African Bank Limited

Condensed Interim Financial Statements
31 March 2020

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
We are you

African Bank Limited

(Registration Number 2014/ 176899/ 06)
Condensed Interim Financial Statements
for the six months ended 31 March 2020

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation and fair presentation of the Bank's condensed interim financial statements, comprising the consolidated statement of financial position at 31 March 2020, 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 Bank'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 CONDENSED INTERIM FINANCIAL STATEMENTS

The Bank's condensed interim financial statements found on pages 3 to 30 were approved by the board of directors on 19 June 2020 and are signed on its behalf by:

B Maluleke	**G Raubenheimer**
Director	Director

Midrand

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

African Bank Limited

(Registration Number 2014/ 176899/ 06)
Condensed Interim Financial Statements
as at 31 March 2020

STATEMENT OF FINANCIAL POSITION

Rmillion	Notes	As at 31 March 2020 (unaudited)	As at 31 March 2019 (unaudited)	As at 30 September 2019 (audited)
Assets				
Cash and cash equivalents	2	5 310	4 459	5 038
Regulatory deposits and sovereign debt securities	3	1 210	2 715	1 725
Derivatives		224	52	36
Net advances	4	18 995	19 182	19 815
Accounts receivable and other assets		173	192	231
Non-current assets held for sale		-	72	-
Property and equipment and Right of use asset[1]		1 238	555	547
Intangible assets		104	71	81
Deferred tax assets	6	985	938	870
Current tax		-	4	-
Total assets		**28 239**	**28 240**	**28 343**
Liabilities and equity				
Liabilities				
Creditors and other liabilities[1]		1 250	482	737
Short-term funding[2]		6 813	7 945	6 959
Bonds and other long-term funding[2]		10 578	10 047	10 737
Subordinated bonds		1 532	1 531	1 533
Derivatives		-	6	-
Total liabilities		**20 173**	**20 011**	**19 966**
Equity				
Ordinary share capital		5	5	5
Ordinary share premium		9 995	9 995	9 995
Accumulated loss		(1 934)	(1 771)	(1 623)
Total equity		**8 066**	**8 229**	**8 377**
Total equity and liabilities		**28 239**	**28 240**	**28 343**

[1] The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to Annexure A for the adoption of IFRS 16.

[2] Included in short-term funding and bonds and other long-term funding are retail deposits of R1 291 million and R2 545 million respectively, (30 September 2019: R824 million and R1 567 million)

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for the six months ended 31 March 2020

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Rmillion	Notes	For the six months ended 31 March 2020 (unaudited)	For the six months ended 31 March 2019 (unaudited)	For the year ended 30 September 2019 (audited)
Interest income on advances[1]	7	3 226	2 993	5 993
Credit impairment charge[1,2]	8	(1 884)	(1 138)	(2 016)
Interest on advances after impairment		**1 342**	**1 855**	**3 977**
Other interest income	7	97	102	187
Interest expense and similar charges	9	(825)	(868)	(1 707)
Foreign exchange gain / (loss) recognised on translation[3]		(177)	(28)	(82)
Fair value gains / (losses) from derivatives assets and liabilities[3]		192	14	53
Net interest income after impairment		**629**	**1 075**	**2 428**
Non-interest income	10	349	428	815
Operating costs		(1 402)	(1 394)	(2 965)
Indirect taxation: VAT		3	(11)	31
Operating (loss) / profit		**(421)**	**99**	**309**
Share of gain / (loss) of joint venture accounted for using the equity method		-	1	5
(Loss) / Profit before taxation		**(421)**	**100**	**314**
Taxation		110	(31)	(97)
(Loss) / Profit for the year		**(311)**	**69**	**217**
Attributable to:				
- Owner of African Bank Limited		**(311)**	**69**	**217**
Total comprehensive (loss) / profit for the year		**(311)**	**69**	**217**

[1] In the prior period, changes in expected credit losses on purchased credit impaired financial assets (such as the Acquired Book); where such favourable changes exceed the loss allowance estimated at initial recognition, were included in interest income on advances instead of credit impairment charge. This error has been corrected refer to note 1.3. For comparability, the 31 March 2019 values have been restated.

[2] Included in the credit impairment charge is an impairment provision for COVID-19 of R550 million, after adjusting for the IBNR claims of R303 million.

[3] In the prior period, 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. This is a presentation error. For comparability, the 31 March 2019 values have been restated.

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

STATEMENT OF CHANGES IN EQUITY

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 1 October 2018	5	9 995	(1 840)	8 160
Total comprehensive profit for the year	-	-	69	69
Balance at 31 March 2019 (unaudited)	**5**	**9 995**	**(1 771)**	**8 229**
Total comprehensive profit for the period	-	-	148	148
Balance at 30 September 2019 (audited)	5	9 995	(1 623)	**8 377**
Total comprehensive loss for the period	-	-	(311)	(311)
Balance at 31 March 2020 (unaudited)	**5**	**9 995**	**(1 934)**	**8 066**

African Bank Limited

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for the six months ended 31 March 2020

STATEMENT OF CASH FLOWS

Rmillion	For the six months ended 31 March 2020 (unaudited)	For the six months ended 31 March 2019 (unaudited)	For the year ended 30 September 2019 (audited)
Cash flows from operating activities			
Cash generated from operations	2 251	1 910	4 225
Cash received from lending activities	3 854	3 338	7 607
Interest received from cash reserves	64	99	99
Recoveries on advances previously written off	343	384	788
Cash paid to funders	(630)	(773)	(1 463)
Cash paid to suppliers	(920)	(703)	(1 404)
Cash paid to employees and agents	(460)	(435)	(1 402)
Net increase in gross advances	(1 733)	(2 700)	(4 995)
Cash received from customers	4 175	4 142	10 003
Loans disbursed to customers	(5 908)	(6 842)	(14 998)
Net (increase)/ decrease in regulatory deposits and sovereign debt securities	566	(518)	549
Net increase in customer deposits	1 255	344	1 120
Transactional banking deposits raised	98	5	64
Direct taxation received / (paid)	-	-	5
Indirect taxation received / (paid)	34	(11)	(40)
Net cash inflow/ (outflow) from operating activities	**2 471**	**(970)**	**928**
Cash flows from investing activities			
Acquisition of property and equipment (to maintain operations)	(40)	(16)	(49)
Acquisition of intangible assets (to maintain operations)	(22)	(15)	(24)
Loans redeemed by / (advanced to) affiliated companies	-	(14)	51
Investments disposed / (made) during the period	-	11	21
Net cash (outflow)/ inflow from investing activities	**(62)**	**(34)**	**(1)**
Cash flows from financing activities			
Net long term funding raised / (redeemed)[1]	(3 415)	(2 768)	(3 326)
Long term funding raised	810	446	1 971
Long term funding redeemed	(4 225)	(3 214)	(5 297)
Net short-term funding raised / (redeemed)[1]	845	952	(41)
Short term funding raised	887	960	9
Short term funding redeemed	(42)	(8)	(50)
Principal payment of IFRS 16 lease liabilities[2]	(76)	-	-
Derivatives	4	16	64
Net cash outflow from financing activities	**(2 642)**	**(1 800)**	**(3 303)**
Increase/ (Decrease) in cash and cash equivalents	(233)	(2 804)	(2 376)
Cash and cash equivalents at the beginning of the period	5 038	7 221	7 221
Effect of exchange rate changes on cash and cash equivalents	505	41	193
Cash and cash equivalents at the end of the period	**5 310**	**4 458**	**5 038**

[1] The net funding raised/ (redeemed) is based on the tenure of the debt. At the inception of the debt, the tenure of the debt is defined by its original term until final and full repayment, and is defined as long term if this term exceeds 12 months and short term if the term is less than 12 months. Long term debt with a tenure of more than 12 months is reclassified to short term when the remaining term until repayment is less than 12 months.

[2] The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to Annexure A for the adoption of IFRS 16.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.1 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 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.

The Bank'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 Bank also takes deposits from retail customers and has a transactional banking offering.

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 Bank is disclosed in Annexure B: Corporate Information.

1.2 Basis of preparation

The Bank 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 Bank 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 Bank is using the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

1.3 Changes in accounting policies and restatements

Accounting policies

These Bank condensed interim financial statements should be read in conjunction with the 2019 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 16 – Leases ("IFRS 16") became effective for reporting dates on or after 1 January 2019; which falls within the current reporting year for the Bank. 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 adoption of IFRS 16 impacted the Bank's results on the date of initial adoption, being 1 October 2019.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

No other new or amended IFRS and interpretations become effective for the six months ended 31 March 2020; which impacted the Bank's financial statements or the accounting policies.

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

Restatements

In the first half of 2019, the Bank incorrectly applied the requirements of IFRS 9 that prescribe that an entity should recognise cumulative changes in lifetime expected credit losses since initial recognition of a purchased credit-impaired financial asset, namely the acquired book, as a loss allowance in the credit impairment charge line item. Below is the effect of the restatement as a increase to both interest on advances, and to the credit impairment charge refer to note 8.

	31 March 2019 (unaudited)		
Rmillion	As previously presented	Restatement	Restated
Interest on advances	2 825	168	**2 993**
Credit impairment charge	(970)	(168)	**(1 138)**

1.4 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank'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 condensed interim financial statements, the significant judgments made by the management in applying the Bank'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 2019; except for the changes that were inherent in the adoption of the new applicable standards, namely IFRS 16 as well as the impact of COVID-19 on the Expected credit losses ("ECL"). The details of IFRS 16 are discussed in Annexure A of these financial statements; the impact of COVID-19 pandemic to the ECL are discussed briefly below.

As at 31 March 2020, a number of events had transpired that solidified COVID-19 as a global pandemic. To curb the spread of COVID- 19 within South Africa, the government declared a State of National Disaster and instituted a national lock-down starting on 26 March 2020; that restricted economic activity to only essential services as defined in the Disaster Management Act. While the lockdown was in progress as at the period end, the full extent of the economic impacts was and is still in the process of unfolding.

As part of the observations, judgement is required from management in assessing the impact of the information that existed at the period end on the measurement of the ECL, refer to note 4, as well as assessing whether the information that was available post the reporting date constitute adjusting or non-adjusting post balance sheet events as envisaged in terms of IAS 10 Events after the reporting period, refer to note 14. The Bank considered the information and circumstances that transpired post the period end as adjusting post balance sheet events to the extent that they provided additional information about circumstances that existed at period end. The below describes management's risk management responses as well as the judgements in applying the accounting policies to and estimating the ECL in response to the economic consequences of COVID- 19. Management considered both quantitative and qualitative post balance sheet information to the extent that it impacted financial information at the period end. Quantitative judgements include historical observations of changes in employer group performance in response to negative economic conditions and changes to cashflows as a result of negative economic scenarios. Qualitative judgements include management's sentiment and outlook on leading economic indicators and their resulting economic scenarios impact.

Management has reduced the ECL by the actuarial adjustments that have been measured and recognised in the cell captive as a result of COVID-19 to the extent that they will impact the ECL of the Bank mainly on the incurred but not reported claims provisions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

While the Bank's risk management structures objectives and mandates remain as those disclosed in the annual financial statements for the year ended 30 September 2019, in response to the fast paced developments of the impact of the COVID-19 pandemic to the economy, the frequency of reporting by the goveranance structures such as the Assets and Liabilities Committee ("ALCO") and the Model Risk Committee ("MRC") to the Risk and Capital Management Committee ("RCMC") as well to the Bank's board increased in an effort to closely monitor the credit, market, and liquidity risks as well as regulatory (legal) risks (in the ALCO context) to which the Bank is exposed to.

1.4.1 Judgements

Significant increase in credit risk (SICR)

In accordance with IFRS 9, all loans and advances are assessed at each reporting date to determine whether there has been a SICR. As part of this assessment, the recognition and measurement criteria were largely the same as those that applied to the annual financial statements for the year ended 30 September 2019. Further to that, in considering the impact of COVID-19 to the ECL, the SICR population was recalculated based on the higher probability of defaults ("PD") as explained in 1.4.2 below. Accounts that would not have met the SICR criteria (using the ordinary criteria) were considered to have met the SICR criteria only to the extent in management's judgment the employer group (industry sector) has shown a deterioration in economic activity that impacts the group's credit exposure as well as being flagged as SICR as a result of an increase in the PDs as described in 1.4.2 below.

Consistent with industry practice, voluntary customer support payment deferrals offered by the Bank (referred to and known as choose your break), as part of the COVID-19 pandemic support packages, by itself, will not result in a SICR, and therefore will not trigger an automatic migration from stage 1 to stage 2 in the credit impairment provision for such loans and advances.

Further to the identification characteristics of accounts that management would have assessed as having SICR as outlined in the 30 September 2019 year end accounting policies, management considered the outcomes of the observations of additional statistical data points (e.g. collection patterns) post the balance sheet date in identifying accounts, on book at 31 March 2020, that would have triggered the SICR requirements; to the extent that the data observed at the post balance sheet date provided more information about events that existed at the period end.

Event driven management credit estimates

Consistent with the prior year, included in the determination of ECL is the expected impact of two forthcoming regulatory and legislative changes; namely the Credit Amendment Bill and DebiCheck (Authenticated Collections). Both these changes are expected to have an impact on the collection of cash flows on loans and advances. Management has applied judgement in the measurement of the impact to the ECL. The estimated timing and nature of the impact will be reassessed as pertinent information on the proposed legislative and regulatory changes becomes available.

1.4.2 Modelling assumptions

In considering the COVID-19 impact to the calculation of the ECL through the inputs used by the Bank to calculate the ECL, namely the:

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

Management applied judgement by including an additional stress factor to the PD, based on the industry/ employer group that the customer is employed in. The weighted average PD that is normally used was adjusted by considering the industry a client is employed in. Management used its discretion to determine whether an industry falls within a high, medium or low risk category, considering various factors, such as being able to work during lockdown, chance of retrenchment as a result of COVID- 19. In addition to an overall industry rating, management also reviewed the largest individual employers per industry and assigned these to the risk categories based on judgement. This exercise resulted in an increase in PD and an increase in ECL.

Management applied the judgement of assigning a considerably higher weighting to the downturn forward looking macro-economic scenario to the PD calculations relative to the prior year's weighted average forward looking macro- economic scenario.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

In assessing the LGD of accounts in response to the expected reduction in collections because of the economic downturns brought about by the COVID-19 pandemic, management applied judgement in predicting and estimating the expected reduction in collections and hence recovery rates of the loans and advances book. This is in addition to the statistical estimates that had been made historically by management and applied in the prior reporting periods, that would consider historic time of recovery and recovery rates. Management has assumed that collections will reduce significantly during the year as the impact of the economic lock- downs unfold and will return to normal levels steadily, towards the end of the next reporting year end; reflecting the normalization of economic conditions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Cash and cash equivalents

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Call deposits	**4 210**	**4 098**	**4 997**
Rand	3 174	756	846
Foreign denominated	1 036	3 342	4 151
Other notice deposits	**-**	**328**	**-**
Foreign denominated	-	328	-
Current accounts	**1 101**	**33**	**42**
Gross cash and cash equivalents	**5 311**	**4 459**	**5 039**
Non-cash adjustment: ECL	(1)	-	(1)
Net cash and cash equivalents	**5 310**	**4 459**	**5 038**

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

3. Regulatory deposits and sovereign debt securities

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Listed	**835**	**2 334**	**1 353**
Treasury bills and debentures	299	282	285
Bonds	536	2 052	1 068
Unlisted			
Deposits with South African Reserve Bank	375	381	372
Gross regulatory deposits and sovereign debt securities	**1 210**	**2 715**	**1 725**
Adjustment: ECL	-	-	-
Net regulatory deposits and sovereign debt securities	**1 210**	**2 715**	**1 725**

Regulatory deposits and sovereign debt securities with a carrying value of R1 127 million (2019: R1 184million) 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 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. The intention is to hold all treasury bills, debentures and bonds to maturity.

ECL is raised on credit risk arising from the counterparties with whom the deposits and securities are held. All deposits and securities are classified as stage 1, with immaterial ECL amounts. There were no movements between stages for these deposits and securities during the reporting period.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Net advances

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Gross advances	**27 685**	**25 944**	**27 470**
Originated book[1]	26 220	23 314	25 377
Acquired book[2]	1 465	2 630	2 093
Deferred origination and administration fees	(146)	(71)	(204)
Gross advances after deferred origination and administration fees	**27 539**	**25 873**	**27 266**
Loan	23 380	21 416	22 947
Credit card	4 159	4 457	4 319
Balance of impairment provision at period end	**8 544**	**6 691**	**7 451**
Balance of impairment provision at the beginning of the year	7 451	4 855	3 994
IFRS 9 adoption	-	-	861
Impairment provisions raised	2 568	2 363	4 328
Impairment provision released upon write-offs of underlying exposure	(1 475)	(527)	(1 732)
Net advances	**18 995**	**19 182**	**19 815**
Exposure to credit risk			
Undrawn irrevocable credit card commitments	658	703	683
Maximum exposure to credit risk	**19 653**	**19 885**	**20 498**

The net book value of the acquired book as at 31 March 2020 was R1.5 billion (30 September 2019: R2.1 billion). The fair value of the advances as at 31 March 2020 was R17.2 billion (30 September 2019: R19.8 billion).

[1] The table below reflects the exposures under debt counselling in the Originated book split into gross advances (included in Gross advances above), expected credit losses (included in Balance of impairment provision above) and net advances (included in the Net advances above). This disclosure is consistent with the accounting policy in the prior year financial statements as disclosed in note 1.6.1.10 headed "Modification" to those financial statements.

Rmillion	31 March 2019 (unaudited)	30 September 2019 (audited)
Gross advances	2 855	2 563
Expected credit losses	(1 732)	(1 409)
Net advances (Amortised cost after modification)*	**1 123**	**1 154**
Modification loss in profit or loss	187	463

** In the prior period financial statements, footnote 1 to note 2 incorrectly referenced the amount of R1 154 million as gross advances as opposed to net advances.*

[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 Bank, 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. The COVID-19 impact to the acquired book is a decrease of R179 million resulting from the reduction of the acquired book future cash flow estimates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Reconciliation of ECL of Originated advances

Rmillion	Stage 1	Stage 2 SICR	Stage 2 Arrears	Stage 3	Total
Opening balance 1 October 2019	585	1 127	1 379	4 360	7 451
Changes in ECL due to movements in arrears profile of advances	**(68)**	**(257)**	**323**	**1 230**	**1 228**
Transfer from stage 1	-	342	400	198	940
Transfer from stage 2: SICR	110	-	392	338	840
Transfer from stage 2: Arrears	8	18	-	935	961
Transfer from stage 3	-	2	17	-	19
Transfer to stage 1	-	(346)	(53)	(3)	(402)
Transfer to stage 2: SICR	(109)	-	(38)	(5)	(152)
Transfer to stage 2: Arrears	(61)	(189)	-	(29)	(279)
Transfer to stage 3	(18)	(95)	(547)	-	(660)
Transfer to Write Off	2	11	152	(204)	(39)
Changes in ECL due to changes in balances of advances	**46**	**163**	**(169)**	**(1 047)**	**(1 007)**
Change in ECL due to movement in balances of existing advances	(34)	(56)	(23)	214	101
ECL on new advances[1]	146	317	154	19	636
Change in ECL due to de-recognition (other than write-off)	(64)	(84)	(52)	(69)	(269)
Change in ECL due to write-off[2]	(2)	(14)	(248)	(1 211)	(1 475)
Changes in ECL due to change in impairment rate	**(124)**	**136**	**(24)**	**884**	**872**
Change in ECL due to write-off policy change	-	-	-	-	-
Changes in ECL due to changes in model assumptions and methodology	(124)	136	(24)	884	872
Closing balance 31 March 2020	**439**	**1 169**	**1 509**	**5 427**	**8 544**

[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 475 million (30 September 2019: R1 732 million)

Factors impacting and contributing to significant changes in the ECL during the period:

The material credit movements in stage one are due to a re-estimation in the anticipated timeframe in the implementation of the Credit Amendment Bill and DebiCheck. The impact of COVID-19 is reflected in the transfers from Stage 1 to Stage 2 SICR, stressed probability of defaults on performing accounts and the downward adjustments of recoverability for stage 3.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. Credit quality of advances

5.1 Credit quality of advances per IFRS requirements

5.1.1 Arrears analysis

	31 March 2020 (unaudited)			31 March 2019 (unaudited)			30 September 2019 (audited)		
Rmillion	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1	6 891	1 493	8 384	8 148	1 381	9 529	8 566	1 506	10 072
Financial assets that are specifically impaired									
Stage 2	8 747	1 469	10 216	7 568	1 872	9 440	7 620	1 623	9 243
Stage 3	7 888	1 197	9 085	5 771	1 204	6 975	6 965	1 190	8 155
Total credit exposure	**23 526**	**4 159**	**27 685**	**21 487**	**4 457**	**25 944**	**23 151**	**4 319**	**27 470**
Total impairments	**(7 789)**	**(755)**	**(8 544)**	**(5 527)**	**(1 164)**	**(6 691)**	**(6 444)**	**(1 007)**	**(7 451)**
Stage 1	(406)	(33)	(439)	(579)	(87)	(666)	(523)	(65)	(588)
Stage 2	(2 524)	(155)	(2 679)	(2 029)	(404)	(2 433)	(2 173)	(331)	(2 504)
Stage 3	(4 859)	(566)	(5 425)	(2 919)	(673)	(3 592)	(3 748)	(611)	(4 359)
Deferred origination and administration fees	**(146)**	**-**	**(146)**	**(71)**	**-**	**(71)**	**(204)**	**-**	**(204)**
Net advances	**15 591**	**3 404**	**18 995**	**15 889**	**3 293**	**19 182**	**16 503**	**3 312**	**19 815**
Stage 1	5.9%	2.2%	5.2%	7.1%	6.3%	7.0%	6.1%	4.3%	5.8%
Stage 2	28.9%	10.6%	26.2%	26.8%	21.6%	25.8%	28.5%	20.4%	27.1%
Stage 3	61.6%	47.3%	59.7%	50.6%	55.9%	51.5%	53.8%	51.3%	53.5%
Total impairment as a % of total gross advances	**33.1%**	**18.1%**	**30.9%**	**25.7%**	**26.1%**	**25.8%**	**27.8%**	**23.3%**	**27.1%**
Reconciliation of ECL									
Balance at the beginning of the year	6 447	1 004	7 451	4 089	766	4 855	3 249	745	3 994
IFRS 9 adoption	-	-	-	-	-	-	855	6	861
Impairment provision raised	57	(439)	(382)	1 895	468	2 363	3 805	523	4 328
Impairment provision released in respect of bad debt write-offs	1 285	190	1 475	(457)	(70)	(527)	(1 462)	(270)	(1 732)
Balance at the end of the year	**7 789**	**755**	**8 544**	**5 527**	**1 164**	**6 691**	**6 447**	**1 004**	**7 451**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5.1.2 Credit quality of advances per IFRS requirements: without COVID-19

	31 March 2020 (unaudited)			31 March 2019 (unaudited)			30 September 2019 (audited)		
Rmillion	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1	7 965	1 561	9 526	8 148	1 381	9 529	8 566	1 506	10 072
Financial assets that are specifically impaired									
Stage 2	7 678	1 400	9 078	7 568	1 872	9 440	7 620	1 623	9 243
Stage 3	8 052	1 207	9 259	5 771	1 204	6 975	6 965	1 190	8 155
Total credit exposure	**23 695**	**4 168**	**27 863**	**21 487**	**4 457**	**25 944**	**23 151**	**4 319**	**27 470**
Total impairments	**(7 467)**	**(705)**	**(8 172)**	**(5 527)**	**(1 164)**	**(6 691)**	**(6 444)**	**(1 007)**	**(7 451)**
Stage 1	(493)	(40)	(533)	(579)	(87)	(666)	(523)	(65)	(588)
Stage 2	(2 255)	(153)	(2 408)	(2 029)	(404)	(2 433)	(2 173)	(331)	(2 504)
Stage 3	(4 719)	(512)	(5 231)	(2 919)	(673)	(3 592)	(3 748)	(611)	(4 359)
Deferred origination and administration fees	**(148)**	**-**	**(148)**	**(71)**	**-**	**(71)**	**(204)**	**-**	**(204)**
Net advances	**16 080**	**3 463**	**19 543**	**15 889**	**3 293**	**19 182**	**16 503**	**3 312**	**19 815**
Stage 1	6.2%	2.6%	5.6%	7.1%	6.3%	7.0%	6.1%	4.3%	5.8%
Stage 2	29.4%	10.9%	26.5%	26.8%	21.6%	25.8%	28.5%	20.4%	27.1%
Stage 3	58.6%	42.4%	56.5%	50.6%	55.9%	51.5%	53.8%	51.3%	53.5%
Total impairment as a % of total gross advances	**31.5%**	**16.9%**	**29.3%**	**25.7%**	**26.1%**	**25.8%**	**27.8%**	**23.3%**	**27.1%**
Reconciliation of ECL									
Balance at the beginning of the year	6 447	1 004	7 451	4 089	766	4 855	3 249	745	3 994
IFRS 9 adoption	-	-	-	-	-	-	855	6	861
Impairment provision raised	(265)	(489)	(754)	1 895	468	2 363	3 805	523	4 328
Impairment provision released in respect of bad debt write-offs	1 285	190	1 475	(457)	(70)	(527)	(1 462)	(270)	(1 732)
Balance at the end of the year	**7 467**	**705**	**8 172**	**5 527**	**1 164**	**6 691**	**6 447**	**1 004**	**7 451**

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

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Gross advances	**30 093**	**29 349**	**30 200**
Deferred origination and administration fees	(146)	(53)	(207)
Gross advances after deferred origination and administration fees	**29 947**	**29 296**	**29 993**
Loan	25 737	24 715	25 597
Credit card	4 210	4 581	4 396
Balance of impairment provision at period end	**10 952**	**10 114**	**10 178**
Balance of impairment provisions at the beginning of the year	10 178	9 125	8 300
IFRS 9 adoption	-	-	825
Impairment provisions raised	2 475	1 712	3 244
Impairment provision released upon write-off of underlying exposure	(1 701)	(723)	(2 191)
Net advances	**18 995**	**19 182**	**19 815**
Conditionally revocable credit card commitments	658	703	683
Maximum exposure to credit risk	**19 653**	**19 885**	**20 498**

The recoveries on the total written off book amounted to R343 million for the reporting period (R384 million for the comparative period).

The fair value of the advances as at 31 March 2020 was R17.2 billion (30 September 2019: R19.8 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 IFRS 9 applicable to the Acquired Book as purchased credit impaired.*

The impairment provisions applied in these disclosures are based on the Expected Credit Loss basis contained in IFRS 9, 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 2020 (unaudited)			31 March 2019 (unaudited)			30 September 2019 (audited)		
	Loan	Credit card	Total	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1	6 891	1 493	8 384	8 156	1 382	9 538	8 572	1 506	10 078
Financial assets that are past due and specifically impaired									
Stage 2	8 752	1 469	10 221	7 613	1 873	9 486	7 640	1 624	9 264
Stage 3	10 240	1 248	11 488	8 999	1 326	10 325	9 592	1 266	10 858
Total credit exposure	**25 883**	**4 210**	**30 093**	**24 768**	**4 581**	**29 349**	**25 804**	**4 396**	**30 200**
Total impairments	**(10 146)**	**(806)**	**(10 952)**	**(8 826)**	**(1 288)**	**(10 114)**	**(9 094)**	**(1 084)**	**(10 178)**
Stage 1	(407)	(33)	(440)	(588)	(88)	(676)	(527)	(61)	(588)
Stage 2	(2 530)	(155)	(2 685)	(2 074)	(405)	(2 479)	(2 191)	(336)	(2 527)
Stage 3	(7 209)	(618)	(7 827)	(6 164)	(795)	(6 959)	(6 376)	(687)	(7 063)
Deferred origination and administration fees	**(146)**	**-**	**(146)**	**(53)**	**-**	**(53)**	**(207)**	**-**	**(207)**
Net advances	**15 591**	**3 404**	**18 995**	**15 889**	**3 293**	**19 182**	**16 503**	**3 312**	**19 815**
Impairment as % of gross advances									
Stage 1	5.9%	2.2%	5.2%	7.2%	6.4%	7.1%	6.1%	4.1%	5.8%
Stage 2	28.9%	10.6%	26.3%	27.2%	21.6%	26.1%	28.7%	20.7%	27.3%
Stage 3	70.4%	49.5%	68.1%	68.5%	60.0%	67.4%	66.5%	54.3%	65.0%
Total impairment as a % of total gross advances	**39.2%**	**19.1%**	**36.4%**	**35.6%**	**28.1%**	**34.5%**	**35.2%**	**24.7%**	**33.7%**

* 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

	31 March 2020 (unaudited)			31 March 2019 (unaudited)			30 September 2019 (audited)		
Rmillion	Originated	Acquired	Total	Originated	Acquired	Total	Originated	Acquired	Total
Financial assets that are neither past due nor specifically impaired									
Stage 1	8 304	81	8 385	8 156	1 382	9 538	9 858	220	10 078
Past due and specifically impaired									
Stage 2	10 140	81	10 221	7 613	1 873	9 486	9 102	162	9 264
Stage 3	7 777	3 710	11 487	8 999	1 326	10 325	6 417	4 441	10 858
Total credit exposure	**26 221**	**3 872**	**30 093**	**24 768**	**4 581**	**29 349**	**25 377**	**4 823**	**30 200**
Total impairments	**(8 544)**	**(2 408)**	**(10 952)**	**(8 826)**	**(1 288)**	**(10 114)**	**(7 451)**	**(2 727)**	**(10 178)**
Stage 1	(439)	-	(439)	(588)	(88)	(676)	(585)	(3)	(588)
Stage 2	(2 679)	(6)	(2 685)	(2 074)	(405)	(2 479)	(2 507)	(20)	(2 527)
Stage 3	(5 426)	(2 402)	(7 828)	(6 164)	(795)	(6 959)	(4 359)	(2 704)	(7 063)
Deferred origination and administration fees	**(146)**	**-**	**(146)**	**(53)**	**-**	**(53)**	**(204)**	**(3)**	**(207)**
Net advances	**17 531**	**1 464**	**18 995**	**15 889**	**3 293**	**19 182**	**17 722**	**2 093**	**19 815**

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6. Current and deferred tax

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Current tax asset/ (liability)	-	4	-
Deferred tax asset	985	938	870
Total	**985**	**942**	**870**

6.1 Deferred tax asset

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
31 March 2020			
Temporary differences			
IFRS 9 transition adjustment	324	-	324
Deferred origination and administration fees on advances	-	9	9
Provisions	116	(60)	56
Provision for Expected Credit Losses [1]	404	47	451
Prepayments	(12)	6	(6)
Tax impact from the buy-back of liabilities	7	(8)	(1)
Estimated tax loss [1]	31	121	152
Total	**870**	**115**	**985**

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
31 March 2019			
Temporary differences			
Impairment Provisions	571	129	699
Provision	2	-	2
Prepayments	(6)	(1)	(6)
Variable remuneration	86	(18)	68
Bonds	(4)	(4)	(8)
Estimated tax loss [1]	-	182	182
Total	**650**	**288**	**938**

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
30 September 2019			
Temporary differences			
IFRS 9 transition adjustment	-	324	324
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**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Current and deferred tax continued...

[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 Bank on a regular basis. The deferred tax asset recognised by the Bank will be recovered through allowable tax deductions against taxable income in future financial periods.

In applying judgement in recognising deferred tax assets, management has critically assessed all available information, including future business profit projections and past achievement thereof. The net deferred tax asset of R985 million (30 September 2019: R870 million) relates to credit impairment provisions and taxes losses brought forward from the prior year. Management expects the deferred tax asset to be substantially recovered in two to three years, with the tax loss being utilised within the next financial year. A tax loss for the prior period was reported, mainly due to the adoption of IFRS 9; which was accompanied by legislative changes in the Income Tax Act. Excluding the reporting and legislative changes the Bank would have reported taxable income for the prior period. Management does not expect the prior period tax loss, which does not expire, to adversely impact the future deferred tax asset recovery.

7. Interest Income

7.1 Interest income on advances

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Interest on advances	2 869	2 697	5 547
Loan origination fees	75	113	240
Service fee	282	183	206
Total	**3 226**	**2 993**	**5 993**

7.2 Other interest income

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Interest received on cash and cash equivalents	64	99	99
Sundry interest income*	33	3	88
Total	**97**	**102**	**187**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Credit impairment charge

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Originated book			
Net movement in impairment provisions	1 093	1 836	2 596
Gross advances written off	1 475	527	1 732
Adjustment related to revenue on advances classified as stage 3	(353)	(250)	(545)
Acquired Book card cash allocation methodology change	-	(228)	(228)
Net impairment charge	**2 215**	**1 885**	**3 555**
Post Write Off Recoveries	(102)	(83)	(194)
Sub-total: Originated Book	**2 113**	**1 802**	**3 361**
Acquired Book			
Post Write Off Recoveries	(241)	(301)	(593)
Unfavourable / (favourable) changes in ECL	12	(363)	(752)
Sub-total: Acquired Book	**(229)**	**(664)**	**(1 345)**
Total	**1 884**	**1 138**	**2 016**

Under IFRS 9, the Bank 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.

9. Interest expense and similar charges

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Subordinated debt	106	107	216
Unsecured listed bonds	373	493	964
Call deposits	1	2	3
Fixed deposits	111	33	182
Negotiable certificates of deposit	2	-	-
Interest on promissory notes	56	113	196
Other interest[1]	176	120	146
Total	**825**	**868**	**1 707**

[1] Included in other interest is interest expense on lease liabilities of R35 million, September 2019: Rnil. The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to Annexure A for the adoption of IFRS 16.

In applying IFRS 9 in the prior year, the fair value losses from derivative instruments and foreign exchange gains recognised on translation were disclosed separately on the face of the statement of comprehensive income. This requirement was not applied in the financial statements of the first half of the 2019 year end, fair value losses from derivative instruments and foreign exchange losses recognised on translation were included in the interest expense and similar charges. Consequently, to achieve comparability, the 31 March 2019 numbers have been restated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10. Non-interest income

Rmillion	31 March 2020 (unaudited)	31 March 2019 (unaudited)	30 September 2019 (audited)
Credit card fees	94	118	222
Binder and outsourcing arrangements fees	76	79	157
Collection fees[1]	157	226	420
Other income	22	5	16
Total	**349**	**428**	**815**

[1] Collection fees relates to fees charged to Residual Debt Services Limited (under curatorship) ("RDS") of R157 million (31 March 2019: R225 million). Fees charged are determined on an arm's length basis and managed independently under supervision of the curator of that company. The fees charged to RDS are expected to decline as the book that is being collected upon runs down. Refer to note 1.1 of these financial statements; which makes reference to the Offer Information Memorandum published on 4 February 2016, when the old African Bank (now Residual Debt Services Limited) was restructured. This document contains all of the detail with respect to the fee's calculation as well as the projections that are declining in nature.

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

11.1 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 Bank determines fair values using other valuation techniques.

The Bank 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 Bank 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 Bank 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 Bank and the counterparty where appropriate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Fair value for disclosure

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

- The impairment cash flows are not reduced by the net insurance premiums the Bank 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.

11.2 Valuation framework

The Bank 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.

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

Rmillion	Level 1	Level 2	Level 3	Total
31 March 2020				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	**224**	-	224
Total	**-**	**224**	**-**	**224**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	-	-	-
Total	**-**	**-**	**-**	**-**
31 March 2019				
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**
30 September 2019				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	**36**	-	36
Total	**-**	**36**	**-**	**36**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	-	-	-
Total	**-**	**-**	**-**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

11.3 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, main assumptions used in the determination of the fair value, and the fair value sensitivity analysis (including the impact of COVID-19) which approximates the impact of profit or loss movements:

Rmillion	Valuation basis / techniques	Main assumptions	Variance in fair value measurement	Effect on profit / (loss) (after tax)
31 March 2020				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	214
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-
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	-
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-
31 March 2019				
Assets				
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	(1)
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	42
30 September 2019				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	106
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

11.4 Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
31 March 2020					
Financial assets					
Cash and cash equivalents	5 310	-	-	5 310	5 310
Government bonds	525	-	-	525	537
Treasury bills and debentures	299	-	-	299	299
Deposits with South African Reserve Bank	375	-	-	375	375
Net advances	-	-	17 215	17 215	18 995
Accounts receivable and other assets	-	173	-	173	173
Total	**6 509**	**173**	**17 215**	**23 897**	**25 689**
Financial liabilities					
Creditors and other liabilities	-	1 250	-	1 250	1 250
Short term funding	-	5 387	-	5 387	6 813
Unsecured bonds (listed on JSE)	-	4 148	-	4 148	4 298
Unsecured bonds (listed on foreign stock exchange)	-	1 249	-	1 249	1 319
Unsecured long- term loans	-	2 355	-	2 355	2 417
Subordinated bonds	-	1 509	-	1 509	1 532
Total	**-**	**15 898**	**-**	**15 898**	**17 629**
31 March 2019					
Financial assets					
Cash and cash equivalents	4 462	-	-	4 462	4 462
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
Accounts receivable and other assets	-	192	-	-	192
Total	**4 462**	**2 893**	**20 243**	**27 406**	**26 551**
Financial liabilities					
Creditors and other liabilities	-	482	-	482	484
Short term funding	-	7 538	-	7 538	8 521
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	-	1 494	-	1 494	1 531
Total	**-**	**18 382**	**-**	**18 382**	**19 068**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

30 September 2019					
Financial assets					
Cash and cash equivalents	5 038	-	-	5 038	5 038
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
Accounts receivable and other assets	-	231	-	231	231
Total	**5 554**	**1 444**	**19 815**	**26 813**	**26 808**
Financial liabilities					
Creditors and other liabilities	-	737	-	737	737
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	**-**	**17 569**	**-**	**17 569**	**18 399**

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.

12. 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.

12.1 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 2020							
Cash and cash equivalents	2	5 310	-	-	5 310	5 310	-
Regulatory deposits and sovereign debt securities	3	1 210	-	-	1 210	1 198	12
Derivatives		-	224	-	224	224	-
Net advances	4	18 995	-	-	18 995	7 563	11 432
Accounts receivable and other assets		55	-	118	173	173	-
Property and equipment		-	-	1 238	1 238	-	1 238
Intangible assets		-	-	104	104	-	104
Deferred tax asset		-	-	985	985	-	985
Total assets		**25 570**	**224**	**2 445**	**28 239**	**14 468**	**13 771**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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	4 459	-	-	4 459	4 459	-
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
Accounts receivable and other assets		74	-	118	192	192	-
Non-current asset held for sale		-		72	72		72
Property and equipment		-	-	555	555	-	555
Intangible assets		-	-	71	71	-	71
Current tax		-	-	4	4	4	-
Deferred tax asset		-	-	938	938	-	938
Total assets		**26 430**	**52**	**1 758**	**28 240**	**12 780**	**15 460**

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
30 September 2019							
Cash and cash equivalents	2	5 038	-	-	5 038	5 038	-
Regulatory deposits and sovereign debt securities	3	1 725	-	-	1 725	1 198	527
Derivatives		-	36	-	36	36	-
Net advances	4	19 815	-	-	19 815	7 563	12 252
Accounts receivable and other assets		141	-	90	231	231	-
Property and equipment		-	-	547	547	-	547
Intangible assets		-	-	81	81	-	81
Deferred tax asset		-	-	870	870	-	870
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...

12.2 Analysis of financial liabilities

Rmillion	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
31 March 2020						
Creditors and accruals	443	-	807	1 250	1 114	136
Short-term funding	6 813	-	-	6 813	6 813	-
Bonds and other long-term funding	10 578	-	-	10 578	112	10 466
Subordinated bonds	1 532	-	-	1 532	50	1 482
Total liabilities	**19 366**	**-**	**807**	**20 173**	**8 089**	**12 084**
31 March 2019						
Derivatives	-	6	-	6	6	-
Creditors and accruals	414	-	68	482	482	-
Short-term funding	7 945	-	-	7 945	7 945	-
Bonds and other long-term funding	10 047	-	-	10 047	-	10 047
Subordinated bonds	1 531	-	-	1 531	-	1 531
Total liabilities	**19 937**	**6**	**68**	**20 011**	**8 433**	**11 578**
30 September 2019						
Creditors and accruals	659	-	78	737	602	135
	6 959	-	-	6 959	6 959	-
Bonds and other long-term funding	10 737	-	-	10 737	271	10 466
Subordinated bonds	1 533	-	-	1 533	52	1 481
Total liabilities	**19 888**	**-**	**78**	**19 966**	**7 884**	**12 082**

13. Related party information

As at 31 March 2020, the Bank's holding company held R1 414 million (30 September 2019: R1 355 million) as a long term deposit and R367 million (30 September 2020: R379 million) as a short term deposit with the Group. Interest expense on these deposits totaled R72 million for the financial period ended 31 March 2020 (30 March 2019: R31 million).

As at 31 March 2020, short term deposits held by the Bank's fellow subsidiary, African Insurance Group Limited, amounted to R449 million (30 September 2019: R10 million). For the financial period ended 31 March 2020 the Bank paid interest of R6 million (31 March 2019: R3 million) to African Insurance Group Limited.

Other than the above and remuneration for the directors and key management personnel, there were no material related party transactions.

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

14. Events after the reporting date

In terms of IAS 10 Events after the reporting period, adjusting post balance sheet events are those that arose post the balance sheet and were indicative of a condition that existed at the reporting date and non adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 31 March 2020.

In assessing the impact of the COVID-19 pandemic, information and events that existed prior to and post the reporting date for their post balance sheet treatment in the interim financial statements of the Bank, it was concluded that the evidence of potential retrenchments, the lockdown, government interventions and global capital market downturns reflected information that is adjusting to the extent that that information provided additional information about conditions that existed at the period end; the impact of which has been assessed in note of these interim financial statements.

Other than the above, there were no material matters or circumstances arising since the reporting period end which significantly affects the financial position as at 31 March 2020 or the results of its operations or cash flows for the period then ended.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 16

Impact of adopting new or revised accounting standards at 1 October 2019

Introduction

IFRS 16 Leases (IFRS 16), with effect from 1 January 2019, replaced IAS 17 Leases (IAS 17) as well as the related interpretations. At its core, IFRS 16 introduces a single lessee accounting model replacing the operating and financial lease requirements of the previous standard and interpretations. The principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from a contract that is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a specified period of time in exchange for consideration, on the statement of financial position. A lessee is required to recognise a right-of-use (ROU) 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 value is determined for a new asset, regardless of the age of the underlying asset being leased.

Significant accounting policies

Key requirements	Statement of financial position	Income statement
	IFRS 16 - Lessee	
Single lessee accounting model All leases are accounted for by recognising a right-of-use asset and a lease liability except for: • leases of low value assets; and • leases with a term (duration) of twelve months or less.	**Lease liabilities:** The Bank initially measures the lease liability at the present value of the remaining contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease; which if not readily determinable, as is the case with the Bank, the Bank's incremental borrowing rate on commencement of the lease is used. The Bank's external funding rate and management judgement is the base on which the incremental borrowing rate is calculated. The carrying value of the lease liability also includes any penalties payable for terminating the	**Interest expense:** A lease finance cost, determined with reference to the discount rate used in present valuing the remaining contractual payments due to the lessor over the lease term being the Bank's incremental borrowing rate, is recognised within interest expense over the lease period.
	Right-of-use assets: The Bank initially measures the right of use assets at cost, being the amount of the lease liability, reduced for any lease incentives received, and adjusted for previously recognised prepaid or accrued lease payments relating to that lease. The cost is increased with initial direct costs incurred and the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset. Subsequently, the Bank applies the cost model to the initial measurement of the right- of- use assets.	**Depreciation:** Subsequent to the initial measurement, the right- of- use assets are depreciated on a straight- line basis over the shorter of the remaining term of the lease or over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 16

	Derecognition: The Bank derecognises the right-of-use asset and lease liability when the Bank or lessor terminates or cancels a lease.	**Derecognition:** On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.
Leases of a low value or of a short-term are accounted for on a straight-line basis over the lease term.	Accruals for lease charges that have not yet been paid, plus a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised as an asset or liability.	Payments made for these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When the leases are terminated before the lease term has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Reassessment and modification of leases	**Not accounted for as a separate lease:** If the Bank reassesses the terms of a lease contract by reassessing the probability of exercising an extension or termination option or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term; which are discounted at the applicable rate at the date of reassessment or modification. For lease modifications, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. For lease modifications that decrease the scope of the lease, however, the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease. **Accounted for as a separate lease:** If the Bank modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the Bank accounts for these modifications as a separate new lease contract. This accounting treatment applies to short term leases for which the Bank would have elected the short-term lease exemption and the lease term is subsequently modified.	

Adoption and transition

The Bank adopted IFRS 16 during the current period for its leases of properties from which branch activities are undertaken. The Bank, as permitted by the standard, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements has been applied retrospectively. Accordingly, the Bank's previously reported financial results up to 30 September 2019 are presented in accordance with the requirements of IAS 17 and subsequent reporting periods, are presented in terms of IFRS 16.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. The liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at 1 October 2019; which was derived from rates applicable to external bonds in issue. The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 September 2019.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 16

Practical expedients applied

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than a 12-month lease term (considered to be short-term leases) on 1 October 2019, provided there is no option to extend the term;
- All leases that meet the criteria of a lease of a low-value asset are accounted for on a straight-line basis over the lease term;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Exclude initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The use of hindsight in determining the lease term, where the contract contains options to extend or terminate the lease.
- Elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component where applicable.

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. For contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Critical accounting estimates and judgements in applying IFRS 16

Extension and termination options

Extension options (or periods after termination options), if applicable, are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Factors including the importance of the underlying assets to our operations, undertaking of significant leasehold improvements and the Bank's past practice were considered to determine reasonable certainty. The assessment of reasonable certainty is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Impacts on the financial statements on transition

On adoption and transition to IFRS 16, the Bank recognised right-of-use assets and additional lease liabilities. The impact on transition is recognised below as at 1 October 2019.

Rmillion	1 October 2019
Right-of-use asset	771
Straight line lease provision	6
Deferred tax asset	-
Lease liability	**771**

The single lessee accounting model which comprises IFRS 16's most material impact for the Bank results in an increase of R771 million in total assets and R771 million increase in total liabilities. The release in the straight-line lease liability provision was to be considered immaterial. The total undiscounted operating lease commitments as at 30 September 2019 amount to R1116 million (including the considerations of extensions after termination), the lease liability as at 1 October 2019 amounted to R771 million, this difference primarily relates to discounting the operating lease commitments balance at the Bank's incremental borrowing rate.

ANNEXURE A: SUMMARISED IMPACT OF THE ADOPTION OF IFRS 16

Summary of the financial impact of adoption of IFRS 16

Rmillion	1 October 2019
Operating lease commitments as at 30 September 2019 (excluding extension and termination options)	358
Add: Extension and termination options	758
Operating lease commitments as at 1 October 2019	1 116
Total discounted using the incremental borrowing rate at the date of initial application	771
Lease liabilities recognised on 1 October 2019	771
Current	76
Non-current	695

As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the Bank recognised R703 million of right-of-use assets and R736 million of lease liabilities as at 31 March 2020. In relation to those leases under IFRS 16, the Bank recognised depreciation and interest costs, instead of operating lease expenses. For the 6 months ended 31 March 2020, the Bank recognised R68 million of depreciation in operating expenses and R35 million of interest costs in interest expense for these leases.

CORPORATE INFORMATION

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Maliga Chetty

African Bank Limited
Incorporated in the Republic of South Africa
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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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