African Bank Limited

Annual Financial Statements

30 September 2018

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

CONTENTS

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

African Bank Limited and its equity accounted joint venture constitute a parent entity group of companies, as defined in terms of International Financial Reporting Standards ("the Group").

The directors are responsible for the preparation and fair presentation of the Group annual financial statements, comprising the statement of financial position at 30 September 2018, the statement of total comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa ("the Companies Act").

The directors' responsibility includes:

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

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

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

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

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Group annual financial statements found on pages 17 to 81 were approved by the board of directors on 23 November 2018 and are signed on its behalf by:

B Maluleke	**G Raubenheimer**
Director	Director

Midrand

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

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2018, the Group has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Maliga Chetty
Company Secretary

Midrand
23 November 2018

AUDIT COMMITTEE REPORT

The audit committee presents its report for the financial year ended 30 September 2018 as required by section 94(7)(f) of the Companies Act. The audit committee has been constituted in accordance with the applicable legislation and regulations.

This report was approved by the audit committee and signed on its behalf by the chairman of the audit committee, Mr. Frans Truter, on 23 November 2018.

PURPOSE OF THE AUDIT COMMITTEE

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

MEMBERSHIP AND ATTENDANCE

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

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

Name	15 Nov 2017	8 Feb 2018	8 Mar 2018	20 Apr 2018	10 May 2018	3 Aug 2018
Members						
FJC Truter (Chairman)	✓	✓	✓	✓	✓	✓
SK Mhlarhi	✓	✓	✓	✓	✓	✓
L Stephens*	✓	✓	✓	✓	✓	✓
In Attendance						
B Riley	✓	✓	✓	N/a	N/a	N/a
G Raubenheimer	✓	✓	✓	Apology	✓	✓
B Maluleke	✓	✓	✓	✓	✓	✓

The internal and external auditors attended and reported at all meetings of the audit committee. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, the Heads of Internal Audit and Group Compliance attended all meetings by invitation. The executive directors were also invited to all meetings.

* Louisa Stephens was appointed as coordinator of the board following the resignation of Louis von Zeuner as a director of the company and as chairman of the board. Ms. Stephens consequently stepped down from the audit committee on 31 August 2018 while she fulfils this role. At this date Happy Ralinala, who was appointed to the board of directors in May 2018, was appointed to the audit committee.

FUNCTIONS OF THE AUDIT COMMITTEE

Given the recent spate of governance failures within the South African business environment, the audit committee has critically assessed the adequacy of the terms of reference and the functions included therein, with specific reference and consideration to the lessons which could be learnt from these regrettable events.

The audit committee has approved the audit committee charter and has discharged the functions in terms of the charter which include:

- In respect of the external auditors and the external audit:
  - evaluated and recommended for approval the appointment of PricewaterhouseCoopers Inc. as external auditors for the financial year ended 30 September 2018, in accordance with all applicable legal requirements;
  - approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
  - reviewed the audit process and evaluated the effectiveness of the external audit;
  - obtained assurance from the external auditors that their independence was not impaired;
  - considered the nature and extent of all non-audit services provided by the external auditors;
  - approved proposed contracts with the external auditors for the provision of non-audit services;
  - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.

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

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

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

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

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

INDEPENDENCE OF EXTERNAL AUDITORS

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

Specific consideration was given to the non-audit work undertaken in respect of the development of the Group's transactional banking service offering. This non-audit work was in relation to project management and was limited solely to this function, with no strategic, executive or managerial input provided. The total fees paid to the auditors in this regard amounted to R 12 million (2017: R 3 million).

The audit committee disclosed these services and the associated fees to the Prudential Authority, as well as presenting evidence of the measures taken to ensure the maintained independence of the auditors to the Independent Regulatory Board for Auditors.

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

In the course of the audit firm's internal rotation policy, Mr. Ranesh Premlall Hariparsad has replaced Mr. Thomas Magill as the designated audit partner.

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

INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND GROUP ANNUAL FINANCIAL STATEMENTS

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

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

DIRECTORS' REPORT

The directors present their report to the shareholders, together with the audited Group annual financial statements of African Bank Limited ("the Group") for the financial year ended 30 September 2018.

NATURE OF THE BUSINESS

African Bank Limited is registered as a bank under the Banks Act, 94 of 1990, as amended, which operates within the Republic of South Africa. Its main business is providing unsecured personal loans to primarily formally employed South African residents. The Group also takes deposits from retail customers and has launched a transactional banking offering, restricted to its staff as at the reporting date.

During the prior year, African Bank Limited invested in MMI Lending (Proprietary) Limited which African Bank Limited treated as an investment in joint venture. African Bank Limited equity accounts its investment in its standalone entity account so as to present a parent entity group, as defined in terms of International Financial Reporting Standards ("the Group").

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

SHARE CAPITAL

The authorised share capital of the group is 2 000 000 000 shares ordinary par value shares of R0.01 each (2017: 2 000 000 000 shares ordinary par value shares of R0.01 each).

No shares were issued during the current or previous financial years. At 30 September 2018, the issued ordinary share capital totalled 500 000 000 (2017: 500 000 000) shares at par value of R0.01 each representing R5 million (2017: R5 million). The Group has 1 500 000 000 unissued ordinary shares (2017: 1 500 000 000).

HOLDING COMPANY

The Group's holding company is African Bank Holdings Limited.

FINANCIAL RESULTS

The financial results for the year ended 30 September 2018 are set out on pages 4 to 84 of these Group annual financial statements. The Group reported a net profit after tax of R303 million for the 2018 financial year (2017: net profit after tax of R178 million).

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

For regulatory capital adequacy purposes, the opening retained earnings and deferred tax adjustment will not be phased in as allowed per the SARB directive 5 of 2017: *"Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects"*.

The Group is currently assessing the impact which the adoption of IFRS 9 will have on retained earnings and on its CAR and expects the midpoint of the range of the impact on the qualifying capital, as measured according to the applicable regulatory requirements, to be approximately R801 million as at 1 October 2018, which would reduce the capital adequacy ratio from 37.8% to 34.9% as at this date. The midpoint of the range of the net impact on retained earnings is expected to be approximately R802 million as at 1 October 2018.

Following the adoption of IFRS 9, the Group will publish a transition report, which report will provide more detail on the Group's application of IFRS 9.

BORROWING POWERS

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

The total borrowings of the Group at 30 September 2018 are R21 billion (2017: R23 billion). Full details of the borrowings are shown in notes 13, 14 and 15 to the annual financial statements.

EVENTS AFTER THE REPORTING DATE

During the period after 30 September 2018, African Bank Holdings Limited and MMI Holdings Limited mutually decided to terminate the joint venture comprising of lending, insurance and transactional banking arrangements. This decision was taken after the financial year end of the Group and does not have a bearing on the financial position and results of the joint venture as reported in the financial statements. Consequently no adjustment has been made to the financial position and results of the joint venture as reported. The decision to terminate the joint venture will be executed in terms of the provisions of the relationship agreement between African Bank Holdings Limited and MMI Holdings Limited.

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

GOING CONCERN

The directors have satisfied themselves that the Group is in a sound financial position and that sufficient cash reserves and borrowing facilities are accessible in order to enable the Group to meet its foreseeable cash requirements. In addition, there have been no material change in the markets in which the Group operates and it has the necessary skills to continue operations.

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

MAJOR CAPITAL EXPENDITURES

The Group made additions to its capital assets of R203 million (2017: R117 million) during the financial year.

REGULATORY APPROVAL

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

DIRECTORS AND CHANGES IN DIRECTORS

The following changes in directorate have taken place during the 2018 financial year end up to 23 November 2018:

Appointments:

B Maluleke was appointed as the Chief Executive Officer on 2 April 2018.
H Ralinala was appointed as an independent non-executive director on 23 May 2018.
M Harris was appointed as an independent non-executive director on 29 August 2018.

Resignations:

LL von Zeuner resigned from the Board with effect from 31 July 2018.

African Bank Limited board of directors

Independent non-executive directors

MJHarris
SL McCloghrie
SK Mhlarhi
H Ralinala
L Stephens
PJ Temple
FJC Truter

Non-independent non-executive directors
B Riley

Executive directors
B Maluleke
G Raubenheimer

DIVIDENDS TO ORDINARY SHAREHOLDERS

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

COMPANY SECRETARY AND REGISTERED OFFICE

Bruce Unser retired as company secretary of African Bank Limited on 3 October 2018. Maliga Chetty was appointed as company secretary on 4 October 2018. Her business and postal address is disclosed on the page 84 of these financial statements.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Details in respect of directors' remuneration and the Group's incentive scheme are disclosed in the long term incentive note and the remuneration note (refer to note 37 and 40).

DIRECTORS' INTEREST IN SHARES

The directors' have no direct and indirect interests (including associates) in the issued share capital of the Group.

AUDITORS

PricewaterhouseCoopers Inc. has expressed its willingness to continue as auditors. The resolutions proposing its reappointment and authorising the board to set its fees, will be submitted at the forthcoming annual general meeting.

In the course of the audit firm's internal rotation policy, Mr Ranesh Premlall Hariparsad has replaced Mr. Thomas Magill as the designated audit partner.

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

SPECIAL RESOLUTIONS BY AFRICAN BANK LIMITED

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

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

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

In the preceding financial year, African Bank Holdings Limited entered into a relationship agreement with MMI relating to a joint venture comprising of a lending, insurance and transactional banking arrangement ("the MMI JV").

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

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

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Independent auditor's report

To the Shareholder of African Bank Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Bank Limited (the Company) as at 30 September 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

African Bank Limited's financial statements set out on pages 17 to 81 comprise:

- the statement of financial position as at 30 September 2018;
- the statement of total comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statement* section of our report.

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

Independence

We are independent of the Company in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Parts A and B).*

Our audit approach

Overview

	Overall materiality *Overall materiality: R151 million, which represents 0.5% of total assets.*
	Key audit matter *Impairment of originated loans and advances.*

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

Materiality

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

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

Overall materiality	R151 million.
How we determined it	0.5% of total assets.
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is an accepted benchmark. As this is the third year the Company is operating, the users of the financial statements will continue to focus on the net value of the advances book (net of impairments) and the ability to recover the outstanding balances. This reflects the ability to repay the debt funding of the Company. We chose 0.5% (which is at the lower end of the spectrum of choices) due to the listed debt within the Company which increases the sensitivity of the users in respect of the chosen benchmark.

Key audit matter

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

Key audit matter	How the matter was addressed in the audit
Impairment of originated loans and advances The quality of credit is one of the primary risks managed by management. Therefore, the recoverability of the advances book, and the resultant credit impairments recognised, are key considerations. The Company's main business is unsecured retail loans and as a result credit risk has a significant impact on the business. As at the 30 September 2018, the gross balance of the originated advances was R22,827 billion and the related impairment recognised was R7,144 billion (Refer to note 27.2.2 in this regard). Credit impairment provisions relating to advances, disclosed in note 5 and note 27.2.2 to the financial statements, represents management's best estimate of the losses incurred within the unsecured retail loan portfolio. 'Contractual Delinquency' (CD) classification is used for the purposes of identifying the type of impairment to be calculated within the portfolio. For performing advances that are not in default, an incurred but not reported (IBNR) impairment is recognised. For advances where at least part of an instalment was missed an impairment for the portfolio specific impairment (PSI) and specific impairment (SI) is raised. Where more than four instalments have been missed and payments not received over the past five months, the entire advance is fully impaired and treated as written off for accounting purposes. In determining the impairment allowances specified above, the following significant judgements are applied by the Company: • Timing and amount of the expected cash flows, • Discount rates; • Probability of default ("PD"); • Loss given default ("LGD"); • Exposure at default ("EAD"); • Emergence periods; and • Overlays (impairment provisions that are recognised to cater for specific events which are not included in the impairment models).	The Company's advances impairment methodologies and models were independently tested and reperformed to assess the accuracy of implementation and the methodologies were inspected to assess compliance with the International Accounting Standard (IAS) 39 *Financial instruments: Recognition and Measurement* principles. We obtained an understanding and assessed the operating effectiveness of the relevant controls (using a combination of techniques such as enquiry, inspection, observation and reperformance) relating to the approval of credit facilities, the subsequent monitoring and remediation of exposures and the evaluation of credit risk ratings. We considered the appropriateness of accounting policies against IFRS principles and identified no inconsistencies. For model-based portfolio impairments which considered the CD classification for purposes of identifying the type of impairment to be calculated within the portfolio: • We made use of our internal credit expertise to consider the design and accuracy of implementation of the models against management's policy; • We assessed the significant assumptions and the quality of the observable data used to derive modelled impairments within the context of industry norms; • We assessed the current business practice and data outputs in terms of management's collections function, write-off and restructures against policy as well as industry norms; • We made use of our internal credit expertise to assess the reasonableness of the impairment model methodology used to determine the PD, LGD and economic and parameter override estimates used to compute the IBNR impairment, portfolio specific impairment and specific impairment, in relation to our knowledge of the client and the industry; • We made use of our internal valuations expertise to assess the reasonableness of the loss rates (contractual delinquency) estimated for the non performing book in light of the South African Reserve Bank (SARB) directive dealing with distressed credit. We assessed the estimates allowing for the ageing of defaulted assets, the type of collection process followed as well as the impact of the treatment of restructured and non-performing loans in the impairment model in relation to our knowledge of the Company and the industry;

Key audit matter	How the matter was addressed in the audit
These impairment provisions are material to the financial statements in terms of the value, subjective nature of the impairment calculations and the effect on the Company's risk management processes and operations. Management applies a significant amount of judgement and makes use of estimates to determine the impairment provisions. Therefore, this has resulted in this matter being identified as a matter of most significance to the current year audit of the financial statements. *Refer to the critical accounting judgements and key sources of estimation uncertainty note, note 5 Net advances, note 18 Credit impairment charge and the Credit risk section under note 27 to the financial statements.*	• We performed stress testing against industry norms to determine the impact of risk drivers not explicitly included in the impairment model, such as the macro economic impact on incurred credit loss events, the impact of missed payments on other loans and risk following past arrears; • We made use of our internal valuations expertise to assess the reasonability of the impairment provision by assessing the difference in the impairment provisions in relation to our independent model. This model independently estimates the modelled parameters using the same modelling data as used by management. Management's output was found to be acceptable, based on our independent calculation; and • We independently reperformed the overlays that management recognised to cater for specific events not included in the company's impairment models. Management's credit impairments were found to be acceptable, based on our independent calculations and testing performed.

Other information

The directors are responsible for the other information. The other information comprises the information included in the African Bank Limited Annual Financial Statements for the year ended 30 September 2018 which includes the Directors' Report, the Audit Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, and the Integrated Report 2018. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers Inc.
Director: Ranesh P Hariparsad
Registered Auditor
Johannesburg

23 November 2018

STATEMENT OF FINANCIAL POSITION
at 30 September 2018

Rmillion	Notes	2018	2017
Assets			
Cash and cash equivalents	2	**7 221**	6 862
Regulatory deposits and sovereign debt securities	3	**2 130**	4 722
Derivatives	4	**47**	748
Net advances	5	**19 178**	18 743
Accounts receivable and other assets	6	**212**	219
Loans to affiliated companies	7	**51**	23
Investments	8	**15**	-
Property and equipment	9	**597**	494
Intangible assets	10	**72**	75
Deferred tax	11	**756**	389
Current tax	11	**-**	49
Total assets		**30 279**	**32 324**
Liabilities and equity			
Current tax	11	**24**	-
Derivatives	4	**-**	5
Creditors and other liabilities	12	**648**	620
Short-term funding	13	**6 016**	4 305
Bonds and other long-term funding	14	**13 279**	17 385
Subordinated bonds	15	**1 530**	1 530
Total liabilities		**21 497**	**23 845**
Ordinary share capital	16	**5**	5
Ordinary share premium	16	**9 995**	9 995
Accumulated losses		**(1 218)**	(1 521)
Total equity		**8 782**	**8 479**
Total liabilities and equity		**30 279**	**32 324**

STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the year ended 30 September 2018

Rmillion	Notes	2018	2017
Interest income on advances	17	**7 168**	5 700
Credit impairment charge	18	**(3 608)**	(2 448)
Interest on advances after impairment		**3 560**	**3 252**
Other interest income	17	**479**	847
Interest expense and similar charges	19	**(2 066)**	(2 741)
Net interest income after impairment		**1 973**	**1 358**
Non-interest income	20	**1 198**	1 526
Operating costs	21	**(2 615)**	(2 604)
(Loss)/ Gain on debt buy back		**(6)**	16
Indirect taxation: VAT	22	**(65)**	(56)
Operating profit		**485**	240
Share of loss of joint venture accounted for using the equity method	8	**(16)**	-
Profit before taxation		**469**	**240**
Taxation	22	**(166)**	(62)
Profit for the year		**303**	**178**
Attributable to:			
-Owner of African Bank Limited		**303**	178
Total comprehensive profit for the year		**303**	**178**

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2018

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2016	5	9 995	(1 699)	8 301
Total comprehensive profit for the year	-	-	178	178
Balance at 30 September 2017	**5**	**9 995**	**(1 521)**	**8 479**
Total comprehensive profit for the year	-	-	303	303
Balance at 30 September 2018	**5**	**9 995**	**(1 218)**	**8 782**
Note	16	16		

STATEMENT OF CASH FLOWS
for the year ended 30 September 2018

Rmillion	Notes	2018	2017
Cash flows from operating activities			
Cash generated from operations	23	**5 291**	3 850
Cash received from lending activities and cash reserves	24	**8 762**	8 042
Recoveries on advances previously written off		**115**	11
Cash paid to clients, funders, employees and agents	25	**(3 586)**	(4 203)
Increase in gross advances		**(4 122)**	(1 163)
Net increase/(decrease) in regulatory deposits and sovereign debt securities		**2 627**	(3 360)
Net increase in customer deposits		**751**	201
Direct taxation paid	26	**(461)**	(479)
Indirect taxation paid		**(65)**	(56)
Net cash inflow/(outflow) from operating activities		**4 201**	(1 007)
Cash flows from investing activities			
Acquisition of property and equipment (to maintain operations)	9	**(150)**	(63)
Acquisition of intangible assets (to maintain operations)	10	**(53)**	(54)
Loans advanced to affiliated companies	7	**(28)**	303
Investments made during the period	8	**(31)**	-
Net cash (outflow)/inflow from investing activities		**(262)**	186
Cash flows from financing activities			
Net long term funding redeemed		**(489)**	(2 863)
Net short-term funding redeemed		**(2 785)**	(2 229)
Net cash outflow from financing activities		**(3 274)**	(5 092)
Increase/(Decrease) in cash and cash equivalents		**485**	(5 913)
Cash and cash equivalents at the beginning of the year		**6 862**	12 862
Effect of exchange rate changes on cash and cash equivalents		**(126)**	(87)
Cash and cash equivalents at the end of the year		**7 221**	6 862

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

1. General information

African Bank Limited ("ABL", "the Group") is a public company incorporated in the Republic of South Africa. 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, 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 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 Bank's main business is providing unsecured personal loans.

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

In the preceding financial year, ABL entered into a relationship agreement with MMI Holdings Limited relating to a joint venture comprising of a lending, insurance and transactional banking arrangement. ABL subscribed for 49,9% of the ordinary shares of MMI Lending (Proprietary) Limited, a company established under joint control with MMI Strategic Investments Limited in the course of the relationship agreement. The joint venture commenced operations in the current financial year.

ABL and its equity accounted joint venture in its standalone entity accounts constitute the African Bank parent entity group of companies ("the ABL Group"). The ABL Group's main business is providing unsecured personal loans. Refer to note 8 for financial information of the joint venture.

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

1.1. Adoption of new standards and interpretations effective for the current and future financial years

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

1.2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are continually evaluated and are based on the historical experience and other factors that are considered to be relevant.

Estimates, judgements and assumptions made, predominantly relate to impairment provision for loans and advances as well as to fair value estimates.

The critical judgements that management have made in the process of applying the Group's accounting policies and key estimation uncertainties are disclosed as part of the relevant accounting policies.

1.3. Significant accounting policies

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

1.3.1. Statement of compliance

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

1.3.2. Basis of preparation

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

1.4. Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits as well as call and current accounts held with financial institutions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

1.5. Financial instruments

The Group applies IAS 39 for the recognition, classification and measurement and de-recognition of financial assets and financial liabilities and for the impairment of financial assets. Currently the Group does not apply hedge accounting as defined in IAS 39. The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

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

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

Financial liabilities are classified into the following categories:

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

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

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

1.5.1. Initial measurement

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

1.5.2. Subsequent measurement

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

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

This category includes instruments that are classified as held for trading. Currently only derivatives are included in this category. The fair value gains and losses from changes in fair value are taken to ‘other gains or losses’ in profit or loss.

1.5.2.2. Held-to-maturity financial assets

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

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

Contained within regulatory deposits and sovereign debt securities (note 3) are treasury bills, treasury debentures and bonds. Management has elected to classify these financial assets as held-to-maturity upon initial recognition. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

1.5.2.3. Loans and receivables

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

1.5.2.4. Financial liabilities at amortised cost

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

1.5.3. Effective interest method

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

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.

1.5.4. Impairment of financial instruments

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

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

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

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

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

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

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

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

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

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

1.5.4.1. Provision for IBNR

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

1.5.4.2. Portfolio specific impairments

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

1.5.4.3. Specific impairments

Loans and receivables that have missed 4 or more instalments are assessed for specific impairments. These loans form the non-performing loan portfolio.

1.5.4.4. Written off portfolio

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

1.5.5. De-recognition of financial instruments

1.5.5.1. 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.

1.5.5.2. Financial liabilities

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

1.5.6. Derivative financial instruments

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

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

1.5.7. Hedge accounting

Currently the Group does not apply hedge accounting for the purposes of IAS 39, but does apply economic hedging principles.

1.6. Investments

1.6.1. Investment in joint venture

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

Investment in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

Accounting policies of the joint venture are consistent with the policies adopted by the Group.

1.7. Intangible assets

1.7.1. Software

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

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

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

1.7.2. De-recognition of intangible assets

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

1.8. Property and equipment

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

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

Useful lives have been determined to be as follows:

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Refer to note 9.1 for the change in estimate of the useful lives of information technology equipment as well as office furniture and equipment in the current financial period.

1.9. Impairment of non-financial assets

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

1.10. Equity

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

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

1.10.1. Share capital and share premium

Shares issued by the Group are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares. In line with the requirements of The Banks Act, 1990 only par value shares are issued by the Group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

1.11. Revenue

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

1.11.1. Interest income

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

- Origination fees on loans granted

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

- Monthly service fee

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

1.11.2. Non-interest income

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

1.12. Taxation

1.12.1. Indirect taxation

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

1.12.2. Direct taxation

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

1.12.3. Current taxation

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

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

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

1.12.4. Deferred taxation

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

1.13. Operating leases

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

1.14. Foreign currency transactions and balances

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

1.15. Employee benefits

1.15.1. Post-employment benefits

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

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

1.15.2. Short-term benefits

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

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

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

1.15.3. Long-term benefits

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

1.16. Segment reporting

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

2. Cash and cash equivalents

Rmillion	2018	2017
Call deposits [(1)]	**3 571**	858
Rand	900	614
Foreign denominated	2 671	244
Short term notice deposits [(2)]	**325**	273
Rand	253	204
Foreign denominated	72	69
Other notice deposits [(3)]	**3 288**	5 695
Rand	404	2 757
Foreign denominated	2 884	2 938
Current accounts [(4)]	**37**	36
	7 221	6 862

Maximum exposure to credit risk: R7 225 million (2017: R6 866 million).
See note 27.4 for credit risk ratings of counterparties.
The Group uses foreign currency denominated deposits to mitigate against risks arising from changes in foreign currency exchange rates where the Groups' debt is denominated in a currency other than the functional currency. Refer to note 28.2 for foreign exchange risk management. Refer to note 15 for debt denominated in a currency.

[(1)] Call deposits are held with SA banks and can be withdrawn on demand. Rand denominated call deposits bear interest at rates varying from 6.10% to 6.50% NACM (2017: from 4.5% to 6.81% NACM). Money on call deposits can be withdrawn on demand.
Foreign denominated call deposits bearing interest at market related rates, varying from 0% to 2.17% NACM (2017: from 0% to 1.18%).

[(2)] Short term notice deposits are deposits with SA banks. Rand denominated short term notice deposits bear interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate of 7.07% (2017: 7.46%).
Foreign denominated short notice deposits bear interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate of 2.45% (2017: 1.9%).

[(3)] Other deposits are deposits with SA banks. Rand denominated other deposits bear interest at market related rates, which mature in 33 or more with an average interest rate of 7.70% (2017: 7.79%).
Foreign denominated other deposits bear interest at market related rates, which mature in 33 days or more with an average interest rate of 2.64% (2017:2.35%).

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

3. Regulatory deposits and sovereign debt securities

Rmillion	2018	2017
Listed	**1 775**	4 312
Treasury bills and debentures [(1)]	244	2 810
Bonds [(2)]	1 531	1 502
Unlisted		
Deposits with South African Reserve Bank [(3)]	**355**	410
	2 130	4 722

Maximum exposure to credit risk: R2 130 million (2017: R4 722 million)
See note 27.4 for credit risk ratings of counterparties
Regulatory deposits and sovereign debt securities with a carrying value of R1 110 million (2017: R1 436 million) are held by the South African Reserve Bank in terms of the Banks Act and regulations thereto, and are not available for day-to-day operations.
The intention is to hold all treasury bills, debentures and bonds to maturity.

[(1)] Treasury bills and debentures had an interest rate of 7.30% to 7.32% NACQ (2017: 7.35% and 7.79% NACQ).

[(2)] The inflation linked bond has an interest rate of CPI plus 2.75% NACS (2017: CPI plus 2.75% NACS). RSA Government, foreign denominated bonds had an interest of 6.88% NACS (2017: 6.88% NACS). Refer to note 28.2 for foreign exchange risk management

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

4. Derivatives

Rmillion	ASSETS OVER THE COUNTER		LIABILITIES OVER THE COUNTER	
	Notional	Carrying amount at fair value	Notional	Carrying amount at fair value
2018				
Currency derivatives				
Swaps	-	-	-	-
Interest rate derivatives				
Swaps	-	-	-	-
Inflation linked derivatives				
Swaps	**133**	**47**	-	-
Total	**133**	**47**	**-**	**-**
2017				
Currency derivatives				
Swaps	1 988	238	-	-
Interest rate derivatives				
Swaps	-	-	515	5
Inflation linked derivatives				
Swaps	2 187	510	-	-
Total	4 175	748	515	5

The Group uses inflation linked swaps to economically hedge against changes in cash flows of certain variable rate debt.

The Group has also used currency swaps to economically hedge against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.

For accounting purposes the derivatives have not been formally designated as hedging instruments as defined by IAS 39 and therefore all derivatives are classified as held for trading.

The fair value of derivative assets and derivative liabilities are included under interest expense and similar charges on the face of the statement of comprehensive income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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Derivatives settled on a net basis and gross basis
The Group's derivatives that settle on a net basis are inflation linked swaps.

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

Some of the Group's derivatives are subject to collateral requirements (see note 32), such as margin calls. Cash flows from those derivatives could occur earlier than the contractual maturity. Contractual maturities are assessed to be essential for an understanding of the timing of cash flows of all derivatives.

Derivatives settled on a net basis	> 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years	Total
2018						
Financial assets						
Inflation linked swaps	**-**	**47**	**-**	**-**	**-**	**47**
Financial liabilities						
Interest rate swaps	**-**	**-**	**-**	**-**	**-**	**-**
2017						
Financial assets						
Inflation linked swaps	-	469	41	-	-	510
Financial liabilities						
Interest rate swaps	-	5	-	-	-	5

Derivatives settled on a gross basis	> 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years	Total
2017						
Financial assets						
Cross currency interest rate swaps						
Inflow	-	2 359	-	-	-	2 359
Outflow	-	(2 121)	-	-	-	(2 121)
	-	238	-	-	-	238

The Group held no derivative financial liabilities which were settled on a gross basis in 2018 (2017: nil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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5. Net advances

Rmillion	2018	2017
Gross advances	**23 240**	20 857
Deferred origination and administration fees	**(68)**	(74)
Gross advances after deferred origination and administration fees	**23 172**	20 783
Loan	18 931	16 135
Credit card	4 241	4 648
Balance of impairment provisions at the end of the year	**3 994**	2 040
Balance of impairment provisions at the beginning of the year	2 040	362
Impairment provisions raised	3 833	2 535
Bad debt (write-offs)	(1 879)	(857)
Net advances	**19 178**	18 743
Exposure to credit risk		
Conditionally revocable credit card commitments	**715**	750
Maximum exposure to credit risk	**19 893**	19 493

The net book value of the acquired book as at year end was R3.7 billion (2017: R7 billion).

6. Accounts receivable and other assets

Rmillion	2018	2017
Financial		
Sundry receivables (1)	**104**	114
Non-financial		
Prepayments (2)	**108**	105
Total	**212**	219

(1)Sundry receivables include insurance commissions and management fees receivables.

Due to the short-term nature of the receivables, the carrying amount approximates its fair value. Sundry receivables are neither past due nor impaired.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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7. Loans to affiliated companies

Rmillion	2018	2017
African Bank Holdings Limited[1]	-	23
MMI Lending Proprietary Limited[2]	**51**	-
Total	**51**	23

[1] Loan to ABHL
The loan to ABHL was repaid during the current period and the credit facility was cancelled.

[2]Loan to MMI Lending Proprietary Limited
The board of the MMI Lending Proprietary Limited shall be responsible for determining the financial requirements of MMI Lending Proprietary Limited from time to time.
Funding shall be made available in a form of a loan subject to a NACQ fixed interest rate.
Capital repayments shall be due two years following drawdown date.

Rmillion	2018	2017
Maximum exposure to credit risk	**51**	23

8. Investments

Rmillion	2018	2017
Investment in joint venture[1]	**5**	-
Investment in sinking fund policy[2]	**10**	-
Total	**15**	-

In the preceding financial year, the Bank entered into a relationship agreement with MMI Holdings Limited relating to a joint venture comprising of a lending, insurance and transactional banking arrangement.

[1]Following conclusion of the relationship agreement the Bank acquired a 49.9% interest in MMI Lending Proprietary Limited, which it recognises as an investment in a joint venture. The purpose of MMI Lending Proprietary Limited is to provide unsecured lending products to the MMI Group customers in South Africa. The joint venture commenced operations in the current financial year. The joint venture commenced operations in the current financial year.

[2]The Bank also acquired a 50% interest in a sinking fund policy. The purpose of the sinking fund policy is to encapsulate the fund value of insurance policies written in terms of the insurance arrangement under the above relationship agreement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

Summarised financial information of MMI Lending Proprietary Limited

Summarised financial position

Rmillion	2018	2017
Current assets		
Cash and cash equivalents	**35**	-
Other current assets	**-**	-
Total current assets	**35**	-
Non-current assets	**87**	-
Current liabilities	**(11)**	-
Non-current liabilities	**(101)**	-
Loan funding	(100)	-
Other non-current liabilities	(1)	-
Net assets	**10**	-

Summarised statement of comprehensive income

Rmillion	2018	2017
Interest income	**9**	-
Non-interest revenue	**2**	-
Credit impairment charge	**(7)**	-
Interest expense	**(4)**	-
Other interest income	**3**	-
Operating costs	**(33)**	-
Direct and indirect taxation	**(2)**	-
Total comprehensive loss	**(32)**	-

Reconciliation of carrying amount

Rmillion	MMI Lending Proprietary Limited 100%	ABL share 49.9%
Opening net asset: 1 October 2017	-	-
Issue of shares	42	21
Loss for the year	(32)	(16)
Other comprehensive income	-	-
Dividend paid	-	-
Closing net assets: 30 September 2018	10	5

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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9. Property and equipment

Rmillion	2018 Cost	2018 Accumulated depreciation	2018 Carrying value	2017 Cost	2017 Accumulated depreciation	2017 Carrying value
Furniture and fittings	**84**	**(22)**	**62**	76	(27)	49
Information technology equipment	**329**	**(107)**	**222**	225	(99)	126
Motor vehicles	**2**	**(1)**	**1**	2	(1)	1
Leasehold improvements	**65**	**(38)**	**27**	53	(26)	27
Land and buildings (owner-occupied)	**300**	**(15)**	**285**	300	(9)	291
Total	**780**	**(183)**	**597**	656	(162)	494

Reconciliation of the carrying amounts of property and equipment 2018

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

Reconciliation of the carrying amounts of property and equipment 2017

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	48	30	(19)	(10)	49
Information technology equipment	188	9	(69)	(2)	126
Motor vehicles	1	1	(1)	-	1
Leasehold improvements	19	23	(15)	-	27
Land and buildings (owner-occupied)	297	-	(6)	-	291
Total	553	63	(110)	(12)	494

9.1 Change in estimate

During the 2018 financial year, the Group reassessed the useful lives of information technology equipment and office furniture and equipment. The reassessment of the useful lives illustrates more accurately the period over which expected future benefits of use can be realised. The net effect of the changes was a decrease of R56 million in the depreciation expense in the current financial year, which amount will be included in the depreciation charge in future financial period. This change will be applied prospectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

10. Intangible assets

Rmillion	2018			2017		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Software	**138**	**(66)**	**72**	116	(41)	75

Reconciliation of the carrying amounts of intangible assets 2018

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

Reconciliation of the carrying amounts of intangible assets 2017

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write offs	Carrying value at end of year
Software	49	54	(24)	(4)	75

11. Current and deferred tax

Rmillion	2018	2017
Current tax asset/(liability)	**(24)**	49
Deferred tax asset	**756**	389
Total	**732**	438

11.1. Deferred tax asset

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2017			
Temporary differences			
Deferred origination and administration fees on advances	11	(7)	4
Provisions	29	5	34
Impairment for credit losses	101	244	345
Prepayments	-	(15)	(15)
Tax impact from the buy-back of liabilities	(20)	41	21
Total	121	268	389

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

12. Creditors and other liabilities

Rmillion	2018	2017
Financial		
Advances with credit balances	**16**	18
Cash payable to Residual Debt Services Limited (in curatorship)	**16**	25
Sundry payable and accruals[(1)]	**167**	174
Premium accruals payable to Guardrisk	**118**	125
Accruals related to payroll[(2)]	**263**	222
Non- Financial		
Provision for straight lining of leases	**7**	6
Leave pay accrual	**61**	50
Total	**648**	**620**

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

[(2)] *Included in Accruals related to payroll is a provision for the long-term incentive scheme amounting to R95 million (2017: R70 million). Refer to note 36 and 37 for additional disclosure.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

13. Short-term funding

Rmillion	2018	2017
Call deposits[(1)]	**50**	547
Notice deposits[(2)]	**956**	-
Negotiable certificates of deposits[(3)]	**-**	306
Fixed deposits[(4)]	**516**	1 988
Promissory notes[(5)]	**1 514**	793
Listed bonds[(6)]	**2 067**	460
Unlisted bonds[(7)]	**369**	-
Retail short term funding[(8)]	**463**	100
Other short term funding	**81**	111
Total	**6 016**	4 305

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

[(1)]Call deposits with monthly coupon payments have an interest rate of 6.35% NACM (2017: 6.57% NACM).

[(2)]Notice deposits have interest linked to jibar.

[(3)]Negotiable certificates of deposit consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.15% to 7.62% NACS and NACA (2017: 7.15% to 7.62% NACS and NACA).

[(4)]Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 4.75% to 11.14% NACQ, NACS and NACA (2017: 0% to 13.06% NACQ, NACS and NACA).

[(5)]Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 8.11% to 10.87% NACQ, NACS and NACA (2017: 8.16% to 9.34% NACQ, NACS and NACA).

[(6)]Listed bonds consist of JSE listed variable rate and fixed rate bonds with interest rates varying from 9.01% to 11.50% (2017: 9.50% to 9.55%) and foreign listed bonds of 4.76% CHF (2017: none).
Listed bonds to the total value of R2 069 million (2017: R460 million) repayable within 12 months were reclassified from long term funding to short term funding.

[(7)]Unlisted bonds consist of bonds classified as long term funding in the prior period to short term in the current period, refer to note 14 for detail.

[(8)]Retail short term funding consisted of retail deposits with interest rates varying from 3.21% to 10.50% (2017: 3.21% to 10.05%)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

14. Bonds and other long-term funding

Rmillion	2018	2017
Unsecured bonds (listed on JSE)	**5 697**	6 908
Unsecured bonds (listed on foreign stock exchanges)	**5 208**	5 612
Unsecured long-term loans	**1 726**	4 285
Retail long term funding	**648**	241
Unlisted bonds	**-**	339
Total	**13 279**	17 385

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

14.1. Unsecured bonds listed on JSE

Rmillion	Face value	Interest accrued[(1)]	Unamortised premium/ (discount)[(2)]	Reclassified into short term funding	Net liability 2018	Net liability 2017 [(3)]
Fixed rate bonds: Ranging from 9.5% to11.5%	**198**	**9**	**-**	**(207)**	**-**	209
JIBAR linked bonds: Ranging from JIBAR + 199bpts to JIBAR + 400 bpts	**3 197**	**35**	**(21)**	**(999)**	**2 212**	3 204
Inflation linked bonds: Ranging from 3.2% to 5.75%	**2 751**	**1 093**	**(121)**	**(238)**	**3 485**	3 495
Total	**6 146**	**1 137**	**(142)**	**(1 444)**	**5 697**	6 908

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

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

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

[(3)] Included in the net liability for 2017 financial year is accrued interest of R958 million and unamortised discount of R188 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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14.2. Unsecured bonds listed on foreign stock exchanges*

Rmillion	Face value	Interest accrued[1]	Foreign currency translation[2]	Unamortised premium / (discount)[3]	Reclassified into short term funding	Net liability 2018	Net liability 2017 [4]
USD denominated bonds: Ranging from 6% to 8.125% (all bonds maturing in 2020)	3 580	80	(139)	22	-	3 543	3 392
CHF denominated bonds: Ranging from 4% to 5.5% (bonds mature between 2019 and 2022)	2 350	41	(129)	27	(624)	1 665	2 220
Total	**5 930**	**121**	**(268)**	**49**	**(624)**	**5 208**	5 612

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

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

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

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

[4] Included in the net liability for 2017 financial year is accrued interest of R116 million, decrease due to foreign currency revaluation of R507 million and unamortised premium of R74 million.

14.3. Unsecured long-term loans

Rmillion	Face value	Interest accrued[1]	Unamortised premium/ (discount)[2]	Net liability 2018	Net liability 2017 [3]
Promissory notes	1 344	15	-	1 359	3 032
Fixed deposits	322	67	(22)	367	1 253
Total	**1 666**	**82**	**(22)**	**1 726**	4 285

Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 8.81% to 12.01% NACQ, NACS and NACA (2017: from 8.22% to 12.08% NACQ, NACS and NACA). These notes have various maturities, ranging from 03 October 2019 to 1 December 2024.

Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.45% to 10.70% NACQ, NACS and NACA (2017: from 7.0% to 11.14% NACQ, NACS and NACA). These deposits have various maturities, ranging from 13 October 2019 to 2 March 2023.

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

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

[3] Included in the net liability for 2017 financial year is accrued interest of R151 million and unamortised discount of R51 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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14.4. Unlisted bonds

Rmillion	Face value	Interest accrued[1]	Foreign currency translation[2]	Unamortised premium / (discount)[3]	Reclassified into short term funding	Net liability 2018	Net liability 2017 [4]
USD denominated bonds	**377**	**8**	**(15)**	**(1)**	**(369)**	**-**	339

USD denominated bonds with an original face value of USD 25.6 million, issued on 4 April 2016, are redeemable on 9 November 2018. Interest is calculated and payable semi-annually at a coupon rate of 2.4% USD.

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

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

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

[4] Included in the net liability for 2017 financial year is accrued interest of R7 million, decrease due to foreign currency revaluation of R31 million and unamortised discount of R14 million.

15. Subordinated bonds

Rmillion	Face value	Interest accrued [1]	Unamortised discount [2]	Net liability 2018	Net liability 2017 [3]
Subordinated bonds	**1 485**	**51**	**(6)**	**1 530**	1 530

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

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

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

[3] Included in the net liability for 2017 financial year is accrued interest of R53 million and unamortised discount of R8 million.

16. Share capital

Rmillion	Number of shares 2018	Rm 2018	Number of shares 2017	Rm 2017
Ordinary shares of R0.01 each	**2 000 000 000**	**-**	2 000 000 000	-
Issued				
Ordinary shares at par value of R0.01 each	**500 000 000**	**5**	500 000 000	5
Ordinary share premium		**9 995**		9 995
Total		**10 000**		10 000

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

The Group has 1 500 000 000 (2017: 1 500 000 000) unissued ordinary shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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17. Interest income

17.1. Interest income on advances

Rmillion	2018	2017
Interest on advances	**6 723**	5 326
Loan origination fees	**185**	92
Service fee	**260**	282
Total	**7 168**	5 700

17.2. Other interest income

Rmillion	2018	2017
Interest received on cash reserves	**308**	646
Sundry interest income	**171**	201
Total	**479**	847

Sundry interest income consists largely of interest on government bonds.

18. Credit impairment charge

Rmillion	2018	2017
Increase in impairment provisions (refer note 5)	**3 833**	2 535
Adjustment related to income on impaired advances	**(110)**	(76)
Recoveries on advances previously written off	**(115)**	(11)
Total	**3 608**	2 448

19. Interest expense and similar charges

Rmillion	2018	2017
Subordinated debt	**214**	219
Unsecured listed bonds	**1 058**	1 312
Call deposits	**15**	62
Fixed deposits	**231**	346
Negotiable certificates of deposit	**23**	28
Interest on short-term facilities	**323**	451
Foreign exchange loss/(gain) recognised on translation	**81**	(245)
Fair value gains and losses from derivatives assets and liabilities	**56**	548
Other interest	**65**	20
Total	**2 066**	2 741

In accordance with the Group's policy the total funding costs are included in the interest expense and similar charges. Such funding costs may include fair value gains/losses on the derivative instruments. The fair value loss included in the funding costs for the year ended 30 September 2018 is R56 million (2017: R548 million loss).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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20. Non-interest income

Rmillion	2018	2017
Credit card fees	**273**	358
Binder and outsourcing arrangements fees	**339**	445
Collection fees	**570**	720
Other income	**16**	3
Total	**1 198**	1 526

21. Operating costs

Rmillion	2018	2017
Advertising and marketing costs	**110**	109
Amortisation of intangible assets (refer note 10)	**29**	24
Audit fees	**16**	13
Bank charges	**167**	168
Card transaction costs	**35**	51
Collection costs	**186**	210
Depreciation on property and equipment (refer note 9)	**42**	110
Direct selling and commissions	**22**	23
Information technology costs	**143**	123
Rental and maintenance costs	**248**	218
Costs related to property rentals	204	188
Other rental and maintenance costs	44	30
Printing, stationery and courier costs	**37**	37
Professional fees	**201**	132
Staff costs	**1 222**	1 222
Basic remuneration	852	861
Incentives	206	202
Contribution to provident fund	102	98
Commission paid to sales agents	3	8
Executive directors’ and prescribed officers’ remuneration (refer note 40)	**59**	53
Basic remuneration	33	33
Short-term Incentives	26	20
Non-executive directors’ fees (refer note 40)	**4**	4
Telephone, fax and other communication costs	**73**	73
Other expenses	**80**	87
Total	**2 615**	2 604

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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22. Indirect and direct taxation

Rmillion	2018	2017
Indirect charge per the statement of total comprehensive income	**65**	56
Direct charge per the statement of total comprehensive income: SA normal taxation	**166**	62
Total taxation charge	**231**	117

22.1. Direct taxation

Rmillion	2018	2017
Current taxation	**534**	330
Current year	495	352
Prior year	39	(22)
Deferred taxation	**(368)**	(268)
Current year	(328)	(273)
Prior year	(40)	5
Direct taxation charge per the statement of total comprehensive income	**166**	62

22.2. Direct tax rate reconciliation

%	2018	2017
Effective rate of taxation	**35.40**	25.7
Non- deductible expenses	**(7.41)**	(5.1)
Donations	(0.62)	-
Fines and penalties	(0.12)	-
Learnerships	-	1.3
Share of loss of joint venture	(0.94)	-
Tax impact on property and equipment	(0.33)	-
Tax impact on buy- back of liabilities	(5.40)	(6.4)
Prior year under/(over) provision	0.01	7.0
Other	-	0.4
Standard rate of South African taxation	**28.0**	28.0

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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23. Cash generated by operations

Rmillion	2018	2017
Profit before tax	**469**	240
Adjusted for non-cash flow items:		
Indirect taxation: VAT	**65**	56
Increase in impairment of advances	**3 723**	2 459
Amortisation of intangible assets (refer note 10)	**29**	24
Depreciation of property and equipment (refer note 9)	**42**	110
Loss/(Gain) on the bond buy backs	**6**	(16)
Fair value movements on derivative instruments	**56**	303
Fair value adjustments on liabilities	**90**	81
Attributable loss from joint venture	**16**	-
Movement in other interest income accrual	**(89)**	(24)
Movement in interest expense accrual	**843**	603
Adjusted for movement in working capital:		
Movement in accruals	**35**	14
Movement in deferred fees and other accruals related to advances	**6**	-
Total	**5 291**	3 850

24. Cash received from lending activities and cash reserves

Rmillion	2018	2017
Interest income (adjusted for non-cash items)	7 564	6 516
Non-interest income (adjusted for non-cash items)	1 198	1 526
Total	8 762	8 042

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

Rmillion	2018	2017
Interest paid (adjusted for non-cash items)	**1 077**	1 760
Remuneration and incentives paid to employees and directors	**1 226**	1 129
Other operating expenses paid	**1 283**	1 314
Total	**3 586**	4 203

26. Direct taxation paid

Rmillion	2018	2017
Movement in current tax asset	**(73)**	149
Direct taxation charged to statement of total comprehensive income (refer note 22)	**166**	62
Deferred tax portion of amount charged to statement of total comprehensive income	**368**	268
Total	**461**	479

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Risk management

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

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

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

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

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

The MRC is responsible for managing the risk and profitability strategies of the Group. The role includes setting of credit policy, pricing strategies, affordability policy and risk control. The MRC monitor these risks and report on a quarterly basis to the RCMC. The MRC is supported by the Credit Management Structure and is chaired by a non-executive director. (Refer notes 27 to 29).

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

The prime function of the ALCO is to monitor and provide guidance to the relevant executive mandated to manage the ALCO risks associated with those functions being the Group Executive: Liability and Balance Sheet management, Treasury. The ALCO also has a further strategic function to recommend Group strategy and appetite related to the ALCO risk within the Group's overall risk appetite, to the RCMC.

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

- Credit risk (note 27)
- Market risk
  - Interest rate risk (note 28.1)
  - Foreign exchange risk (note 28.2)
- Liquidity and funding risk (note 29)
- Capital adequacy (Note 32) and
- Regulatory (and Legal) risks in the ALCO context.

27. Credit risk

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

Credit risk management

The prime objective and mandate of the MRC by the RCMC, is to approve all credit related models including impairments, credit scoring, profitability models and affordability models, all collection scorecards, ICAAP models and other models utilised in the Group. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process.

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

The duties and responsibilities of the MRC include:

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

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The models which MRC has oversight over include but are not limited to the impairment model, application scorecards, affordability model, profitability model, advanced IRB model for Economic Capital and the Predictor Model.

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

- Advances
- Financial assets (other than advances)

Advances

The Group's principal business is to provide unsecured retail loans and credit cards to employed individuals and rely on collecting loan instalments directly from the customer's bank account, via an electronic debit order. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Group. All of the Group's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base expose the Group to systemic credit risk. The Group mitigates this risk by applying the Group's application scorecard, a set of business rules, affordability assessments and queue verifications (fraud mitigation tools). The Group's credit risk assessment process adheres to the requirements set out by the National Credit Act (NCA) and Financial Services Board.

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

Credit risk assessment

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

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

The verification and inputs into the credit score system include:

- Physical identification of the customer via their South African identification document, proof of address and fingerprint biometrics, to validate the customer against their details held at the Department of Home Affairs;
- The customer's 3 month income, monthly living expense, declaration of financial obligations, wage frequency, employer and bank details are captured;
- Electronic Credit Bureau data;
- The customers' historical performance on existing and previous loans is used by the Application Scorecard to determine the customer's risk; and
- The customers' historical performance on existing loans.

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

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

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

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

The Group's credit management team reviews exception reports produced by the reporting and monitoring tools on a daily, weekly and monthly basis, depending on the type of exception report produced by the credit monitoring system. These reports act as early warning indicators which allow the credit management team to better manage emerging credit risk proactively. The respective credit management team members report directly to the Executive: Credit.

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

Where debit order collection is unsuccessful, arrears follow up is performed initially through the call centre. The Group operates two types of restructures – namely, informal indulgences and formal restructures.

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

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

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

Model methodology remains the same as in 2017, however, the IAS39 model has been re-calibrated to include recent data that has become available post the 2017 year end.

Advances are considered impaired if and only if, there is objective evidence of impairment as a result of events that occurred after the initial asset recognition (known as loss events) and these loss events have an adverse impact on the assets' estimated future cash flows that can be measured reliably. The Group conservatively applies the principle of objective evidence and views "one cent-one day" late payment as objective evidence of impairment.

The Group uses CD ("Contractual Delinquency") classification for the purposes of identifying the type of impairment to be calculated within the portfolio. Contractual CD is defined as the total receivable to date minus cash received divided by the original contractual instalment.
The result is then rounded up to the closest inter number (i.e. CD 0.1 would be categorised as CD1).

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The categories used to identify impairment are as follows:

Contractual CD	Explanation of CD	Time buckets	Provision type
CD 0	Performing advances that are not past due and are within the contractual term. The advances in this category were never in default.	<30 days	IBNR
CD 1 – 3	Advances where between 1 and 3 instalment has been missed, or where instalments have been received after their contractual date of repayment.	31 – 90 days	PSI
>CD 4	Advances where 4 or more instalment has been missed	91 – 122 days	SI
>CD 4 recency 5	More than 4 instalments have been missed and no payments have been received over the past 5 months	>122 days	Fully impaired

For advances categorised as CD 0, an impairment provision classified as incurred but not reported (IBNR) is raised. For all advances, where at least part of an instalment was missed (CD 1 – >CD 4), an impairment provision for the portfolio specific (PSI) and specific impairment (SI) is raised. For all advances where more than 4 instalments have been missed and payments have not been received over the past 5 months, the entire advance is fully impaired and treated as if written off for accounting purposes.

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

The impairment charge for IBNR provision for CD 0 advances:

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

The impairment charge for PSI and SI provision for CD 1 to >CD 4 advances:

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

For fully impaired/write offs:

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

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

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

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Credit risk disclosures
IFRS 7 requires an entity to provide disclosures of summary quantitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the entity.

IAS39 requires that assets and liabilities acquired from the old African Bank, including the advances book, are recognised at fair value at acquisition, adjusted for any revaluation subsequent to that date and this acquisition cost is subsequently amortised as the advances are repaid or written off. The amortised cost of the advances acquired from the old African Bank is thus reflected net of credit risk impairment provisions and any additional adjustment required to reflect the fair value at acquisition.

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

Any gains are recognised as increased interest revenue (2018: R540 million, 2017: Nil) and any losses are impaired in full (2018: Nil, 2017 R88 million) in the period during which the revised estimates are made.

In order to provide sufficient information about the way the credit risk is managed by the Group, the information in this section is presented on two bases:
- using the gross advances and impairment before the acquisition related adjustments linked to the acquired portfolio; as well as
- using the IFRS compliant information.

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27.1. Credit quality of advances per IAS 39 requirements

27.1.1. Credit quality of the performing book*

Rmillion	2018			2017		
	Loan	Credit card	Total	Loan	Credit card	Total
Performing Book - CD 0						
Low risk	**8 250**	**1 957**	**10 207**	7 606	1 609	9 215
Medium risk	**3 493**	**347**	**3 840**	2 811	398	3 209
High risk	**486**	**129**	**615**	1 152	261	1 413
Total	**12 229**	**2 433**	**14 662**	11 569	2 268	13 837

For the purposes of analysing the credit quality of the performing book, credit scores as at the reporting date were used to categorise the quality of the performing book.

27.1.2. Arrears analysis

Rmillion	2018			2017		
	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired						
CD 0:	**12 229**	**2 433**	**14 662**	11 569	2 268	13 837
Past due and specifically impaired						
CD 1 to CD 3	**2 283**	**990**	**3 273**	1 535	1 594	3 129
CD 4 and higher	**4 488**	**817**	**5 305**	3 105	786	3 891
Total credit exposure	**19 000**	**4 240**	**23 240**	16 209	4 648	20 857
Total impairments						
Incurred but not reported (IBNR)	**(543)**	**(93)**	**(636)**	(366)	(61)	(427)
Portfolio specific impairment	**(973)**	**(297)**	**(1 270)**	(535)	(326)	(861)
Specific impairment	**(1 733)**	**(355)**	**(2 088)**	(536)	(216)	(752)
Deferred origination and administration fees	**(68)**	**-**	**(68)**	(74)	-	(74)
Net advances	**15 683**	**3 495**	**19 178**	14 698	4 045	18 743

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27.1.3. Impairment as % of gross advances

Rmillion	2018			2017		
	Loan	Credit card	Total	Loan	Credit card	Total
CD 0	**4.44%**	**3.82%**	**4.34%**	3.16%	2.69%	3.08%
CD 1- 3	**42.62%**	**30.0%**	**38.8%**	34.87%	20.46%	27.53%
CD 4 and higher	**38.61%**	**43.45%**	**39.36%**	17.27%	27.46%	19.33%
Total impairment as a % of total gross advances	**17.10%**	**17.57%**	**17.19%**	8.87%	12.97%	9.78%
Reconciliation of allowance account						
Balance at the beginning of the year	**1 432**	**608**	**2 040**	321	41	362
Impairment raised (note 18)	**3 331**	**502**	**3 833**	1 780	755	2 535
Bad debt write-offs (note 5)	**(1 514)**	**(365)**	**(1 879)**	(669)	(188)	(857)
Balance at the end of the year	**3 249**	**745**	**3 994**	1 432	608	2 040

27.1.4. Credit risk sensitivity

The table below lists risks raised in the credit risk management note, along with the anticipated impact on profit or loss should the risk crystallise.

2018	Loans	Credit Cards	Total
IBNR Provision			
Effect of a decrease in emergence period by 1 month	**(152)**	**(29)**	**(181)**
Portfolio Specific Impairment			
Effect of reduction of cash flows by 1%	**23**	**10**	**33**
Specific Impairment			
Effect of reduction of cash flows by 1%	**78**	**13**	**91**

2017	Loans	Credit Cards	Total
IBNR Provision			
Effect of a decrease in emergence period by 1 month	(187)	(28)	(215)
Portfolio Specific Impairment			
Effect of reduction of cash flows by 1%	18	18	36
Specific Impairment			
Effect of reduction of cash flows by 1%	73	15	88

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

27.2.1. Advances analysis

Rmillion	2018	2017
Gross advances	27 524	26 513
Deferred origination and administration fees	(46)	(14)
Gross advances after Deferred origination and administration fees	**27 478**	**26 499**
Loan	22 781	21 011
Credit card	4 697	5 488
Balance of the impairment provisions at the end of the year	**8 300**	**7 756**
Balance of impairment provisions at the beginning of the year	7 756	7 488
Impairment provisions raised	4 081	5 145
Bad debt (write-offs)	(3 537)	(4 877)
Net advances	**19 178**	**18 743**
Conditionally revocable retail loan commitments	715	750
Maximum exposure to credit risk	**19 893**	**19 493**

The recoveries on the entire written off book amounted to R 818 million (2017: R537 million).

27.2.2. Arrears analysis

Rmillion	2018			2017		
	Loan	Credit card	Total	Loan	Credit card	Total
Financial assets that are neither past due nor specifically impaired						
CD 0:	**12 245**	**2 436**	**14 681**	11 743	2 289	14 032
Past due and specifically impaired						
CD 1 to CD 3	**2 375**	**1 012**	**3 387**	1 788	1 769	3 557
CD 4 and higher	**8 207**	**1 249**	**9 456**	7 494	1 430	8 924
Total credit exposure	**22 827**	**4 697**	**27 524**	21 025	5 488	26 513
Total impairments						
Incurred but not reported (IBNR)	**(563)**	**(96)**	**(659)**	(559)	(82)	(641)
Portfolio specific impairment	**(1 065)**	**(320)**	**(1 385)**	(792)	(501)	(1 293)
Specific impairment	**(5 470)**	**(786)**	**(6 256)**	(4 962)	(860)	(5 822)
Deferred origination and administration fees	**(46)**	**-**	**(46)**	(14)	-	(14)
Net advances	**15 683**	**3 495**	**19 178**	14 698	4 045	18 743
Impairment as % of gross advances						
CD 0	**4.60%**	**3.94%**	**4.49%**	4.76%	3.58%	4.57%
CD 1- 3	**44.84%**	**31.62%**	**40.89%**	44.30%	28.31%	36.35%
CD 4 and higher	**66.65%**	**62.93%**	**66.16%**	66.21%	60.12%	65.24%
Total impairment as a % of total gross advances	**31.09%**	**25.59%**	**30.16%**	30.03%	26.29%	29.25%

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27.3. Credit concentration risk

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

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

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

Loans

Average loan value (at inception) R'000	Number of loans	% of total number of loans	Carrying value (net of impairment) R million	% of total carrying value
2018				
<5	**29 869**	**4.82%**	**37**	**0.24%**
5 -10	**129 383**	**20.89%**	**520**	**3.31%**
10 - 20	**112 830**	**18.22%**	**907**	**5.78%**
20 - 50	**157 834**	**25.49%**	**2 899**	**18.49%**
50 -100	**118 548**	**19.14%**	**4 814**	**30.70%**
100 - 200	**69 976**	**11.30%**	**6 319**	**40.29%**
200 - 250*	**853**	**0.14%**	**186**	**1.19%**
Total	**619 293**	**100%**	**15 682**	**100%**
2017				
<5	46 140	7.23%	60	0.41%
5 -10	123 067	19.27%	525	3.57%
10 - 20	124 386	19.48%	1 019	6.93%
20 - 50	168 424	26.37%	3 154	21.46%
50 -100	118 991	18.63%	4 942	33.62%
100 - 200*	57 582	9.02%	4 998	34.01%
Total	638 590	100%	14 698	100%

**Maximum loan exposure is R250 000 (2017: R200 000) per business practice rules*

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Credit cards

Average credit card value R'000	Number of credit card accounts	% of total number of credit card accounts	Carrying value (net of impairment) R million	% of total carrying value
2018				
<5	**223 581**	**16.77%**	**135**	**3.86%**
5 -10	**289 744**	**30.48%**	**517**	**14.80%**
10 - 20	**186 985**	**30.03%**	**1 022**	**29.23%**
20 - 50	**98 461**	**20.03%**	**1 394**	**39.88%**
50 -100	**10 629**	**2.65%**	**416**	**11.89%**
100 - 200*	**144**	**0.04%**	**12**	**0.34%**
200	**1**	**0.00%**	**-**	**0.00%**
Total	**809 545**	**100%**	**3 496**	**100%**
2017				
<5	240 045	28.19%	207	5.12%
5 -10	308 097	36.19%	708	17.50%
10 - 20	195 861	23.00%	1 268	31.34%
20 - 50	98 430	11.56%	1 515	37.44%
50 - 100	8 916	1.06%	345	8.52%
100 - 200	40	0%	3	0.08%
Total	851 389	100%	4 046	100%

**Maximum credit card exposure is R200 000 (2017:R200 000) per business practice rules*

27.4. Financial assets (other than advances)

All financial assets other than advances are made up of cash and cash equivalents, regulatory deposits and sovereign debt securities, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables, loans to affiliate and investment in joint venture companies are placed with credit worthy counterparties.

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

The Group uses international swaps and derivatives association ("ISDA") documentation for the purposes of netting derivatives. These master agreements and associated credit support annexes ("CSA") set out accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds. CSA are used as a credit risk mitigation for the Group's derivative asset positions. See note 31 for further details.

Trade receivables, loans to affiliate companies and investment in joint venture are not rated and are evaluated on an entity by entity basis. The Group limits the tenure and size of the debt to ensure that it does not pose a material risk to the Group. For further information refer to note 6, note 7 and note 8 respectively.

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

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Assets R million	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2018							
Cash and cash equivalents							
Cash deposits - ZAR	2	1 594	738	-	1 594	-	-
Cash deposits - Foreign denominated	2	5 627	3 338	-	5 627	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	3	244	244	-	244	-	-
Bonds	3	510	510	-	510	-	-
Bonds - Foreign denominated		1 021	1 021	-	1 021	-	-
Deposits with SARB	3	355	355	-	355	-	-
Derivatives							
Derivative assets	4	47	47	-	47	-	-
Total		**9 398**		**-**	**9 398**	**-**	**-**

Assets R million	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2017							
Cash and cash equivalents							
Cash deposits - ZAR	2	3 611	1 360	-	3 611	-	-
Cash deposits - Foreign denominated	2	3 251	2 368	-	3 251	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	3	2 810	2 810	-	2 810	-	-
Bonds	3	487	487	-	487	-	-
Bonds - Foreign denominated		1 015	1 015	-	1 015	-	-
Deposits with SARB	3	410	410	-	410	-	-
Derivatives							
Derivative assets	4	748	414	-	748	-	-
Total		**12 332**		**-**	**12 332**	**-**	**-**

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28. Market risk

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

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

28.1. Interest rate risk management

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

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

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

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

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

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

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

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

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

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

Interest rate sensitivity analyses
Two separate interest rate sensitivity analyses for the Group are set out be in the table below, namely the re-pricing profile and the potential effect of changes in the market interest rate on earnings for floating rate instruments.

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

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Re- pricing profile 2018

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2018								
Assets								
Cash and cash equivalents	3 926	3 184	-	-	-	111	-	7 221
Regulatory deposits and sovereign debt securities	497	-	1 242	-	-	391	-	2 130
Derivative assets	-	-	47	-	-	-	-	47
Net advances	3 877	691	2 781	3 124	8 336	369	-	19 178
Accounts receivable and other assets	-	-	-	-	-	104	108	212
Investments	-	-	-	-	-	15	-	15
Loans to affiliated companies	-	-	-	50	-	1	-	51
Property and equipment	-	-	-	-	-	-	597	597
Intangible assets	-	-	-	-	-	-	72	72
Deferred tax asset					-	-	756	756
Total assets	8 300	3 875	4 070	3 174	8 336	1 099	1 425	30 279
Liabilities and equity								
Short-term funding	1 029	3 509	1 200	-	-	278	-	6 016
Derivative liabilities	-	-	-	-	-		-	-
Creditors and accruals	16	-	-	-	-	632	-	648
Current tax	-	-	-	-	-	24	-	24
Bonds and other long-term funding	3 793	3 175	49	2 464	3 517	281	-	13 279
Subordinated bonds	1 479	-	-	-	-	51	-	1 530
Ordinary shareholder’s equity	-	-	-	-	-	-	8 782	8 782
Total liabilities and equity	6 317	6 684	1 249	2 464	3 517	1 266	8 782	30 279
On balance sheet interest sensitivity	1 983	(2 809)	2 821	710	4 819	-	-	-

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Re-pricing profile 2017

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2017								
Assets								
Cash and cash equivalents	1 154	1 808	1 060	2 726	-	114	-	6 862
Regulatory deposits and sovereign debt securities	784	-	2 572	926	-	440	-	4 722
Derivative assets	-	748	-	-	-	-	-	748
Net advances	4 930	742	2 972	3 455	6 253	391	-	18 743
Accounts receivable and other assets	-	-	-	-	-	219	-	219
Loans to affiliated companies	23	-	-	-	-	-	-	23
Current tax	-	-	-	-	-	-	49	49
Property and equipment	-	-	-	-	-	-	494	494
Intangible assets	-	-	-	-	-	-	75	75
Deferred tax asset	-	-	-	-	-	-	389	389
Total assets	6 891	3 298	6 604	7 107	6 253	1 164	1 007	32 324
Liabilities and equity								
Short-term funding	2 331	917	874	-	-	183	-	4 305
Derivative liabilities	5	-	-	-	-	-	-	5
Creditors and accruals	-	-	-	-	-	620	0	620
Bonds and other long-term funding	4 638	4 916	20	2 151	5 296	364	-	17 385
Subordinated bonds	1 485	-	-	-	-	45	-	1 530
Ordinary shareholder's equity	-	-	-	-	-	8 479	-	8 479
Total liabilities and equity	8 459	5 833	894	2 151	5 296	9 691	-	32 324
On balance sheet interest sensitivity	(1 568)	(2 536)	5 710	4 956	957	-	-	-

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Potential effect of changes in the market interest rate on earnings for floating rate instruments

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

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Group's portfolio, an increase in interest rates as described above would result in a corresponding net decrease of R23 million (2017: net increase R74 million) in net income (before tax).

Rmillion	Carrying value at end of year	Amount exposed to market risk	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax)
2018				
Financial assets				
Credit card advances	**3 495**	**4 696**	**REPO**	**137**
Cash and cash equivalents	**7 221**	**3 717**	**JIBAR**	**31**
Regulatory deposits and sovereign debt securities	**2 130**	**497**	**CPI**	**8**
Derivatives	**47**	**47**	**CPI/JIBAR**	**1**
Total assets	**12 893**	**8 957**		**177**
Financial liabilities				
Derivatives	**-**	**-**	**JIBAR**	**-**
Subordinated bonds	**1 530**	**1 479**	**JIBAR**	**(29)**
Bonds and other long term funding	**13 279**	**7 039**	**CPI/JIBAR**	**(138)**
Short-term funding	**6 016**	**2 317**	**JIBAR**	**(38)**
Total liabilities	**20 825**	**10 835**		**(205)**
Net effect on the statement of total comprehensive income				**(28)**
2017				
Financial assets				
Credit card advances	4 046	5 570	REPO	161
Cash and cash equivalents	6 862	4 849	JIBAR	31
Regulatory deposits and sovereign debt securities	4 722	479	CPI	8
Derivatives	748	748	CPI/JIBAR	(20)
Total assets	16 401	11 669		180
Financial liabilities				
Derivatives	5	5	JIBAR	-
Subordinated bonds	1 530	1 485	JIBAR	(29)
Bonds and other long term funding	17 385	15 393	CPI/JIBAR	(177)
Short-term funding	4 305	3 073	JIBAR	(48)
Total liabilities	23 225	19 956		(254)
Net effect on the statement of total comprehensive income				(74)

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28.2. Foreign exchange risk management

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Foreign exchange risk in the Group arises as a result of holding foreign currency denominated borrowings and foreign currency in cash and other assets, the profile of which does not necessarily match the liability profile which these assets are hedging.

The Group's primary risk objective is to protect the net earnings against the impact of adverse exchange rate movements. ALCO is mandated to manage this risk by application of appropriate foreign currency derivatives or other appropriate strategy to ensure adherence to the Group's risk appetite.

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

Rmillion	Foreign currency USD/CHF 2018	ZAR carrying amount 2018	Foreign currency USD/CHF 2017	ZAR carrying amount 2017
Financial liabilities				
Foreign denominated bonds (USD)	**(276)**	**(3 912)**	(276)	(3 731)
Foreign denominated bonds (CHF)	**(158)**	**(2 289)**	(159)	(2 220)
Total liabilities		**(6 201)**		(5 951)
Financial assets				
Short-term deposits and cash (USD)	**13**	**191**	7	101
Short-term deposits and cash (CHF)	**171**	**2 480**	10	143
Interbank deposits (USD)	**209**	**2 957**	222	3 007
Government bonds (USD)	**72**	**1 021**	75	1 015
Foreign currency swaps (USD)	**-**	**-**	-	-
Foreign currency swaps (CHF)	**-**	**-**	168	2 345
Effect of foreign currency hedges		**6 649**		6 611
Net open position - USD	**18**	**257**	28	392
Net open position - CHF	**13**	**191**	19	268

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

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Sensitivity analysis based on 10% increase in exchange rates

IFRS 7 Financial instruments: Disclosures requires that a sensitivity analysis be provided for changes in exchange rates. The sensitivity analyses have been determined based on the exposure to exchange rates for both derivatives and non-derivative instruments (foreign denominated bonds and foreign deposits) at the statement of financial position date.

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

Given the linear structure of the Group's portfolio, a 10% increase in exchange rates, and its related impact on the forward discount curve, would result in a net increase of R45 million (2017: net increase R 68 million) in net income (before tax).

Sensitivity analysis

Rmillion	Carrying value at end of year	Amount exposed to market risk	Currency	Profit or loss impact (pre-tax)
2018				
Financial assets				
Short-term deposits and cash (USD)	191	191	USD	19
Short-term deposits and cash (CHF)	2 480	2 480	CHF	248
Interbank deposits (USD)	2 957	2 957	USD	296
Government bonds (USD)	1 021	1 021	USD	102
Cross-currency swaps (USD)	-	-	USD	-
Cross-currency swaps (CHF)	-	-	CHF	-
Total	**6 649**	**6 649**		**665**
Financial liabilities				**-**
Foreign denominated bonds (USD)	(3 912)	(3 912)	USD	(391)
Foreign denominated bonds (CHF)	(2 289)	(2 289)	CHF	(229)
Total	**(6 201)**	**(6 201)**		**(620)**
Net effect on the statement of total comprehensive income				**45**
2017				
Financial assets				
Short-term deposits and cash (USD)	101	101	USD	10
Short-term deposits and cash (CHF)	143	143	CHF	14
Interbank deposits (USD)	3 007	3 007	USD	301
Government bonds (USD)	1 015	1 015	USD	102
Cross-currency swaps (USD)	-	-	USD	-
Cross-currency swaps (CHF)	238	2 359	CHF	236
Total	4 504	6 625		663
Financial liabilities				
Foreign denominated bonds (USD)	(3 731)	(3 731)	USD	(373)
Foreign denominated bonds (CHF)	(2 220)	(2 220)	CHF	(222)
Total	(5 951)	(5 951)		(595)
Net effect on the statement of total comprehensive income				68

The spot exchange rates used to convert the carrying value (outstanding capital, capitalised interest and unamortised discount) of the foreign currency liabilities were R14.15/USD (2017: 13.52/USD) and R14.51/CHF (2017: R13.95/CHF).

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28.3. Other price risk management

The Group has a low market risk appetite. For this reason, the Group does not typically trade in any marketable securities and holds any sovereign debt marketable securities (see note 3) until maturity and is therefore not exposed to price risk associated with these marketable securities.

29. Liquidity risk

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

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

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

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

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

Various options of managing the liquidity gap appearing beyond 24 months are being pursued by the ALCO.

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

Further announcements in this regard will be made once the arrangement has been finalised and becomes legally binding.

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Assets and liabilities maturities (discounted)

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

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Assets and liabilities maturities (discounted)

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2017							
Assets							
Cash and cash equivalents	1 268	1 808	1 060	2 726	-	-	6 862
Regulatory deposits and sovereign debt securities	678	-	2 572	993	479	-	4 722
Derivative assets	-	-	707	41	-	-	748
Net advances	1 110	1 397	5 930	3 450	6 856	-	18 743
Accounts receivable and other assets	219	-	-	-	-	-	219
Current tax	-	-	-	-	-	49	49
Loans to affiliated companies	23	-	-	-	-	-	23
Property and equipment	-	-	-	-	-	494	494
Intangible assets	-	-	-	-	-	75	75
Deferred tax asset	-	-	-	-	-	389	389
Total assets	3 298	3 205	10 269	7 210	7 335	1 007	32 324
Liabilities and equity							
Short-term funding	1 146	12	3 147	-	-	-	4 305
Derivative liabilities	5	-	-	-	-	-	5
Creditors and accruals	620	-	-	-	-	-	620
Bonds and other long-term funding	365	3	17	4 917	12 083	-	17 385
Subordinated bonds	53	-	-	-	1 477	-	1 530
Ordinary shareholder's equity	-	-	-	-	-	8 479	8 479
Total liabilities and equity	2 189	15	3 164	4 917	13 560	8 479	32 324
Net liquidity gap	1 109	3 190	7 105	2 293	(6 225)	-	-

Conditionally revocable retail loan commitments totalling R715 million (2017: R750 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts.

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

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

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Liabilities maturities (undiscounted)

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2018								
Financial liabilities								
Short-term funding	**6 016**	**693**	**4 139**	**1 294**	**-**	**-**	**-**	**6 126**
Derivative instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Promissory notes and NCD's	**1 359**	**9**	**67**	**159**	**708**	**749**	**282**	**1 974**
Fixed deposits and other long term funding	**1 015**	**27**	**12**	**15**	**231**	**989**	**-**	**1 274**
Bonds listed	**10 905**	**107**	**193**	**382**	**5 338**	**6 348**	**887**	**13 255**
Bonds unlisted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated bonds	**1 530**	**53**	**54**	**108**	**220**	**167**	**1 547**	**2 149**
Total	**20 825**	**889**	**4 465**	**1 958**	**6 497**	**8 253**	**2 716**	**24 778**
2017								
Financial liabilities								
Short-term funding	4 305	568	102	3 326	353	-	-	4 349
Derivative instruments	5	-	5	-	-	-	-	5
Promissory notes and NCD's	3 028	20	107	65	1 893	892	806	3 783
Fixed deposits and other long term funding	1 493	6	20	86	974	417	3	1 506
Bonds listed	12 520	153	218	413	2 642	10 472	607	14 505
Bonds unlisted	340	-	8	-	354	-	-	362
Subordinated bonds	1 530	55	52	103	207	622	2 264	3 303
Total	23 221	802	512	3 993	6 423	12 403	3 680	27 813

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

30.1. Valuation models

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

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

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

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

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

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

Recurring fair values

The Group currently measure and present derivative assets and derivative liabilities at fair value, 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.

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30.2. 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.

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

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

Rmillion	Level 1	Level 2	Level 3	Total
2018				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	47	-	47
Total	**-**	**47**	**-**	**47**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	-	-	-
Total	**-**	**-**	**-**	**-**
2017				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	748	-	748
Total	**-**	**748**	**-**	**748**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	5	-	5
Total	**-**	**5**	**-**	**5**

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30.4. Valuation techniques, significant observable inputs and sensitivity of level 2 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 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)
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	-
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	-
2017				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	236
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	(12)
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	3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

30.5. Assets and liabilities for which fair value is disclosed*

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
2018					
Financial assets					
Government bonds	-	**1 510**	**-**	**1 510**	**1 531**
Treasury bills and debentures	-	**244**	**-**	**244**	**244**
Deposits with South African Reserve Bank	-	**355**	**-**	**355**	**355**
Net advances	-	**-**	**19 097**	**19 097**	**19 178**
Loans to affiliated companies	-	**-**	**51**	**51**	**51**
Investments	-	**-**	**15**	**15**	**15**
Total	**-**	**2 109**	**19 163**	**21 272**	**21 374**
Financial liabilities					
Short term funding	-	**5 870**	**-**	**5 870**	**6 016**
Unsecured bonds (listed on JSE) *	-	**5 604**	**-**	**5 604**	**5 697**
Unsecured bonds (listed on foreign stock exchange) *	-	**5 170**	**-**	**5 170**	**5 208**
Unsecured long- term loans	-	**2 480**	**-**	**2 480**	**2 374**
Unlisted bonds	-	**-**	**-**	**-**	**-**
Subordinated bonds*	-	**1 535**	**-**	**1 535**	**1 530**
Total	**-**	**20 659**	**-**	**20 659**	**20 825**
2017					
Financial assets					
Government bonds	-	1 498	-	1 498	1 502
Treasury bills and debentures	-	2 810	-	2 810	2 810
Deposits with South African Reserve Bank	-	410	-	410	410
Net advances	-	-	18 968	18 968	18 743
Loans to affiliated companies	-	-	25	25	23
Total	**-**	4 718	18 993	23 711	23 488
Financial liabilities					
Short term funding	-	4 108	211	4 319	4 305
Unsecured bonds (listed on JSE)	-	6 824	-	6 824	6 908
Unsecured bonds (listed on foreign stock exchange) *	-	5 636	-	5 636	5 612
Unsecured long- term loans	-	343	-	343	339
Unlisted bonds	-	4 314	241	4 555	4 526
Subordinated bonds*	-	1 520	-	1 520	1 530
Total	**-**	22 745	452	23 197	23 220

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

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

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

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

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

Rmillion	Gross amount of recognised financial assets[(1)]	Gross amounts of recognised financial liabilities offset in the statement of financial position[(2)]	Net amount of financial assets presented in the statement of financial position	Amounts not offset in the statement of financial position but subject to master netting arrangements[(3)]	Gross amount of collateral subject to netting arrangements[(4)]	Net amount
2018						
Assets						
Derivative financial instruments	47	-	47	-	(50)	(3)
Liabilities						
Derivative financial instruments	-	-	-	-	-	-
2017						
Assets						
Derivative financial instruments	748	-	748	-	(547)	201
Liabilities						
Derivative financial instruments	5	-	5	-	-	5

[(1)]Gross amounts are disclosed for recognised assets and liabilities that are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
[(2)]The amounts that qualify for offset in accordance with the criteria per IFRS.
[(3)]The amounts that do not qualify for offset in accordance with the criteria per IFRS.
[(4)]Cash collateral not offset in the statement of financial position subject to a master netting arrangement or similar agreement.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

32. Capital management

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

External regulatory capital management
Regulatory capital adequacy is measured by expressing available qualifying capital as a percentage of risk-weighted assets. The Banks Act, 94 of 1990 and supporting regulations, read together with specific requirements for the Group, specify the minimum capital required to be held in relation to risk weighted assets. Ancillary regulatory requirements include the Basel III leverage ratio which is included in the scope of regulatory capital adequacy.

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

Refer to the table in unaudited Annexure B for the Group's capital adequacy requirements and position as at 30 September 2018.

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

33. Operating lease commitments – property

Rmillion	2018	2017
Payable within one year	153	145
Payable between one and five years	171	193
Total	**324**	**338**

None of the Group's leases have a variable portion (contingent rentals). Refer note 21 for disclosure of lease expenditure paid.

34. Unutilised facilities

The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2018 was R715 million (2017: R750 million).

In terms of the restructuring transaction, RDS has provided a guarantee in favour of African Bank Limited in respect of the advances book transferred to the value of R3 billion. To support RDS, the SARB has provided an indemnity guarantee in respect of the guarantee provided by RDS to African Bank Limited.

The indemnity guarantee noted above is in place for 8 years, having commenced on 4 April 2016 and expiring on 4 April 2024.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

35. 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.

35.1. Analysis of financial assets

Rmillion 2018	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
Cash and cash equivalents	2	7 221	-	-	-	7 221	7 221	-
Regulatory deposits and sovereign debt securities	3	355	1 775	-	-	2 130	1 633	497
Derivatives	4	-	-	47	-	47	47	-
Net advances	5	19 178	-	-	-	19 178	7 692	11 486
Accounts receivable and other assets	6	104	-	-	108	212	212	-
Current tax	11	-	-	-	-	-	-	-
Loans to affiliated companies	7	51	-	-	-	51	-	51
Investments	8	-	15	-	-	15	-	15
Property and equipment	9	-	-	-	597	597	-	597
Intangible assets	10	-	-	-	72	72	-	72
Deferred tax asset	11	-	-	-	756	756	-	756
Total assets		26 909	1 790	47	1 533	30 279	16 805	13 474

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

35.2. Analysis of financial assets (continued)

Rmillion 2017	Notes	Loans and receivables	Held-to-maturity financial instruments	Financial instruments at fair value through profit and loss	Non-financial instruments	Total carrying value	Current	Non-current
Cash and cash equivalents	2	6 862	-	-	-	6 862	6 862	-
Regulatory deposits and sovereign debt securities	3	410	4 312	-	-	4 722	3 250	1 472
Derivatives	4	-	-	748	-	748	707	41
Net advances	5	18 743	-	-	-	18 743	8 437	10 306
Accounts receivable and other assets	6	114	-	-	105	219	219	-
Current tax	11	-	-	-	49	49	49	-
Loans to affiliated companies	7	23	-	-	-	23	23	-
Property and equipment	9	-	-	-	494	494	-	494
Intangible assets	10	-	-	-	75	75	-	75
Deferred tax asset	11	-	-	-	389	389	-	389
Total assets		26 152	4 312	748	1 112	32 324	19 547	12 777

Rmillion	2018	2017
Statement of total comprehensive income effect of financial instruments by category		
Interest income recognised – loans and receivables	**7 549**	6 375
Interest income recognised – held-to-maturity instruments	**98**	172
Total	**7 647**	6 547
Included above is interest income earned on impaired assets (advances)	**474**	581

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

35.3. Analysis of financial liabilities

Rmillion	Notes	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
2018							
Short-term funding	12	**6 016**	**-**		**6 016**	**6 016**	**-**
Derivatives	4	**-**	**-**		**-**	**-**	**-**
Creditors and accruals	13	**580**	**-**	**68**	**648**	**648**	**-**
Current tax liability			**-**	**24**	**24**	**24**	**-**
Bonds and other long-term funding	14	**13 279**	**-**	**-**	**13 279**	**206**	**13 073**
Subordinated bonds	15	**1 530**	**-**	**-**	**1 530**	**51**	**1 479**
Total liabilities		**21 405**	**-**	**92**	**21 497**	**6 945**	**14 552**
2017							
Short-term funding	12	4 305	-	-	4 305	4 305	-
Derivatives	4	-	5	-	5	5	-
Creditors and accruals	13	564	-	56	620	620	-
Bonds and other long-term funding	14	17 385	-	-	17 385	203	17 182
Subordinated bonds	15	1 530	-	-	1 530	51	1 479
Total liabilities		23 784	5	56	23 845	5 184	18 661

Rmillion	2018	2017
Statement of total comprehensive income effect of financial instruments by category		
Interest expense recognised for financial liabilities at amortised cost	**1 930**	2 439
Interest expense recognised for financial liabilities at fair value	**136**	303
Total	**2 066**	2 742

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

36. Retirement and post-retirement benefits

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

The defined contribution scheme is exempt from regular actuarial valuations as no actuarial shortfall is anticipated. It is compulsory for all permanent staff to belong to the Group provident fund. The contributions made during the year amounted to R102 million (2017:R98 million).

37. Long- term incentive scheme

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

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

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

Rmillion	2018	2017
Opening balance	**70**	6
Long-term incentive liability recognised during the current financial year	**65**	64
Long-term incentive liability settled during the current financial year	**(40)**	-
Closing balance	**95**	70

38. 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 during the financial reporting period. The Group's holding company also invested R941 million as a notice deposit with the Group. Accrued interest on these deposits totalled R14 million for the financial period ended 30 September 2018.

The Group includes in its sundry debtors amounts receivable from ABHL and AIG of R0.3million and R0.4million respectively.

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

Detailed remuneration disclosures for the directors as well as key management personnel are provided in the notes 37 and 40 of these financial statements.
There were no material transactions with directors other than emoluments as disclosed in note 21 and 40.

39. Events after the reporting date

During the period after 30 September 2018, African Bank Holdings Limited and MMI Group Limited mutually decided to terminate the joint venture comprising of lending, insurance and transactional banking arrangements. This decision was taken after the financial year end of the Group and does not have a bearing on the financial position and results of the joint venture as reported in the financial statements. Consequently no adjustment has been made to the financial position and results of the joint venture as reported. The decision to terminate the joint venture will be executed in terms of the provisions of the relationship agreement between African Bank Holdings Limited and MMI Group Limited.

There were no other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group annual financial statements, which significantly affects the financial position at 30 September 2018 or the results of its operations or cash flows for the year then ended.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

40. Directors' and prescribed officers' remuneration

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

All amounts in R			2018					2017				
	Date appointed	Date resigned	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total
B Maluleke[1]	03/07/2017	-	**3 219 333**	**759 333**	**3 978 666**	**497 163**	**4 475 829**	627 750	150 250	778 000	-	778 000
G Raubenheimer	03/07/2015	-	**3 649 473**	**452 559**	**4 102 032**	**3 170 147**	**7 272 179**	3 412 869	419 406	3 832 275	2 302 963	6 135 238
B Riley[2]	24/06/2015	31/03/2018	**2 500 002**	**14 460**	**2 514 462**	**3 978 933**	**6 493 395**	4 153 500	29 000	4 182 500	4 875 000	9 057 500
Total			**9 368 808**	**1 226 352**	**10 595 160**	**7 646 243**	**18 241 403**	8 194 119	598 656	8 792 775	7 177 963	15 970 738

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

All amounts in R			2018					2017				
	Date appointed	Date resigned	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total	Salary	Retirement, medical contributions and other	Total cost to company package	Short- term incentive	Total
P Futter	01/09/2018	-	**283 500**	**32 500**	**316 000**	**-**	**316 000**	-	-	-	-	-
G Jones	04/04/2016	-	**2 795 246**	**537 838**	**3 333 084**	**2 771 798**	**6 104 882**	2 669 278	445 534	3 115 812	1 763 644	4 879 456
V Millican	04/04/2016	-	**2 781 648**	**389 582**	**3 171 230**	**2 532 203**	**5 703 433**	2 551 964	295 964	2 847 516	1 611 205	4 458 271
L Miyambu	04/04/2016	-	**3 017 315**	**344 128**	**3 361 443**	**2 323 944**	**5 685 387**	2 819 912	313 324	3 133 236	1 780 377	4 913 613
M Ramalho	04/04/2016	-	**2 668 940**	**345 264**	**3 014 204**	**2 260 463**	**5 274 667**	2 079 591	245 266	2 324 857	617 500	2 942 357
A Ramosedi	04/04/2016	31/07/2017	**-**	**-**	**-**	**-**	**-**	2 139 850	734 140	2 873 990	1 473 079	4 347 069
G Roussos	04/04/2016	-	**3 690 094**	**409 336**	**4 099 430**	**3 115 878**	**7 215 308**	3 240 103	394 429	3 634 532	2 054 283	5 688 815
P Swanepoel	04/04/2016	-	**2 907 696**	**396 504**	**3 304 200**	**2 736 523**	**6 040 723**	2 717 468	370 564	3 088 032	1 706 834	4 794 866
H Venter[4]	04/04/2016	30/04/2018	**1 504 362**	**272 476**	**1 776 838**	**2 201 865**	**3 978 703**	2 410 189	449 546	2 859 735	1 694 398	4 554 133
Total			**19 648 801**	**2 727 628**	**22 376 429**	**17 942 674**	**40 319 103**	20 628 355	3 249 355	23 877 710	12 701 320	36 579 030

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2018

40.3. Non-executive directors' remuneration

All amounts in R			2018			2017		
	Date appointed to board	Date of resignation	Paid by the Bank	Paid by other entities within the Group	Total	Paid by the Bank	Paid by other entities within the Group	Total
LL von Zeuner (Chairman)	24/06/2015	31/07/2018	**858 613**	**245 850**	**1 104 463**	836 675	147 648	984 323
M Harris	29/08/2018	-	**-**	**-**	**-**	-	-	-
B Maluleke[(1)]	28/07/2015	-	**-**	**-**	**-**	249 363	44 005	293 368
SL Mc Cloghrie	28/07/2015	-	**647 444**	**185 455**	**832 899**	521 569	92 042	613 610
SK Mhlarhi	06/07/2016	-	**417 141**	**119 539**	**536 680**	403 390	71 186	474 576
H Ralinala	23/05/2018	-	**142 207**	**35 552**	**177 759**	-	-	-
B Riley[(2)]	25/05/2018	-	**86 207**	**21 552**	**107 759**	-	-	-
IS Sehoole	28/07/2015	16/10/2017	**51 283**	**17 989**	**69 272**	575 776	107 608	683 384
L Stephens	02/07/2015	-	**760 758**	**253 642**	**1 014 400**	552 616	103 531	656 137
PJ Temple	29/04/2016	-	**431 341**	**139 835**	**571 176**	314 343	61 472	375 815
FJC Truter	07/08/2015	-	**636 425**	**182 253**	**818 678**	615 114	108 549	723 663
Total			**4 031 419**	**1 201 667**	**5 233 086**	4 068 846	736 031	4 804 876

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

(1) B Maluleke was appointed as an executive director on 3 July 2017 and was appointed as *Chief Executive Officer* on 1 April 2018.
(2) B Riley resigned as a director on 31 March 2018 and was appointed as non-executive director on 25 May 2018.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTREPRETATION
for the year ended 30 September 2018

1. New and revised IFRSs with no material effect on the annual financial statements
There are no amendments to Standards and Interpretations that have an impact on the Group for the year ended 30 September 2018.

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

IFRS/ IFRIC	Title and Details	Impact assessment	Effective date
The Group has not opted to early adopt any of the following standards and amendments to standards issued by the IASB.			
IFRS 9	IFRS 9 – Financial instruments and IFRS 7: Financial instruments - Disclosure These standard introduces a new framework for accounting and reporting for financial instruments.	Refer impact assessment below.	This standard is effective for the Group from 1 October 2018.
IFRS 15	IFRS 15 – Revenue from contracts with customers IFRS 15 is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue.	Refer impact assessment below.	This standard is effective for the Group from 1 October 2018.
IFRS 16	IFRS 16 – Leases IFRS 16 replaces the existing leases standard and the related interpretations. It introduces a single lessee accounting model. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments.	The impact of IFRS 16 is still being assessed by the Group.	This standard is effective for the Group from 1 October 2019.
IFRS 17	IFRS 17-Insurance contract IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements.	The Group currently does not hold any insurance contracts that would be subject to IFRS 17. The Group will continue to assess the impact of IFRS 17 going forward.	This standard is effective for the Group from 1 October 2021.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTREPRETATION
for the year ended 30 September 2018

IFRS 9 impact assessment

In July 2014, the International Accounting Standards Board ("IASB") issued the final IFRS 9 which will replace International Accounting Standard 39 "Financial Instruments: Recognition and Measurement", the existing standard dealing with the accounting treatment for financial instruments. IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- classification and measurement of financial assets;
- hedge accounting; and
- a new impairment model for debt instrument assets measured at amortised cost or fair value through other comprehensive income.

The Group will be applying IFRS 9 with effect from 1 October 2018 retrospectively without restating comparative figures. The profit or loss effect related to the difference in treatment between the previous (IAS 39) and new (IFRS 9) accounting framework for financial instruments will be recognised in the Group's opening retained earnings for the 2019 financial year.

A summary of IFRS 9's key requirements and the estimated impact on the bank are:

- Classification
  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. Due to the nature of the advance portfolio, no impact have been identified within the classification of the financial asset under IFRS 9 principles;

- Expected credit loss impairment model
  IFRS 9's ECL impairment model's requirements will represent the most material IFRS 9 impact for the bank. The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment.

- Default
  While default is not specifically defined by IFRS 9, the bank has aligned the determination of default with its existing internal credit risk management definitions and approaches.

- Forward looking information
  In determining whether there has been a significant increase in credit risk and in determining the expected credit loss 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. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact the loan and card portfolios.
  The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events.
  The forward-looking information will be based on the bank's economic expectations and industry expectations, as well as expert management judgement. The use of such information will incorporate management judgement and is hence, expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations.

While the Group is preparing for adoption of all aspects of IFRS 9, the most material impact will arise from the implementation of the new expected credit losses impairment model.

The IFRS 9 expected credit losses impairment ("ECL") model will have an impact on the Group's financial results, risk metrics and regulatory capital requirements. The Group is in the process of finalising the quantification phase of the ECL project. The impact of IFRS 9 on the Group is expected to be finalised within H1 of financial year 2019 and will be communicated to the market prior with the release of the Group's interim results.
The Group has set up an IFRS 9 steering committee which was overseeing the project. In order to ensure the appropriate board oversight, the steering committee was continuously reporting the board on the project progress.

During 2018, the Group was focusing on the implementation of the key data, modelling and process milestones. The Group has completed the development of the expected credit loss models which include the determination of significant increase in credit risk and forward-looking methodologies.

For regulatory capital adequacy purposes, the opening retained earnings and deferred tax adjustment will be not be phased in as allowed per the SARB directive 5 of 2017: "Regulatory treatment of accounting provisions – interim approach and transitional arrangements including disclosure and auditing aspects".

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTREPRETATION

for the year ended 30 September 2018

The Group is currently assessing the impact which the adoption of IFRS 9 will have on its retained earnings and its CAR and expects the midpoint of the range of the impact on the qualifying capital, as measured according to the applicable regulatory requirements, to be approximately R801 million as at 1 October 2018, which would reduce the capital adequacy ratio from 37.8% to 34.9% at this date.
The midpoint of the range of the net impact on retained earnings is expected to be approximately R802 million as at 1 October 2018.

While the Group has conducted several internal quantitative impact analyses, the results are subject to finalisation and audit of the IFRS 9 expected credit loss models.

Following the adoption of IFRS 9, the Group will publish a transition report, which report will provide more detail on the Group's application of IFRS 9.

IFRS 15 impact assessment

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

IFRS 15 will be adopted by the Group from 1 October 2018.

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

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

In assessing the impact of IFRS 15 on the revenue of the Group outside of revenue that is within the scope of IFRS 9, the Group has concluded that there will be no effect to its profit or loss from how revenue was measured in IAS 18. The steps stipulated in IFRS 15 can be applied to all the contracts that the Group has entered into in consideration for revenue.

Based on the above, no transitional implications were considered necessary measured in IAS 18. The steps stipulated in IFRS 15 can be applied to all the contracts that the Group has entered into in consideration for revenue.

Based on the above, no transitional implications were considered necessary.

ANNEXURE B: CAPITAL ADEQUACY
at 30 September 2018

Capital adequacy requirements:

Rmillion	2018 Unaudited	2017 Reviewed
On-balance sheet assets	30 289	32 331
Off-balance sheet items	1 039	1 415
Total risk exposure	31 328	33 746
Total risk weighted exposure	**27 667**	**28 112**
Primary (Tier I)		
Share capital	10 000	10 000
Primary reserves (less statutory deductions)	(1 290)	(1 596)
Total	**8 710**	**8 404**
Secondary (Tier II)		
Subordinated debt instruments	1485	1 485
General allowance for credit impairments	265	280
Total	1 750	1 765
Total qualifying capital and unimpaired reserve funds	**10 460**	**10 169**
Total capital to risk weighted assets	%	%
Primary	31.48	29.90
Secondary	6.32	6.77
Total	**37.80**	**36.17**

ANNEXURE C: ACRONYMS AND ABBREVIATIONS
for the year ended 30 September 2018

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

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

ANNEXURE D: CORPORATE INFORMATION
at 30 September 2018

CORPORATE INFORMATION

Company Secretary
Maliga Chetty

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

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