseeable cash requirements.

A core function of a bank is to facilitate financial liquidity by matching the requirements of its customers for funding to the funding provided by equity and debt investors. Invariably the maturity of the funding required and that of the funding provided is not equally matched, which gives rise to the required facilitation function performed by a bank. The consequent mismatch is inherent to the business of a bank and the resultant liquidity risk to which the Group is exposed, and the mitigating policies and controls applied by the Group, is disclosed in note 33 to these financial statements.

The Board took liquidity risk into account in its assessment that the Group is a going concern. In the Board's opinion there is no material uncertainty regarding the Group's ability to meet its obligations and to pay its debts as they become due in the ordinary course of business.

The Board's assessment is based on judgement applied to uncertain future events, which are significant. These uncertain future events are significant due to their impact on the Group's ability to raise funding and generate cash and cash equivalents from assets held by the Group.

To ensure that the Group is able to meet its obligations and to pay its debts as they become due, the Group implemented a number of initiatives, which includes the establishment of a significant retail funding portfolio, engaging the shareholders of African Bank Holdings Limited to establish a shareholder backed liquidity facility primarily focused on securing funding from the capital market and listing an Euro Medium Term Note ("EMTN") program.

In addition, there have been no material change in the markets in which the Group operates and it has the necessary skills to continue operations.

DIRECTORS' REPORT

On this basis, the directors consider that the Group has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to apply the going concern basis in preparing the Group's financial statements for this reporting period.

MAJOR CAPITAL EXPENDITURES

The Group made additions to its capital assets of R73 million (2018: R203 million) during the financial period.

REGULATORY APPROVAL

As at the date of this directors' report, there are no outstanding regulatory approvals.

DIRECTORS AND CHANGES IN DIRECTORS

The following changes in directorate have taken place during the 2019 financial period end up to 25 November 2019:

Appointments:

T Dloti was appointed as an independent non-executive director on 7 March 2019 and subsequently elected as chairperson of the Board.

MC Ngwenya Flanagan was appointed as an independent non-executive director on 16 September 2019.

African Bank Limited board of directors

Independent non-executive directors

T Dloti (Chairperson)
MJ Harris
SL McCloghrie
SK Mhlarhi
MC Ngwenya Flanagan
H Ralinala
L Stephens
PJ Temple
FJC Truter

Non-independent non-executive directors

B Riley

Executive directors

B Maluleke
G Raubenheimer

DIVIDENDS TO ORDINARY SHAREHOLDERS

No dividends were declared or paid by the board of directors during the current or previous financial period.

COMPANY SECRETARY AND REGISTERED OFFICE

Bruce Unser retired as company secretary of African Bank Limited on 3 October 2018. Maliga Chetty was appointed as company secretary on 4 October 2018. Her business and postal address is disclosed in Annexure D to these financial statements.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Details in respect of directors' remuneration and the group's incentive scheme are disclosed in the long term incentive note and the remuneration note (refer to note 39 and 42.)

DIRECTORS' INTEREST IN SHARES

The directors' have no direct or indirect interests in the issued share capital of the group.

AUDITORS

PricewaterhouseCoopers Inc. (PwC) has expressed its willingness to continue as auditors. The resolutions proposing its reappointment was submitted and passed at the annual general meeting held on 22 February 2019.

In view of the resignation of Mr. Ranesh Premlall Hariparsad from PwC on 31 January 2019, Mr. Costa Natsas replaced him with effect from 1 February 2019.

The audit committee has assessed and satisfied itself of Mr. Natsas's experience and knowledge in terms of section 22 of the JSE Listing Requirements.

DIRECTORS' REPORT

SPECIAL RESOLUTIONS BY AFRICAN BANK LIMITED

There were no special resolutions passed during the current financial period.

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

Mr FJC Truter is a non-executive director and has a direct interest as a shareholder in MomMet Holdings Limited. African Insurance Group Limited, a wholly owned subsidiary of African Bank Holdings Limited, participates in an insurance cell captive arrangement in Guardrisk Life Limited, a MomMet group company, to facilitate its insurance cell captive arrangement.

In the 2018 financial period, African Bank Holdings Limited entered into a relationship agreement with MomMet relating to a joint venture comprising of a lending, insurance and transactional banking arrangement ("the MMI JV"). In the current year, the relationship agreement was terminated during the current financial year and the joint venture was dissolved.

In considering decisions pertaining to the MMI JV, the Board has ensured compliance with the requirements of section 75 of the Companies Act in its deliberations. It is comfortable that appropriate governance processes were put into place to ensure that only its non-conflicted directors were party to the discussion relating to the Cell Captive Arrangement and MMI JV. The interested directors recused themselves from meetings or agenda items where any discussion or consideration of the Cell Captive Arrangement and the MomMet JV and, in terms of the governance process introduced, are obliged to recuse themselves whenever the matters are discussed.

Other than the disclosures above, the directors confirm that no material contracts were entered into in which directors and officers of the Group and the separate company had an interest and which significantly affect the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

Independent auditor's report

To the Shareholder of African Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Bank Limited (the Company) as at 30 September 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

African Bank Limited's financial statements set out on pages 20 to 107 comprise:

- the statement of financial position as at 30 September 2019;
- the statement of total comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "African Bank Limited Annual Financial Statements 30 September 2019", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited as presented in Annexure A.

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

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa.

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T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: L S Machaba
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview

Overall materiality *Overall materiality: R141 million, which represents 0.5% of total assets.*
Key audit matter *Impairment of originated book advances* *Accounting for the Acquired Advances Book post acquisition*

As part of designing our audit, we determined materiality and assessed the risks of material misstatements in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	R141 million.
How we determined it	0.5% of total assets.
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users and is an accepted benchmark.

	As this is the fourth year the Company is operating, the users of the financial statements will continue to focus on the net value of the advances book (net of impairments) and the ability to recover the outstanding balances. We chose 0.5% (which is at the lower end of the spectrum of thresholds) due to the listed debt within the Company which increases the sensitivity of the users in respect of the chosen benchmark.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Impairment of originated book advances The Company's main business is to provide unsecured retail loans and credit cards, and as a result credit risk has a significant impact on the business. The quality of credit originated is one of the primary risks managed by management. The expected credit losses (ECL) impairment on loans and advances is a matter of most significance to our current year audit due to the following: • the first-time adoption of IFRS 9 by the Company; • the magnitude of the ECL recognised; and • the degree of judgement and estimation applied by management in determining the ECL. As at 30 September 2019, the gross balance of the originated advances was R25,4 billion and the related impairment provision recognised was R7,5 billion (Refer to note 2 in this regard). Impairment relating to advances, disclosed in note 2 and note 31 to the financial statements, represents management's best estimate of the losses incurred within the unsecured retail loan portfolio.	The Company's advances impairment methodology and models were independently reperformed to assess the accuracy of implementation by our internal credit expertise. The methodologies were also inspected to assess compliance with the International Financial Reporting Standard (IFRS) 9 *Financial instruments* and management's policy. We obtained an understanding and assessed the operating effectiveness of the relevant controls (using a combination of techniques such as enquiry, inspection, observation and reperformance) relating to the approval of credit facilities, the subsequent monitoring and remediation of exposures and the evaluation of credit risk ratings. We considered the appropriateness of accounting policies against IFRS principles and identified no material inconsistencies. We made use of our internal credit expertise to consider the design and accuracy of implementation of the models against IFRS 9 and management's policy. We assessed the significant assumptions and the quality of the observable data used to derive modelled impairments and considered these to be within the context of industry norms. In assessing management's calculation of the ECL: • We recalculated the impact of SICR, applying the assumptions and data included in

pwc

Key audit matter	How the matter was addressed in the audit
In calculating the ECL, the key areas of significant management judgement and estimation include: ● Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering deterioration in reporting date Probability of Defaults (PDs) when compared to PDs estimated at the point of origination, the relative change in the remaining lifetime PD and accounts where 1 or more instalments have been missed or received after contractual date of repayment. ● Determination of the write-off point. The Company considers the point at which there is no reasonable expectation of further recovery. This is assessed by management by ensuring that the expected present value of post write-off recoveries is immaterial for accounts written-off in a financial year. This point is estimated based on account status and consecutive missed payments. ● Determining and weighting of assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (upturn, downturn and a baseline scenario). The company utilises the 3-year macro-economic outlook provided by an external vendor to project future changes in CPI, GDP, USD ZAR exchange rates, unemployment and the Repo rate. These scenarios are then linked to (PDs) to derive a forward looking ECL. ● Overlays (impairment that are recognised to cater for specific events which are not included in the impairment models). These impairments are material to the financial statements in terms of the value, subjective nature of the impairment	management's model. ● We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on historic movements of up to date accounts into arrears. ● Through recalculation, we tested the application and appropriateness of the IFRS 9 write-off policy, including the exclusion of post write-off recoveries from the LGD. ● Considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own economic outlook and independent market data. ● We tested the performance and sensitivity of the forward-looking models in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results. ● We assessed the reasonableness of event driven overlays raised by management, based on our understanding of the industry, emerging risks and regulatory changes. We reperformed the overlay calculations performed by management. Based on our re-performance of the ECL model, we considered effects already considered by the ECL model to determine whether the impact of the overlay was not double counted. Management's credit impairments were found to be acceptable, based on our independent calculations and testing performed.

Key audit matter	How the matter was addressed in the audit
calculations and the effect on the Company's risk management processes and operations. *Refer to the critical accounting judgements and key sources of estimation uncertainty in note 1.17, note 2 Net advances, note 20 Credit impairment charge and the Credit risk section under note 31 to the financial statements.*	
Accounting for the Acquired Advances Book post acquisition On 4 April 2016, the Company acquired the unsecured lending business from Residual Debt Services Limited. The acquired advances book was fair valued at acquisition date. These loans and advances are accounted for on a portfolio basis as a single asset which has been classified as a credit impaired purchased asset. Subsequent to the acquisition, management consider whether adjustments are required to the fair value amounts raised during acquisition. Where the revised expected cash flow estimates based on actual or anticipated cash flows are lower/higher than expected, changes are recognised in the credit impairment charge. As at 30 September 2019, the balance of the acquired advances was R 2 billion. (Refer to notes 1.1.5.7 and 2). The accounting for the acquired book, is considered to be a matter of most significance to our current year audit of the financial statements due to the significant judgements and estimates that management has applied in determining the future cash receipts and adjustments to be applied to the fair value book. *Refer to note 1.5 to the financial statements for the disclosure and accounting treatment of the acquired advances book, and to the significant estimates and judgement note 1.17.*	In addition to the procedures we performed as described in the key audit matter above, we assessed management's documented approach, principles and assumptions relating to the acquired book to ensure alignment with IFRS 9 principles. In this regard we performed the following procedures: • We independently reperformed management's model calculations to determine whether the cashflow projections were correctly calculated in accordance with the documented methodology and noted no material exceptions. • We used our credit expertise to perform model back-testing, through the comparison of the projected cash flows on acquisition to actual cash flows for the period, in order to assess the accuracy of forecasting cash flows up to 60 months used in management's assessments and noted no material exceptions. • We compared the expected acquired advances fair value as at 30 September 2019 to the calculated fair value to determine the size of the additional ECL or reversal of ECL that was required and noted no material exceptions. This catch up adjustment was then recognised in the credit impairment charge for disclosure purposes.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled “African Bank Limited Annual Financial Statements 30 September 2019” ,which includes the Certificate by the Company Secretary, Report of the Audit Committee and the Directors’ Report as required by the Companies Act of South Africa, the document titled “African Bank Integrated Report 2019” and the document titled “Governance 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’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 Company 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 scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of African Bank Limited for 4 years.

PricewaterhouseCoopers Inc.

Director: Costa Natsas

Registered Auditor

Johannesburg

25 November 2019

African Bank Limited

(Registration Number 2014/176899/06)
Group Annual Financial Statements
for the year ended 30 September 2019

STATEMENT OF FINANCIAL POSITION

Rmillion	Notes	2019	2018
Assets			
Cash and cash equivalents	4	5,038	7,221
Regulatory deposits and sovereign debt securities	5	1,725	2,130
Derivatives	11	36	47
Net advances	2	19,815	19,178
Accounts receivable and other assets	8	231	212
Loans to affiliated companies	10	-	51
Investments	12	-	15
Property and equipment	7	547	597
Intangible assets	9	81	72
Deferred tax assets	6	870	756
Total assets		**28,343**	**30,279**
Liabilities and equity			
Liabilities			
Current tax	6	-	24
Creditors and other liabilities	16	737	648
Short-term funding	14	6,959	6,016
Bonds and other long-term funding	13	10,737	13,279
Subordinated bonds	15	1,533	1,530
Total liabilities		**19,966**	**21,497**
Equity			
Ordinary share capital	17	5	5
Ordinary share premium	17	9,995	9,995
Accumulated loss		(1,623)	(1,218)
Total equity		**8,377**	**8,782**
Total equity and liabilities		**28,343**	**30,279**

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Rmillion	Notes	2019	2018
Interest income on advances	19	5,993	7,168
Credit impairment charge	20	(2,016)	(3,608)
Interest on advances after impairment		**3,977**	**3,560**
Other interest income	19	187	479
Interest expense and similar charges	21	(1,707)	(1,929)
Foreign exchange gain recognised on translation[1]		(82)	(81)
Fair value losses from derivatives assets and liabilities[1]		53	(56)
Net interest income after impairment		**2,428**	**2,110**
Non-interest income	22	815	1,198
Operating costs	23	(2,965)	(2,615)
Loss on debt buy back		-	(6)
Indirect taxation: VAT	24	31	(65)
Operating profit		**309**	**485**
Share of gain / (loss) of joint venture accounted for using the equity method		5	(16)
Profit before taxation		**314**	**469**
Taxation	24	(97)	(166)
Profit for the year		**217**	**303**
Attributable to:			
- Owner of African Bank Limited		**217**	**303**
Total comprehensive profit for the year		**217**	**303**

[1] In the prior year, foreign exchange gain recognised on translation and fair value losses from derivative assets and liabilities were included and presented in the interest expense and similar charges line item.

STATEMENT OF CHANGES IN EQUITY

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 1 October 2017	5	9,995	(1,521)	8,479
Total comprehensive profit for the year	-	-	303	303
Balance at 30 September 2018	**5**	**9,995**	**(1,218)**	**8,782**
Changes on initial application of IFRS 9	-	-	(622)	(622)
Restated balance at 1 October 2018	**5**	**9,995**	**(1,840)**	**8,160**
Total comprehensive profit for the year	-	-	217	217
Balance at 30 September 2019	**5**	**9,995**	**(1,623)**	**8,377**

STATEMENT OF CASH FLOWS

Rmillion	Notes	2019	2018
Cash flows from operating activities			
Cash generated from operations	25	4,225	5,291
Cash received from lending activities	26	7,607	8,454
Cash received from cash reserves	26	99	308
Recoveries on advances previously written off		788	115
Cash paid to funders	27	(1,463)	(1,077)
Cash paid to suppliers	27	(1,404)	(1,283)
Cash paid to employees and agents	27	(1,402)	(1,226)
Net increase in gross advances		(4,995)	(4,122)
Gross advances received		10,003	12,280
Gross advances disbursed		(14,998)	(16,402)
Net increase/(decrease) in regulatory deposits and sovereign debt securities		549	2,627
Net increase in customer deposits		1,120	751
Transactional banking deposits raised		64	-
Direct taxation received / (paid)	28	5	(461)
Indirect taxation paid		(40)	(65)
Net cash inflow/(outflow) from operating activities		**928**	**4,021**
Cash flows from investing activities			
Acquisition of property and equipment (to maintain operations)		(49)	(150)
Acquisition of intangible assets (to maintain operations)		(24)	(53)
Loans redeemed by / (advanced to) affiliated companies		51	(28)
Investments disposed / (made) during the period		21	(31)
Net cash (outflow)/inflow from investing activities		**(1)**	**(262)**
Cash flows from financing activities			
Net long term funding redeemed		(3,326)	(489)
Long term funding raised	29	1,971	16
Long term funding redeemed	29	(5,297)	(505)
Net short-term funding redeemed		(41)	(2,785)
Short term funding raised	29	9	971
Short term funding redeemed	29	(50)	(3,756)
Derivatives		64	-
Net cash outflow from financing activities		**(3,303)**	**(3,274)**
Increase/(Decrease) in cash and cash equivalents		(2,376)	485
Cash and cash equivalents at the beginning of the year		7,221	6,862
Effect of exchange rate changes on cash and cash equivalents		193	(126)
Cash and cash equivalents at the end of the year		**5,038**	**7,221**

In the current reporting period, the disclosures within the statement of cashflows have been enhanced to provide a more granular alignment to the fundamental drivers of the Group. Comparative figures have been restated to align to the current reporting period disclosures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. General information

African Bank Limited ("ABL", "the Bank") is a public company incorporated in the Republic of South Africa, is registered as a bank under the Banks Act and operates within the Republic of South Africa.

The Bank commenced business on the 4 April 2016 after the final execution of the restructuring transaction of the entity formerly known as African Bank Limited (in curatorship). That entity has formally changed its name to "Residual Debt Services Limited" and remains under curatorship. The details of the restructuring transaction can be found in the Offer Information Memorandum published on 4 February 2016 as well as in the SENS announcements available on www.africanbank.co.za.

ABL and its equity accounted joint venture, which was dissolved during the current reporting period, ("the Group") constitute a parent entity group of companies, as defined in terms of International Financial Reporting Standards. The decision to dissolve the joint venture was executed in terms of the provisions of the relationship agreement between African Bank Holdings Limited and MMI Group Limited and more information is available in note 12 to these financial statements.

The Group's main business is providing unsecured personal loans to primarily formally employed South African residents, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the bank. The Group also takes deposits from retail customers and has launched a transactional banking offering to the public during the at the reporting period.

The Bank is a 100% owned subsidiary of African Bank Holdings Limited ("ABHL"). ABHL is an unlisted registered bank controlling company under the Banks Act. The shares in ABHL are privately held by the South African Reserve Bank (50.00%), the Government Employees Pension Fund (25.00%), FirstRand Bank Limited (6.55%), The Standard Bank of South Africa Limited (5.95%), ABSA Trading and Investment Solutions Proprietary Limited (4.95%), Nedbank Limited (4.10%), Investec Bank Limited (2.45%), and Capitec Bank Limited (1.00%). (Percentage indicates per cent holding)

The registered office and principal place of business of the Group is disclosed in Annexure D.

1.1. Accounting Policies

1.1.1. Statement of compliance

The Group annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB"), interpretations issued by the IFRS Interpretations Committee of the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the South African Companies Act.

1.1.2. Basis of preparation

The Group's financial statements have been prepared in accordance with the going concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.

1.2. Adoption of new standards and interpretations effective for the current and future financial periods

The new and revised standards, amendments to standards and interpretations are disclosed in Annexure A to the annual financial statements.

1.3. Significant accounting policies

The significant accounting policies set out below have been applied in the preparation and presentation of the African Bank Limited Group's annual financial statements in dealing with items that are considered material by the Group during this reporting period.

1.4. Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits as well as call and current accounts held with financial institutions. Cash and cash equivalents are measured at cost; which approximates fair value due to the short-term nature of these instruments. Cash and cash equivalents are classified as financial assets measured at amortised cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.5. Financial instruments

1.5.1. IFRS 9 - Applied from 1 October 2018

The Group applies IFRS 9 for the recognition, classification and measurement and de-recognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting as defined in IFRS 9. The Group recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument on the trade date or the settlement date.

The Group has classified its financial assets into the following categories:
- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

Financial liabilities are classified into the following categories:
- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification of financial assets is based on both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets held in terms of South African Reserve Bank requirements, as well as any excess liquid assets held over and above the minimum requirements are disclosed as regulatory deposits and sovereign debt securities.

No financial instruments are classified at fair value through other comprehensive income.

1.5.1.1. Initial measurement

All financial instruments are measured at fair value plus transaction costs at initial recognition, except those carried at fair value through profit or loss, where transaction costs are recognised immediately through profit or loss.

1.5.1.2. Subsequent measurement

Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

1.5.1.3. Financial assets and financial liabilities at fair value through profit or loss

A financial asset is measured at fair value through profit or loss when it does not meet the requirements to be measured at amortised cost. This category includes instruments that are classified as held for trading, whose business model is not solely for the purpose of collecting principal and interest and/or are subsequently held for sale and those used to eliminate accounting mismatch. Currently only derivatives are included in this category.

1.5.1.4. Financial liabilities at amortised cost

All financial liabilities, other than those described above which as classified at fair value through profit or loss, are measured at amortised cost.

1.5.1.5. Financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions hold true:
- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows.

The Group currently measures the advances, the regulatory deposits and the sovereign debt securities, as well as accounts receivable, other assets and cash and cash equivalents at amortised cost.

Regulatory deposits and sovereign debt securities
Contained within regulatory deposits and sovereign debt securities are treasury bills, treasury debentures and government bonds. These financial assets are classified at amortised cost upon initial recognition. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity and to collect principal and interest. If the Group were to change its business model for managing these financial assets i.e. a significant change in the Group's operations demonstrable to external parties and this change results in the financial assets no longer meeting the requirements for measurement at amortised cost, the Group is required to reclassify the entire category to fair value through profit or loss, or fair value through other comprehensive income. Accordingly, the investments would be measured at fair value through profit or loss, or fair value through other comprehensive income.

Advances
Advances arise when the Group provides money or services directly to a debtor with no intention to trade the receivable. Advances originated by the Group are in the form of personal unsecured loans and are either paid back in fixed equal instalments or, in the case of credit cards, are revolving credit facilities.

Advances are classified as and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

1.5.1.6. Effective interest method
The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset/liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

1.5.1.7. Impairment of financial instruments
For financial assets classified and measured at amortised cost, the Group measures and recognises an Expected Credit Loss ("ECL") at each reporting date as the impairment of an asset or group of assets, which includes assessing whether there has been a significant increase in credit risk and considers forward looking information. This assessment extends to the potential of further drawdown on credit cards (undrawn commitments).

In recognising the impairment allowance on the loans and advances, the Group accounts for expected credit losses, and changes in the expected credit losses. The amount of the expected credit losses is updated at each reporting period to reflect the changes in the loans and advances credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

The impairment allowances represent management's best estimate of expected credit losses in the loan portfolios at the reporting date. When calculating impairment allowances on advances, the Group exercises judgement in making assumptions and estimations on both individually and collectively assessed advances.

In determining the impairment allowance, the timing and amount of the expected cash flows as well as forward-looking macroeconomic information are the most significant judgements applied by the Group. The assumptions underlying these judgements are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly to monitor and manage differences between expected credit loss estimates and the actual loss experience.

For purposes of measuring the expected credit loss for the advances, the Group's loans and advances are separated into the Originated Book and the Acquired Book, which is classified as a credit impaired originated asset.

Originated Book

This portfolio comprises loans and advances originated since inception of the Bank on 4 April 2016.

The Group applies a conventional approach to the Originated Book and measures the loss allowance on advances at initial recognition at an amount equal to the expected credit losses over the subsequent 12 month period.

For advances for which credit risk has increased significantly since initial recognition, the loss allowance is measured in accordance with the classification of the underlying account at an amount equal to the lifetime expected credit losses. The loss allowance on the undrawn commitments is measured in accordance with the classification of the underlying account at an amount equal to the expected credit losses over either the subsequent 12 month period or the remaining lifetime.

Loans and advances are credit impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset or Group of assets is credit impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- indication that there is a measurable decrease in the estimated future cash flows from a Group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(Refer to note 31.6, which sets out the parameters considered in determining the grouping of advances for purposes of impairment.)

The amount of the loss is measured as the difference between the financial asset's carrying amount and the cash flows that the Bank expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The reduction in the carrying amount of the financial asset due to the impairment calculated is applied through the use of an allowance account and the amount of the loss is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the net carrying amount of the advance is increased to the revised estimate of the cash flows that the Group expects to receive by adjusting the impairment provision held. This is however limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

Currently, all loans and advances are assessed for impairment on a collective basis due to the large number of individually insignificant balances within the portfolio.

The Group estimates the cash flows it expects to receive on a collective basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For the portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit risks characteristics; which indicate the borrower's ability to pay in accordance with the contractually agreed terms.

For the purposes of collective impairment assessment, the impairment provisioning is divided into following categories:

Stage 1:

At initial recognition, the advance is classified as stage 1 and a 12-month expected credit loss is recognised. If the advance has not experienced a significant increase in credit risk ("SICR") since initial recognition, it is classified as stage 1. The credit loss recognised is a credit loss related to default events expected to occur within the next 12 months.

Stage 2:

If the advance has experienced a significant increase in credit risk since initial recognition but the advance is not credit impaired, it is classified as stage 2, and life time expected credit loss is recognised.

Stage 3:

If the advance has become credit impaired since initial recognition or was acquired as credit impaired, it is classified as stage 3, with expected credit loss measured and recognised on a lifetime basis.

Acquired Book

This portfolio comprises loans and advances acquired from the entity formerly known as African Bank Limited (in curatorship) and which had subsequently changed its name to "Residual Debt Services Limited" ("RDS").

These loans and advances are accounted for on a portfolio basis as a single asset and has been classified as a credit impaired purchased asset.

As per the above accounting policy, the Acquired Book was recorded upon initial recognition at the fair value of the estimated future cash receipts, discounted at the credit adjusted effective interest rate.

Where estimates of cash receipts are revised based on actual or anticipated cash collections, the carrying amount of the Acquired Book is adjusted by recalculating the present value of the revised estimated future cash flows using the credit adjusted effective interest rate initially applied in determining the fair value at acquisition.

To the extent that the revised estimated future cash receipts are less than anticipated upon initial recognition, the carrying amount of the Acquired Book is reduced through the use of an allowance account and the amount of the impairment is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the net carrying amount of the Acquired Book is increased to the revised estimate of the cash receipts that the Group expects to receive by adjusting the impairment provision held. This is however limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

To the extent that the revised estimated future cash receipts are more than anticipated upon initial recognition, such favourable changes are recognised as a direct adjustment to the gross carrying amount of the assets and a corresponding gain is recognised as an impairment gain under IFRS 9, where as it was recognised as interest revenue under IAS 39.

The above accounting treatment of the Acquired Book constitutes recognition and measurement at amortised cost and is based on the requirement set out in paragraph 5.5.13 and 5.5.14 of IFRS 9, which changed from the guidance provided in IAS 39, as set out in Application Guidance 5 and 8.

1.5.1.8. Written off portfolio

A write off directly reduces the gross carrying amount, constituting a de-recognition event, of the loans and advances when the Group has no reasonable expectation of recovery of the financial asset in its entirety.

(Refer to note 31.6.2.6 for more information on the Group's assessment of reasonable expectation of recovery.)

Any cash received after an advance has been written off is treated as a recovery and recognised in the credit impairment charge line in profit and loss.

1.5.1.9. De-recognition of financial instruments

Financial assets

The Group derecognises a financial asset (or Group of financial assets) or a part of a financial asset (or part of a Group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Group transfers substantially all the risks and rewards of ownership of the financial asset and the transfer qualifies for de-recognition.

Financial liabilities

The Group derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

1.5.1.10 Modification

If the Group renegotiates or modifies the terms of the advance to customers, the Group will make an assessment as to whether or not the new terms are substantially different to the original terms.

Instances where the terms of an advance will be considered to be substantially different are for loans which consolidated existing loans ("Consolidated Loans") and advances that are undergoing debt counselling.

For Consolidated Loans, the Group derecognises the original advance and recognises a new advance by using the disbursed cash of the new advance to effectively settle the old advance. A new effective interest rate will be recalculated for the Consolidated Loan. The date of disbursement of the Consolidated Loan is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk is present.

The Group considers instances where the new terms of the advance are not substantially different to the original terms as:

- Advances that have been rescheduled (where there is an amendment to the original terms of the advance; formally agreed with the client, who is in arrears and has been engaged successfully through the collections channels).

In instances where the new terms of the advance are not substantially different to the original terms, the Group does not recalculate the gross carrying amount of the loan, as the full amount is still subject to enforcement activity but rather considers this modification through the calculation of the impairments as applied on the original instalment. Therefore, no gain or loss is recognised on modification; instead an impairment provision is included in the credit impairment charge line item in profit and loss. Refer to notes 20 and 31.8.1 for the disclosures of the modification gain or loss.

1.5.2. IAS 39 - Applied as at 30 September 2018

The Group has adopted IFRS 9 with effect from 1 October 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period.

The comparative period notes presents disclosures made in the prior year, which disclosures where recognised and measured in accordance with IAS 39.

The Group applied IAS 39 for the recognition, classification and measurement and de-recognition of financial assets and financial liabilities and for the impairment of financial assets until 30 September 2018. For more detail on the application of IFRS 9 and the changes applied in transition from IAS 39, refer to note 1.18.1.

The Group did not apply hedge accounting as defined in IAS 39. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

The Group has classified its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments; and
- loans and receivables;

Financial liabilities are classified into the following categories:

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

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Financial assets held in terms of South African Reserve Bank requirements, as well as any excess liquid assets held over and above the minimum requirements are disclosed as regulatory deposits and sovereign debt securities

1.5.2.1. Initial measurement

All financial instruments are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately through profit or loss.

1.5.2.2. Subsequent measurement

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification:

1.5.2.3. Financial assets and financial liabilities at fair value through profit or loss

This category includes instruments that are classified as held for trading. Only derivatives are included in this category. The fair value gains and losses from changes in fair value are recognised in profit or loss.

1.5.2.4. Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intent and ability to hold to maturity, other than those designated as at fair value through profit or loss or available-for-sale.

Held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any provisions for impairment with the interest income recognised in profit or loss.

Contained within regulatory deposits and sovereign debt securities (note 5) are treasury bills, treasury debentures and bonds. Management has elected to classify these financial assets as held-to-maturity upon initial recognition. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

1.5.2.5. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Group's advances are included in the loans and receivables category.

These advances arise when the Group provides money or services directly to a debtor with no intention to trade the receivable. Loans and advances originated by the Group are in the form of personal unsecured loans and are either paid back in fixed equal instalments or, in the case of credit cards, are revolving credit facilities.

Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

1.5.2.6. Financial liabilities at amortised cost

All financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost.

1.5.2.7. Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period.

1.5.2.8. Impairment of financial instruments

The Group assesses at each reporting date whether there is objective evidence that an asset or Group of assets is impaired.

The impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date. The Group exercises judgement in making assumptions and estimations when calculating advances impairment allowances on both individually and collectively assessed advances.

In determining the impairment allowance, the timing and amount of the expected cash flows are the most significant judgements applied by the Group. Historical loss rates and credit quality of the advances are taken into account in determining the expected cash flow on the advances. The determination of these cash flows requires the exercise of considerable judgement by management involving matters such as local economic conditions and outlook. In addition, the use of statistically assessed historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

The Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or Group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- indication that there is a measurable decrease in the estimated future cash flows from a Group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified within individual financial assets in the Group.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the recoverable amount.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances' original effective interest rate, fees and interest. The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including loan origination fees and monthly service fees) through the expected life of the loan, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying amount of the financial asset is reduced due to the impairment calculated through the use of an allowance account and the amount of the loss is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.
Currently, all advances are assessed for impairment on a portfolio basis due to the large number of insignificant balances within the portfolio.

The Group estimates the recoverable amount on a portfolio basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the borrower's ability to pay in accordance with the contractually agreed terms. For the purposes of portfolio impairment assessment, the impairment provisioning is divided into following categories:

Provision for IBNR
In order to provide for the latent losses in a Group of loans that have not yet been identified as specifically impaired, an impairment for incurred but not yet reported ("IBNR") losses is recognised on a historical loss patterns and estimated emergence periods. Loans and receivables that are neither past due nor impaired are collectively assessed for the IBNR impairment provision. Neither past due nor impaired is defined by the Group as loans and receivables that are contractually up to date with all payments due.

Portfolio specific impairments
Loans and receivables that have missed up to 3 payments contractually are assessed collectively for portfolio specific impairment provisioning. These loans are still considered to be part of the performing loan portfolio.

Specific impairments
Loans and receivables that have missed more than 3 instalments are assessed for specific impairments. These loans form the non-performing loan portfolio.

All advances are assessed for impairment on a collective basis due to the large number of insignificant balances within the portfolio.

1.5.2.9. Written off portfolio

A write off is effected against the allowance account when the debtor is deemed to be impaired and not recoverable. Any cash subsequently recovered from the debtor is recorded as bad debt recovered and included in the credit impairment charge in the statement of comprehensive income.

1.5.3. De-recognition of financial instruments

Financial assets
The Group derecognises a financial asset (or Group of financial assets) or a part of a financial asset (or part of a Group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Group transfers the financial asset and the transfer qualifies for de-recognition.

Financial liabilities
The Group derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

1.5.4. Derivative financial instruments

The Group uses derivative financial instruments only for the purpose of economically hedging its exposures to known market risks that will affect the current or future profit or loss of the Group, and as a policy will not enter into derivatives for speculative reasons.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles.

All derivatives are classified as and measured at fair value thorough profit and loss.

1.5.5. Hedge accounting

Currently the Group does not apply hedge accounting for the purposes of IFRS 9 or IAS 39 for the prior period, but does apply economic hedging principles.

1.6. Investments

Investment in joint venture

Joint arrangements are classified as joint ventures when their contractual rights and obligations give the parties to the arrangement joint control over the joint arrangement.

Investment in joint ventures are accounted for using the equity method.

Under the equity method of accounting, the investment is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received from joint ventures are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the Bank and its joint ventures are eliminated to the extent of the Bank's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture are consistent with the policies adopted by the Group.

1.7. Intangible assets

1.7.1. Software

Software consists of purchased software. Software acquired is capitalised initially at its acquisition cost or fair value (if acquired through business combination).

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software is between 3 and 5 years. Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

1.7.2. De-recognition of intangible assets

An intangible asset is de-recognised on disposal or when no future economic benefits are expected from its use. Upon de-recognition, a gain or loss is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.8. Property and equipment

Owner-occupied property, buildings, leasehold improvements, furniture, information technology equipment, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to profit or loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Any adjustments that may be necessary are accounted for prospectively.

Useful lives have been determined to be as follows:	
Information technology equipment	Between 3 and 5 years
Office furniture and equipment	6 years
Motor vehicles	4 years
Leasehold improvements	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Land is not depreciated	

All gains or losses arising on the disposal or scrapping of property and equipment are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

1.9. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.10. Equity

Equity is the residual interest in the assets of the Group after deducting all liabilities of the Group.

All transactions relating to the acquisition, sale or issue of shares in the Group, together with their associated costs, are accounted for in equity.

1.10.1. Share capital and share premium

Shares issued by the Group are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. In line with the requirements of the Banks Act, only par value shares are issued by the Group.

1.11. Revenue

Revenue comprises income from interest income and non-interest income.

1.11.1. Interest income - Applied from 1 October 2018 under IFRS 15 and IFRS 9

The Group calculates interest revenue using the effective interest method. In applying the effective interest method per IFRS 9, the Group considers the origination fees and monthly fees as an integral part of the effective interest rate of the exposure.

Origination fees are primarily based on the cost of granting the loan to the individual and are accounted for over the shorter of the original contractual term and the actual term of the loan using the original effective interest rate method.

Monthly service fees are charged to the customers on a monthly basis and are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

Interest income on financial assets that are not credit impaired is recognised by applying the original effective interest rate to the gross carrying amount of such assets.

When financial assets are identified as credit impaired, whether purchased or originated, interest income is calculated by applying the effective interest rate to the net carrying value, being the gross carrying value after deducting the impairment provision for expected credit losses.

The Group accordingly ceases to recognise, in profit or loss, the portion of the contractual interest charged on credit impaired assets, thus equating to the result of the net carrying value of the credit impaired exposure being multiplied by the applicable effective interest rate.

Should the impairment status of financial assets change from credit impaired to not credit impaired, interest income is again recognised by applying the effective interest rate to the gross carrying amount of such assets from the date at which the impairment status changed. No retrospective adjustment is made for the period during which the financial assets were deemed to be credit impaired.

Non-interest income

Non-interest income consists of commission charged, collection fees as well as any other sundry income such as transaction fees, administration fees and electronic banking fees. The non-interest income is recognised as the performance obligation of the related service is performed.

1.11.2. Interest income - Applied until 30 September 2018 under IAS 18 and IAS 39.

Interest income is accrued on a yield to maturity basis, using the effective interest rate method, by reference to the principal outstanding and the interest rate applicable.

- Origination fees on loans granted

  Origination fees on loans granted are charged upfront and capitalised into the loan. These fees are primarily based on the cost of granting the loan to the individual. In accordance with IAS 18 Revenue, these origination fees are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method.
- Monthly service fee

  Monthly service fees are the fees which form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

Non-interest income

Non-interest income consists of commission charged, collection fees as well as any other sundry income.

1.12. Taxation

1.12.1. Indirect taxation

Indirect taxation in the form of non-claimable value-added tax ("VAT") on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. The non-claimable VAT on the cost of acquisition of fixed assets is amortised over the useful lives of the fixed assets and is included in depreciation in profit or loss. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.12.2. Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax.

1.12.3. Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains tax, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

1.12.4. Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred tax is provided for on the fair value adjustments of assets based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability or asset.

1.13. Operating leases

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Leased assets are classified as operating leases where the lessor effectively retains the risks and benefits of ownership. Obligations incurred under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

1.14. Foreign currency transactions and balances

At each statement of financial position date, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the reporting period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

1.15. Employee benefits

1.15.1. Post-employment benefits

Defined contribution plans have been established for eligible employees of the Group, with the assets held in separate trustee administered funds. The Group pays contributions on a contractual basis as determined in terms of the rules of each benefit fund. The Group has no further legal or constructive obligations to pay any further contributions or benefits once the fixed contributions have been paid to the funds.

Contributions in respect of defined contribution plans are recognised as an expense in profit or loss as they are incurred.

1.15.2. Short-term benefits

Short-term benefits consist of salaries, compensated absences (such as paid annual and sick leave), bonuses and medical aid contributions.

Short-term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus plans or accumulated leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.15.3. Long-term benefits

Long-term benefits consist of long-term incentive scheme bonuses. Such benefits are measured using the projected credit unit method. All re-measurements are accounted for in profit or loss.

1.16. Segment reporting

An operating segment is defined as a component of the Group whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available.

The chief operating decision maker has been identified as the chief executive officer of the Group, who is responsible for assessing the performance and allocation of resources of the Group.

Due to the nature of its operations the Group has a single operating segment, namely retail lending and deposit taking, within South Africa, which is consistent with the internal reporting provided to the chief executive officer. The business is widely distributed with no reliance on any major clients and no client account represents more than 10% of revenue.

1.17. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions which relate to impairment provisions for loans and advances that are not readily apparent from other sources. The estimates and associated assumptions are continually evaluated and management applies their knowledge of current events and actions that may be undertaken in the future but actual results may ultimately differ from estimates.

The principal considerations applied by management in making judgements, estimates and assumptions which relate to impairment provisions for loans and advances are set out below.

1.18. Effective standards, interpretations and amendments to published standards applied for the first time during the current financial period

1.18.1. IFRS 9

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition for financial periods starting on or after 1 January 2018. The Group applied IFRS 9 from 1 October 2018 for the financial year ended 30 September 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not apply IFRS 9 in previous periods.

The Group has described above the accounting policies applied in these financial statements as a consequence of the adoption of IFRS 9. The application of IFRS 9 has been incorporated and explained within the applicable note disclosures to the financial instruments held by the Group.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosure made in the prior year.

Impact on the Group's summarised statement of financial position on 1 October 2018

The table below summarises the IFRS 9 transition impact on the Group's statement of financial position as at 1 October 2018.

Rmillion	IAS 39 30-Sep-18	ECL impact	IFRS 9 1-Oct-18
Assets			
Cash and cash equivalents	7,221	(1)	7,220
Regulatory deposits and sovereign debt securities	2,130	(1)	2,129
Net advances	19,178	(861)	18,317
Other financial and non-financial assets[1]	1,750	217	1,967
Total assets	**30,279**	**(646)**	**29,633**
Liabilities and equity			
Total liabilities[2]	21,497	(24)	21,473
Total equity	8,782	(622)	8,160
Total liabilities and equity	**30,279**	**(646)**	**29,633**

[1] Primarily relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.

[2] Relates to the reduction of current tax liability as a result of [1] above.

Impact on the Group's summarised statement of changes in equity on 1 October 2018

The table below summarises the IFRS 9 transition impact on the Group's statement of changes in equity as at 1 October 2018.

Rmillion	IAS 39 30-Sep-18	ECL impact	IFRS 9 1-Oct-18
Ordinary share capital	5	-	5
Ordinary share premium	9,995	-	9,995
Accumulated loss	(1,218)	(622)	(1,840)
Total equity	**8,782**	**(622)**	**8,160**

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Credit quality disclosures of advances based on the IFRS of requirements at adoption of IFRS 9

Rmillion	IAS 39 30-Sep-18			ECL impact			IFRS 9 1-Oct-18		
	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
CD 0 / Stage 1	12,229	2,433	14,662	(5,183)	(854)	(6,037)	7,046	1,579	8,625
Past due and specifically impaired									
CD 1 to CD 3 / Stage 2	2,283	990	3,273	5,183	854	6,037	7,466	1,844	9,310
CD 4 and higher / Stage 3	4,488	817	5,305	-	-	-	4,488	817	5,305
Total credit exposure	**19,000**	**4,240**	**23,240**	**-**	**-**	**-**	**19,000**	**4,240**	**23,240**
Total impairments									
Incurred but not reported (IBNR) / Stage 1	(543)	(93)	(636)	123	35	158	(420)	(58)	(478)
Portfolio specific impairment / Stage 2	(973)	(297)	(1,270)	(925)	(78)	(1,003)	(1,898)	(375)	(2,273)
Specific impairment / Stage 3	(1,733)	(355)	(2,088)	(38)	22	(16)	(1,771)	(333)	(2,104)
Deferred origination and administration fees	(68)	-	(68)	-	-	-	(68)	-	(68)
Net advances	**15,683**	**3,495**	**19,178**	**(840)**	**(21)**	**(861)**	**14,843**	**3,474**	**18,317**
Impairment as % of gross advances									
CD 0 / Stage 1	4%	4%	4%	2%	(1%)	2%	6%	4%	6%
CD 1- 3 / Stage 2	43%	43%	30%	(17%)	(22%)	(6%)	25%	20%	24%
CD 4 and higher/ Stage 3	39%	39%	43%	0%	2%	4%	39%	41%	40%
Total impairment as a % of total gross advances	**17%**	**17%**	**18%**	**4%**	**1%**	**3%**	**22%**	**18%**	**21%**

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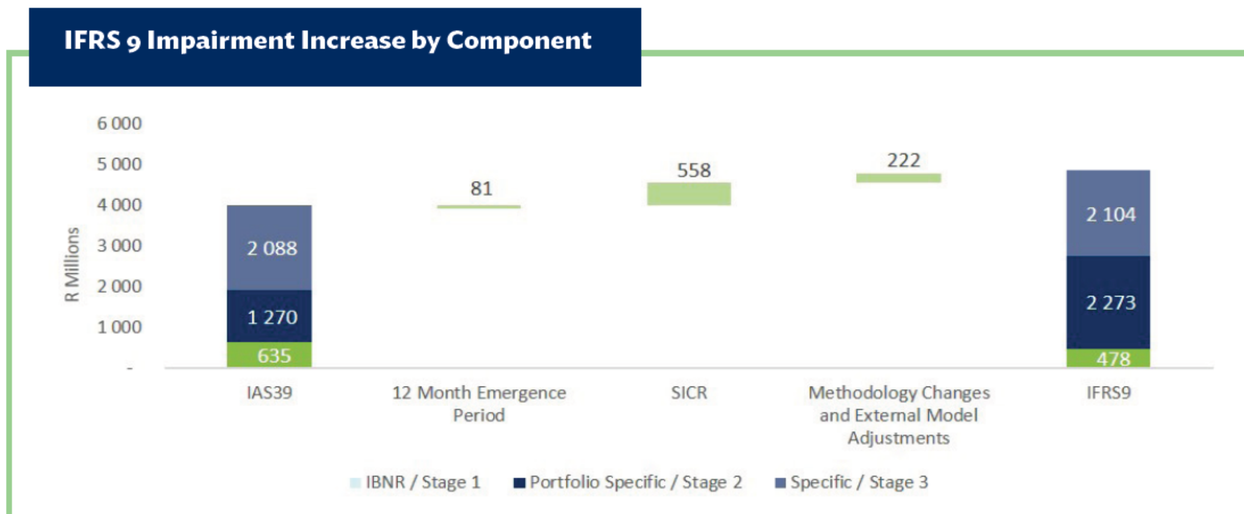
Credit quality disclosures of advances based on the pre-acquisition gross values of the Acquired Book at adoption of IFRS 9 *

Rmillion	IAS 39 30-Sep-18			ECL impact			IFRS 9 1-Oct-18		
	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
CD 0/ Stage 1	12,245	2,436	14,681	(5,504)	(889)	(6,393)	6,741	1,547	8,288
Past due and specifically impaired									
CD 1 to CD 3 / Stage 2	2,375	1,012	3,387	5,504	889	6,393	7,879	1,901	9,780
CD 4 and higher / Stage 3	8,207	1,249	9 456	-	-	-	8,207	1,249	9,456
Subtotal	**22,827**	**4,697**	**27,524**	**-**	**-**	**-**	**22,827**	**4,697**	**27,524**
IFRS 9 Acquired Book gross exposure adjustment [1]				(4)	(32)	(36)	(4)	(32)	(36)
Total credit exposure	**22,827**	**4,697**	**27,524**	**(4)**	**(32)**	**(36)**	**22,823**	**4,665**	**27,488**
Total impairments									
Incurred but not reported (IBNR) / Stage 1	(563)	(96)	(659)	126	37	163	(437)	(59)	(496)
Portfolio specific impairment / Stage 2	(1,065)	(320)	(1,385)	(949)	(76)	(1,025)	(2,014)	(396)	(2,410)
Specific impairment / Stage 3	(5,470)	(786)	(6,256)	(13)	50	37	(5,483)	(736)	(6,219)
Deferred origination and administration fees	(46)	-	(46)	-	-	-	(46)	-	(46)
Net advances	**15,683**	**3,495**	**19 178**	**(840)**	**(21)**	**(861)**	**14,843**	**3,474**	**18,317**
Impairment as % of gross advances									
CD 0/ Stage 1	4.6%	3.9%	4.5%	5.8%	4.8%	5.6%	6.5%	3.8%	6.0%
CD 1- 3 / Stage 2	44.8%	31.6%	40.9%	44.0%	32.3%	40.2%	25.6%	20.8%	24.7%
CD 4 and higher/ Stage 3	66.7%	62.9%	66.2%	63.3%	59.0%	62.7%	66.8%	58.9%	65.8%
Total impairment as a % of total gross advances	**31.1%**	**25.6%**	**30.2%**	**30.5%**	**25.0%**	**29.4%**	**34.8%**	**25.5%**	**33.2%**

** These disclosures are based on the pre- acquisition gross value of advances and as such do not comply with the application guidance contained in IAS 39 and subsequently transferred to IFRS 9 applicable to the Acquired Book. The impairment provisions applied in these disclosures are based on the Expected Credit Loss basis and the Incurred Loss basis contained respectively in IFRS 9 and IAS 39, as would have been applied to the Acquired Book, had it been originated at the contractual gross credit exposure.*

[1] Adjustment to the gross carrying value of the Acquired Book to align the net carrying value to the present value of expected future cash flows. Refer to note 1.5.1.7 for more detail on the accounting treatment of the Acquired Book.

The following graph outlines the principal IFRS 9 drivers for the change in the impairment provisions above:



The impairment movement captured in the "Methodology Changes and External Model Adjustments" bar was the combined impact of the introduction of forward looking information, as well as the impact on Stage 3 (NPL) advances as a result of the shift in the write-off policy.

TAX IMPACT

The change in the timing of loss recognition was accounted for through the recognition of the deferred and current tax adjustments, calculated based on the statutory rate. The increase in the impairment provisions in terms of IFRS 9, together with the proposed change in tax treatment for impairment deductions, had resulted in an increase in the deferred tax asset balance of R241 million, upon adoption of IFRS 9.

The deferred tax asset arises from the increased impairment deduction derived from the increased impairment provision against which an impairment deduction can be claimed, as well as from the fact that a larger proportion of the impairment provision qualifies for the impairment deduction due to the inclusion in the impairment deduction of the discounting factor which factors in time value of money in the impairment provision.
The impairment deductions was amended by the South African Revenue Service (SARS) as follows:

IFRS 9	IAS 39
Stage 1 – 25%	IBNR – 25%
Stage 2 - 40%	PSI – 80%
Stage 3 – 85%	Specific – 100%

1.18.2. IFRS 15

In May 2014, the IASB issued IFRS 15: Revenue from Contracts with Customers. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers. In September 2015 the IASB issued the mandatory effective date of IFRS 15 as 1 January 2018, thus being effective for all financial period commencing on or after 1 January 2018.

IFRS 15 was adopted by the Group from 1 October 2018.

The below describes the salient requirements of IFRS 15 and the consequential impact on the group:

Key requirements
In recognising revenue, IFRS 15 stipulates the following steps:
1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

Explanation of the requirement
IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the revenue recognition guidance under IAS 18. The model specifies that revenue is recognised as and when performance obligations to a contract are fulfilled, thus a transfer of control of goods or services rendered to a customer, and that revenue is recognised at the amount that an entity expects to receive. Depending on the criteria, revenue is recognised at a point in time or over time.

Impact on African Bank
IFRS 15 requires that contracts with customers for goods and services are split into their separate performance obligations, that the revenue be allocated to each performance obligation and be recognised at a point in time or over time depending on the specific criteria for revenue recognition.

The application of the revised requirements had no material impact on the Bank's results.

The Group's revenue that falls within the scope of IFRS 15 comprises of insurance commission and binder fees, and other sundry income such as electronic banking fees, administration fees; which arise from contracts (as defined in IFRS 15). These contracts stipulate the eminent performance obligations, the transaction price and the timing, which determines the allocation of the transaction price to the performance obligations. (Revenue derived from financial assets such as loans and advances, cash and cash equivalents and other financial instruments are recognised in terms of IFRS 9).

2. Net advances

Rmillion	2019	2018
Gross advances	**27,470**	**23,240**
Originated book [1]	25,377	19,549
Acquired book [2]	2,093	3,691
Deferred origination and administration fees	(204)	(68)
Gross advances after deferred origination and administration fees	**27,266**	**23,172**
Loan	22,947	18,930
Credit card	4,319	4,242
Balance of impairment provision at the end of the year	**7,451**	**3,994**
Balance of impairment provision at the beginning of the year	3,994	2,040
IFRS 9 adoption (refer to note 1.18.1)	861	-
Impairment provisions raised	4,328	3,833
Impairment provision released upon write-offs of underlying exposure	(1,732)	(1,879)
Net advances	**19,815**	**19,178**
Undrawn irrevocable credit card commitments	683	715
Maximum exposure to credit risk	**20,498**	**19,893**

[1] *Included in Gross Advances are exposures under debt counselling amounting to R1,154 million in respect of which a net modification loss of R463 million has been recognised in profit and loss.*

[2] *On acquisition, the Acquired Book's credit risk was included in measuring the fair value on acquisition, as the book was considered to be credit impaired at initial recognition. The Acquired Book is thus, under IFRS 9, classified as purchased credit impaired. The net carrying value is therefore included in the gross advances of the Group, which is the net of the gross amount of the acquired balances, on a pre-acquisition basis, less the ECL anticipated upon initial recognition and the favourable adjustments from the revision of cash flows since acquisition.*

Refer to note 31 for more information on the management of credit risk and further analysis of the Advances.

Net advances continued...

Reconciliation of ECL of Originated advances

Rmillion	Stage 1	Stage 2		Stage 3	Total
		CD0	Arrears		
Opening balance 1 October 2018	478	1,054	1,219	2,104	4,855
Changes in ECL due to movements in arrears profile of advances	**254**	**(227)**	**257**	**2,029**	**2,313**
Transfer from stage 1	-	223	291	489	1,003
Transfer from stage 2: CD0	135	-	296	569	1,000
Transfer from stage 2: Arrears	11	15	-	811	837
Transfer from stage 3	1	1	14	-	16
Transfer to stage 1	-	(371)	(72)	(6)	(449)
Transfer to stage 2: CD0	(81)	-	(37)	(3)	(121)
Transfer to stage 2: Arrears	(44)	(124)	-	(23)	(191)
Transfer to stage 3	(45)	(143)	(488)	-	(676)
Transfer to Write Off	277	172	253	192	894
Changes in ECL due to changes in balances of advances	**(148)**	**233**	**(115)**	**77**	**47**
Change in ECL due to movement in balances of existing advances	(33)	(53)	(26)	517	405
ECL on new advances [1]	293	727	471	433	1,924
Change in ECL due to de-recognition (other than write-off)	(112)	(231)	(122)	(85)	(550)
Change in ECL due to write-off [2]	(296)	(210)	(438)	(788)	(1,732)
Changes in ECL due to change in impairment rate	**1**	**67**	**18**	**150**	**236**
Change in ECL due to write-off policy change	39	48	57	72	216
Changes in ECL due to changes in model assumptions and methodology	(38)	19	(39)	78	20
Total	**585**	**1,127**	**1,379**	**4,360**	**7,451**

[1] The ECL recognised on new advances originated during the reporting period (which are not included in opening balances) are raised based on the advances' ECL stage as at the end of the reporting period and are included within 'ECL on new advances'

[2] The contractual amount outstanding on advances that were written off during the current reporting period that are still subject to enforcement activities is R1,732 million (refer credit impairment charges note 20)

Net ECL raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note 20).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Factors impacting and contributing to significant changes in the ECL during the comparative period:
Impairment provisions for advances - IAS 39

Rmillion	Opening balance 1 October 2018	Impairment provision raised	Bad debts (write-off)	Closing balance 30 September 2018
Impairment provision	2,040	3,833	(1,879)	3,994

3. Unutilised facilities

The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2019 was R683 million (2018: R715 million).

In terms of the restructuring transaction, RDS has provided a guarantee in favour of African Bank Limited in respect of the advances book transferred to the value of R3 billion. To support RDS, the SARB has provided an indemnity guarantee in respect of the guarantee provided by RDS to African Bank Limited.
The indemnity guarantee provided by the SARB is in place for 8 years, having commenced on 4 April 2016 and expiring on 4 April 2024.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Cash and cash equivalents

Rmillion	2019	2018
Call deposits [1]	**4,997**	**3,571**
Rand	846	900
Foreign denominated	4,151	2,671
Short term notice deposits [2]	**-**	**325**
Rand	-	253
Foreign denominated	-	72
Other notice deposits [3]	**-**	**3,288**
Rand	-	404
Foreign denominated	-	2,884
Current accounts [4]	**42**	**37**
Gross cash and cash equivalents	**5,039**	**7,221**
Non-cash adjustment: ECL [5]	(1)	-
Net cash and cash equivalents	**5,038**	**7,221**
Maximum exposure to credit risk	**5,038**	**7,221**

See note 31.10. for credit risk ratings of counterparties.

The Group uses foreign currency denominated deposits to mitigate against risks arising from changes in foreign currency exchange rates where The Groups' debt is denominated in a currency other than the functional currency. Refer to note 32.2. for foreign exchange risk management. Refer to note 13 and 14 for debt denominated in a currency other than the functional currency.

[1] Rand Call deposits are held with SA banks and can be withdrawn on demand. Rand denominated call deposits bear interest at rates varying from 6.10% to 6.50% NACM (2018: from 6.10% to 6.50% NACM). Money on call deposits can be withdrawn on demand.

Foreign denominated call deposits consist of foreign currency which the Bank uses to mitigate against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency (refer to note 32.2.1). The call deposits can be withdrawn on demand. (2019 & 2018: from 0% to 2.17%).

[2] Short term notice deposits are deposits with SA banks. Rand denominated short term notice deposits bear interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate (2018: 7.07%).

Foreign denominated short notice deposits bear interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate (2018: 2.45%).

[3] Other deposits are deposits with SA banks. Rand denominated other deposits bear interest at market related rates, which mature in 33 or more days with an average interest rate (2018: 7.70%).

Foreign denominated other notice deposits bear interest at market related rates, which mature in 33 days or more, but less than 90 days with an average interest rate (2018: 2.64%).

[4] Current accounts are floating interest rate assets with interest rates generally linked to prime.

[5] ECL is raised on credit risk arising from the counterparties with whom the call deposits are held. All call deposits are classified as stage 1. There were with no movements between stages for these deposits during the reporting period.

5. Regulatory deposits and sovereign debt securities

Rmillion	2019	2018
Listed	**1,353**	**1,775**
Treasury bills and debentures [1]	285	244
Bonds [2]	1,068	1,531
Unlisted		
Deposits with South African Reserve Bank [3]	372	355
Gross regulatory deposits and sovereign debt securities	**1,725**	**2,130**
Adjustment: ECL [4]	-	-
Net regulatory deposits and sovereign debt securities	1,725	2,130
Maximum exposure to credit risk	**1,725**	**2,130**

See note 31.10. for credit risk ratings of counterparties

Regulatory deposits and sovereign debt securities with a carrying value of R1 118 million (2018: R1 110 million) are held by the South African Reserve Bank in terms of the Banks Act and regulations thereto, and are not available for day-to-day operations.

The intention is to hold all treasury bills, debentures and bonds to maturity.

[1] *Treasury bills and debentures has an interest rate of 7.10% to 7.52% NACQ (2018: 7.30% and 7.32% NACQ).*

[2] *The inflation linked bond has an interest rate of CPI plus 2.75% NACS (2018: CPI plus 2.75% NACS). RSA Government, foreign denominated bonds had an interest of 6.88% NACS (2018: 6.88% NACS). Refer to note 32.2 for foreign exchange risk management.*

[3] *The Bank is required to deposit a minimum balance with the South African Reserve Bank. These deposits bear little or no interest and are not available for use in the Bank's day-to-day operations.*

[4] *ECL is raised on credit risk arising from the counterparties with whom the call deposits are held. All call deposits are classified as stage 1. There were with no movements between stages for these deposits during the reporting period.*

6. Current and deferred tax

Rmillion	2019	2018
Current tax asset/(liability)	-	(24)
Deferred tax asset	870	756
Total	**870**	**732**

Deferred tax asset

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2019			
Temporary differences			
IFRS 9 transition adjustment	-	324	324
Deferred origination and administration fees on advances	-	-	-
Provisions	89	27	116
Provision for Expected Credit Losses [1]	673	(269)	404
Prepayments	(4)	(8)	(12)
Tax impact from the buy-back of liabilities	(2)	9	7
Estimated tax loss [1]	-	31	31
Total	**756**	**114**	**870**

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2018			
Temporary differences			
Deferred origination and administration fees on advances	4	(4)	-
Provisions	34	55	89
Provision for Expected Credit Losses	345	328	673
Prepayments	(15)	11	(4)
Tax impact from the buy-back of liabilities	21	(23)	(2)
Total	**389**	**367**	**756**

[1] The estimated current tax loss included in the deferred tax asset is largely due to the increased deduction allowed for Expected Credit Losses under the revised tax legislation enacted for purposes of IFRS 9. The increased current tax deduction is reflected in the reduction of the deferred tax asset raised in respected of the provision for Expected Credit Losses.

The recoverability of the deferred tax asset is assessed by the Group on a regular basis. The deferred tax asset recognised by the Group will be recovered through allowable tax deductions against taxable income in future financial periods.

7. Property and equipment

Rmillion	2019 Cost	2019 Accumulated depreciation	2019 Carrying value	2018 Cost	2018 Accumulated depreciation	2018 Carrying value
Furniture and fittings	95	(37)	58	84	(22)	62
Information technology equipment	350	(174)	176	329	(107)	222
Motor vehicles	3	(1)	2	2	(1)	1
Leasehold improvements	75	(44)	31	65	(38)	27
Land and buildings (owner-occupied)	301	(21)	280	300	(15)	285
Total	**824**	**(277)**	**547**	**780**	**(183)**	**597**

Reconciliation of the carrying amounts of property and equipment 2019

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	62	12	(15)	(1)	58
Information technology equipment	222	19	(65)	-	176
Motor vehicles	1	1	-	-	2
Leasehold improvements	27	14	(10)	-	31
Land and buildings (owner-occupied)	285	3	(6)	(2)	280
Total	**597**	**49**	**(96)**	**(3)**	**547**

Reconciliation of the carrying amounts of property and equipment 2018

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	49	24	(6)	(5)	62
Information technology equipment	126	110	(14)	-	222
Motor vehicles	1	-	-	-	1
Leasehold improvements	27	16	(16)	-	27
Land and buildings (owner-occupied)	291	-	(6)	-	285
Total	**494**	**150**	**(42)**	**(5)**	**597**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Accounts receivable and other assets

Rmillion	2019	2018
Financial assets		
Sundry receivables [1]	141	104
Non-financial assets		
Prepayments [2]	90	108
Total	**231**	**212**
Maximum exposure to credit risk [3]	**231**	**212**

[1] Sundry receivables include insurance commissions and management fees receivables. Due to the short-term nature of the receivables, the carrying amount approximates its fair value. Sundry receivables are neither past due nor impaired.

[2] Information technology licences and services, prepaid rentals as well as other prepayments make up the prepayment balance at the reporting date.

[3] The total accounts receivable and other assets represents the maximum exposure to credit risk. The ECL of the total amount is immaterial.

9. Intangible assets

	2019			2018		
Rmillion	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Software	162	(81)	81	138	(66)	72

Reconciliation of the carrying amounts of intangible assets 2019

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write offs	Carrying value at end of year
Software	72	24	(15)	0	81

Reconciliation of the carrying amounts of intangible assets 2018

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write-offs	Carrying value at end of year
Software	75	53	(29)	(27)	72

10. Loans to affiliated companies

Rmillion	2019	2018
MMI Lending Proprietary Limited [1]	-	51
Total	**-**	**51**
Maximum exposure to credit risk [2]	**-**	**51**

[1] The loan to MMI Lending (Proprietary) Limited was settled in terms of the termination of the joint venture with MomMet Holdings Limited. For more information pertaining to the termination of the joint venture refer to note 12.

[2] The total loans to affiliated companies amount represents the maximum exposure to credit risk. The ECL of the total amount is immaterial.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. Derivatives

	Assets over the counter		Liabilities over the counter	
Rmil	Notional	Carrying amount at fair value	Notional	Carrying amount at fair value
2019				
Currency derivatives				
Swaps	1,010	36	-	-
Total	**1,010**	**36**	**-**	**-**
2018				
Inflation linked derivatives				
Swaps	**133**	**47**	**-**	**-**
Total	**133**	**47**	**-**	**-**

The Group uses currency swaps to economically hedge against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.
The Group uses inflation linked swaps to economically hedge against the changes in cash flows arising from changes in interest rates.

For accounting purposes the derivatives have not been formally designated as hedging instruments as defined by IFRS 9 and IAS 39 in the prior period and therefore all derivatives were classified as held for trading according to IAS 39 and classified as and measured at fair value through profit and loss as per IFRS 9.

For more information on the management of Market Risk, refer to note 32.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Derivatives continued...

Derivatives settled on a net basis and gross basis

The tables below analyses the Group's derivative assets and liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date.

Some of the Group's derivatives are subject to collateral requirements (see note 35), such as margin calls. Cash flows from those derivatives could occur earlier than the contractual maturity. Contractual maturities are assessed to be essential for an understanding of the timing of cash flows of all derivatives.

Derivatives settled on a net basis	< 6 months	6 - 12 months	Total
2019			
Financial assets			
Cross currency interest rate swaps	-	-	-
Financial liabilities			
Interest rate swaps	-	-	-
2018			
Financial assets			
Inflation linked swaps	-	47	47
Financial liabilities			
Interest rate swaps	-	-	-

Derivatives settled on a gross basis	< 6 months	6 - 12 months	Total
2019			
Financial assets			
Cross currency interest rate swaps			
Inflow	1,059	-	1,059
Outflow	(1,023)	-	(1,023)
Total	**36**	**-**	**36**
2018			
Financial assets			
Inflation linked swaps			
Inflow	-	-	-
Outflow	-	-	-
Total	**-**	**-**	**-**

12. Investments

Rmillion	2019	2018
Investment in joint venture	-	**5**
Investment in sinking fund policy	-	**10**
Total	-	**15**

During the current reporting period, the holding company of the Group, African Bank Holdings Limited, and Momentum-Metropolitan Holdings Limited, previously MMI Holdings Limited ("MomMet Holdings Limited"), mutually decided to terminate the joint venture comprising of lending, insurance and transactional banking arrangements. The decision to terminate the joint venture was executed in terms of the provisions of the relationship agreement between African Bank Holdings Limited and MomMet Holdings Limited.

Effective 31 March 2019, African Bank Limited acquired the advances book at its fair value for a consideration of R75 million from MMI Lending (Proprietary) Limited (part of the lending arrangement), surrendered the sinking fund insurance policy held with the MomMet Group for a consideration of R 11.4 million (which was within the insurance arrangement), and sold its 49.9% shareholding interest in MMI Lending (Proprietary) Limited for a cash consideration of R 10 million to Momentum-Metropolitan Strategic Investment (Proprietary) Limited (a subsidiary of the MomMet group).

13. Bonds and other long-term funding

Rmillion	2019	2018
Unsecured bonds (listed on JSE)	3,588	5,697
Unsecured bonds (listed on foreign stock exchanges)	3,057	5,208
Unsecured long-term loans	2,525	1,726
Retail long term funding	1,567	648
Total	**10,737**	**13,279**

Long term funding represents funding with a maturity of more than 12 months.

13.1 Unsecured bonds listed on JSE

Rmillion	Face value	Interest accrued [1]	Unamortised premium/ (discount) [2]	Reclassified to short term funding	Net liability 2019	Net liability 2018 [3]
Fixed rate bonds:	120	3	-	-	123	-
Ranging from 9.5% to11.5%						
JIBAR linked bonds:	2,207	24	(8)	(1,677)	546	2,212
Ranging from JIBAR + 199bpts to JIBAR + 400 bpts						
Inflation linked bonds:	2,602	1,194	(80)	(797)	2,919	3,485
Ranging from 3.2% to 5.75%						
Total	**4,929**	**1,221**	**(88)**	**(2,474)**	**3,588**	5,697

The bonds maturities range from earliest redemption on 18 November 2019 and latest redemption on 20 May 2022.

[1] Interest accrued represents interest due to the funders as at the reporting date based on the individual bond's legal terms and conditions.

[2] Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.

[3] Included in the net liability for 2018 financial period is accrued interest of R1,137 million and unamortised discount of R141 million.

13.2 Unsecured bonds listed on foreign stock exchanges*

Rmillion	Face value	Interest accrued [1]	Foreign currency translation [2]	Unamortised premium / (discount) [3]	Reclassified into short term funding	Net liability 2019	Net liability 2018 [4]
USD denominated bonds: Ranging from 6% to 8.125% (all bonds maturing in 2020)	3,580	86	108	15	(1,796)	1,993	3,543
CHF denominated bonds: Ranging from 4% to 5.5% (bonds mature between 2019 and 2022)	1,711	27	(15)	14	(673)	1,064	1,665
Total	**5,291**	**113**	**93**	**29**	**(2,469)**	**3,057**	**5,208**

*The bonds maturities range from earliest redemption on 8 February 2020 and latest redemption on 22 April 2022

[1] Interest accrued represents interest due to the funders as at the reporting date based on the individual bond's legal terms and conditions.

[2] Foreign currency translation represents the increase or decrease in the carrying value of liability due to the change in the foreign currency exchange rates.

[3] Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.

[4] Included in the net liability for 2018 financial period is accrued interest of R121 million, decrease due to foreign currency revaluation of R267 million and unamortised premium of R48 million.

13.3 Unsecured long-term loans

Rmillion	Face value	Interest accrued [1]	Unamortised premium / (discount) [2]	Net liability 2019	Net liability 2018 [3]
Promissory notes	798	7	-	805	1,359
Fixed deposits	1,656	76	(12)	1,720	367
Total	**2,454**	**83**	**(12)**	**2,525**	**1,726**

Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 9.20% to 11.81% NACQ, NACS and NACA (2018: from 8.81% to 12.01% NACQ, NACS and NACA). These notes have various maturities, ranging from 6 December 2020 to 1 December 2024.

Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.45% to 15.06% NACQ, NACS and NACA (2018: from 7.45% to 10.70% NACQ, NACS and NACA). These deposits have various maturities, ranging from 5 October 2020 to 16 July 2026.

[1] Interest accrued represents interest due to the funders as at the reporting date based on the individual bond's legal terms and conditions.

[2] Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.

[3] Included in the net liability for 2018 financial period is accrued interest of R82 million and unamortised discount of R21 million.

13.4 Retail long term funding

Rmillion	Face value	Interest accrued	Net liability 2019	Net liability 2018
Maturing in 12 to 24 months [1]	302	1	303	123
Maturing in 25 to 60 months [2]	1,258	6	1,264	525
Total	**1,560**	**7**	**1,567**	**648**

[1] Retail long term funding for this maturity profile bare interest ranging from 8.60% to 9% NACM, NACQ, NACA.

[2] Retail long term funding for this maturity profile bare interest ranging from 9% to 10.75% NACM, NACQ, NACA.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

14. Short-term funding

Rmillion	2019	2018
Wholesale funding	**6,052**	**5,472**
Call deposits [1]	-	50
Notice deposits [2]	388	956
Negotiable certificates of deposits [3]	9	-
Fixed deposits [4]	122	516
Promissory notes [5]	589	1,514
Listed bonds [6]	4,944	2,067
Unlisted bonds [7]	-	369
Retail funding	**907**	**544**
Retail short term funding [8]	824	463
Other short term funding	83	81
Total	**6,959**	**6,016**

Short term funding represents funding with a maturity of less than 12 months.

[1] Call deposits with monthly coupon payments had an interest rate of 6.35% NACM in 2018.

[2] Notice deposits have interest linked to jibar.

[3] Negotiable certificates of deposit consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.15% to 7.62% NACS and NACA (2018: 7.15% to 7.62% NACS and NACA).

[4] Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 4.75% to 10.70% NACQ, NACS and NACA (2018: 4.75% to 11.14 NACQ, NACS and NACA).

[5] Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 6.84% to 10.208% NACQ, NACS and NACA (2018: 8.11% to 10.87% NACQ, NACS and NACA).

[6] Listed bonds to the total value of R4944 million (2018: R2 069 million) repayable within 12 months were reclassified from long term funding to short term funding.

[7] Unlisted bonds consist of bonds reclassified from long term funding in the prior period to short term in the current period, refer to note 13 for detail.

[8] Retail short term funding consisted of retail deposits with interest rates varying from 7.7% to 8.6% (2018: 3.21% to 10.50%)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. Subordinated bonds

Rmillion	Face value	Interest accrued [1]	Unamortised premium / (discount) [2]	Net liability 2019	Net liability 2018 [3]
Subordinated bonds	1,485	51	(3)	1,533	1,530

ABKS1 subordinated bonds with an original face value of R1 485 million, issued on 4 April 2016, are redeemable on 4 April 2026 with an optional redemption date 5 April 2021. Interest is calculated and payable quarterly at a floating coupon rate of 3 months JIBAR plus 725 basis points.

[1] *Interest accrued represents interest due to the funders as at the reporting date based on the individual bond's legal terms and conditions.*

[2] *Unamortised premium/(discount) represents the fair value adjustment at initial recognition of the funding liability.*

[3] *Included in the net liability for 2018 financial period is accrued interest of R51 million and unamortised discount of R6 million.*

16. Creditors and other liabilities

Rmillion	2019	2018
Financial liabilities		
Advances with credit balances	15	16
Cash payable to Residual Debt Services Limited (in curatorship)	1	16
Sundry payable and accruals [1]	179	167
Premium accruals payable to Guardrisk	116	118
Accruals related to payroll [2]	348	263
Non- Financial liabilities		
Provision for straight lining of leases	6	7
Leave pay accrual	72	61
Total	**737**	**648**

[1] *Sundry payables and accruals consist largely of trade payables.*

[2] *Included in Accruals related to payroll is a provision for the long-term incentive scheme amounting to R118 million (2018: R95 million). Refer to note 39 for additional disclosure.*

17. Share capital

	Number of shares 2019	Number of shares 2018	Rmillion 2019	Rmillion 2018
Authorised				
Ordinary shares of R0.01 each	2 000 000 000	2 000 000 000	-	-
Issued				
Ordinary shares at par value of R0.01 each	500 000 000	500 000 000	5	5
Ordinary share premium			9,995	9,995
Total			**10,000**	**10,000**

There were no shares repurchased or issued during the current or previous financial period.

The Group has 1 500 000 000 (2018: 1 500 000 000) unissued ordinary shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. Operating lease commitments – property

Rmillion	2019	2018
Payable within one year	162	153
Payable between one and five years	167	171
Total	**329**	**324**

None of the Group's leases have a variable portion (contingent rentals). Refer note 23 for disclosure of lease expenditure paid and refer to Annexure A for detail of the adoption of IFRS16 which will be effective from 1 October 2019.

19. Interest Income

19.1 Interest income on advances

Rmillion	2019	2018
Interest on advances	5,547	6,723
Loan origination fees	240	185
Service fee	206	260
Total	**5,993**	**7,168**

19.2 Other interest income

Rmillion	2019	2018
Interest received on cash and cash equivalents	99	308
Sundry interest income *	88	171
Total	**187**	**479**

* Sundry interest income consists largely of interest on regulatory deposits and sovereign debt securities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

20. Credit impairment charge

Rmillion	2019	2018
Originated book		
Net movement in impairment provisions [1]	2,596	1,954
Gross advances written off [2]	1,732	1,879
Adjustment related to revenue on advances classified as stage 3	(545)	(115)
Acquired Book card cash allocation methodology change	(228)	-
Net impairment charge	**3,555**	**3,718**
Post Write Off Recoveries	(194)	(110)
Sub-total: Originated Book	**3,361**	**3,608**
Acquired Book		
Post Write Off Recoveries	(593)	(703)
Favourable changes in ECL [3]	(752)	160
Favourable changes in expected credit losses reallocated to gross interest [4]	-	543
Sub-total: Acquired Book	**(1,345)**	**-**
Total [5]	**2,016**	**3,608**

[1] Net movement in impairment provisions represent the net movement in impairment provisions from the beginning of the financial year to the end thereof and includes items detailed below (refer ECL recon under note 2).

[2] Advances with this gross carrying value were written off during the financial year, resulting in a release of an equal amount of impairment provisions held being included in the above net movement in impairment provisions (refer ECL recon under note 2).

[3] Under IFRS 9, the Group accounts for favourable changes in expected credit losses on purchased credit impaired financial assets, such as the Acquired Book, as an impairment gain in profit or loss.
Where such favourable changes exceed the loss allowance estimated at initial recognition, these changes are recognised as a direct adjustment to the gross carrying amount of the advances and a corresponding gain is also recognised as an impairment gain in profit or loss.

[4] Under IAS 39 the sum of net favourable changes in credit losses on purchased credit impaired financial assets was recognised in interest income as part of the credit adjusted effective interest on advances which were credit impaired at acquisition.

[5] Included in the above charge are losses due to modification of R463 million (refer to note 2).

For more detail of the accounting policies applied for the impairment of financial assets under IFRS 9, refer to note 1.5 and note 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. Interest expense and similar charges

Rmillion	2019	2018
Subordinated debt	216	214
Unsecured listed bonds	964	1,058
Call deposits	3	15
Fixed deposits	182	231
Negotiable certificates of deposit	-	23
Interest on promissory notes	196	323
Other interest	146	65
Total	**1,707**	**1,929**

22. Non-interest income

Rmillion	2019	2018
Credit card fees	222	273
Binder and outsourcing arrangements fees	157	339
Collection fees [1]	420	570
Other income [2]	16	16
Total	**815**	**1,198**

[1] Included in collection fees are fees charged to Residual Debt Services Limited (under curatorship). Fees charged are determined on an arm's length basis and managed independently under supervision of the curator of that company.

[2] Included in other income for 2019 are gains from the disposal of the interest in MMI Lending Proprietary Limited of R1 Million and the realised gains on the revalued and surrendered insurance sinking fund arrangement with MomMet Holdings Limited. Refer to note 12 for more detail on these transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. Operating costs

Rmillion	2019	2018
Advertising and marketing costs	162	110
Amortisation of intangible assets (refer note 9)	15	29
Audit fees	13	16
Bank charges	140	167
Card transaction costs	43	35
Collection costs	156	186
Depreciation on property and equipment (refer note 7)	96	42
Direct selling and coMomMetssions	38	22
Information technology costs	138	143
Rental and maintenance costs	262	248
Costs related to property rentals	216	204
Other rental and maintenance costs	46	44
Printing, stationery and courier costs	27	37
Professional fees	220	201
Staff costs	1,487	1 222
Basic remuneration	1,048	852
Incentives	266	206
Contribution to provident fund	120	102
Commission paid to sales agents	6	3
Executive directors' and prescribed officers' remuneration (refer note 42)	47	59
Non-executive directors' fees (refer note 42)	6	4
Telephone, fax and other communication costs	84	73
Other expenses	78	80
Total	**2,965**	**2,615**

24. Indirect and direct taxation

Rmillion	2019	2018
Indirect charge per the statement of total comprehensive income	(31)	65
Direct charge per the statement of total comprehensive income: SA normal taxation	97	166
Total taxation charge	**66**	**231**

24.1 Direct taxation

Rmillion	2019	2018
Current taxation	**(30)**	**534**
Current year	-	495
Prior year	(30)	39
Deferred taxation	**127**	**(368)**
Current year	103	(328)
Prior year	24	(40)
Direct taxation charge per the statement of total comprehensive income	**97**	**166**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Indirect and direct taxation continued...

24.2 Direct tax rate reconciliation

%	2019	2018
Effective rate of taxation	**30.0**	**35.4**
Non- deductible expenses	**(3.8)**	**(7.4)**
Donations	(1.0)	(0.6)
Fines and penalties	(0.0)	(0.1)
Learnerships	1.8	-
Share of loss of joint venture	0.6	(0.9)
Tax impact on property and equipment	(0.5)	(0.3)
Tax impact on buy-back of liabilities	(4.6)	(5.4)
Prior year under/(over) provision	1.9	0.0
Other	(0.1)	-
Standard rate of South African taxation	**28.0**	**28.0**

25. Cash generated by operations

Rmillion	2019	2018
Profit before tax	314	469
Adjusted for non-cash flow items:	**3,762**	**4,781**
Indirect taxation: VAT	(31)	65
Increase in impairment of advances	2,805	3,723
Amortisation of intangible assets (refer note 9)	15	29
Depreciation of property and equipment (refer note 7)	96	42
Write off of PPE and intangible assets	1	-
Foreign exchange differences (excluding cash balances)	82	-
Loss on the bond buy backs	-	6
Fair value movements on derivative instruments	(53)	56
Fair value adjustments on assets	(62)	-
Fair value adjustments on liabilities	-	90
Attributable (gain) / loss from joint venture	(5)	16
Movement in other interest income accrual	(90)	(89)
Movement in interest expense accrual	336	843
Non cash adjustments to interest on advances	661	-
Other adjustments on gain/ loss on derivatives	7	-
Adjusted for movement in working capital:	**149**	**41**
Movement in accruals	(13)	35
Movement in deferred fees and other accruals related to advances	162	6
Total	**4,225**	**5,291**

26. Cash received from lending activities and cash reserves

Rmillion	2019	2018
Interest income (adjusted for non-cash items)	6,816	7,564
Non-interest income (adjusted for non-cash items)	791	890
Subtotal	7,607	8,454
Cash reserves	99	308
Total	**7,706**	**8,762**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. Cash paid to clients, funders, employees and agents

Rmillion	2019	2018
Interest paid (adjusted for non-cash items)	1,463	1,077
Remuneration and incentives paid to employees and directors	1,402	1,226
Other operating expenses paid	1,404	1,283
Total	**4,269**	**3,586**

28. Direct taxation paid / received

Rmillion	2019	2018
Movement in current tax asset	24	(73)
Direct taxation charged to statement of total comprehensive income (refer note 24)	97	166
Deferred tax portion of amount charged to statement of total comprehensive income	(126)	368
Total	**(5)**	**461**

29. Reconciliation of long term and short term funding

Rmillion	Long term duration debt	Short term duration debt	Total
Balance at the beginning of the year	**12,631**	**5,472**	**18,103**
Long term tenure debt	**(3,539)**	**752**	**(2,787)**
Funding raised	1,971	-	1,971
Funding redeemed	-	(5,297)	(5,297)
Net movement in accruals & unamortised fair value adjustments	1,346	-	1,346
Reclassified to short term	(6,049)	6,049	-
Interest paid	(1,141)	-	(1,141)
Foreign exchange movement	334	-	334
Short term tenure debt	**-**	**(96)**	**(96)**
Funding raised	-	9	9
Funding redeemed	-	(50)	(50)
Net movement in accruals & unamortised fair value adjustments	-	-	-
Interest paid	-	(55)	(55)
Foreign exchange movement	-	-	-
Other movements	78	(76)	2
Total	**9,170**	**6,052**	**15,222**

The duration of the remaining term of the debt until repayment thereof is classified as short term if the repayment date is within 12 months of the reporting date.
The tenure of the debt is defined by the term until final and full repayment of the debt at inception thereof and is defined as long term if this term exceeds 12 months. Long term debt with a tenure of more than 12 months is reclassified as short term when the duration of the term until repayment is less than 12 months.

30. Risk management

The nature of The Group's business activities exposes it to a number of financial risks. The objective of risk management is to balance the risk versus reward relationship with specific controls to mitigate such risks.

The Risk and Capital Management Committee ("RCMC") is constituted as a committee of the Board and is answerable to the Board and reports directly to the Board. The prime objective and mandate of the RCMC and its subcommittees are to assist the Board in discharging responsibilities in terms of the management of risk and capital across the Group.

The RCMC is responsible for the execution of the relevant business performance and risk management frameworks, regulatory risk management frameworks, Internal Capital Adequacy Assessment Process ("ICAAP") and treasury and funding risks including asset liability mismatch, interest rate risk and foreign currency risk.

The RCMC is also responsible for the evaluation of the adequacy and efficiency of all risk models in use in all of the businesses within the Group. The RCMC is furthermore responsible for the approval of all risk and capital related frameworks within the Group.

The RCMC has delegated specific responsibilities relating to credit risk to the Model Risk Committee ("MRC") and market risk management to the Asset and Liability Committee ("ALCO"). The RCMC approved the terms of reference of each, and any changes thereto, of these subcommittees during the current financial period.

The MRC is responsible for managing the risk and profitability strategies of the Group. The role includes setting of credit policy, pricing strategies, affordability policy and risk control. The MRC monitors these risks and report on a quarterly basis to the RCMC. The MRC is supported by the Credit Management Structure and is chaired by a non-executive director. (Refer note 31).

The role of the ALCO is to manage the Group's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks, as well as other related risks ("ALCO Risks") in such a way as to maximise shareholder return within the risk parameters as defined by the Group's risk appetite framework set by the RCMC. (Refer note 33).

The ALCO also has a further strategic function to recommend group strategy and appetite related to the ALCO risks within the Group's overall risk appetite, to the RCMC.

The RCMC mandates the ALCO to monitor and manage the balance sheet within the context of the identified risks. These are defined as:

- Credit risk (note 31)
- Market risk
  - Interest rate risk (note 32.1)
  - Foreign exchange risk (note 32.2)
- Liquidity and funding risk (note 33)
- Regulatory (and Legal) risks in the ALCO context (note 36)

31. Credit risk

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial and contractual obligations when due. The Group's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as the dominant financial risk within the Group.

31.1. Credit risk management

The prime objective and mandate of the MRC, is to approve all credit related models including impairments, credit scoring, profitability and affordability, as well as all collection scorecards, the advanced IRB model for Economic Capital, the ICAAP models and any other models designated as material models which are utilised in the Group. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process.

The MRC meets on a monthly basis and reports to the RCMC on a quarterly basis.

The duties and responsibilities of the MRC include:

- the establishment of an inventory of the material models in use in the Group and the management thereof,
  - o the validation of models as it deems necessary;
  - o the review of the models at least annually;
  - o ensuring that an appropriate governance process is in place to ensure that the necessary documentation / information is in place to facilitate the effective validation of the models.
- being responsible for action to mitigate risk identified by any individual model.
- specifically reporting to the ALCO any matters or issues identified in the validation process of the ICAAP or models related to the management of the ALCO risks.

The Group's exposure to credit risk can be divided into two categories

- Financial assets other than advances (refer to note 31.10)
- Advances

Credit risk continued...

The following notes provide the follwoing information on advances:
- Nature and composition of the advances portfolio
- Credit risk life cycle management
    - Credit risk assessement at origination
    - Credit risk monitoring for existing advances
    - Collections and recovery
- Impairment policies and application of IFRS 9 requirements
- Quantitative credit quality disclosures

31.2. Nature and composition of the advances portfolio

The Group's main business is to provide unsecured retail loans and credit cards to primarily formally employed individuals. The Group primarily relies on collecting loan instalments directly from the customer's bank account via an electronic debit order or alternatively accepts electronic funds transfer and cash deposits from customers. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Group. All of the Group's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base exposes the Group to systemic credit risk.

The Group mitigates this risk by applying the Group's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. The Group's credit risk assessment process adheres to the requirements set out by the National Credit Act ("NCA") and the Financial Sector Conduct Authority.

The nature of the loan book is such that it is made up of smaller sized loans across a spectrum of economic sectors and provinces. Loans granted range from a minimum of R2,000 to a maximum of R250,000 at origination and repayment periods range from a minimum of 9 months to maximum of 72 months. For credit cards, the revolving credit facility ranges from R4,000 to R200,000, with repayment percentages ranging from 5% to 100% of either the outstanding balance or the limit of the facility, depending on the risk profile of the customer. By its nature, the sum of the carrying amount at year end for unsecured loans, credit cards and any unutilised credit facilities represents the Group's maximum exposure to credit risk for advances. The Group has insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers through a cell captive arrangement held indirectly by the Group's holding company (refer to the annual financial statements of the Group's holding company).

31.3. Credit risk assessment

The assessment of the customer affordability is done in two parts, the first ensuring compliance with the NCA affordability guidelines, and second the Group employs its own credit risk model affordability calculation, based on a repayment to income ratio model. The Group calculates the customer's NCA affordability as being an amount equal to the net income less financial obligations less monthly living expenses. The smaller of the NCA affordability assessment and the internal credit risk affordability calculation is used to determine the maximum instalment the customer can be offered, limited to the product maximum limits.

The Group calculates credit scores for applicants and further groups these scores into risk groups, which have similar risk expectations. The credit scoring engine is configured with the credit policy parameters and is systematically embedded, preventing human intervention which can result in a breach of policy.

The verification and inputs into the credit scoring system include:
- physical identification of the customer via their South African identification document, proof of address and fingerprint biometrics, to validate the customer against their details held at the Department of Home Affairs;
- the customer's 3 month income, monthly living expense, declaration of financial obligations, wage frequency, employer and bank details;
- electronic credit bureau data; and
- the customers' historical performance on existing and previous loans is used to determine the customer's risk.

To mitigate against fraud, compliance and credit risk, the customer's completed application could flow to the vetting queues. A Queue is a process where an application is systematically flagged for further vetting between when a customer applies for a loan and the final approval or decline of an offer to the customer. It is a precautionary step taken to identify underlying risk by flagging certain triggers known to indicate potential risk. An application is flagged to go into a queue when one or more of these triggers are detected in the application detail of the customer. The Group evaluates more than 100 possible triggers that could flag an application to go into a queue for vetting.

Credit risk continued...

In other cases, the queue is for checking the completeness and accuracy of the documentation received, and information captured.

31.4. Credit monitoring

The Group utilises various reporting and monitoring tools to engage in and control credit risk within the credit life-cycle. These include the following:

- real time monitoring on application volumes, approval rates and processing quality;
- vintage collection reports to establish the initial recovery process efficiency;
- credit aging reports to identify, manage and control loan delinquency and ECL provisioning;
- active payment, collection and integrity trend analysis to control and manage underlying risks and movement within the day to day operational procedures.

31.5. Collections and recovery

Core to the collection function is the monitoring of the payment patterns of customers and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe possible. The Group uses various debit order strike platforms, and each allows The Group different striking capabilities and options. The Group utilises the regulated non-authenticated early debit order system (NAEDOS) to collect instalments from customers. Deduction mandates are obtained from customers in their loan contracts and deductions are made from their primary bank accounts.

Where debit order collection is unsuccessful, arrears follow up is performed initially through call centres within the Group. The Group operates two types of payment arrangements to promote collection of repayments due– namely, informal indulgences and formal restructures.

Informal indulgences are where customers request a lower debit order amount referred to as a promise to pay. Formal restructures relate to debt counselling, administration orders and court orders. From an impairment perspective, these advances are still aged through the contractual CD buckets based on their original contractual instalments and obligations.

The Transfer Policy prescribes when an account will be moved into the Legal Collections division. Once an account has been transferred into Legal Collections, the account will be allocated to a department either in In-house or to outsourced collection agencies based on current internal business rules.

31.6. Impairments

The same model methodology is applied against both the loan and the credit card portfolios to determine the level of credit impairment required.

For detail on the impairment policies and the application thereof within the accounting standards under IFRS, refer to the following section.

Credit risk continued...

Impairment policies and application

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the customer's ability to pay in accordance with the contractually agreed terms.

The Group uses the Contractual Delinquency ("CD") classifications for the purpose of identifying the type of impairment to be calculated and for the grouping of assets into stages under IFRS 9, in conjunction with other SICR requirements.

Contractual Delinquency is defined as the total amount receivable to date less cash received, divided by the original contractual instalment. The result is then rounded up to the closest inter number (i.e. CD 0.1 would be categorised as CD1). The process of rounding up results in a conservative CD measure and is a notable driver in the distribution of the advances between the various provision stage distributions.

The number and sequence of recent payments ("Recency") is also applied in estimating the expected credit loss ("ECL") and the point of write off.

The table below indicates the CD definitions and how classification into groups was determined under IAS 39 and how CD is utilised to classify assets into the IFRS 9 stages.

<table>
<tr><th>Contractual Delinquency</th><th>Explanation of categorisation</th><th>Time buckets</th><th>IAS 39 Provision type</th><th>IFRS 9 Stage</th></tr>
<tr><td>CD 0</td><td>Performing advances that are not past due and are within the contractual term.</td><td><30 days</td><td>IBNR</td><td>Stage 1 (no SICR)</td></tr>
<tr><td>CD 0 SICR</td><td>Performing advances that are not past due and are within the contractual term, but for which SICR has been identified.</td><td><30 days</td><td>IBNR</td><td>Stage 2</td></tr>
<tr><td>CD 1 - 3</td><td>Advances where between 1 and 3 instalment have been missed, or where instalments have been received after their contractual date of repayment.</td><td>31 - 90 days</td><td>PSI</td><td>Stage 2</td></tr>
<tr><td>>=CD 4</td><td>Advances where more than 3 instalments have been missed but that have not met write off requirements.</td><td>>=91 days</td><td>SI</td><td rowspan="2">Stage 3</td></tr>
<tr><td>>CD 4 recency 5</td><td>More than 3 instalments have been missed and no payments have been received over the past 5 months</td><td rowspan="2"></td><td rowspan="2">Fully impaired</td></tr>
<tr><td>>CD 4 recency 8</td><td>More than 3 instalments have been missed and no payments have been received over the past 8 months</td><td>Fully impaired</td></tr>
</table>

The advances within the Group comprise a large number of small, homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates per category of CD. These statistical analyses for purposes of IAS39 used as primary inputs the extent to which accounts in the portfolio are in arrears and historical loss experience on the eventual losses encountered from similar delinquent portfolios. IFRS 9 extends the statistical analyses by including forward looking macroeconomic factors.

Credit risk continued...

31.6.1. IAS 39 applied at 30 September 2018

The impairment charge for the IBNR provision for CD 0 advances was determined based on the following:

- Objective evidence of impairment over the emergence period.
- Emergence period - also referred to as LEP (loss emergence period), represents the Group's estimate (for accounting purposes) of the average amount of time from the point at which a loss is incurred (but not yet identified) to the point at which the loss is observed and confirmed. The Group utilised a 90 day emergence period.
- In considering the occurrence of a loss event over the life of a loan, it was assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.

The impairment charge for the PSI and SI provisions for CD 1 to >CD 4 advances was determined based on the

- Delinquency basis, with each segment's advances being treated as a discrete portfolio, upon which an analysis of historically observed recoveries is performed, in order to develop an historical base for expected loss rates.
- These derived statistics, based on actual experience, were used in plotting recovery values on a model curve that reflects the risk profile of the portfolio.

For fully impaired/write offs:

Advances greater than CD 4 (and where payments have not been received for 5 months) were fully impaired and netted off against the impairment allowance account for specific impairment. Such a write-off was recorded as impairment through a direct reduction of carrying value of the financial asset. Therefore, gross advances are reflected net of advances that have been written off.

The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce differences between loss estimates and actual loss experience.

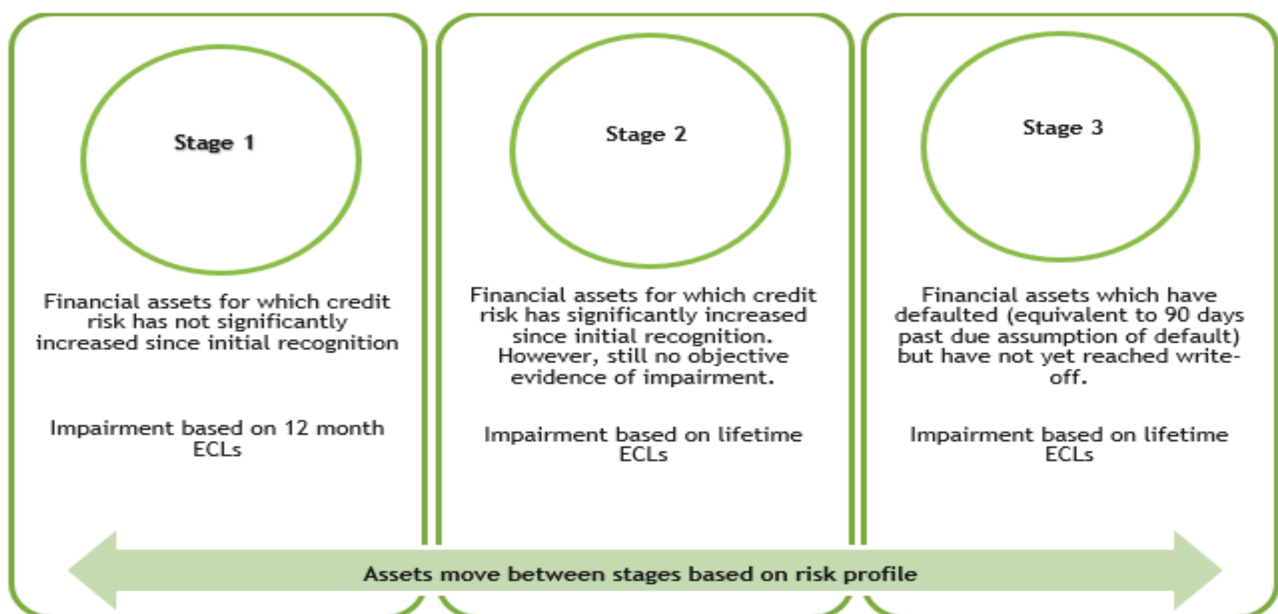
All impaired loans and advances were reviewed on a monthly basis and any changes to the amount and timing of the expected future cash flows was compared to previous estimates and would result in a change to the charges for impairment of loans and advances reflected in profit or loss.

Credit risk continued...

31.6.2. IFRS 9 applied from 1 October 2018

31.6.2.1 Expected Credit Loss measurement

Below is a graphical representation indicating the respective stages for ECL measurement, the requirements for a financial asset to be included in the respective stages and the calculation of ECL in each stage. The Acquired Book is considered to be credit-impaired at initial recognition and classified in stage 3, with an ECL measured on a lifetime basis.



In measuring ECL, the following inputs are used by the Group:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

The PD represents the likelihood of default over a given time horizon; either over the next 12 months after the reporting period, or over the remaining life of an advance. PDs are estimated by considering the contractual term of the advance, and the estimated repayment rates. The estimation is made based on current conditions, and adjusted to take into account estimates of future conditions that will impact the PD.

The PD calculation is based on a statistical model with the aim to predict the future repayment performance of customers based on their arrears status, model segment and time on book ("age"). The prediction of future repayments is based on having had observed the client’s behaviour in transitioning from a repayment status in a given month to a repayment status in the following month (“roll rates”) over the last 12 months.

The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments, and expected drawdowns on committed facilities

Credit risk continued...

The EAD is calculated by applying an amortisation structure to each advance. The structure includes the expected monthly repayment, as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.
The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

LGD is an estimate of the loss expected to arise on default. LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis. The LGD is expressed as a percentage, being the loss expected to arise on default as a fraction of the exposure at the time of default.

In the process of determining the lifetime ECL for advances in Stage 2 and 3, the PD, EAD and LGD models are combined and losses are extrapolated to the point where incremental increases of the modelled lifetime no longer increase the total ECL calculated.

31.6.2.2 Significant increase in credit risk ("SICR")

The Group assesses financial instruments measured at amortised cost and subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a significant increase in credit risk (SICR), since initial recognition of the financial instrument.

At each reporting date ("monthly"), all loans and advances exposures are assessed to determine whether there has been a significant increase in credit risk, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, The Group measures the impairment provision at an amount equal to the 12 month ECL.

The SICR model also identifies accounts that should move back to stage 1 after having been predicted as stage 2 accounts at the point at which their risk profile improves and they no longer satisfy the criteria for stage 2.

An account will have had a significant increase in credit risk, if:

- The current point in time Probability of Default (PD) is significantly greater than the expected point in time PD as determined at origination. This means that at each reporting date, an account's remaining lifetime PD will be compared to the expected remaining lifetime PD at origination. If the current PD is significantly higher, then the account will be moved to Stage 2 and the total remaining lifetime ECL will be used for impairment provisioning purposes.
- The relative change in the remaining lifetime PD is computed at each reporting date. This value is then compared to the relative change cut off value determined by the SICR model that identifies accounts that have had a significant increase in credit risk. The cut-off for allowable relative change in PD is calibrated so that the proportion of accounts that naturally move out of stage 1, within a 12 months period from that point of observation, is flagged as SICR. Each loan and credit card account is placed in an origination segment, based on similar risk characteristics. A relative PD change cut off value is then determined for each segment. At each reporting date, if the calculated relative change in PD is greater than the associated segment cut off, then the account is moved to Stage 2. The cut offs are determined by making use of the average relative change in PD of accounts that moved into Stage 2 while they were in Stage 1 over any 12 month window period and are then aggregated to a segment level.
- The account enters into Debt Counselling or high risk collection environments, even if their PD indicates no significant deterioration in risk.
- An account where 1 or more instalments have been missed or received after the contractual date of repayment.

The Group has set certain behaviour and advance granting score thresholds which are used to identify a significant increase in credit risk. These thresholds are dependent on the credit risk expectation at the point of origination, time on book, and an updated view of credit risk which includes forward-looking information.

Credit risk continued...

The purpose of the behaviour score in the ECL model is to provide a measure of an existing customer's propensity to default on a loan within 12 months. The behaviour score is calculated on an individual account level, taking into consideration the credit exposure and repayment behaviour of the customer at other credit providers. The behaviour score is updated for all advances at each reporting period.

The SICR thresholds and indicators are reviewed at least on an annual basis to ensure that the models are able to identify SICR throughout the lifetime of the loan.

Refer to note 31.7.4 for the impact on ECL of SICR sensitivity.

31.6.2.3 Forward-looking information

IFRS9 requires that forward-looking economic information be included in the determination of SICR and ECL. This forward looking economic information is included in calculating the origination PD and all subsequent period PDs. The impact of historic macroeconomic conditions on the observed default rates, per client income group and product, was used to calibrate and model effects on the PD. The modelled relationships are used to incorporate the forward-looking information into the current risk expectations. This results in the forward-looking information impacting both the SICR evaluation applied in determining the stage allocation and the actual ECL calculation. The most influential macroeconomic factors include the inflationary pressure on food, fuel and the cost of public transport.

The forward-looking information is based on the Group's economic expectations and industry expectations, as well as expert management judgement; over a planning horizon of at least 3 years. Economic scenarios utilised by the Group are provided by an independent specialist on a quarterly basis, or more frequently if the current economic environment has experienced notable changes.

These scenarios are considered and approved by the Model Risk Committee, the Audit Committee and ultimately ratified by the Board.

The Group utilises three forward-looking economic scenarios in the IFRS 9 model:

- a base/benign scenario;
- an upturn scenario indicating improved economic conditions; and
- a downturn scenario indicating a worsening economic environment.

These scenarios include predictions for both the economic variables which statistically show an impact on the advances portfolio at present and additional economic variables that may have an impact going forward.

These scenarios are probability weighted based on the likelihood of each coming to fruition and these probability weightings are also provided by the independent specialist and ratified by the Board. The ECL is ultimately a result of the weighted average of the ECL from each scenario, as weighted by each scenario's probability of occurrence.

Management has assigned a probability of 55% to the base/benign scenario, 30% to the downturn scenario and 15% to the upturn scenario for the 12 month forecast.

Refer to note 31.7.4 for the impact on ECL for forward looking information based on the above described scenarios and ascribed probability weightings.

31.6.2.4 Credit risk disclosures

IFRS 7 requires an entity to provide disclosures of summarised quantitative and qualitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the Group.

Credit risk continued...

As required by IFRS, and detailed in the Group's accounting policy set out in note 1.5.1, the Group measures all financial instruments at fair value plus transaction costs at initial recognition, except those carried at fair value through profit or loss, where transaction costs are recognised immediately through profit or loss. Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

The Acquired Book presents a fascinating accounting challenge in so far as compliance with IFRS is concerned, because in determining the fair value of the Acquired Book at initial recognition, the anticipated ECLs were taken into consideration and the asset was recognised net of the anticipated ECL's as a single, credit impaired portfolio. Subsequently the carrying value of this single portfolio is amortised over the period during which the cash receipts arising from the portfolio is expected to be recovered.

Where estimates of cash receipts are revised based on actual or anticipated cash collections, the carrying amount of the advances is adjusted by recalculating the present value of estimated future cash flows using the original effective credit adjusted interest rate applied in determining the fair value at acquisition. Under IFRS 9, any such adjustment to the carrying value of the gross advances is recognised as an impairment gain or loss as the Acquired Book is classified as purchase credit impaired in its entirety, where as under IAS 39 these adjustments were recognised as increased interest revenue.
(The specific accounting treatment applied to the Acquired Book is detailed in note 1.5.1.7)

For comparative purposes however, in addition to the above IFRS compliant treatment, the key management personnel of the Group also consider the gross advances and ECL of the Acquired Book, before application of the above acquisition related adjustments.

In order to provide sufficient information about the way the credit risk is managed by the Group, the information in this section is presented on two bases:

- using the gross advances and impairment before the acquisition related adjustments linked to the acquired portfolio; as well as
- using the using the IFRS compliant information.

31.6.2.5 Point of default

The Group has aligned the determination of default with its existing internal credit risk management definitions and approaches. This is defined as the point at which an account has a CD greater than 3, which is equivalent to 90 day past due.

An account is considered to be in default when there is objective evidence of impairment.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Should an account remedy the default, the account is reclassified as stage 2 at the points which it no longer satifies the criteria for default.

31.6.2.6 Write-off

A write off directly reduces the gross carrying amount of the loans and advances when the Group has no reasonable expectation of recovery of the financial asset either in its entirety or a portion thereof and constitutes a de-recognition event.

The Group's assessment of reasonable expectation of recovery is either at a single account level or at a collective portfolio level post the write-off point. The point of write-off is set where advances are in arrears more than 3 instalments due and no payment has been received in the preceding 8 months.

The modelling impact of applying the write-off criteria at a portfolio level is that no post write-off recoveries are included in the determination of the LGD. Any amounts recovered post write-off are recorded as bad debts recovered and set off against the impairment charge.

Event driven management credit estimates

Certain events/risks arise from time to time that may not be incorporated into the statistical forward looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by the MRC on a quarterly basis.

These events, for which an amount was included in ECL, include the introduction of DebiCheck (authenticated collections) from October 2019. DebiCheck will have an impact on the collection of cash flows on loans and advances. Another event is the credit amendment act 7 of 2019, which has been enacted, but the required regulations setting out the application has not been published.

31.7. Credit quality of advances per IFRS requirements

On acquisition, the Acquired Book's credit risk was included in measuring the fair value on acquisition, as the book was considered to be credit-impaired at initial recognition. The Acquired Book is thus, under IFRS 9, classified as purchased or originated credit impaired. The net carrying value of the Acquired Book, as included in the gross advances of the Group, is the sum of the gross amount of the acquired advances, less the estimated ECL at initial recognition, plus the subsequent favourable adjustments from the revision of cashflows since acquisition. (Information using the gross advances and impairment before the acquisition related adjustments linked to the acquired portfolio is presented in note 31.8.)

31.7.1. Credit quality of the performing book*

Rmillion	30 September 2019 - IFRS 9			30 September 2018 - IAS 39		
	Loan	Credit card	Total	Loan	Credit card	Total
Performing Book - CD 0						
Low risk	8,566	1,506	10,072	8,250	1,957	10,207
Medium risk	-	-	-	3,493	347	3,840
High risk	-	-	-	486	129	615
Total	**8,566**	**1,506**	**10,072**	**12,229**	**2,433**	**14,662**

**Under IAS 39, which was based on an incurred loss model, the CD 0 category contained latent increased credit risk, which had been incurred, but not yet reported. To provide insight into this latent risk, the CD 0 category was segmented into sub-categories representing low, medium and higher credit risk. (For the purposes of analysing the credit quality of the CD 0 category, credit scores as at the reporting date were used to categorise the quality of the performing book.)*

Under IFRS 9, which applies an expected risk model, the latent risk is recognised using the SICR definition and recognised in Stage 2 using the SICR modelling methodologies described above. Consequently the exposures comparable to the 2018 comparative Medium and High risk categories are included in Stage 2 under IFRS9.

31.7.2. Arrears analysis

Rmillion	30 September 2019 - IFRS 9			30 September 2018 - IAS 39		
	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired						
Stage 1 /CD 0:	8,566	1,506	10,072	12,229	2,433	14,662
Financial assets that are specifically impaired						
Stage 2 / CD 1 to CD 3	7,620	1,623	9,243	2,283	990	3,273
Stage 3 / CD 4 and higher	6,965	1,190	8,155	4,488	817	5,305
Total credit exposure	**23,151**	**4,319**	**27,470**	**19,000**	**4,240**	**23,240**
Total impairments	**(6,444)**	**(1,007)**	**(7,451)**	**(3,249)**	**(745)**	**(3,994)**
Stage 1 / (Incurred but not reported (IBNR))	(523)	(65)	(588)	(543)	(93)	(636)
Stage 2 / (Portfolio specific impairment)	(2,173)	(331)	(2,504)	(973)	(297)	(1,270)
Stage 3 / (Specific impairment)	(3,748)	(611)	(4,359)	(1,733)	(355)	(2,088)
Deferred origination and administration fees	**(204)**	**-**	**(204)**	**(68)**	**-**	**(68)**
Net advances	**16,503**	**3,312**	**19,815**	**15,683**	**3,495**	**19,178**

31.7.3. Impairment as % of gross advances

Rmillion	30 September 2019 - IFRS 9			30 September 2018 - IAS 39		
	Loan	Credit card	Total	Loan	Credit card	Total
Stage 1 / CD 0	6.1%	4.3%	5.8%	4.4%	3.8%	4.3%
Stage 2 / CD 1- 3	28.5%	20.4%	27.1%	42.6%	30.0%	38.8%
Stage 3 / CD 4 and higher	53.8%	51.3%	53.5%	38.6%	43.5%	39.4%
Total impairment as a % of total gross advances	**27.8%**	**23.3%**	**27.1%**	**17.1%**	**17.6%**	**17.2%**
Reconciliation of ECL						
Balance at the beginning of the year	3,249	745	3,994	1,432	608	2,040
IFRS 9 adoption	855	6	861	-	-	-
Impairment provision raised (note 20)	3,805	523	4,328	3,331	502	3,833
Impairment provision released in respect of bad debt write-offs (note 2)	(1,462)	(270)	(1,732)	(1,514)	(365)	(1,879)
Balance at the end of the year	**6,447**	**1,004**	**7,451**	**3,249**	**745**	**3,994**

31.7.4. Credit risk sensitivity

The tables below illustrate the impact on ECL from changes in SICR and forward looking information.

The impact on the full stage 2 ECL if the behavioural or initiation scores cut-off is stressed by 5%.

Impact on ECL of SICR sensitivity	Up	Base	Down
Shifting of SICR threshold by 5% (Rmillion)	(301)	-	351
% change on total SICR ECL (%)	(11.8%)	0.0 %	13.8 %

The Impact on ECL of forward looking information based on the probability weighted impact of all 3 scenarios.

Impact on ECL of forward looking information sensitivity	R'm	% change in
100% downturn scenario	113	1.65%
100% base/benign scenario	(32)	(0.47%)
100% upturn scenario	(108)	(1.58%)

Prior year IAS 39 sensitivity analysis on the impairment provision - 2018

Rmillion	Loans	Credit Cards	Total
IBNR Provision			
Effect of a decrease in emergence period by 1 month	(152)	(29)	(181)
Portfolio Specific Impairment			
Effect of reduction of cash flows by 1%	23	10	33
Specific Impairment			
Effect of reduction of cash flows by 1%	78	13	91

31.8. Credit quality of advances based on the pre- acquisition gross value of advances

These disclosures are based on the pre- acquisition gross value of advances and as such do not comply with the application guidance contained in IAS 39 and subsequently transferred to IFRS 9 applicable to the Acquired Book. The impairment provisions applied in these disclosures are based on the Expected Credit Loss basis and the Incurred Loss basis contained respectively in IFRS 9 and IAS 39, as would have been applied to the Acquired Book, had it been originated at the contractual gross credit exposure.

31.8.1. Advances analysis

Rmillion	2019	2018
Gross advances	**30,200**	**27,524**
Acquired	4,823	7,975
Originated portfolios	25,377	19,549
Deferred origination and administration fees	(207)	(46)
Gross advances after deferred origination and administration fees	**29,993**	**27,478**
Loan	25,597	22,781
Credit card	4,396	4,697
Balance of impairment provisions at the end of the year	**10,178**	**8,300**
Balance of impairment provisions at the beginning of the year	8,300	7,756
IFRS 9 adoption (refer to note 1.18.1)	825	36
Impairment provisions raised	3,244	4,081
Impairment provision released upon write-off of underlying exposure	(2,191)	(3,537)
Net advances	**19,815**	**19,178**
Conditionally revocable credit card commitments	683	715
Maximum exposure to credit risk	**20,498**	**19,893**

The recoveries on the entire written off book amounted to R 787 million (2018: R 813 million).

Modification of advances measured at amortised cost - IFRS 9

Rmillion	Amortised cost before modification	Net modification loss
Debt Counselling	1,154	463

31.8.2. Arrears analysis

Rmillion	30 September 2019 - IFRS 9			30 September 2018 - IAS 39		
	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired						
Stage 1 / CD 0:	8,572	1,506	10,078	12,245	2,436	14,681
Financial assets that are past due and specifically impaired						
Stage 2 / CD 1 to CD 3	7,640	1,624	9,264	2,375	1,012	3,387
Stage 3 / CD 4 and higher	9,592	1,266	10,858	8,207	1,249	9,456
Total credit exposure	**25,804**	**4,396**	**30,200**	**22,827**	**4,697**	**27,524**
Total impairments	**(9,094)**	**(1,084)**	**(10,178)**	**(7,098)**	**(1,202)**	**(8,300)**
Stage 1 / (Incurred but not reported (IBNR))	(527)	(61)	(588)	(563)	(96)	(659)
Stage 2 / (Portfolio specific impairment)	(2,191)	(336)	(2 527)	(1,065)	(320)	(1,385)
Stage 3 /(Specific impairment)	(6,376)	(687)	(7,063)	(5,470)	(786)	(6,256)
Deferred origination and administration fees	**(207)**	**-**	**(207)**	**(46)**	**-**	**(46)**
Net advances	**16,503**	**3,312**	**19,815**	**15,683**	**3,495**	**19,178**
Impairment as % of gross advances						
Stage 1 / CD 0	6.1%	4.1%	5.8%	4.6%	3.9%	4.5%
Stage 2 / CD 1- 3	28.7%	20.7%	27.3%	44.8%	31.6%	40.9%
Stage 3 /CD 4 and higher	66.5%	54.3%	65.0%	66.7%	62.9%	66.2%
Total impairment as a % of total gross advances	**35.2%**	**24.7%**	**33.7%**	**31.1%**	**25.6%**	**30.2%**

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Rmillion	30 September 2019 - IFRS 9			1 October 2019 - IFRS 9			30 September 2018 - IAS 39		
	Originated	Acquired	Total	Originated	Acquired	Total	Originated	Acquired	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1 / CD 0:	9,858	220	10,078	**7,572**	**1,090**	8,662	**13,566**	**1,115**	14,681
Past due and specifically impaired									
Stage 2 / CD 1 to CD 3	9,102	162	9,264	**8,922**	**495**	9,417	**2,915**	**472**	3,387
Stage 3 / CD 4 and higher	**6,417**	**4,441**	**10,858**	3,055	6,354	9,409	3,068	6,388	9,456
Total credit exposure	**25,377**	**4,823**	**30,200**	**19,549**	**7,939**	**27,488**	**19,549**	**7,975**	**27,524**
Total impairments	**(7,451)**	**(2,727)**	**(10,178)**	**(4,855)**	**(4,270)**	**(9,125)**	**(3,994)**	**(4,306)**	**(8,300)**
Stage 1 / (Incurred but not reported (IBNR))	(585)	(3)	(588)	**(478)**	**(18)**	(496)	**(635)**	**(24)**	(659)
Stage 2 / (Portfolio specific impairment)	(2,507)	(20)	(2,527)	**(2,273)**	**(137)**	(2,410)	**(1,270)**	**(115)**	(1,385)
Stage 3 /(Specific impairment)	(4,359)	(2,704)	(7,063)	**(2,104)**	**(4,115)**	(6,219)	**(2,089)**	**(4,167)**	(6,256)
Deferred origination and administration fees	**(204)**	**(3)**	**(207)**	**(69)**	**23**	**(46)**	**(69)**	**23**	**(46)**
Net advances	**17,722**	**2,093**	**19,815**	**14,625**	**3,692**	**18,317**	**15,486**	**3,692**	**19,178**
Impairment as % of gross advances									
Stage 1 / CD 0	**5.9%**	**1.36%**	**5.83%**	**6.3%**	**1.65%**	**5.73%**	**4.7%**	**2.15%**	**4.49%**
Stage 2 / CD 1- 3	**27.54%**	**12.35%**	**27.28%**	**25.48%**	**27.68%**	**25.59%**	**43.57%**	**24.36%**	**40.89%**
Stage 3 /CD 4 and higher	**67.93%**	**60.89%**	**65.05%**	**68.87%**	**64.76%**	**66.10%**	**68.09%**	**65.23%**	**66.16%**
Total impairment as a % of total gross	**29.4%**	**56.5%**	**33.7%**	**24.8%**	**53.8%**	**33.2%**	**20.4%**	**54.0%**	**30.2%**

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Reconciliation of the ECL for advances by book

Rmillion	Opening balance 1 October 2018	Total transfers between stages	Changes in ECL due to changes in total advances	Changes in impairment rate	Closing balance 30 September 2019
Originated book	**4,855**	**2,313**	**47**	**236**	**7,451**
Stage 1	478	254	(148)	1	585
Stage 2	2,273	30	118	85	2,506
Stage 3	2,104	2,029	77	150	4,360
Acquired book	**4,270**	**184**	**(1,662)**	**(65)**	**2,727**
Stage 1	18	9	(37)	13	3
Stage 2	137	(24)	(158)	65	20
Stage 3	4,115	199	(1,467)	(143)	2,704
Total	**9,125**	**2,497**	**(1,615)**	**171**	**10,178**

31.9. Credit concentration risk of advances

Credit concentration risk is the risk of loss to the Group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, region or maturity. This concentration typically exits when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

Although the Group is exposed only to unsecured loans and credit cards, the Group's credit risk portfolio is well diversified across industries and provinces and actively monitors exposure to each industry.

The following tables break down the Group's credit exposure at carrying amount as categorised by loan size for loans and credit cards and original term of repayment of the loan advanced.

Loans

Average loan value (at inception) R'000	Number of loans	% of total number of	Carrying value R million	% of total carrying value
2019				
<5	32,222	4.3%	42	0.3%
5 - 10	173,422	23.3%	558	3.4%
10 - 20	147,280	19.8%	963	5.8%
20 - 50	168,958	22.7%	2,646	16.0%
50 -100	132,651	17.8%	4,644	28.1%
100 - 200	84,666	11.4%	6,930	42.0%
200 - 250*	4,216	0.6%	720	4.4%
Total	**743,415**	**100%**	**16,503**	**100%**
2018				
<5	29,869	4.8%	37	0.2%
5 - 10	129,383	20.9%	520	3.3%
10 - 20	112,830	18.2%	907	5.8%
20 - 50	157,834	25.5%	2,899	18.5%
50 -100	118,548	19.1%	4,814	30.7%
100 - 200	69,976	11.3%	6,319	40.3%
200 - 250*	853	0.1%	187	1.2%
Total	**619,293**	**100%**	**15,683**	**100%**

*Maximum loan exposure is R250 000 (2018: R250 000) per business practice rules

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Credit risk continued...

Credit cards

Average credit card value R'000	Number of credit card accounts	% of total number of credit cards	Carrying value R million	% of total carrying value
2019				
<5	261,957	28.97%	91	2.7%
5 - 10	324,224	35.86%	404	12.2%
10 – 20	199,512	22.07%	888	26.8%
20 – 50	104,979	11.61%	1,361	41.1%
50 -100	12,936	1.43%	510	15.4%
100 - 200*	531	0.06%	58	1.8%
Total	**904,139**	**100%**	**3,312**	**100%**
2018				
<5	223,581	27.62%	135	3.9%
5 - 10	289,744	35.79%	517	14.8%
10 – 20	186,985	23.10%	1,022	29.2%
20 – 50	98,461	12.16%	1,394	39.9%
50 -100	10,629	1.31%	416	11.9%
100 - 200*	145	0.02%	11	0.3%
Total	**809,545**	**100%**	**3,495**	**100%**

**Maximum credit card exposure is R200 000 (2018:R200 000) per business practice rules*

31.10. Financial assets other than advances

Financial assets other than advances are made up of cash and cash equivalents, regulatory deposits and sovereign debt securities, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables, are placed with counterparties who have a formal local currency credit rating of no less than investment grade.

The Group maintains cash and cash equivalents and short term investments with various financial institutions and in this regard, it is the Group's policy to limit its exposure to any one financial institution. Cash deposits are placed only with banks which have an approved credit limit, which credit limits are reviewed annually by the ALCO and recommended for approval by the RCMC.

The Group uses international swaps and derivatives association ("ISDA") documentation for the purposes of netting derivatives. These master agreements and associated credit support annexes ("CSA") set out accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds. CSA's are used as a credit risk mitigation mechanism for the Group's derivative asset positions. See note 35 for further details.

Trade receivables, loans to affiliate companies and investment in joint venture are not rated and are evaluated on an entity by entity basis. The Group limits the tenure and size of the debt to ensure that it does not pose a material risk to the Group. For further information refer to note 8, note 10 and note 12 respectively.

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At reporting date the international long-term credit rating, using Moody's rating was as follows for cash and cash equivalents, regulatory deposits and sovereign debt securities as well as derivative assets:

Assets Rmillion	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2019							
Cash and cash equivalents							
Cash deposits - ZAR	4	846	622	-	622	-	-
Cash deposits - Foreign denominated	4	4,151	4,146	-	4,146	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	5	285	286	-	286	-	-
Bonds	5	530	530	-	530	-	-
Bonds - Foreign denominated	5	538	537	-	537	-	-
Deposits with SARB	5	372	372	-	372	-	-
Derivatives							
Derivative assets	11	36	36	-	36	-	-
Total		**6,758**	**6,529**	**-**	**6,529**	**-**	**-**
2018							
Cash and cash equivalents							
Cash deposits - ZAR	4	1,594	738	-	1,594	-	-
Cash deposits - Foreign denominated	4	5,627	3,338	-	5,627	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	5	244	244	-	244	-	-
Bonds	5	510	510	-	510	-	-
Bonds - Foreign denominated	5	1,021	1,021	-	1,021	-	-
Deposits with SARB	5	355	355	-	355	-	-
Derivatives							
Derivative assets	11	47	47	-	47	-	-
Total		**9,398**	**6,253**	**-**	**9,398**	**-**	**-**

32. Market risk

Market risk is the risk that changes in the market prices, such as interest rates and foreign exchange rates will affect the fair value and future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group has a low market risk appetite. Foreign exchange risk appetite is zero, but with the current position, the Group has a small unmatched exposure over the term of the foreign denominated debt and therefore the risk appetite is limited. Foreign exchange risk is actively managed.

32.1. Interest rate risk management

Interest rate risk for the purposes of IFRS is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has interest rate risk arising from certain of its financial assets and liabilities. Assets giving rise to interest rate risk include cash and cash equivalents, regulatory deposits and sovereign debt securities, as well as credit card advances which earn interest at a variable rate, however the Group's most significant financial asset is its fixed rate advances portfolio. Liabilities giving rise to interest rate risk include both short and long term variable rate funding.

For the purposes of IFRS 7, the Group is not exposed to interest rate risk on the fixed rate advances portfolio or on the fixed rate short and long term funding, since neither the carrying amount nor the future cash flows will fluctuate as a result of changes in market interest rates.

It is not always feasible to raise fixed rate funding and therefore the Group has a mix of fixed and variable rate funding instruments. Variable rate assets, as well as short and long term funding instruments expose the Group to interest rate risk as defined within IFRS. The Group also makes use of derivative instruments, primarily floating to fixed interest rate swaps, in order to reduce cash flow risk arising from changes in interest rates.

The Group considers its overall balance sheet portfolio in managing its net interest rate risk exposure.

The ALCO view interest rate risk measurement and management in the banking book to comprise the following:

- Re-pricing risk (mismatch risk), being the timing difference in the maturity (for fixed) and re- pricing (for floating rate) of the Group's assets and liabilities; and
- Yield curve risk, which includes the changes in the shape and slope of the yield curve.

The ALCO is mandated to monitor and manage these risks in adherence to the Group's risk appetite and meets on a monthly basis to analyse the impact of interest rate risk on the Group and reports directly to the RCMC on a quarterly basis. The technique used to measure and control interest rate risk by the ALCO includes re-pricing profiles, sensitivity and stress testing.

32.1.1 Re-pricing profile

The table below summarises the re-pricing exposure to interest rate risk through grouping assets and liabilities into re-pricing categories, determined to be the earlier of the contractual re-pricing or maturity date, using the carrying amount of such assets and liabilities at reporting date.

In the context of re-pricing profiles, instruments are allocated to time periods with reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. Instruments which have no explicit contractual re-pricing or maturity dates are placed in time buckets based on the most likely re-pricing behaviour.

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Re- pricing profile 2019

Rmillion	Demand and to1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2019								
Assets								
Cash and cash equivalents	5,032	-	-	-	-	6	-	5,038
Regulatory deposits and sovereign debt securities	528	50	772	-	-	375	-	1,725
Derivative assets	-	-	-	-	-	36	-	36
Net advances	3,627	702	2,791	3,247	9,169	279	-	19,815
Accounts receivable and other assets	-	-	-	-	-	231	-	231
Current tax	-	-	-	-	-	-	-	-
Loans to affiliated companies	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	547	547
Intangible assets	-	-	-	-	-	-	81	81
Deferred tax asset	-	-	-	-	-	-	870	870
Total assets	**9,187**	**752**	**3,563**	**3,247**	**9,169**	**927**	**1,498**	**28,343**
Liabilities and equity								
Short-term funding	1,380	2,468	2,963	-	-	148	-	6,959
Derivative liabilities	-	-	-	-	-	-	-	-
Creditors and accruals	15	-	-	-	-	722	-	737
Bonds and other long-term funding	2,942	1,299	86	4,311	1,939	160	-	10,737
Subordinated bonds	1,482	-	-	-	-	51	-	1,533
Ordinary shareholder's equity	-	-	-	-	-	-	8,377	8,377
Total liabilities and equity	**5,819**	**3,767**	**3,049**	**4,311**	**1,939**	**1,081**	**8,377**	**28,343**
On balance sheet interest	**3,368**	**(3,015)**	**514**	**(1,064)**	**7,230**	**-**	**-**	**-**

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Market risk continued...

Re- pricing profile 2018

Rmillion	Demand and to1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2018								
Assets								
Cash and cash equivalents	3,926	3,184	-	-	-	111	-	7,221
Regulatory deposits and sovereign debt securities	497	-	1,242	-	-	391	-	2,130
Derivative assets	-	-	47	-	-	-	-	47
Net advances	3,877	691	2,781	3,124	8,336	369	-	19,178
Accounts receivable and other assets	-	-	-	-	-	104	108	212
Investments	-	-	-	-	-	15	-	15
Loans to affiliated companies	-	-	-	50	-	1	-	51
Property and equipment	-	-	-	-	-	-	597	597
Intangible assets	-	-	-	-	-	-	72	72
Deferred tax asset	-	-	-	-	-	-	756	756
Total assets	**8,300**	**3,875**	**4,070**	**3,174**	**8,336**	**991**	**1,533**	**30,279**
Liabilities and equity								
Short-term funding	1,029	3,509	1,200	-	-	278	-	6,016
Derivative liabilities	-	-	-	-	-		-	-
Creditors and accruals	16	-	-	-	-	632	-	648
Current tax	-	-	-	-	-	24	-	24
Bonds and other long-term funding	3 793	3,175	49	2,464	3,517	281	-	13,279
Subordinated bonds	1,479	-	-	-	-	51	-	1,530
Ordinary shareholder's equity	-	-	-	-	-	-	8,782	8,782
Total liabilities and equity	**6,317**	**6,684**	**1,249**	**2,464**	**3,517**	**1,266**	**8,782**	**30,279**
On balance sheet interest	**1,983**	**(2 809)**	**2 821**	**710**	**4,819**	**-**	**-**	**-**

32.1.2. Interest rate sensitivity analyses

An interest rate sensitivity analysis for the Group setting out the potential effect of changes in the market interest rate on earnings for floating rate instruments is presented in the table below.

Sensitivity and stress testing consist of a combination of stress scenarios and historical stress movements.

The sensitivity analyses have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at statement of financial position date was outstanding for the whole year. A 200 basis point movement for ZAR exposures and a 50 basis point movement for CHF and USD exposures are used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Group's portfolio, an increase in interest rates as described above would result in a corresponding net increase of R6 million (2018: decrease of R28 million) in net income (before tax).

Rmillion	Carrying value at end of year	Amount exposed to market risk	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax)
2019				
Financial assets				
Credit card advances	3,312	4,397	REPO	128
Cash and cash equivalents	5,038	5,038	JIBAR	38
Regulatory deposits and sovereign debt securities	1,725	528	CPI	11
Derivatives	36	-	CPI/JIBAR	-
Total assets	**10,111**	**9,963**		**177**
Financial liabilities				
Derivatives	-	-	JIBAR	-
Subordinated bonds	1,533	1,482	JIBAR	(29)
Bonds and other long term funding	10,737	4,304	CPI/JIBAR	(87)
Short-term funding	6,959	3,488	JIBAR	(55)
Total liabilities	**19,229**	**9,274**		**(171)**
Net effect on the statement of total comprehensive income				**6**
2018				
Financial assets				
Credit card advances	3,495	4 696	REPO	137
Cash and cash equivalents	7,221	3 717	JIBAR	31
Regulatory deposits and sovereign debt securities	2,130	497	CPI	8
Derivatives	47	47	CPI/JIBAR	1
Total assets	**12 893**	**8 957**		**177**
Financial liabilities				
Subordinated bonds	1,530	1 479	JIBAR	(29)
Bonds and other long term funding	13,279	7 039	CPI/JIBAR	(138)
Short-term funding	6,016	2 317	JIBAR	(38)
Total liabilities	**20 825**	**10 835**		**(205)**
Net effect on the statement of total comprehensive income				**(28)**

Market risk continued...

32.2. Foreign exchange risk management

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Foreign exchange risk in the Group arises as a result of holding foreign currency denominated borrowings and foreign currency in cash and other assets, the profile of which does not necessarily match the liability profile which these assets are hedging.
The Group's primary risk objective is to protect the net earnings against the impact of adverse exchange rate movements. ALCO is mandated to manage this risk by application of appropriate foreign currency derivatives or other appropriate strategy to ensure adherence to the Group's risk appetite.

32.2.1. Financial instruments denominated in foreign currency.

Details of financial instruments denominated in foreign currency are presented below:

Rmillion	Foreign currency USD/CHF 2019	ZAR carrying amount 2019	Foreign currency USD/CHF 2018	ZAR carrying amount 2018
Financial liabilities				
Foreign denominated bonds (USD)	(250)	(3,789)	(276)	(3 912)
Foreign denominated bonds (CHF)	(114)	(1,737)	(158)	(2 289)
Total liabilities		**(5,526)**		**(6 201)**
Financial assets				
Short-term deposits and cash (USD)	151	2,295	13	191
Short-term deposits and cash (CHF)	122	1,856	171	2 480
Interbank deposits (USD)	-	-	209	2 957
Government bonds (USD)	35	537	72	1 021
Foreign currency swaps (USD)	70	1,062	-	-
Foreign currency swaps (CHF)	-	-	-	-
Effect of foreign currency hedges		**5,750**		**6 649**
Net open position - USD	**6**	**105**	**18**	**257**
Net open position - CHF	**8**	**119**	**13**	**191**

Currently the Group uses foreign currency denominated bonds and foreign currency cash to manage and economically hedge its foreign exchange risk. The Group's strategy going forward is to eliminate this mismatch through a variety of strategies including amongst others, entering into derivative transactions to which hedge accounting may be applied. In addition, the Group holds CHF and USD in cash, fixed deposits and government bonds to offset a certain portion of the foreign exchange risk exposure. This is actively managed.

Market risk continued...

32.2.2. Sensitivity analysis based on 10% increase in exchange rates

A 10% sensitivity adjustment is applied and the analysis is prepared assuming the amount at the statement of financial position date was outstanding for the whole year.

Given the linear structure of the Group's portfolio, a 10% increase in exchange rates, and its related impact on the forward discount curve, would result in a net increase of R21 million (2018: net increase of R45 million) in net income (before tax).

Sensitivity analysis

Rmillion	Carrying value at end of year	Amount exposed to market risk	Currency	Profit or loss impact (pre-tax)
2019				
Financial assets				
Short-term deposits and cash (USD)	2,295	2,295	USD	230
Short-term deposits and cash (CHF)	1,856	1,856	CHF	186
Government bonds (USD)	537	537	USD	54
Cross-currency swaps (USD)	1,062	1,062	USD	106
Total	**5,750**	**5,750**		**575**
Financial liabilities				
Foreign denominated bonds (USD)	(3,789)	(3,789)	USD	(379)
Foreign denominated bonds (CHF)	(1,737)	(1,738)	CHF	(174)
Total	**(5,526)**	**(5,527)**		**(553)**
Net effect on the statement of total comprehensive income				**22**
2018				
Financial assets				
Short-term deposits and cash (USD)	191	191	USD	19
Short-term deposits and cash (CHF)	2,480	2,480	CHF	248
Interbank deposits (USD)	2,957	2,957	USD	296
Government bonds (USD)	1,021	1,021	USD	102
Total	**6 649**	**6 649**		**665**
Financial liabilities				
Foreign denominated bonds (USD)	(3 912)	(3 912)	USD	(391)
Foreign denominated bonds (CHF)	(2 289)	(2 289)	CHF	(229)
Total	**(6 201)**	**(6 201)**		**(620)**
Net effect on the statement of total comprehensive income				**45**

The spot exchange rates used to convert the carrying value (outstanding capital, capitalised interest and unamortised discount) of the foreign currency liabilities were R15.17/USD (2018: R14.15/USD) and R15.21/CHF (2018: R14.51/CHF).

32.3. Other price risk management

The Group has a low market risk appetite. For this reason, the Group does not typically trade in any marketable securities or hold any sovereign debt marketable securities (see note 5) until maturity and is therefore not exposed to price risk associated with these marketable securities.

33. Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its payment obligations as they fall due. These payment obligations could result from depositor withdrawals, lower than expected receipts from customers, higher than expected pay-out to customers, higher than expected operational, tax or dividend flows, or the inability to roll over maturing debt. Another form of liquidity risk is that in a stressed liquidity event, the Group would be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations.

ALCO is specifically mandated by RCMC to ensure appropriate liquid asset and cash reserves in relation to short term funding and stress events are available. ALCO monitors and controls adherence to the risk appetite and regulatory requirements, using internal liquidity risk appetite metrics and the Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") as monitoring indicators.

The following tables analyse the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The total ties back to the statement of financial position.

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Group. It is unusual for the Group ever to be completely matched since the business transactions are often of uncertain term and of different types.

An unmatched position potentially enhances profitability, but can also increase the risk of loss. The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

In order to address the refinancing requirements in the subsequent periods, management has proactively engaged shareholders of African Bank Holdings Limited to establish a shareholder backed liquidity support arrangement. Significant progress has been made towards finalising such an arrangement, which is expected to provide material liquidity support over the next few years. The arrangement is expected to provide liquidity support while the Group continues to develop and roll out the diversified business model.

To ensure that the Group is able to meet its obligations and to pay its debts as they become due, the Group further more implemented a number of initiatives, which includes the establishment of a significant retail funding portfolio, listing an Euro Medium Term Note ("EMTN") program.

33.1. Maturities profile of discounted assets and liabilities

Rmillion	Demand and to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2019							
Assets							
Cash and cash equivalents	5,038	-	-	-	-	-	5,038
Regulatory deposits and sovereign debt securities	372	50	776	-	527	-	1,725
Derivative assets	-	36	-	-	-	-	36
Net advances	1,094	1,246	5,223	3,257	8,995	-	19,815
Accounts receivable and other assets	231	-	-	-	-	-	231
Loans to affiliated companies	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	547	547
Intangible assets	-	-	-	-	-	81	81
Deferred tax asset	-	-	-	-	-	870	870
Total assets	**6,735**	**1,332**	**5,999**	**3,257**	**9,522**	**1,498**	**28,343**
Liabilities and equity							
Short-term funding	464	1,457	5,038	-	-	-	6,959
Derivative liabilities	-	-	-	-	-	-	-
Creditors and accruals	319	211	-	33	102	72	737
Bonds and other long-term funding	139	23	109	4,478	5,988	-	10,737
Subordinated bonds	52	-	-	-	1,481	-	1,533
Ordinary shareholder's equity	-	-	-	-	-	8,377	8,377
Total liabilities and equity	**974**	**1,691**	**5,147**	**4,511**	**7,571**	**8,449**	**28,343**
Net liquidity gap	**5,761**	**(359)**	**852**	**(1,254)**	**1,951**	**-**	**-**

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Liquidity risk continued...

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12	Greater than 12 months up to 24	Greater than 24 months	Non-financial assets / liabilities	Total
2018							
Assets							
Cash and cash equivalents	3,933	3,288	-	-	-	-	7,221
Regulatory deposits and sovereign debt securities	355	23	1,255	-	497	-	2,130
Derivative assets	-		47			-	47
Net advances	1,037	1,272	5,383	3,152	8 334	-	19,178
Accounts receivable and other assets	212	-	-		-	-	212
Loans to affiliated companies	-	-	-	51	-	-	51
Investments in insurance assets	-	-	-	-	15	-	15
Property and equipment	-	-	-	-	-	597	597
Intangible assets	-	-	-	-	-	72	72
Deferred tax asset	-	-				756	756
Total assets	**5,537**	**4,583**	**6,685**	**3,203**	**8,846**	**1,425**	**30,279**
Liabilities and equity							
Short-term funding	849	2,828	2,339	-	-	-	6,016
Creditors and accruals	394	254	-	-	-	-	648
Current tax	-	-	24	-	-	-	24
Bonds and other long-term funding	75	38	90	5,496	7,580	-	13,279
Subordinated bonds	51	-	-	-	1,479	-	1,530
Ordinary shareholder's equity	-	-	-	-	-	8,782	8,782
Total liabilities and equity	**1,369**	**3,120**	**2,453**	**5,496**	**9,059**	**8,782**	**30,279**
Net liquidity gap	**4,168**	**1,463**	**4,232**	**(2 293)**	**(213)**	**-**	**-**

Irrevocable retail loan commitments totalling R683 million (2018: R715 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts.

Liquidity risk continued...

33.2. Maturity profile of undiscounted liabilities

The following table represents the Group's undiscounted cash flows of liabilities per remaining maturity and includes all cash flows related to the principal amounts as well as future payments. The analysis is based on the earliest date on which the Group can be required to pay and is not necessarily the date at which the Group is expected to pay.

The analysis of cash flows will not necessarily agree with the balances on the statement of financial position and therefore an analysis of carrying values has been provided.

Liabilities maturities (undiscounted)

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2019								
Financial liabilities								
Short-term funding	6,959	492	4,648	2,176	-	-	-	7,316
Creditors and accruals	737	319	211	-	33	174	-	737
Derivative instruments	-	-	-	-	-	-	-	-
Promissory notes and NCD's	805	1	43	44	133	693	248	1,162
Fixed deposits and other long term funding	3,287	24	88	97	2,055	1,771	25	4,060
Bonds listed	6,645	113	54	222	2,892	4,551	-	7,832
Subordinated bonds	1,533	53	53	101	1,654	-	-	1,861
Total	**19,966**	**1,002**	**5,097**	**2,640**	**6,767**	**7,189**	**273**	**22,968**

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Liquidity risk continued...

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2018								
Financial liabilities								
Short-term funding	6 016	693	4 139	1 294	-	-	-	6 126
Creditors and accruals	648	394	254	-	-	-	-	648
Promissory notes and NCD's	1 359	9	67	159	708	749	282	1 974
Fixed deposits and other long term funding	1 015	27	12	15	231	989	-	1 274
Bonds listed	10 905	107	193	382	5 338	6 348	887	13 255
Subordinated bonds	1 530	53	54	108	220	167	1 547	2 149
Total	**20 825**	**889**	**4 465**	**1 958**	**6 497**	**8 253**	**2 716**	**24 778**

34. Assets and liabilities measured at fair value or for which fair values are disclosed

34.1. Valuation models

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs.

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The Group measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other factors used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations.

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

Recurring fair values

The Group currently measure and present derivative assets and derivative liabilities at fair value, whilst all other financial instruments are measured and presented at amortised cost. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Fair value for disclosure

In determining the fair value for disclosure purposes of instruments measured and presented at amortised cost, the Group uses its own valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain funding loans for which there is no active market.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of appropriate discount rate. Fair value estimates obtained from models include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

General

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Level 3 fair value disclosure – Advances

The fair value of the advances book has been derived using a discounted cash flow technique. The Group has modelled the expected future cash flows by extrapolating the most recent observed cash flows on the advances book.

Amortised cost and fair value are both based upon present value of future cash flow techniques, however the following significant differences exist between the amortised cost (impairment) and fair value methodologies:

- Fair value includes all expected cash flows, whereas impairments under IFRS 9 only consider ECL for the subsequent 12 month period for advances classified as stage 1;
- Fair value includes all expected cash flows, whereas impairments under IAS 39 are limited to incurred loss events;
- The impairment cash flows are not reduced by the net insurance premiums the Group expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection;
- The discount rate used for purposes of estimating the fair value of advances is based on current circumstance, whereas the discount rate used for impairments is based on the original effective interest rate, which is also adjusted for credit risk in the case of the Acquired Book, being classified as credit impaired at acquisition .

Amortised cost requires the future cash flows to be discounted at the advance's effective interest rate whereas the fair value methodology discounts the expected cash flows at a required rate of return.

34.2. Valuation framework

The Group has an established control framework with respect to the measurement of fair values. This framework includes formalised policies and the approval and review process.

When third party information is used to measure fair value, the following procedures are performed in order to ensure that valuations meet the requirements of IFRS:

- verifying that the third party is approved for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

34.3. Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

Rmillion	Level 1	Level 2	Level 3	Total
2019				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	**36**	-	36
Total	**-**	**36**	**-**	**36**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	-	-	-
Total	**-**	**-**	**-**	**-**

Assets and liabilities measured at fair value or for which fair values are disclosed continued...

2018				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	47	-	47
Total	**-**	**47**	**-**	**47**

34.4. Valuation techniques, significant observable inputs and sensitivity of level 2 financial instruments measured at fair

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value at which the derivative instruments are measured, which fair value is derived from observable inputs (level 2):

Rmillion	Valuation basis / techniques	Main assumptions	Variance in fair value measurement	Effect on profit / (loss) (after tax)
2019				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	106
2018				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-

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Assets and liabilities measured at fair value or for which fair values are disclosed continued...

34.5. Assets and liabilities for which fair value is

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
2019					
Financial assets					
Government bonds	516	542	-	1,058	1,067
Treasury bills and debentures	-	299	-	299	285
Deposits with South African Reserve Bank	-	372	-	372	372
Net advances	-	-	19,815	19,815	19,815
Total	**516**	**1,213**	**19,815**	**21,544**	**21,539**
Financial liabilities					
Short term funding	-	6,105	-	6,105	6,959
Unsecured bonds (listed on JSE) *	-	3,537	-	3,537	3,588
Unsecured bonds (listed on foreign stock exchange) *	-	3,059	-	3,059	3,057
Unsecured long- term loans	-	2,594	-	2,594	2,525
Subordinated bonds*	-	1,537	-	1,537	1,533
Total	**-**	**16,832**	**-**	**16,832**	**17,662**
2018					
Financial assets					
Government bonds	-	1,510	-	1,510	1,531
Treasury bills and debentures	-	244	-	244	244
Deposits with South African Reserve Bank	-	355	-	355	355
Net advances	-	-	19,097	19,097	19,178
Loans to affiliated companies	-	-	51	51	51
Investments	-	-	15	15	15
Total	**-**	**2,109**	**19,163**	**21,272**	**21,374**
Financial liabilities					
Short term funding	-	5,870	-	5,870	6,016
Unsecured bonds (listed on JSE) *	-	5,604	-	5,604	5,697
Unsecured bonds (listed on foreign stock exchange) *	-	5,170	-	5,170	5,208
Unsecured long- term loans	-	2,480	-	2,480	2,374
Unlisted bonds	-	-	-	-	-
Subordinated bonds*	-	1,535	-	1,535	1,530
Total	**-**	**20,659**	**-**	**20,659**	**20,825**

The fair values of the following items are not disclosed as these assets and liabilities closely approximate their carrying amount due to their short term or on demand repayment terms:

- Cash and cash equivalents;
- Accounts receivables and other assets; and
- Creditors and accruals

*The fair value of listed bonds reflects the current listed price at year end, but is categorised level 2 due to the lack of market liquidity for the listed bonds.

35. Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

Certain master netting arrangements entered into by The Group may not meet the criteria for offsetting in the statement of financial position because:

- These agreements create a right of set off enforceable only following an event of default, insolvency or bankruptcy; and
- The Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Accordingly, the following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they have been off set in accordance with IFRS. It should be noted that the information below is not intended to represent The Group's actual credit exposure, nor will it agree to that presented in the statement of financial position.

Rmillion	Gross amount of recognised financial assets[1]	Gross amounts of recognised financial liabilities offset in the statement of financial position[2]	Net amount of financial assets presented in the statement of financial position	Amounts not offset in the statement of financial position but subject to master netting arrangements[3]	Gross amount of collateral subject to netting arrangements[4]	Net amount
2019						
Assets						
Derivative financial instruments	36	-	36	-	62	98
Liabilities						
Derivative financial instruments	-	-	-	-	-	-
2018						
Assets						
Derivative financial instruments	47	-	47	-	(50)	(3)
Liabilities						
Derivative financial instruments	-	-	-	-	-	-

[1] Gross amounts are disclosed for recognised assets and liabilities that are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.

[2] The amounts that qualify for offset in accordance with the criteria per IFRS.

[3] The amounts that do not qualify for offset in accordance with the criteria per IFRS.

[4] Cash collateral not offset in the statement of financial position subject to a master netting arrangement or similar agreement.

The amounts which are subject to netting arrangements generally arise in terms of ISDA Master Agreements and Credit Support Annexures between African Bank and various counterparties.

36. Capital management

Capital adequacy risk is the risk that the Group will not have sufficient capital reserves to meet materially adverse market conditions beyond that which has already been assumed within the impairment provisions and reserves.

External regulatory capital management

Regulatory capital adequacy is measured by expressing available qualifying capital as a percentage of risk-weighted assets. The Banks Act and supporting regulations, read together with specific requirements for the Group, specify the minimum capital required to be held in relation to risk weighted assets. Ancillary regulatory requirements include the Basel III leverage ratio which is included in the scope of regulatory capital adequacy.

Available qualifying capital includes ordinary share capital, equity reserves, qualifying debt instrument less mandatory deductions. The Group's strategic focus is to maintain an optimal mix of available financial resources, while continuing to generate sufficient capital to support the growth of the Group's operations within the parameters of the risk appetite set by the RCMC.

Refer to the table in unaudited Annexure B for the Group's capital adequacy requirements and position as at 30 September 2019.

Internal capital management

Internal capital adequacy is defined as the Group's internal measurement of risk and related available financial resources. Available financial resources include ordinary share capital, equity reserves, qualifying additional tier 1 debt instrument less any deduction for the shortfall between provisions and expected loss.

The Group's strategic focus is to maintain an optimal mix of available financial resources for regulatory and internal capital adequacy, while continuing to generate sufficient capital to support the growth of the Group's operations within the parameters of the risk appetite set by the RCMC.

ALCO is mandated to monitor and manage capital, which includes:

- meeting minimum Basel III regulatory requirements and any additional capital requirements as specified by the South African Reserve Bank ("SARB");
- ensure adequate capital buffers above the aforementioned criteria to ensure sustainability in both a systemic and idiosyncratic stress event as set out by the Group's risk appetite;
- test the Group's strategy against risk appetite and required capital levels; and
- to ensure compliance with other prudential regulatory requirements in respect of non-banking entities within the Group, most notably the capital requirements of these non-banking entities.

RCMC is mandated to review and sign off the Group's annual Internal Capital Adequacy Assessment Process ("ICAAP"), prior to submission to the Board and the SARB.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

37. Analysis of classification of financial assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies describe how the class of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
2019							
Net advances	2	19,815	-	-	19,815	7,563	12,252
Cash and cash equivalents	4	5,038	-	-	5,038	5,038	-
Regulatory deposits and sovereign debt securities	5	1,725	-	-	1,725	1,198	527
Current tax	6	-	-	-	-	-	-
Deferred tax asset	6	-	-	870	870	-	870
Property and equipment	7	-	-	547	547	-	547
Accounts receivable and other assets	8	141	-	90	231	231	-
Intangible assets	9	-	-	81	81	-	81
Loans to affiliated companies	10	-	-	-	-	-	-
Derivatives	11	-	36	-	36	36	-
Investments	12	-	-	-	-	-	-
Total assets		**26,719**	**36**	**1,588**	**28,343**	**14,066**	**14,277**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Analysis of classification of financial assets and liabilities continued...

Rmillion	Notes	Loans and receivables	Held-to-maturity financial instruments	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
2018								
Cash and cash equivalents	4	7,221	-	-	-	7,221	7,221	-
Regulatory deposits and sovereign debt securities	5	355	1,775	-	-	2,130	1,633	497
Net advances	2	19,178	-	-	-	19,178	7,692	11,486
Deferred tax asset	6	-	-	-	756	756	-	756
Property and equipment	7	-	-	-	597	597	-	597
Accounts receivable and other assets	8	104	-	-	108	212	212	-
Intangible assets	9	-	-	-	72	72	-	72
Loans to affiliated companies	10	51	-	-	-	51	-	51
Derivatives	11	-	-	47	-	47	47	-
Investments	12	-	15	-	-	15	-	15
Total assets		**26 909**	**1,790**	**47**	**1,533**	**30,279**	**16,805**	**13,474**

Rmillion	2019	2018
Statement of total comprehensive income effect of financial instruments by category		
Interest income recognised -Amortised cost/ loans and receivables	**5,922**	7,549
Interest income recognised - Amortised cost / held-to-maturity instruments	**-**	98
Total	**5,922**	7,647
Included above is interest income earned on impaired assets (advances)	**593**	115

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Analysis of classification of financial assets and liabilities continued...

Rmillion	Notes	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
2019							
Short-term funding	14	6,959	-	-	6,959	6,959	-
Creditors and accruals	16	659	-	78	737	602	135
Current tax liability	6	-	-	-	-	-	-
Bonds and other long-term funding	13	10,737	-	-	10,737	271	10,466
Subordinated bonds	15	1,533	-	-	1,533	52	1,481
Total liabilities		**19,888**	**-**	**78**	**19,966**	**7,884**	**12,082**
2018							
Short-term funding	14	6,016	-	-	6,016	6,016	-
Creditors and accruals	16	580	-	68	648	648	-
Current tax liability	6	-	-	24	24	24	-
Bonds and other long-term funding	13	13,279	-	-	13,279	206	13,073
Subordinated bonds	15	1,530	-	-	1,530	51	1,479
Total liabilities		**21,405**	**-**	**92**	**21,497**	**6,945**	**14,552**

Rmillion	2019	2018
Statement of total comprehensive income effect of financial instruments by category		
Interest expense recognised for financial liabilities at amortised cost	**1,707**	**1,793**
Interest expense recognised for financial liabilities at fair value	**29**	**136**
Total	**1,736**	**1,929**

38. Retirement and post-retirement benefits

The Group contributes to a provident fund which is governed by the Pension Funds Act, 1956, and is a defined contribution plan. This fund is managed by employer and employee-elected trustees. Separate administrators are contracted to run the fund on a day-to-day basis. An independent consultant has also been appointed to the fund to provide professional advice to the trustees. The scheme is funded by Group contributions, which are charged to the statement of profit or loss as they are incurred.

The defined contribution scheme is exempt from regular actuarial valuations as no actuarial shortfall is anticipated. It is compulsory for all permanent staff to belong to the Group provident fund. The contributions made during the year amounted to R120 million (2018: R102 million).

39. Long- term incentive scheme

In the 2017 financial period the Group introduced a new long-term incentive scheme to its employees.

The long-term incentive scheme is subject to individual and Group performance conditions at pay-out. Awards are settled in three amounts over a period of 36 months in total, but in 12-month period allocations (12, 24 and 36 months) from the effective date of the award.

Values are based on the consolidated profit before tax of the Groups' holding company for the financial period immediately preceding the due date of each payable amount. Should the consolidated profit before tax decrease in the financial period immediately preceding the date on which the amount is due, the payment will be reduced by 2% of every 1% decrease in the PBT. Employees are given a choice to roll their annual incentive amount over to the following year.

Rmillion	2019	2018
Opening balance	95	70
Long-term incentive liability recognised during the current financial period	29	65
Long-term incentive liability settled during the current financial period	(6)	(40)
Closing balance	**118**	**95**

40. Related party information

As at 30 September 2019, the Group's holding company held R1,355 million (2018: Nil) as a long term deposit and R379 million (2018: R941 million) as a short term deposit with the Group. Interest expense on these deposits totalled R63 million for the financial period ended 30 September 2019 (2018: R14 million).

As at 30 September 2019, short term deposits held by the Group's fellow subsidiary African Insurance Group Limited amounted to R10 million (2018: Nil). For the financial period ended 30 September 2019 the Group paid interest of R20 million (2018: Nil) to African Insurance Group Limited.

Members of the Group's Executive committee are considered to be key management personnel of the Group.

Detailed remuneration disclosures for the directors as well as key management personnel are provided in the notes 39 and 42 of these financial statements.

There were no material transactions with directors other than emoluments as disclosed in note 23 and 42.

41. Events after the reporting date

There were no other matters or circumstances arising since the end of the financial period, not otherwise dealt with in the Group annual financial statements, which significantly affects the financial position at 30 September 2019 or the results of its operations or cash flows for the year then ended.

42. Directors' and prescribed officers' remuneration

42.1. Basic remuneration, benefits and incentives paid to executive directors

All amounts in R	Date	Date resigned	2019					2018				
			Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total
B Maluleke	03/07/2017	-	4,410,000	502,000	4,912,000	2,166,667	7,078,667	3,219,333	759,333	3,978,666	497,163	4,475,829
G Raubenheimer	03/07/2015	-	4,005,000	502,000	4,507,000	2,531,258	7,038,258	3,649,473	452,559	4,102,032	3,170,147	7,272,179
B Riley	24/06/2015	31/03/2018	-	-	-	-	-	2,500,002	14,460	2,514,462	3,978,933	6,493,395
Total			**8,415,000**	**1,004,000**	**9,419,000**	**4,697,925**	**14,116,925**	**9,368,808**	**1,226,352**	**10,595,160**	**7,646,243**	**18,241,403**

42.2. Basic remuneration, benefits and incentives paid to prescribed officers

All amounts in R	Date	Date resigned	2019					2018				
			Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total
P Futter	01/09/2018	-	3,402,000	390,000	3,792,000	-	3,792,000	283,500	32,500	316,000	-	316,000
V Millican	04/04/2016	-	2,990,272	414,137	3,404,409	2,000,076	5,404,485	2,781,648	389,582	3,171,230	2,532,203	5,703,433
L Miyambu	04/04/2016	-	3,213,443	357,049	3,570,492	4,069,538	7,640,030	3,017,315	344,128	3,361,443	2,323,944	5,685,387
G Roussos	04/04/2016	-	3,707,824	423,980	4,131,804	2,263,764	6,395,568	3,690,094	409,336	4,099,430	3,115,878	7,215,308
K Setshogoe	01/11/2018	-	3,300,000	383,167	3,683,167	1,000,000	4,683,167	-	-	-	-	-
P Swanepoel	04/04/2016	-	3,096,699	431,777	3,528,476	2,034,031	5,562,507	2,907,696	396,504	3,304,200	2,736,523	6,040,723
H Venter	04/04/2016	30/04/2018						1,504,362	272,476	1,776,838	2,201,865	3,978,703
Total			**19,710,238**	**2,400,110**	**22,110,348**	**11,367,409**	**33,477,757**	**14,184,615**	**1,844,526**	**16,029,141**	**12,910,413**	**28,939,554**

Directors' and prescribed officers' remuneration continued...

42.3. Non-executive directors' remuneration

	Date appointed	Date resigned	2019			2018		
All amounts in R			Paid by the Bank	Paid by other entities within The Group	Total	Paid by the Bank	Paid by other entities within The Group	Total
T Dloti (Chairman)	07/03/2019	-	625,741	156,435	782,176	-	-	-
LL von Zeuner (Chairman)	24/06/2015	31/07/2018	-	-	-	858,613	245,850	1,104,463
M Harris	29/08/2018	-	398,289	99,572	497,861	-	-	-
SL Mc Cloghrie	28/07/2015	-	487,925	140,279	628,204	647,444	185,455	832,899
SK Mhlarhi	06/07/2016	-	458,960	131,951	590,911	417,141	119,539	536,680
H Ralinala	23/05/2018	-	691,389	172,847	864,236	142,207	35,552	177,759
B Riley *	25/05/2018	-	1,570,192	100,881	1,671,073	86,207	21,552	107,759
IS Sehoole	28/07/2015	16/10/2017	-	-	-	51,283	17,989	69,272
L Stephens	02/07/2015	-	719,065	234,331	953,396	760,758	253,642	1,014,400
PJ Temple	29/04/2016	-	630,343	181,586	811,929	431,341	139,835	571,176
FJC Truter	07/08/2015	-	625,087	179,712	804,799	636,425	182,253	818,678
Total			**6,206,991**	**1,397,594**	**7,604,585**	**4,031,419**	**1,201,667**	**5,233,086**

The non-executive directors are paid fees based on a fixed retainer for their responsibilities and duties as board members as well as additional fees for participation in the various sub-committees of the Board. They do not participate in any of the Group's incentive schemes and neither do they receive any other benefits from the Group.

** An amount of R 1 166 667 million was paid to B Riley pertaining to the period during which he served as CEO of the Group.*

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

1. New and revised IFRSs with an effect on the annual financial statements

Other than the Effective standards, interpretations and amendments to published standards applied for the first time during the current financial period as described in note 1.18 there are no amendments to Standards and Interpretations that have a material impact on the Group for the year ended 30 September 2019.

2. New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but with a future effective date.

IFRS reference	Title and	Impact assessment	Effective date
IFRS 16	*IFRS 16 - Leases* IFRS 16 replaces the existing leases standard and the related interpretations. It introduces a single lessee accounting model. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.	The Group will recognise a lease liability in relation to all leases which had previously been classified as 'operating leases' under the IAS 17 Leases standard principles. The liability will be measured as the present value of the future remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 October 2019. The corresponding right-of-use asset will be measured at the amount equal to the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the balance sheet as at 30 September 2019. On 1 October 2019, the Group will recognise a lease liability estimated at R270 million, right-of-use asset of approximately R281 million and a negligible increase in reserves. The Group will apply IFRS 16 using the modified retrospective approach and therefore the comparative information for the financial year ending 30 September 2020 will not be restated and will be in accordance with IAS 17.	This standard is effective for the Group from 1 October 2019.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

IFRS reference	Title and	Impact assessment	Effective date
IFRS 17	*IFRS 17-Insurance contract* IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.	The Group currently does not hold any insurance contracts that would be subject to IFRS 17. The Group will continue to assess the impact of IFRS 17 going forward.	This standard is effective for the Group from 1 October 2021, subject to due process.
IAS 1 and IAS 8 (amendments)	*IAS 1 and IAS 8 (Amendments) definition of material.* The amendments clarify the definition and application of material and how it should be applied by including in the definition guidance that had previously featured elsewhere in the IFRS Standards. The amendments ensure that the definition of material is consistent across all IFRS Standards.	The amendment is not expected to have a significant impact on the annual financial statements of the Group.	The amendments are effective 1 January 2020.
IFRS 9 (amendment)	*IFRS 9-Financial Instruments (amendment)* The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (such that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income.	The amendment is not expected to have a material impact on the annual financial statements of the Group.	The amendments are effective 1 January 2019.

ANNEXURE B: CAPITAL ADEQUACY

Capital adequacy requirements:

Rmillion Unaudited	2019 Unaudited	2018 Reviewed
On-balance sheet assets	28,348	30,289
Off-balance sheet items	1,012	1,039
Total risk exposure	29,360	31,328
Total risk weighted exposure	**25,959**	**27,667**
Primary (Tier I)		
Share capital	10,000	10,000
Primary reserves (less statutory deductions)	(1,745)	(1,290)
Total	**8,255**	**8,710**
Secondary (Tier II)		
Subordinated debt instruments	1,485	1,485
General allowance for credit impairments	247	265
Total	1,732	1,750
Total qualifying capital and unimpaired reserve funds	**9,987**	**10,460**

Total capital to risk weighted assets	%	%
Primary	31.8	31.5
Secondary	6.7	6.3
Total	**38.5**	**37.8**

ANNEXURE C: ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations have been used in these financial statements.

ABHL	African Bank Holdings Limited
ABL	African Bank Limited
AIG	African Insurance Group Limited
ALCO	Asset and liability committee
CAR	Capital Adequacy Ratio
CHF	Swiss Franc
CFO	Chief Financial Officer
Companies Act of South Africa	Companies Act of South Africa, Act No 71 of 2008
CPI	Consumer Price Index
DMTN	Domestic medium term note programme
EMTN	Euro medium term note programme
FSB	Financial Services Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal Capital Adequacy and Assessment Process
IFRIC	IFRS Interpretations Committee of IASB
IFRS	International Financial Reporting Standards
IT	Information Technology
JIBAR	Three months Johannesburg interbank agreed rate
JSE	Johannesburg stock exchange
LTIP	Long-term incentive plan
MMIJV	MMI Joint Venture
MRC	Model Risk Committee
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
NCA	National Credit Act
Rm / Rmillion	Millions of rand
RSA	Republic of South Africa
PSI	Portfolio Specific Impairment
SI	Specific Impairment
R000	Thousands of rand
RCMC	Risk and Capital Management Committee
RDS	Residual Debt Services Limited (under curatorship)
Tier I	Primary capital
Tier II	Secondary capital
USD	United States Dollar
VAT	Value Added Tax
ZAR	South African Rand

ANNEXURE D: CORPORATE INFORMATION

Company Secretary
Maliga Chetty

African Bank Limited
Incorporated in the Republic of South Africa
Registered Bank
Registration number 2014/176899/06
NCR Registration number: NCRCP7638
African Bank Limited is an Authorised Financial Services and Registered Credit Provider
Holding company: African Bank Holdings Limited

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