African Bank Holdings Limited
Consolidated Condensed Interim Financial Statements
31 March 2019

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

Registration number: 2014/176855/06.

CONTENTS

Statement of responsibility by the Board of Directors	3
Consolidated statement of financial position as at 31 March 2019	4
Consolidated statement of total comprehensive income for the six months ended 31 March 2019	5
Consolidated statement of changes in equity for the six months ended 31 March 2019	6
Consolidated statement of cash flows for the six months ended 31 March 2019	7
Notes to the consolidated condensed interim financial statements	8
Annexure A: Summarised impact of adoption of IFRS 9	28

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation and fair presentation of the consolidated condensed interim financial statements, comprising the consolidated statement of financial position at 31 March 2019, the consolidated statement of total comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, the notes to the consolidated condensed 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.

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 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.

APPROVAL OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

The consolidated condensed interim financial statements found on pages 4 to 34 were approved by the board of directors on 23 May 2019 and are signed on its behalf by:

B Maluleke
Director

G Raubenheimer
Director

Midrand

A signed copy of the annual financial statements is available for inspection at the registered office.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 March 2019

Rmillion	Notes	As at 31 March 2019 (unaudited) applying IFRS 9	As at 31 March 2018 (unaudited) applying IAS 39	As at 1 October 2018 (reviewed) applying IFRS 9	As at 30 September 2018 (audited) applying IAS 39
Assets					
Cash and cash equivalents	2	**4 462**	6 131	7 224	7 225
Regulatory deposits and sovereign debt securities	3	**2 715**	3 754	2 129	2 130
Derivatives		**52**	42	47	47
Net advances	4	**19 182**	18 969	18 317	19 178
Accounts receivable and other assets		**192**	249	210	210
Investments		**-**	31	16	16
Investment in insurance contracts	6	**399**	596	382	382
Loans to joint venture		**-**	10	51	51
Non-current assets held for sale	7	**72**	-	-	-
Property and equipment		**555**	468	597	597
Intangible assets		**71**	85	72	72
Current tax		**6**	-	300	-
Deferred tax		**941**	571	677	760
Total assets		**28 647**	30 906	30 022	30 668
Liabilities and equity					
Short-term funding		**6 541**	5 723	5 061	5 061
Derivatives		**6**	114	-	-
Creditors and other liabilities		**484**	539	647	647
Current tax		**-**	134	-	24
Bonds and other long-term funding		**10 047**	13 310	13 279	13 279
Subordinated bonds		**1 531**	1 529	1 530	1 530
Total liabilities		**18 609**	21 349	20 517	20 541
Ordinary share capital		**5**	5	5	5
Ordinary share premium		**9 995**	9 995	9 995	9 995
Reserves and accumulated losses		**38**	(443)	(495)	127
Total equity (capital and reserves)		**10 038**	9 557	9 505	10 127
Total liabilities and equity		**28 647**	30 906	30 022	30 688

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the six months ended 31 March 2019

Rmillion	Notes	% change	For the six months ended 31 March 2019 (unaudited) *applying IFRS 9*	For the six months ended 31 March 2018 (unaudited) *applying IAS 39*	For the year ended 30 September 2018 (audited) *applying IAS 39*
Interest income on advances	8	(16.4%)	**2 825**	3 380	7 168
Credit impairment charge	9	(43.4%)	**(970)**	(1 713)	(3 608)
Interest on advances after impairment		11.3%	**1 855**	1 667	3 560
Other interest income	8	(62.4%)	**103**	274	482
Fair value (losses) / gains from derivative assets and liabilities	10	(115.1%)	**(28)**	186	56
Foreign exchange gains / (losses) recognised on translation	10	(104.1%)	**14**	(340)	81
Interest expense and similar charges	10	(50.65%)	**(833)**	(1 008)	(2 188)
Net interest income after impairment		42.6%	**1 111**	779	1 991
Non-interest income	11	(35.9%)	**428**	668	1 199
Re-measurement of insurance contracts		(131.5%)	**17**	(54)	(268)
Dividends received		(0.2%)	**424**	425	968
Operating costs		10.1%	**(1 398)**	(1 270)	(2 616)
Gain /(loss) on debt buy back		(116.7%)	**1**	(6)	(6)
Indirect taxation: VAT		(77.1%)	**(11)**	(48)	(65)
Operating profit			**572**	494	1 203
Share of gain/(loss) of joint venture accounted for using the equity method	7	>100%	**1**	-	(16)
Profit before taxation		16%	**573**	494	1 187
Taxation		(13.0%)	**(40)**	(46)	(168)
Profit for the period		19.0%	**533**	448	1 019
Attributable to: -Owners of African Bank Holdings Limited		19.0%	**533**	448	1 019
Total comprehensive profit for the period		19.0%	**533**	448	1 019

The Group had no other comprehensive income for the periods under review

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 March 2019

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated reserves / (loss)	Total
Balance at 31 March 2018 (unaudited)	**5**	**9 995**	**(443)**	**9 557**
Total comprehensive profit for the period	-	-	570	570
Balance at 30 September 2018 (audited)	**5**	**9 995**	**127**	**10 127**
Restated upon adoption of IFRS 9			(622)	(622)
Balance as at 1 October 2018 restated	**5**	**9 995**	**(495)**	**9 505**
Total comprehensive profit for the period	-	-	533	533
Balance at 31 March 2018 (unaudited)	**5**	**9 995**	**38**	**10 038**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 31 March 2019

Rmillion	For the six months ended 31 March2019 (unaudited) *applying IFRS 9 **	For the six months ended 31 March 2018 (unaudited) *applying IAS 39*	For the year ended 30 September 2018 (audited) *applying IAS 39*
Cash flows from operating activities			
Cash generated from operations	**1 910**	2 199	5 292
Cash received from lending activities and cash reserves	**3 437**	4 232	8 766
Recoveries on advances previously written off	**384**	40	115
Cash paid to clients, funders, employees and agents	**(1 911)**	(2 073)	(3 589)
Increase in gross advances	**(2 700)**	(2 019)	(4 122)
(Increase) / Decrease in regulatory deposits and sovereign debt securities	**(518)**	923	2 627
Increase in customer deposits	**344**	314	751
Increase in transactional banking deposits	**5**	-	-
Direct taxation paid	**(12)**	(45)	(466)
Indirect taxation paid	**(11)**	(48)	(65)
Net cash (outflow) / inflow from operating activities	**(982)**	1 324	4 017
Cash flows from investing activities			
Acquisition of property and equipment (to maintain operations)	**(16)**	(34)	(150)
Acquisition of intangible assets (to maintain operations)	**(15)**	(22)	(53)
Dividends received	**424**	425	968
Loans advanced to joint venture	**(14)**	(10)	(51)
Investments redeemed / (made) during the period	**11**	(31)	(31)
Net cash inflow from investing activities	**390**	328	683
Cash flows from financing activities			
Net long term funding redeemed	**(2 768)**	(937)	(489)
Net short-term funding raised / (redeemed)	**539**	(1 056)	(3 726)
Net cash flow from derivative instruments	**16**	-	-
Net cash outflow from funding activities	**(2 213)**	(1 993)	(4 215)
Decrease in cash and cash equivalents	**(2 805)**	(341)	485
Cash and cash equivalents at the beginning of the period	**7 225**	6 866	6 866
Effect of exchange rate changes on cash and cash equivalents	**42**	(394)	(126)
Cash and cash equivalents at the end of the period	**4 462**	6 131	7 225

** The adoption of IFRS 9 does not have an impact on the cash flows presented in the statement of cash flows.*

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
for the six months ended 31 March 2019

1. General information

African Bank Holdings Limited ("ABHL" or "the company) is a public company incorporated in the Republic of South Africa. ABHL is an unlisted registered bank controlling company under the Banks Act, Act 94 of 1990.

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 Investments 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 company's 100% held subsidiary, African Bank Limited, on 4 April 2016 entered into 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 (in 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.

The company also holds 100% of the issued share capital of African Insurance Group Limited. Its main business is holding an investment in a cell captive structure provided by Guardrisk Insurance Company Limited ("Guardrisk"). ABHL and its subsidiaries constitute the African Bank Holdings group of companies ("the Group"). The Group's main business is providing unsecured personal loans.

The registered office and principal place of business of the Group is disclosed on page 34 of these financial statements.

2. Basis of preparation

The consolidated condensed interim financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, IAS 34 Interim Financial Reporting, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee (APC) and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa (Act 71 of 2008).

The consolidated condensed interim financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. The Group is using the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

3. Accounting policies

These consolidated condensed interim financial statements should be read in conjunction with the 2018 annual financial statements, which were prepared in accordance with IFRS. The accounting policies are consistent with those reported in the previous year, except for the adoption of certain IFRS that became applicable in the current year.

IFRS 9 - Financial Instruments ("IFRS 9") and *IFRS 15 - Revenue from Contracts with Customers* ("IFRS 15") became effective for reporting dates on or after 1 January 2018; which falls within the current reporting year for the Group. IFRS 9, which replaces *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"), had the most significant impact on the Group, as IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and changed the way impairments are calculated on financial assets measured and recognised at amortised cost from the incurred loss model to the expected credit loss model.

IFRS 15, which contains a single model that is applied when accounting for contracts with customers, replaced revenue recognition guidance previously included in *IAS 18 - Revenue* ("IAS 18") and *IFRIC 13 Customer Loyalty Programmes* ("IFRIC 13"). The adoption of IFRS 15 had no impact on the Group's results.

The adoption of IFRS 9 impacted the Group's results on the date of initial adoption, being 1 October 2018. The Group prepared an IFRS 9 Transitional Report, on which a reasonable assurance audit report was provided by the external auditors. The IFRS 9 Transitional Report is available on the African Bank website. A summary of the changes to the accounting policies relating to IFRS 9 can be found on pages 31 of these financial statements.

No other new or amended IFRS and interpretations become effective for the six months ended 31 March 2019; which impacted the Group's financial statements or the accounting policies.

The Group reports a single segment – unsecured lending within the South African economic environment. The business is widely distributed with no reliance on any major customers.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies management are required to make judgments, estimates and assumptions about the future conditions of income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the information that is available and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgments and assumptions.

In preparing these consolidated condensed interim financial statements, the significant judgments made by the management in applying the Group's accounting policies and key sources of estimation uncertainty were largely the same as those that applied to the annual financial statements for the year ended 30 September 2018; except for the changes that were inherent in the adoption of the new applicable standards, namely IFRS 9. The details of which are discussed in the IFRS 9 Transitional Report, issued in conjunction with these financial statements.

2. Cash and cash equivalents

Rmillion	31 March 2019 (unaudited) *applying IFRS 9*	31 March 2018 (unaudited) *applying IAS 39*	1 October 2018 (unaudited) *applying IFRS 9*	30 September 2018 (audited) *applying IAS 39*
Call deposits	**4 098**	1 850	3 571	3 571
Rand	**756**	1 631	900	900
Foreign denominated	**3 342**	219	2 671	2 671
Short term notice deposits	**-**	562	325	325
Rand	**-**	502	253	253
Foreign denominated	**-**	60	72	72
Other notice deposits	**328**	3 685	3 287	3 288
Rand	**-**	1 200	404	404
Foreign denominated	**328**	2 485	2 883	2 884
Current accounts	**37**	34	37	41
	4 462	6 131	7 220	7 225

3. Regulatory deposits and sovereign debt securities

Rmillion	31 March 2019 (unaudited) *applying IFRS 9*	31 March 2018 (unaudited) *applying IAS 39*	1 October 2018 (unaudited) *applying IFRS 9*	September 2018 (audited) *applying IAS 39*
Listed	**2 334**	3 359	1 774	1 775
Treasury bills and debentures	**282**	1 988	244	244
Bonds	**2 052**	1 371	1 530	1 531
Unlisted				
Deposits with South African Reserve Bank	**381**	395	355	355
	2 715	3 754	2 129	2 130

Regulatory deposits and sovereign debt securities with a carrying value of R1 184million (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 Group 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 Group's day-to-day operations.

4. Net advances

Rmillion	31 March 2019 (unaudited) *applying IFRS 9*	31 March 2018 (unaudited) *applying IAS 39*	1 October 2018 (unaudited) *applying IFRS 9*	30 September 2018 (audited) *applying IAS 39*
Gross advances	**25 944**	21 983	23 240	23 240
Deferred origination and administration fees	**(71)**	(62)	(68)	(68)
Gross advances after deferred origination and administration fees	**25 873**	21 921	23 172	23 172
Loan	**21 416**	17 440	18 931	18 931
Credit card	**4 457**	4 481	4 241	4 241
Balance of impairment provisions at the end of the period	**6 691**	2 952	4 855	3 994
Balance of impairment provisions at the beginning of the period	**4 855**	2 040	3 994	2 040
Impairment provisions raised	**2 363**	1 789	861	3 833
Bad debt (write-offs)	**(527)**	(877)	-	(1 879)
Net advances	**19 182**	18 969	18 317	19 178
Exposure to credit risk				
Conditionally revocable retail loan commitments	**703**	713	715	715
Maximum exposure to credit risk	**19 885**	19 682	19 032	19 893

The net book value of the acquired book as at 31 March 2019 was R2.6billion (30 September 2018: R3.7 billion). The fair value of the advances as at 31 March 2019 was R20.2 billion (30 September 2018: R19.1 billion).

5. Credit quality of advances

5.1 Credit quality of advances per IFRS requirements

5.1.1 Arrears analysis

Rmillion	31 March 2019 (unaudited)			31 March 2018 (unaudited)			1 October 2018 (unaudited)			30 September 2018 (audited)		
	applying IFRS 9			*applying IAS 39*			*applying IFRS 9*			*applying IAS 39*		
	Loan	Credit card	Total	Loan	Loan	Credit card	Total	Loan	Loan	Credit card	Total	Loan
Financial assets that are neither past due nor specifically impaired												
Stage 1 / (CD 0)	**8 148**	**1 381**	**9 529**	11 565	2 634	14 199	7 046	1 579	8 625	12 229	2 433	14 662
Past due and specifically impaired												
Stage 2 / (CD 1 to CD 3)	**7 568**	**1 872**	**9 440**	2 105	1 038	3 143	7 466	1 844	9 310	2 283	990	3 273
Stage 3 / (CD 4 and higher)	**5 771**	**1 204**	**6 975**	3 832	809	4 641	4 488	817	5 305	4 488	817	5 305
Total credit exposure	**21 487**	**4 457**	**25 944**	17 502	4 481	21 983	19 000	4 240	23 240	19 000	4 240	23 240
Total impairments												
Stage 1 / (Incurred but not reported (IBNR))	**(579)**	**(87)**	**(666)**	(552)	(112)	(664)	(420)	(58)	(478)	(543)	(93)	(636)
Stage 2 / (Portfolio specific impairment)	**(2 029)**	**(404)**	**(2 433)**	(808)	(295)	(1 103)	(1 898)	(375)	(2 273)	(973)	(297)	(1 270)
Stage 3 / (Specific impairment)	**(2 919)**	**(673)**	**(3 592)**	(922)	(263)	(1 185)	(1 771)	(333)	(2 104)	(1 733)	(355)	(2 088)
Deferred administration fees	**(71)**	**-**	**(71)**	(62)	-	(62)	(68)	-	(68)	(68)	-	(68)
Net advances	**15 889**	**3 293**	**19 182**	15 158	3 811	18 969	14 843	3 474	18 317	15 683	3 495	19 178
Impairment as % of gross advances												
Stage 1 / (Incurred but not reported (IBNR))	**7.11%**	**6.30%**	**3.99%**	4.77%	4.25%	4.68%	5.96%	3.67%	5.54%	4.44%	3.82%	4.34%
Stage 2 / (Portfolio specific impairment)	**26.81%**	**21.58%**	**25.77%**	38.38%	28.42%	35.09%	25.42%	20.34%	24.41%	42.62%	30.0%	38.8%
Stage 3 / (Specific impairment)	**50.58%**	**55.90%**	**51.50%**	24.06%	32.51%	25.53%	39.46%	40.76%	39.66%	38.61%	43.45%	39.36%
Total impairment as a % of total gross advances	**25.72%**	**26.12%**	**25.79%**	13.04%	14.95%	13.43%	21.52%	18.07%	20.89%	17.10%	17.57%	17.19%
Reconciliation of allowance account												
Balance at the beginning of the period	**4 089**	**766**	**4 855**	1 432	608	2 040	3 249	745	3 994	1 432	608	2 040
Impairment raised	**1 895**	**468**	**2 363**	1 608	181	1 789	840	21	861	3 331	502	3 833
Bad debt (write-offs)	**(457)**	**(70)**	**(527)**	(758)	(119)	(877)	-	-	-	(1 514)	(365)	(1 879)
Balance at the end of the period	**5 527**	**1 164**	**6 691**	2 282	670	2 952	4 089	766	4 855	3 249	745	3 994

5.2 Credit quality disclosures based on the pre- acquisition gross value of advances *
5.2.1 Advances analysis

Rmillion	31 March 2019 (unaudited) *applying IFRS 9*	31 March 2018 (unaudited) *applying IAS 39*	1 October 2018 (unaudited) *applying IFRS 9*	30 September 2018 (audited) *applying IAS 39*
Gross advances	**29 349**	26 922	27 488	27 524
Deferred origination and administration fees	**(53)**	(29)	(46)	(46)
Gross advances after Deferred origination and administration fees	**29 296**	26 893	27 442	27 478
Loan	**24 715**	21 815	22 778	22 781
Credit card	**4 581**	5 078	4 664	4 697
Balance of the impairment provisions at the end of the year	**10 114**	7 924	9 125	8 300
Balance of impairment provisions at the beginning of the year	**9 125**	7 756	7 756	7 756
Impairment provisions raised	**1 712**	2 065	4 906	4 081
Bad debt (write-offs)	**(723)**	(1 897)	(3 537)	(3 537)
Net advances	**19 182**	18 969	18 317	19 178
Exposure to credit risk				
Conditionally revocable retail loan commitments	**703**	713	715	715
Maximum exposure to credit risk	**19 885**	19 682	19 032	19 893

The recoveries on the total written off book amounted to R384 million for the reporting period (R374 million for the comparative period).
The fair value of the advances as at 31 March 2019 was R20.2 billion (30 September 2018: R19.1 billion).

* *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.

5.2.2 Arrears analysis

Rmillion	31 March 2019 (unaudited)			31 March 2018 (unaudited)			1 October 2018 (unaudited)			30 September 2018 (audited)		
	ECL impairment			Incurred loss impairment			ECL impairment			Incurred loss impairment		
	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired												
Stage 1 / (CD 0)	**8 156**	**1 382**	**9 538**	11 680	2 648	14 328	7 059	1 581	8 640	12 245	2 436	14 681
Past due and specifically impaired												
Stage 2 / (CD 1 to CD 3)	**7 613**	**1 873**	**9 486**	2 309	1 097	3 406	7 580	1 866	9 446	2 375	1 012	3 387
Stage 3 / (CD 4 and higher)	**8 999**	**1 326**	**10 325**	7 855	1 333	9 188	8 184	1 218	9 402	8 207	1 249	9 456
Subtotal	**24 768**	**4 581**	**29 349**	21 844	5 078	26 922	22 823	4 665	27 488	22 827	4 697	27 524
IFRS 9 Acquired Book gross exposure adjustment *							(4)	(32)	(36)			
Total credit exposure	**24 768**	**4 581**	**29 349**	21 844	5 078	26 922	22 823	4 665	27 488	22 827	4 697	27 524
Total impairments												
Stage 1 / (Incurred but not reported (IBNR))	**(588)**	**(88)**	**(676)**	(673)	(126)	(799)	(437)	(59)	(496)	(563)	(96)	(659)
Stage 2 / (Portfolio specific impairment)	**(2 074)**	**(405)**	**(2 479)**	(1 015)	(354)	(1 369)	(2 014)	(396)	(2 410)	(1 065)	(320)	(1 385)
Stage 3 / (Specific impairment)	**(6 164)**	**(795)**	**(6 959)**	(4 969)	(787)	(5 756)	(5 483)	(736)	(6 219)	(5 470)	(786)	(6 256)
Deferred administration fees	**(53)**	**-**	**(53)**	(29)	-	(29)	(46)	-	(46)	(46)	-	(46)
Net advances	**15 889**	**3 293**	**19 182**	15 158	3 811	18 969	14 843	3 474	18 317	15 683	3 495	19 178
Impairment as % of gross advances												
Stage 1 / (Incurred but not reported (IBNR))	**7.21%**	**6.37%**	**7.09%**	5.76%	4.76%	5.58%	6.48%	3.81%	5.98%	4.60%	3.94%	4.49%
Stage 2 / (Portfolio specific impairment)	**27.24%**	**21.62%**	**26.13%**	43.96%	32.27%	40.19%	26.57%	20.83%	24.65%	44.84%	31.62%	40.89%
Stage 3 / (Specific impairment)	**68.50%**	**59.95%**	**67.40%**	63.76%	59.04%	62.65%	66.80%	58.93%	65.76%	66.65%	62.93%	66.16%
Total impairment as a % of total gross advances	**35.63%**	**28.12%**	**34.46%**	30.48%	24.95%	29.43%	34.76%	25.53%	33.20%	31.09%	25.59%	30.16%

** The adoption of IFRS 9 does not have an impact on the net carrying value of the Acquired Book, which represents the present value of expected future cash flows, discounted at the original effective interest rate applied at acquisition of the portfolio. The increase in impairment provisions held due to the changes in the ECL methodologies is offset by an equal and opposite adjustment to the gross carrying value, to balance the net carrying value to the net present value of future cash flows, which cash flows are not impacted by a change in the impairment methodology. For a more detailed explanation of the impact of IFRS 9 refer to Annexure A of these financial statements.*

5.2.3 Reconciliation of movement in gross carrying value and loss allowance of advances

Rmillion	As at 31 March 2019 (unaudited)			Movement for the six months ended 31 March 2018 (unaudited)			As at 1 October 2018 (unaudited)		
	ECL impairment			ECL impairment			ECL impairment		
	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1 / (CD 0)	**8 156**	**1 382**	**9 538**	1 097	(199)	898	7 059	1 581	8 640
Past due and specifically impaired									
Stage 2 / (CD 1 to CD 3)	**7 613**	**1 873**	**9 486**	33	7	40	7 580	1 866	9 446
Stage 3 / (CD 4 and higher)	**8 999**	**1 326**	**10 325**	815	108	923	8 184	1 218	9 402
Total credit exposure	**24 768**	**4 581**	**29 349**	1 945	(84)	1 861	22 823	4 665	27 488
Total impairments									
Stage 1 / (Incurred but not reported (IBNR))	**(588)**	**(88)**	**(676)**	(151)	(29)	(180)	(437)	(59)	(496)
Stage 2 / (Portfolio specific impairment)	**(2 074)**	**(405)**	**(2 479)**	(60)	(9)	(69)	(2 014)	(396)	(2 410)
Stage 3 / (Specific impairment)	**(6 164)**	**(795)**	**(6 959)**	(681)	(59)	(740)	(5 483)	(736)	(6 219)
Total Impairments	**(8 826)**	**(1 288)**	**(10 114)**	(892)	(92)	(989)	(7 934)	(1 191)	(9 125)
Deferred administration fees	**(53)**	**-**	**(53)**	(7)	-	(7)	(46)	-	(46)
Net advances	**15 889**	**3 293**	**19 182**	1046	(181)	865	14 843	3 474	18 317

6. Investment in insurance contracts

Rmillion	31 March 2019 (unaudited)	30 September 2018 (audited)
African Insurance Group Limited Cell No. 00124		
Initial investment	**281**	281
Re-measurement of investment in insurance contracts	**118**	101
Carrying value as at reporting date	**399**	382
Re-measurement of investment in insurance contracts		
Opening balance	**101**	369
Net premiums earned	**17**	(268)
Premium earned	845	1 835
Claims costs	(245)	(570)
Investment income	33	84
Fees and commission paid	(83)	(347)
Actuarial movements	74	18
Taxation	(183)	(320)
Distributions paid to cell shareholders	(424)	(968)
Closing balance	**118**	101

The Group has entered into a cell captive arrangement whereby the Group as cell shareholder is able to sell insurance products under its own brand. Guardrisk is the principal to the insurance contact, although the business is underwritten on behalf of the Group as cell shareholder. Under this arrangement Guardrisk undertakes the professional insurance and financial management of the cell, including functions related to underwriting, reinsurance, management of claims, actuarial and statistical analyses and investment and accounting services.

Insurance risk

Insurance risk is the possibility that the insured event occurs and that benefit payments and expenses exceed the carrying amount of the insurance liabilities. In such event, the Group would be contractually required to provide additional capital to maintain the solvency of the investment in the cell captive arrangement.

Insured events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk. Guardrisk is responsible for evaluating all retention of risks in terms of statistical and underwriting disciplines, under the mandate set for the cell arrangement.

Factors specifically applicable to the Group that aggravate insurance risk include those arising from a lack of risk diversification in terms of type and amount of risk, geographical area and specific industries covered. The Group sells not only credit and life insurance products, but also funeral policies which introduces diversification into the portfolio.

The Group manages these risks through its agreement with Guardrisk. The main risks to which the group is exposed include:

- Retrenchment, mortality, and morbidity risks (the risk that actual experience in respect of the rates of retrenchment, mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products);
- Contract persistency risk (the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract);
- Expense risk (there is a risk that the Group may experience a loss due to actual expenses being higher than that assumed when pricing and valuing policies); and
- Business volume risk (the risk that the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration).

These risks are mitigated through the cell captive arrangement with Guardrisk, which is experienced in the professional insurance and financial management of insurance contracts, and has a proven track record that the Group has determined can be relied upon.

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, expenses and investment performance. The investment in insurance assets is more sensitive to the rates of mortality and termination applied in the valuation of the underlying insurance liabilities. The assumptions are informed by Guardrisk's broad and extensive industry level insight and experience and are assessed annually.

The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In the extreme, actual claims and benefits may exceed the liabilities. The risk is mitigated to an extent through the extensive use of reinsurance and the addition of compulsory and discretionary margins.

Discretionary margins are applied where the prescribed compulsory margins are deemed insufficient in a particular case in relation to prevailing uncertainty, specifically where there is evidence of moderate to extreme variation in experience or a lack of performance history does not present sufficient claims data to accurately determine the insurance liabilities. The risks arising from the sensitivity of these assumptions are mitigated further through the governance and oversight applied by the board of directors of the African Insurance Group Limited, as well as the board of African Bank Holdings Limited.

7. Non-current assets held for sale

MMI partnership arrangements

There were three business arrangements in place between African Bank Limited and the MMI Group prior to the decisions and initiatives to unwind the agreements:

- An equity investment and loans granted to MMI Lending (Proprietary) Limited ("MMI Lending");
- An investment in a sinking fund policy issued by the MMI Group as well as Insurance distribution agreement between African Bank Limited and MMI Group Limited; and
- A BIN sponsorship agreement between African Bank Limited and MMI Multiply (Proprietary) Limited.

The equity investment in MMI Lending was classified as an investment in a joint venture. In terms of IFRS11 "Joint Arrangements", the investment in the joint venture was measured using the equity method. This investment has since been reclassified as a non-current asset held for sale, under IFRS 5 and measured at the lower of its carrying amount and fair value less cost to sell. The disposal will be concluded within the next six months and the manner will be determined in accordance with the joint venture agreement. The share of the loss of the joint venture for the six months ended 31 March 2019 is accounted for using the equity method.

As at 31 March 2019, the investment in non-current assets held for sale comprised of the following assets.

Assets	31 March 2019 (unaudited)	30 September 2018 (audited)
Equity investment in MMI Lending	**6**	15
Loan granted to MMI Lending	**66**	51
	72	66

The Group holds no liabilities in respect of the MMI partnership arrangements as at 31 March 2019 and 30 September 2018, respectively.

The investment in the sinking fund policy was classified as a financial instrument in terms of IAS 39 and transitioned to IFRS 9 upon adoption with immaterial impact. The investment in the sinking fund policy was sold to the MMI Group during the six months ended 31 March 2019 and has been de-recognised accordingly, with the gain of R1.4 million on disposal recognised in the statement of comprehensive income under non-interest income.

The BIN sponsorship agreement is an executory contract; which is in unwinding in the normal course of business.

8. Interest income

8.1. Interest income on advances

Rmillion	31 March 2019 (unaudited)	31 March 2018 (unaudited)
Interest on advances	**2 529**	3 166
Loan origination fees	**113**	81
Service fee	**183**	133
Total	**2 825**	3 380

8.2. Other interest income

Rmillion	31 March 2019 (unaudited)	31 March 2018 (unaudited)
Interest received on cash reserves	**99**	272
Sundry interest income	**4**	2
Total	**103**	274

9. Credit impairment charge

Rmillion	31 March 2019 (unaudited)	31 March 2018 (unaudited)
Originated Book		
Movement in impairment provision	**1 836**	912
Amounts written off	**527**	877
Post Write Off Recoveries	**(83)**	(40)
Adjustment related to revenue on advances classified as stage 3	**(250)**	(36)
Sub-total: Originated Book	**2 030**	1 713
Acquired Book		
Movement in impairment provision	**(847)**	(743)
Amounts written off	**196**	1 020
Post Write Off Recoveries	**(301)**	(334)
Adjustment related to revenue on advances classified as stage 3	**(108)**	-
Favourable changes in expected credit losses in gross interest *	**-**	57
Sub-total: Acquired Book	**(1 060)**	-
Total	**970**	1 713

* *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 assets and a corresponding gain is recognised as revenue.
For detail of the accounting policies applied under the adoption of IFRS 9, refer to Annexure A of these financial statements.

Under IAS 39 all favourable changes in credit losses on purchased credit impaired financial assets were recognised as revenue.

10. Interest expense and similar charges

Rmillion	31 March 2019 (unaudited)	31 March 2018 (unaudited)
Subordinated debt	**107**	107
Unsecured listed bonds	**493**	532
Call deposits	**2**	12
Fixed deposits	**33**	147
Negotiable certificates of deposit	**-**	14
Interest on short-term facilities	**113**	171
Other interest	**85**	25
Subtotal	**833**	1 008
Fair value losses / (gains) from derivative assets and liabilities	**28**	(186)
Foreign exchange (gains) / losses recognised on translation	**(14)**	340
Total	**847**	1 162

In accordance with the Group's policy the total funding costs are included in the interest expense and similar charges.

11. Non-interest income

Rmillion	31 March 2019 (unaudited)	31 March 2018 (unaudited)
Credit card fees	**118**	146
Binder and outsourcing arrangements fees	**79**	215
Collection fees	**226**	304
Other income	**5**	3
Total	**428**	668

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

12.1. 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.

Recurring fair values

The Group currently measures and presents derivative assets and derivative liabilities at fair value, 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

For instruments measured and presented at amortised cost, in determining the fair value for disclosure purposes, 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.

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 impairment (amortised cost) and fair value methodologies:

- 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.

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.

12.2. 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.

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 and the level within 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
As at 31 March 2019 (IFRS 9)				
Financial assets				
Recurring fair value measurement				
Derivative instruments	**-**	**52**	**-**	**52**
Total	**-**	**52**	**-**	**52**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	**-**	**6**	**-**	**6**
Total	**-**	**6**	**-**	**6**
As at September 2018 (IAS 39)				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	47	-	47
Total	-	47	-	47
Financial liabilities				
Recurring fair value measurement	-	-	-	-
Derivative instruments	-	-	-	-
Total	-	-	-	-

12.3. Valuation techniques, significant observable inputs and sensitivity of level 2 and 3 financial instruments measured at fair value

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and 3 assets and liabilities for which fair value is measured:

Rmillion	Valuation basis / techniques	Main assumptions*	Variance in fair value measurement	Effect on profit / (loss) (after tax)
March 2019				
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	**(1)**
Investments measured at fair value	Discounted cash flows	Expected cash flows	1% reduction in expected cash flows	**-**
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	**42**
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	**-**
September 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	-
Liabilities				
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	-

12.4. Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
March 2019					
Financial assets					
Government bonds	**-**	**2 030**	**-**	**2 030**	**2 052**
Treasury bills and debentures	**-**	**290**	**-**	**290**	**282**
Deposits with South African Reserve Bank	**-**	**381**	**-**	**381**	**381**
Net advances	**-**	**-**	**20 243**	**20 243**	**19 182**
Total	**-**	**2 701**	**20 243**	**22 944**	**21 897**
Financial liabilities					
Short term funding	**-**	**7 538**	**-**	**7 538**	**7 117**
Unsecured bonds (listed on JSE)	**-**	**4 138**	**-**	**4 138**	**3 972**
Unsecured bonds (listed on foreign stock exchange)	**-**	**3 559**	**-**	**3 559**	**3 444**
Unsecured long- term loans	**-**	**1 171**	**-**	**1 171**	**1 116**
Subordinated bonds, debentures and loans	**-**	**1 494**	**-**	**1 494**	**1 531**
Total	**-**	**17 900**	**-**	**17 900**	**18 584**
September 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 company	-	-	51	51	51
Investments	-	-	16	16	16
Total	-	2 109	19 164	21 273	21 375
Financial liabilities					
Short term funding	-	4 914	-	4 914	5 061
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
Subordinated bonds, debentures and loans	-	1 535	-	1 535	1 530
Total	-	19 703	-	19 703	19 870

The following items' fair value is 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.

13. Analysis 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.

13.1. Analysis of financial assets

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
31 March 2019							
Cash and cash equivalents	2	4 462	-	-	4 462	4 462	-
Regulatory deposits and sovereign debt securities	3	2 715	-	-	2 715	381	2 334
Derivatives		-	52	-	52	52	-
Net advances	4	19 182	-	-	19 182	7 692	11 490
Investment in insurance contracts	6	399	-	-	399	-	399
Accounts receivable and other assets		74	-	118	192	192	-
Non-current asset held for sale		-	-	72	72	-	72
Loan to affiliated company		-	-	-	-	-	-
Investments in joint venture		-	-	-	-	-	-
Property and equipment		-	-	555	555	-	555
Intangible assets		-	-	71	71	-	71
Current tax		-	-	6	6	6	-
Deferred tax asset		-	-	941	941	-	941
Total assets		**26 832**	**52**	**1 763**	**28 647**	**12 785**	**15 862**

13.1. Analysis of financial assets

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
30 September 2018								
Cash and cash equivalents	2	6 866	-	-	-	6 866	6 866	-
Regulatory deposits and sovereign debt securities	3	410	4 312	-	-	4 722	3 250	1 472
Derivatives		-	-	748	-	748	707	41
Net advances		18 743	-	-	-	18 743	8 437	10 306
Accounts receivable and other assets		113	-	-	105	218	218	-
Current tax		-	-	-	49	49	49	-
Investment in insurance assets		-	-	-	650	650	-	650
Property and equipment		-	-	-	494	494	-	494
Intangible assets		-	-	-	75	75	-	75
Deferred tax asset		-	-	-	389	389	-	389
Total assets		26 132	4 312	748	1 762	32 954	19 527	13 427

13.2. Analysis of financial liabilities

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial liabilities	Total	Current	Non-current
31 March 2019							
Derivatives		**-**	**6**	**-**	**6**	**6**	**-**
Current tax liability		**-**	**-**	**-**	**-**	**-**	**-**
Creditors and accruals		**414**	**-**	**70**	**484**	**484**	**-**
Short-term funding		**6 541**	**-**	**-**	**6 541**	**6 541**	**-**
Bonds and other long-term funding		**10 047**	**-**	**-**	**10 047**	**-**	**10 047**
Subordinated bonds		**1 531**	**-**	**-**	**1 531**	**-**	**1 531**
Total liabilities		**18 533**	**6**	**70**	**18 609**	**7 031**	**11 578**
30 September 2018							
Derivatives		-	5	-	5	5	-
Creditors and accruals		565	-	56	621	621	-
Short-term funding		4 305	-	-	4 305	4 305	-
Bonds and other long-term funding		17 385	-	-	17 385	203	17 182
Subordinated bonds		1 530	-	-	1 530	51	1 479
Total liabilities		23 785	5	56	23 846	5 185	18 661

14. Related party information

The Group's holding company is African Bank Holdings Limited. The Group entered into an arm's length revolving loan facility agreement with its holding company, which was settled and cancelled as at 30 September 2018.

There were no material transactions other than remuneration for the directors and key management personnel.

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

15. Events after the reporting date

There were no material matters or circumstances arising since the reporting period end which significantly affects the financial position as at 31 March 2019 or the results of its operations or cash flows for the period then ended.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

Impact of adopting revised accounting standards at 1 October 2018

The Group adopted IFRS 9 and IFRS 15 during the current period. The Group, as permitted by these standards, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements has been applied retrospectively with an adjustment to the Group's 1 October 2018 opening retained earnings. Reported information in the prior interim period and the financial year to 30 September 2018 were unaffected by the application of IFRS 9 and IFRS 15.

Key requirements	Explanation of the requirement	Impact on African Bank
IFRS 15		
	IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all the current 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 are 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.	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 Group's results.
IFRS 9		
Classification and measurement	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and its contractual cash flow characteristics.	There is no impact on the classification or measurement of the following financial assets under IFRS 9: • Advances to customers, measured at amortised cost; • Accounts receivable, measured at amortised cost; • Cash and cash equivalents, measured at amortised cost; and • Derivatives, measured at fair value through profit and loss. Regulatory deposits and sovereign debt securities were classified as held to maturity under IAS 39. These securities 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 thus meeting the requirement of a business model to collect contractual cash flows until maturity. These securities have therefore been classified at amortised cost under IFRS 9. Despite the change in classification, regulatory deposits and sovereign debt securities are still being measured at amortised cost under IFRS 9, as so measured under IAS 39.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

Key requirements	Explanation of the requirement	Impact on African Bank
Expected credit loss ("ECL") impairment	IFRS 9's ECL impairment model requirements represents the most material IFRS 9 impact for the Group. The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected credit loss model, which requires entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The expected credit losses recognised as an impairment of financial assets at the initial recognition of the financial assets represent the credit losses expected during the 12 months subsequent to the reporting date. Such expected credit losses include losses in respect of future exposures expected to be accrued, such as the utilisation of undrawn credit card facilities. IFRS 9 calls for the identification of a Significant Increase in Credit Risk ("SICR") since initial recognition of a financial asset. SICR was introduced into IFRS9 as a result of IAS39 not accounting for increased credit risk displayed by exposures, beyond actual historic missed payments, and as a result falling short when providing for impairment of these exposures. In determining whether there has been a SICR and in determining the ECL calculation, IFRS 9 requires the consideration of forward-looking information. The determination of a significant increase in credit risk is required to include consideration of all reasonable and supportable information that is available without undue cost or effort. Under IFRS 9 the write off point of an asset is set as the point at which there is no reasonable expectation of future recovery.	The revised impairment requirements increased impairments by R 861 million, due to earlier recognition of ECL, incorporating forward looking information, the inclusion of future exposures and the extension of the write-off point. The adoption of IFRS 9 does not have an impact on the net carrying value of the Acquired Book, which represents the present value of expected future cash flows, discounted at the original effective interest rate applied at acquisition of the portfolio. The increase in impairment provisions held due to the changes in the ECL methodologies is offset by an equal and opposite adjustment to the gross carrying value, to balance the net carrying value to the net present value of future cash flows, which cash flows are not impacted by a change in the impairment methodology. The Group has historically applied a very conservative write off policy at an individual exposure level, where advances were written off in full if in arrears with 4 or more instalments due and no payment had been received in the preceding 5 months. The point of write off has consequently been set where advances are in arrears with 4 or more instalments due and no payment had been received in the preceding 8 months. Advances meeting the revised criteria are written off in full.
Hedge Accounting	IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted. IFRS 9 also permits an entity to continue applying the hedge accounting under IAS 39 should it elect to do so.	The Group does not apply hedge accounting because economic hedging methodologies are employed to mitigate risk from exposures. Consequently there is no impact on hedge accounting for the Group from the adoption of IFRS 9. The Group recognised financial assets and liabilities when it becomes a party to the terms of a contract, which is the trade date or the settlement date.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

Transition impact on IFRS financial position as at 1 October 2018

Rmillion	30 September 2018 applying IAS 39	ECL impact	1 October 2018 applying IFRS 9
Assets			
Cash and cash equivalents	**7 225**	**(1)**	**7 224**
Regulatory deposits and sovereign debt securities	**2 130**	**(1)**	**2 129**
Derivatives	**47**	**-**	**47**
Net advances	**19 178**	**(861)**	**18 317**
Accounts receivable and other assets	**210**	**-**	**210**
Investment in insurance contracts	**382**	**-**	**382**
Loans to affiliated companies	**51**	**-**	**51**
Investments	**16**	**-**	**16**
Property and equipment	**597**	**-**	**597**
Intangible assets	**72**	**-**	**72**
Deferred tax	**760**	**217**	**977**
Total assets	**30 668**	**(646)**	**30 022**
Liabilities and equity			
Current tax	**24**	**(24)**	**-**
Creditors and other liabilities	**647**	**-**	**647**
Short-term funding	**5 061**	**-**	**5 061**
Bonds and other long-term funding	**13 279**	**-**	**13 279**
Subordinated bonds	**1 530**	**-**	**1 530**
Total liabilities	**20 541**	**(24)**	**20 517**
Ordinary share capital	**5**	**-**	**5**
Ordinary share premium	**9 995**	**-**	**9 995**
Accumulated losses	**127**	**(622)**	**(495)**
Total equity	**10 127**	**(622)**	**9 505**
Total liabilities and equity	**30 668**	**(646)**	**30 022**

Reconciliation of IFRS statement of changes in equity as at 1 October 2018

Rmillion	30 September 2018 applying IAS 39	Transition impact	01 October 2018 applying IFRS 9
Ordinary share capital	5	-	5
Ordinary share premium	9 995	-	9 995
Accumulated loss	127	(622)	(495)
Total equity	**10 127**	**(622)**	**9 505**

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

Summary accounting policies

The following is an extract of the changes made to the accounting policies as a result of the implementation of IFRS 9

Financial instruments

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 on the basis of 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 Group 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.

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.

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.

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.

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; and
- 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.

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. Management has elected to classify these financial assets 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.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

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.

Financial liabilities at amortised cost

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

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.
Inflation linked bonds are treated similar to a floating rate instrument, as the varying interest amounts are a contractual term of the instrument. The changes in the inflation index results in changes to the instrument's effective yield.

Impairment of financial instruments

For financial assets classified and measured at amortised cost, the Group assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired. 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 this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between expected credit loss estimates and 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 Purchased Book, which is classified as a credit impaired originated asset.

<u>Originated Book</u>
The Group measures the loss allowance on advances for which credit risk has increased significantly since initial recognition at an amount equal to the lifetime expected credit losses. If, at the reporting date, the credit risk on the loans and advances has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the expected credit losses over the subsequent 12 month period. The loss allowance on the undrawn commitments is at an amount equal to the expected credit losses over a 12 month period.

<u>Purchased Book</u>
The Group measures the loss allowance as the cumulative changes in lifetime expected credit losses since initial recognition.

The 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;

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the cash flows that the Group 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 carrying amount of the advance is increased to the revised estimate of the cash flows that the Group expects to receive, but 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 advances are assessed for impairment on a collective basis due to the large number of 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 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 ("SICR") 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.

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 either in its entirety or a portion thereof.

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.

CORPORATE INFORMATION

Company Secretary
Maliga Chetty

African Bank Holdings Limited
Incorporated in the Republic of South Africa
Registered Bank Holding entity
Registration number 2014/176855/06

Registered office
59 16th Road
Midrand, 1685
South Africa

Private Bag X170, Halfway House
Midrand, 1685
South Africa
Tel: +27 11 256 9000

Website
www.africanbank.co.za