African Bank Limited
Annual Financial Statements
30 September 2017

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

The directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position at 30 September 2017, 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 directors' responsibility includes:

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

The directors have made an assessment of the company'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 annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements found on pages 4 to 82 were approved by the board of directors on 29 November 2017 and are signed on its behalf by:

B Riley
Director

G Raubenheimer
Director

Midrand

A signed copy of the 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 of South Africa, I certify that, in respect of the year ended 30 September 2017, the Company 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.

Bruce Unser
Company Secretary

Midrand
29 November 2017

AUDIT COMMITTEE REPORT

The audit committee presents its report for the financial year ended 30 September 2017 as required by section 94(7)(f) of the Companies Act. The audit committee has been constituted in accordance with applicable legislation and regulations.

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 four 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.

IS Sehoole has resigned from the committee as well as from the Board with effect from 16 October 2017.

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

Name	10 Oct 2016	15 Nov 2016	22 Nov 2016	10 Feb 2017	16 Mar 2017	08 May 2017	12 Jul 2017	02 Aug 2017	22 Sep 2017
Members									
FJC Truter (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓
SK Mhlarhi*	N/a	Apology	Apology	✓	✓	✓	✓	Apology	✓
IS Sehoole	✓	✓	✓	✓	✓	✓	✓	✓	✓
L Stephens	✓	✓	✓	✓	✓	✓	✓	✓	✓
In Attendance									
B Riley	✓	✓	✓	Apology	✓	✓	✓	✓	✓
G Raubenheimer	✓	✓	Apology	✓	✓	✓	✓	✓	✓
B Maluleke**	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	✓

*SK Mhlarhi was appointed to the Audit committee with effect from 1 November 2016.
**B Maluleke was appointed as an executive director of the Bank with effect from 3 July 2017.

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.

FUNCTIONS OF THE AUDIT COMMITTEE

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 2017, 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 company 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 company 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.

- 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.

INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND COMPANY 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 financial statements for approval by the board.

Frans Truter
Chairman

Midrand
15 November 2016

DIRECTORS' REPORT

The directors present their report to the shareholders, together with the audited annual financial statements of African Bank Limited ("the Bank" or "the company") for the financial year ended 30 September 2017.

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 both formally and informally employed South African residents.

SHARE CAPITAL

Ordinary shares

The authorised share capital of the company is 2 000 000 000 shares of R0.01 each (2016: 2 000 000 000 shares of R0.01 each).

500 000 000 shares were issued during the 2016 financial year. There were no shares issued during the current financial year. At 30 September 2017, the issued ordinary share capital totalled 500 000 000 (2016: 500 000 000) shares at par value of R0.01 each representing R5 million (2016: R5 million). The Bank has 1 500 000 000 unissued ordinary shares (2016: 1 500 000 000).

HOLDING COMPANY

The company's holding company is African Bank Holdings Limited (ABHL).

FINANCIAL RESULTS

The financial results for the year ended 30 September 2017 are set out on pages 4 to 82 of these annual financial statements. The company reported a net profit after tax of R178 million for the 2017 financial year (2016: net loss after tax of R1 699 million). The prior financial year results include only 6 months of trading therefore those results are not directly comparable to the current financial year.

BORROWING POWERS

In terms of the Memorandum of Incorporation ("MOI"), the company has unlimited borrowing powers.

The total borrowings of the company at 30 September 2017 are R23 billion (2016: R28 billion). Full details of the borrowings are shown in notes 11, 13 and 14 to the annual financial statements.

EVENTS AFTER THE REPORTING DATE

African Bank Limited entered into a joint venture arrangement with MMI Strategic Investments Proprietary Limited to provide unsecured loans to customers of the MMI group. The joint venture commenced operations during October 2017.

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

MAJOR CAPITAL EXPENDITURES

The company made additions to its capital assets of R117 million (2016: R109 million) during the financial year excluding capital asset acquired through business combination.

GOING CONCERN

The directors have satisfied themselves that the company is in a sound financial position and that sufficient borrowing facilities are accessible in order to enable the company to meet its foreseeable cash requirements. In addition, there has been no material change in the markets in which the company operates and it has the necessary skills to continue operations. On this basis, they consider that the company has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to adopt the going concern basis in preparing the company's financial statements for this reporting period.

REGULATORY APPROVAL

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

DIVIDENDS TO ORDINARY SHAREHOLDERS

No dividends were declared or paid by the board of directors during the current financial year (2016: RNil).

DIRECTORS AND CHANGES IN DIRECTORS

The following changes in directorate have taken place during the 2017 financial year end up to the 29 November 2017:

Appointments:

There were no new directors appointed to the Board during the current financial year. B Maluleke was appointed in an executive capacity with effect from 3 July 2017 and remains a member of the board.

Resignations:

IS Sehoole has resigned from the Board with effect from 16 October 2017.

African Bank Limited board of directors

Independent non-executive directors

LL von Zeuner (Chairman)
SL McCloghrie
SK Mhlarhi
L Stephens
PJ Temple
FJC Truter

Executive directors

B Maluleke
G Raubenheimer
B Riley

COMPANY SECRETARY AND REGISTERED OFFICE

Bruce Unser was appointed as a company secretary of African Bank Limited on 12 October 2015. His business and postal address disclosed on the page 82 of these financial statements.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Details in respect of directors' remuneration and the company's incentive scheme are disclosed in the remuneration note.

DIRECTORS' INTEREST IN SHARES

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

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

Mr LL von Zeuner is a non-executive director of MMI Group Limited ("MMI"). Mr FJC Truter is a non-executive director and has a direct interest as a shareholder in MMI. African Insurance Group Limited, a wholly owned subsidiary of African Bank Holdings Limited, is the holder of one L124 ordinary share in Guardrisk Life Limited, a MMI Group company, to facilitate its insurance cell captive arrangement.

During the 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 arriving at a decision on its partner, 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 Bank and the separate company had an interest and which significantly affect the business of the Bank. The directors had no interest in any third party or company responsible for managing any of the business activities of the Bank.

SPECIAL RESOLUTIONS BY AFRICAN BANK LIMITED

Special resolution 1 was passed during the AGM held on 12 July 2017 regarding the remuneration payable to non-executive directors.

AUDITORS

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

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 2017, 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 18 to 78 comprise:

the statement of financial position as at 30 September 2017;

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: R162 million, which represents 0.5% of Total Assets*

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	Key audit matters · *Impairment of originated loans and advances; and* · *Accounting for the Acquired Advances Book post acquisition.*

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

Materiality

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

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

Overall materiality	R162 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 a generally accepted benchmark. As this is the second year the Company is operating, the users of the financial statements will continue to focus on the net value of the acquired advances book (net of impairments) and the ability to recover the outstanding balances. This reflects the ability to repay the debt funding of the new Company. We therefore chose 0.5% (which is at the lower end of the spectrum) due to the listed debt within the Company which increases the sensitivity of the users in respect of the chosen benchmark.

Key Audit Matters

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

Key audit matter	How the matter was addressed in the audit
Impairment of originated loans and advances Since the restructuring of the Company in April 2016, additional originated unsecured personal loans have been granted. The quality of credit is one of the primary risks managed by management. As such, the quality of the advances book, and the resultant credit impairments recognised, are key considerations. The Company's main business is unsecured personal loans and as a result credit risk has a significant impact on the business. As at the 30 September 2017, the net balance of the originated advances was R11.7 billion. Credit impairments relating to advances, disclosed in note 5 to the financial statements, represent management's best estimate of the losses incurred within the unsecured retail loan portfolio and the credit card portfolio. The credit risk note 26.1 to the financial statements sets out the basis, including the related judgements, for the calculations of the incurred but not yet reported (IBNR) impairment, the portfolio impairment and specific impairment. 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. As such, this has resulted in this matter being identified as a matter of most significance in the current year audit of the financial statement. Impairment provisions are calculated on performing portfolios, portfolio specific impaired and non-performing loans. For the performing portfolio and portfolio specific impaired loans, management used a statistical model to calculate the credit impairment provision required for the Originated Advances Book. The following are the areas where significant judgement and estimates is required: • Cash flow projections in respect of the timing and amounts;	We considered the appropriateness of accounting policies against IFRS principles. The Company's advances impairment methodologies were independently reperformed to assess the accuracy of implementation, whilst the methodology was 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. For model-based portfolio impairments which considered the contractual delinquency 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 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; • We performed stress testing against industry norms to determine the impact of risk drivers

• Discount rates; • Probability of default ("PD"); • Loss given default ("LGD"); • Exposure at default ("EAD"); and • Emergence periods. The model is intended to approximate the impact of current economic and credit conditions on the outcome of incurred credit events for the two portfolios. Non-performing loans (where payments have not been received for more than 6 months) are fully impaired and netted off against the carrying value of the advances. Current market conditions for unsecured lending requires specific focus on arrears that includes treatment of cured and restructured loans, accounts under debt review, arrears or default across multiple loans, industry and geographical strain and trends. *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 26.1 to the financial statements.*	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; and • 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.
Accounting for the Acquired Advances Book post acquisition On 4 April 2016 the Company acquired the unsecured lending business from Residual Debt Services Limited. The acquired advances book was fair valued at acquisition date. Subsequent to the acquisition, management should consider whether adjustments are required where new expected cash flow estimates or actual cash flows exceed the expected cash flows used for fair value purposes at acquisition. Equally, where the expected cash flow estimates or actual cash flows are lower than expected, an additional impairment is required. As at 30 September 2017, the balance of the acquired advances was R7 billion (Refer to Note 5 Net advance). The calculation of the adjustments, either catch up adjustment or additional credit impairment losses, is considered an area of most significance in our audit of the financial statements due to the significant judgements and estimates that management has applied in calculating the catch up adjustment and credit impairment provision for the acquired advances book.	In addition to the procedures we performed as described in the key audit matter above, we have further assessed management's documented approach, principles and assumptions for alignment with IAS 39 AG8 principles. In this regard we performed the following procedures: • We independently reperformed management's model calculations to determine whether the application as per the methodology documented, was correctly calculated; • We assessed management's data preparation steps to consider whether the application as per the methodology documented was consistently applied. This included data accuracy and completeness testing through the reperformance of the source system to credit system reconciliation; • We performed an independent assessment, according to IAS 39 principles, of the key model input assumptions for appropriateness with a best estimate view of the cash flow projections; and • We used our credit expertise to perform model back-testing, through the comparison of the projected cash flows on acquisition to actual cash flows for the period, in order to assess the accuracy of forecasting cash flows up to 60 months used in management's assessments. Management's output was found to be acceptable, based on our independent calculation.

Management used a statistical model to calculate the catch up adjustment or credit impairment provision required for the acquired advances book. The following are the areas where significant judgement and estimates is required: ● Cash flow projections in respect of the timing and amounts; ● Discount rates; ● PD; ● LGD; and ● EAD. *Refer to note 1.8.4 to the financial statements for the disclosures and accounting treatment of the acquired advances book, and to the significant estimates and judgment note 26.1.*	

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 2017 and the Integrated Report 2017, 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. 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 3 years.

PricewaterhouseCoopers Inc.
Director: Thomas Magill
Registered Auditor
Sunninghill

29 November 2017

STATEMENT OF FINANCIAL POSITION
at 30 September 2017

Rmillion	Notes	2017	2016
Assets			
Cash and cash equivalents	2	6 862	12 862
Regulatory deposits and sovereign debt securities	3	4 722	1 237
Derivatives	4	748	2 230
Net advances	5	18 743	20 111
Accounts receivable and other assets	6	219	232
Current tax	10	49	-
Loans to group companies	7	23	296
Property and equipment	8	494	553
Intangible assets	9	75	49
Deferred tax	10	389	121
Total assets		**32 324**	**37 691**
Liabilities and equity			
Short-term funding	11	4 305	2 159
Derivatives	4	5	4
Creditors and other liabilities	12	620	1 286
Current tax	10	-	100
Bonds and other long-term funding	13	17 385	24 313
Subordinated bonds	14	1 530	1 528
Total liabilities		**23 845**	**29 390**
Ordinary share capital	15	5	5
Ordinary share premium	15	9 995	9 995
Reserves and accumulated losses		(1 521)	(1 699)
Total equity (capital and reserves)		**8 479**	**8 301**
Total liabilities and equity		**32 324**	**37 691**

STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the year ended 30 September 2017

Rmillion	Notes	2017	2016*
Interest income on advances	16	5 700	2 065
Credit impairment charge	18	(2 448)	(362)
Interest on advances after impairment		**3 252**	**1 703**
Other interest income	16	847	651
Interest expense and similar charges	19	(2 741)	(1 806)
Net interest income after impairment		**1 358**	**548**
Non-interest income	17	1 526	782
Operating costs	20	(2 604)	(1 223)
Gains on bond buy back		16	251
Indirect taxation: VAT	21	(56)	(44)
Operating profit		**240**	**314**
Goodwill impairment		-	(1 947)
Profit/(Loss) before taxation		**240**	**(1 633)**
Taxation	21	(62)	(66)
Profit/(Loss) for the year		**178**	**(1 699)**
Attributable to: **-Owner of African Bank Limited**			
Total comprehensive profit/(loss) for the year		**178**	**(1 699)**

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

**The 2016 figures include six months of trading from 4 April 2016 to 30 September 2016*

STATEMENT OF CHANGES IN EQUITY
at 30 September 2017

Rmillion	Ordinary share capital	Ordinary share premium	Retained earnings/(accumulated loss)	Total
Balance at 30 September 2015	-	-	-	-
Total comprehensive loss for the year	-	-	(1 699)	(1 699)
Ordinary shares issued	5	9 995	-	10 000
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**

STATEMENT OF CASH FLOWS
for the year ended 30 September 2017

Rmillion	Notes	2017	2016* as restated
Cash flows from operating activities			
Cash generated from operations	22	3 850	1 695
Cash received from lending activities and cash reserves	23	8 042	3 458
Recoveries on advances previously written off		11	194
Cash paid to clients, funders, employees and agents	24	(4 203)	(1 957)
(Increase)/decrease in gross advances		(1 163)	577
(Increase)/decrease in regulatory deposits and sovereign debt securities		(3 360)	2 559
Increase in customer deposits		201	28
Direct taxation paid	25	(479)	(87)
Indirect taxation paid		(56)	(44)
Net cash (outflow)/inflow from operating activities		**(1 007)**	**4 728**
Cash inflow from investing activities			
Acquisition of a business under a business combination		-	**10 065**
Acquisition of property and equipment (to maintain operations)	8	(63)	**(107)**
Acquisition of intangible assets (to maintain operations)	9	(54)	**(2)**
Loans advanced to group companies		303	**(174)**
Net cash inflow from investing activities		**186**	**9 782**
Cash flows from financing activities			
Long term funding redeemed		(2 863)	**(9 394)**
Net short-term funding redeemed		(2 229)	**(1 886)**
Share capital issued for cash	15	-	**10 000**
Net cash outflow from funding activities		**(5 092)**	**(1 280)**
(Decrease)/increase in cash and cash equivalents		**(5 913)**	**13 230**
Cash and cash equivalents at the beginning of the year		**12 862**	**-**
Effect of exchange rate changes on cash and cash equivalents		**(87)**	**(368)**
Cash and cash equivalents at the end of the year		**6 862**	**12 862**

**The 2016 figures include six months of trading from 4 April 2016 to 30 September 2016*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

1. General information

African Bank Limited 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, the Government Employees Pension Fund, ABSA Trading and Investment Solutions Proprietary Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited. 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" which remains under curatorship. The prior financial year figures include only 6 months of trading, therefore they are not directly comparable to the current financial year.

The details of the restructuring transaction can be found in the Offer Information Memorandum published on 4 February 2016 as well as in the SENS announcements available on www.africanbank.co.za.

The registered office and principal place of business of the Bank 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 Bank'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. Other judgements made relate to classifying financial assets and liabilities into their relevant categories and to some matters related to current and deferred taxation.

The critical judgements that management have made in the process of applying the Bank'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 annual financial statements in dealing with items that are considered material by the Bank during this reporting period.

1.3.1. Statement of compliance

The 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 (IFRIC) 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 and the requirements of the Companies Act.

1.3.2. Basis of preparation

The company 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. Business combination

The acquisition method of accounting is used to account for all business combinations meeting the definition of a business.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase gain.

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1.5. Intangible assets

1.5.1. Software

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

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in the manner that will generate future economic benefits and can reliably measure the costs to complete the development.

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.

1.5.2. Trademarks and customer contracts

Trademarks, licenses and customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. The company amortises trademarks and customer contracts using the straight-line method over the period of 3 to 5 years.

1.5.3. 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.

1.6. Property and equipment

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

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

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

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

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

1.7. Impairment of non-financial assets

The carrying amounts of the Bank'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.

1.8. Financial instruments

The Bank 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 Bank does not apply hedge accounting as defined in IAS 39. The Bank 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 Bank 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:

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- 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.

1.8.1. 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.

1.8.2. Subsequent measurement

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

1.8.2.1. 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.

1.8.2.2. 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 Bank 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 Bank is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

1.8.2.3. 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 Bank's advances are included in the loans and receivables category.

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

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

1.8.2.4. Financial liabilities at amortised cost

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

1.8.3. 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.

1.8.4. Impairment of financial instruments

The Bank 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 Bank exercises judgement in making assumptions and estimations when calculating advances impairment allowances on both individually and collectively assessed advances.

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In determining the impairment allowance, the timing and amount of the expected cash flows are the most significant judgements applied by the Bank. 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 Bank 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 assets 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.

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

The Bank 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:

1.8.4.1. 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

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the Bank as loans and receivables that are contractually up to date with all payments due.

1.8.4.2. 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.

1.8.4.3. 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.

1.8.4.4. 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.

1.8.5. De-recognition of financial instruments

1.8.5.1. Financial assets

The Bank 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 Bank transfers the financial asset and the transfer qualifies for de-recognition.

A transfer of the financial assets requires that the Bank either transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

1.8.5.2. Financial liabilities

The Bank de-recognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

1.8.6. Derivative financial instruments

The Bank 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 Bank, 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.

1.8.7. Hedge accounting

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

1.9. Cash and cash equivalents

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

For purposes of the statement of financial position, South African Reserve Bank cash requirements and prudential liquid assets are not disclosed as cash and cash equivalents but rather as regulatory deposits and sovereign debt securities.

1.10. Equity

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

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

1.10.1. Share capital and share premium

Shares issued by the Bank 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 Bank.

1.10.2. Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as a movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised.

1.11. Revenue

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

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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 primarily 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 (CGT).

1.12.2.1. 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 Bank operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank 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.

1.12.2.2. Deferred taxation

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

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

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

1.13. Operating leases

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

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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 Bank, with the assets held in separate trustee administered funds. The Bank pays contributions on a contractual basis as determined in terms of the rules of each benefit fund. The Bank 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 Bank 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 bank 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 bank.

Due to the nature of its operations the bank has a single operating segment and therefore does not report a separate segment report as the information as reported in the financial statements is consistent with the internal reporting provided to the chief executive officer.

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2. Cash and cash equivalents

Rmillion	2017	2016
Call deposits (1)	858	3 275
Rand	614	2 893
Foreign denominated	244	382
Short notice deposits (2)	273	3 633
Rand	204	3 633
Foreign denominated	69	-
Other notice deposits (3)	5 695	5 827
Rand	2 757	5 827
Foreign denominated	2 938	-
Current accounts (4)	36	127
	6 862	**12 862**

(1) Rand denominated call deposits are with SA banks and bear interest at rates varying from 4.5% to 6.81% NACM (2016: from 4.45% to 6.95% NACM). Money on call deposits can be withdrawn on demand.

Foreign denominated call deposits consist of foreign currency which the Bank uses to mitigate against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency (refer to note 26.2.2). The call deposits can be withdrawn on demand.

(2) Short notice rand deposits are deposits with SA banks bearing interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate of 7.46% (2016: 7.13%). Short notice foreign denominated deposits are deposits with SA banks bearing interest at market related rates, which can be withdrawn within 32 days or less with an average interest rate of 1.9%.

(3) Other rand deposits are deposits with SA banks bearing interest at market related rates, which mature in 33 days or more with an average interest rate of 7.79% (2016: 6.68%). Other foreign denominated deposits are deposits with SA banks bearing interest at market related rates, which mature in 33 days or more with an average interest rate of 2.35%.

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

Rmillion	2017	2016
Maximum exposure to credit risk	**6 862**	**12 862**

See note 26.1.2 Credit risk management for ratings of counterparties.

3. Regulatory deposits and sovereign debt securities*

Rmillion	2017	2016
Listed	4 312	863
Treasury bills and debentures (1)	2 810	397
Bonds (2)	1 502	466
Unlisted		
Deposits with South African Reserve Bank (3)	410	374
	4 722	**1 237**

**This group of assets was previously called "statutory assets" on the face of the statement of financial position and in the related notes.*

Regulatory deposits and sovereign debt securities with a carrying value of R1 436 million (2016: R1 237 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.

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(1) Treasury bills and debentures had an interest rate of 7.35% to 7.79% NACQ (2016: 7.65% and 6.9% NACQ).

(2) The inflation linked bond has an interest rate of CPI plus 2.75% NACS (2016: CPI plus 2.75% NACS). RSA Government, foreign denominated bonds had an interest of 6.88% NACS.

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

(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.

Rmillion	2017	2016
Maximum exposure to credit risk	**4 722**	**1 237**
See note 26 Credit risk management for ratings of counterparties		

4. Derivatives

Rmillion	ASSETS OVER THE COUNTER		LIABILITIES OVER THE COUNTER	
	Notional	Carrying amount at fair value	Notional	Carrying amount at fair value
2017				
Currency derivatives				
Swaps	1 988	238	-	-
Interest rate derivatives				
Swaps	-	-	515	5
Inflation linked derivatives				
Swaps	2 187	510	-	-
	4 175	**748**	**515**	**5**
2016				
Currency derivatives				
Swaps	4 105	1 700	-	-
Interest rate derivatives				
Swaps	278	-	515	4
Inflation linked derivatives				
Swaps	2 869	530	-	-
	7 252	2 230	515	4

The Bank uses interest rate swaps and currency swaps to economically hedge against changes in cash flows of certain variable rate debt.

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

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.

Derivatives settled on a net basis and gross basis

The Bank's derivatives that settle on a net basis included:

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- Inflation linked swaps
- Interest rate swaps

The Bank's derivatives that will be settled on a gross basis include:

- Cross currency interest rate swaps

The tables below analyses the Bank's derivative assets and liabilities that will be settled on a net and gross 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 Bank's derivatives are subject to collateral requirements (see note 28), 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
2017						
Financial assets						
Inflation linked swaps	-	469	41	-	-	**510**
Financial liabilities						
Interest rate swaps	-	5	-	-	-	**5**
2016						
Financial assets						
Inflation linked swaps	168	-	326	36	-	530
Financial liabilities						
Interest rate swaps	-	-	4	-	-	4

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**
Financial liabilities						
Cross currency interest rate swaps						
Inflow	-	-	-	-	-	-
Outflow	-	-	-	-	-	-
	-	-	-	-	-	-

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Derivatives settled on a gross basis	> 6 months	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years	Total
2016						
Financial assets						
Cross currency interest rate swaps						
Inflow	3 556	-	2 763	-	-	6 319
Outflow	(2 182)	-	(2 437)	-	-	(4 619)
	1 374	-	326	-	-	1 700
Financial liabilities						
Cross currency interest rate swaps						
Inflow	-	-	-	-	-	-
Outflow	-	-	-	-	-	-
	-	-	-	-	-	-

5. Net advances

Rmillion	2017	2016
Gross advances	20 857	20 558
Deferred administration fees	(74)	(85)
Gross advances after deferred administration fees	**20 783**	**20 473**
Loan	16 135	15 529
Credit card	4 648	4 944
Balance of impairment provisions at the end of the year	**2 040**	**362**
Balance of impairment provisions at the beginning of the year	362	-
Impairment provisions raised	2 535	362
Bad debt (write-offs)	(857)	-
Net advances	**18 743**	**20 111**

The net book value of the acquired book as at 30 September 2017 was R7 billion.

Exposure to credit risk		
Net advances	18 743	20 111
Conditionally revocable retail loan commitments	750	822
Maximum exposure to credit risk	**19 493**	**20 933**

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6. Accounts receivable and other assets

Rmillion	2017	2016
Financial		
Sundry receivables (1)	114	126
Non- financial		
Prepayments (2)	105	106
Total	**219**	**232**

(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.

7. Loans to group companies

Rmillion	2017	2016
African Bank Holdings Limited	**23**	**296**

The maximum aggregate amount under the facility agreement is R350 million (2016: 300 million). The highest balance during the year of the loan between African Bank Limited and African Bank Holdings Limited was R312 million (2016: R296 million). The loan is unsecured, repayable on 20 business days' notice and subject to interest at JIBAR plus 320 bps. The loan is neither past due nor impaired.

8. Property and equipment

Rmillion	2017 Cost	2017 Accumulated depreciation	2017 Carrying value	2016 Cost	2016 Accumulated depreciation	2016 Carrying value
Furniture and fittings	76	(27)	49	56	(8)	48
Information technology equipment	225	(99)	126	218	(30)	188
Motor vehicles	2	(1)	1	1	-	1
Leasehold improvements	53	(26)	27	30	(11)	19
Land and buildings (owner-occupied)	300	(9)	291	300	(3)	297
Total	**656**	**(162)**	**494**	**605**	**(52)**	**553**

Reconciliation of the carrying amounts of property and equipment 2017

Rmillion	Carrying value at beginning of year	Additions	Additions through business combination	Depreciation	Disposals	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**

Reconciliation of the carrying amounts of property and equipment 2016

Rmillion	Carrying value at beginning of year	Additions	Additions through business combination	Depreciation	Disposals	Carrying value at end of year
Furniture and fittings	-	7	49	(8)	-	48
Information technology equipment	-	96	122	(30)	-	188
Motor vehicles	-	-	1	-	-	1
Leasehold improvements	-	4	26	(11)	-	19
Land and buildings (owner-occupied)	-	-	300	(3)	-	297
Total	**-**	**107**	**498**	**(52)**	**-**	**553**

9. Intangible assets

	2017			2016		
Rmillion	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Software	116	(41)	75	62	(13)	49
Brand	45	(45)	-	45	(45)	-
Goodwill	1 947	(1 947)	-	1 947	(1 947)	-
Total	**2 108**	**(2 033)**	**75**	**2 054**	**(2 005)**	**49**

Reconciliation of the carrying amounts of intangible assets 2017

Rmillion	Carrying value at beginning of year	Additions	Additions through business combination	Amortisation	Impairment charge	Disposals	Carrying value at end of year
Software	**49**	**54**	**-**	**(24)**	**-**	**(4)**	**75**

Reconciliation of the carrying amounts of intangible assets 2016

Rmillion	Carrying value at beginning of year	Additions	Additions through business combination	Amortisation	Impairment charge	Disposals	Carrying value at end of year
Software	-	2	60	(13)	-	-	49
Brand	-	-	45	-	(45)	-	-
Goodwill	-	-	1 947	-	(1 947)	-	-
Total	**-**	**2**	**2 052**	**(13)**	**(1 992)**	**-**	**49**

Goodwill recognised through business combination represents future economic benefits arising from other assets acquired in a business combination when such benefits are not individually identified and separately recognised.

Goodwill and Brand intangible assets were fully impaired in the 2016 financial year.

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10. Current and deferred tax

Rmillion	2017	2016
Current tax asset/(liability)	49	(100)
Deferred tax asset	389	121

10.1. Deferred tax asset

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2017			
Temporary differences			
Deferred 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**
2016			
Temporary differences			
Deferred administration fees on advances	-	11	11
Provisions	-	29	29
Impairment for credit losses	-	101	101
Tax impact from the buy- back of liabilities	-	(20)	(20)
Total	**-**	**121**	**121**

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

11. Short-term funding

Rmillion	2017	2016
Call deposits –other	547	2 059
Negotiable certificates of deposits	306	-
Fixed deposits	1 988	-
Promissory notes	793	-
Listed bonds	460	-
Other short term funding	211	100
Total	**4 305**	**2 159**

Call deposits with monthly coupon payments have an interest rate of 6.57%% NACM (2016: 3.75% to 5.77% NACM).

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.

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Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 0% to 13.06% NACQ, NACS and NACA.

Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 8.16% to 9.34% NACQ, NACS and NACA.

12. Creditors and other liabilities

Rmillion	2017	2016
Financial		
Advances with credit balances	18	20
Cash payable to Residual Debt Services Limited (in curatorship) ("RDS")	25	731
Sundry payable and accruals	174	254
Premium accruals payable to Guardrisk	125	91
Accruals related to payroll	222	131
Non- Financial		
Provision for straight lining of leases	6	6
Leave pay accrual	50	53
Total	**620**	**1 286**

13. Bonds and other long-term funding

Rmillion	2017	2016
Unsecured bonds (listed on JSE)	6 908	9 444
Unsecured bonds (listed on foreign stock exchanges)	5 612	5 754
Unsecured long-term loans	4 526	8 786
Unlisted bonds	339	329
Total	**17 385**	**24 313**

13.1. Unsecured bonds listed on JSE*

Rmillion	Face value 2017	Interest accrued 2017 (1)	Unamortised premium/ (discount) 2017(2)	Reclassified into short term funding	Net liability 2017	Net liability 2016 (3)
Fixed rate bonds: Ranging from 9.5% to11.5%	491	19	3	(304)	209	817
JIBAR linked bonds: Ranging from JIBAR + 199bpts to JIBAR + 400 bpts	3 356	37	(33)	(156)	3 204	4 711
Inflation linked bonds: Ranging from 3.2% to 5.75%	2 751	902	(158)	-	3 495	3 916
Total	**6 598**	**958**	**(188)**	**(460)**	**6 908**	**9 444**

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** The bonds maturities range from earliest redemption on 31 October 2018 and latest redemption on 5 June 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 2016 financial year is accrued interest of R282 million and unamortised discount of R199 million.

13.2. Unsecured bonds listed on foreign stock exchanges*

Rmillion	Face value 2017	Interest accrued 2017 (1)	Foreign currency translation 2017 (2)	Unamortised premium/(discount) 2017 (3)	Net liability 2017	Net liability 2016 (4)
USD denominated bonds: Ranging from 6% to 8.125% (all bonds maturing in 2020)	3 580	76	(294)	30	3 392	3 464
CHF denominated bonds: Ranging from 4% to 5.5% (bonds mature between 2019 and 2022)	2 349	40	(213)	44	2 220	2 290
Total	**5 929**	**116**	**(507)**	**74**	**5 612**	**5 754**

**The bonds maturities range from earliest redemption on 18 March 2019 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 2016 financial year is accrued interest of R116 million, decrease due to foreign currency revaluation of R426 million and unamortised premium of R98 million.

13.3. Unsecured long-term loans

Rmillion	Face value 2017	Interest accrued 2017 (1)	Unamortised premium/(discount) 2017 (2)	Net liability 2017	Net liability 2016 (3)
Promissory notes	2 957	82	(7)	3 032	4 600
Negotiable certificates of deposits	-	-	-	-	300
Fixed deposits	1 228	69	(44)	1 253	3 776
Other long-term funding	241	-	-	241	110
Total	**4 426**	**151**	**(51)**	**4 526**	8 786

Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 8.22% to 12.08% NACQ, NACS and NACA (2016: from 8.35% to 12.23% NACQ, NACS and NACA). These notes have various maturities, ranging from 23 December 2018 to 1 December 2024.

Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.0% to 11.14% NACQ, NACS and NACA (2016: from 0% to 13.6% NACQ, NACS and NACA). These deposits have various maturities, ranging from 28 March 2019 to 4 December 2022.

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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 2016 financial year is accrued interest of R126 million and unamortised discount of R132 million.
4) Other long term funding consists of customer deposits.

13.4. Unlisted bonds

Rmillion	Face value 2017	Interest accrued 2017 (1)	Foreign currency translation 2017 (2)	Unamortised premium/(discount) 2017 (3)	Net liability 2017	Net liability 2016 (4)
USD denominated bonds*	**377**	**7**	**(31)**	**(14)**	**339**	329

**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 2016 financial year is accrued interest of R4 million, decrease due to foreign currency revaluation of R26 million and unamortised discount of R26 million.

14. Subordinated bonds

Rmillion	Face value 2017	Interest accrued 2017 (1)	Unamortised discount 2017 (2)	Net liability 2017	Net liability 2016 (3)
Subordinated bonds	**1 485**	**53**	**(8)**	**1 530**	**1 528**

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 semi-annually 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 2016 financial year is accrued interest of R53 million and unamortised discount of R10 million.

15. Share capital

Rmillion	Number of shares 2017	Rm 2017	Number of shares 2016	Rm 2016
Authorised				
Ordinary no par value shares	**-**	**-**	-	-
Unclassified no par value shares	**-**	**-**	-	-
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 financial period. During the 2016 financial year the Bank had repurchased one previously issued share and issued 500 000 000 to its holding company, African Bank Holdings Limited.

The Bank has 1 500 000 000 (2016: 1 500 000 000) unissued ordinary shares.

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16. Interest income

16.1. Interest income on advances

Rmillion	2017	2016
Interest on advances	5 326	1 994
Loan origination fees	92	34
Service fee	282	37
Total	**5 700**	**2 065**

16.2. Other interest income

Rmillion	2017	2016
Interest received on cash reserves	646	592
Sundry interest income	201	59
Total	**847**	**651**

17. Non-interest income

Rmillion	2017	2016
Credit card fees	358	204
Binder and outsourcing arrangements fees	445	197
Collection fees	720	379
Other income	3	2
Total	**1 526**	**782**

18. Credit impairment charge

Rmillion	2017	2016
Increase in impairment provisions (refer note 5)	2 535	362
Adjustment related to income on impaired advances	(76)	-
Recoveries on advances previously written off	(11)	-
Total	**2 448**	**362**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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19. Interest expense and similar charges

Rmillion	2017	2016
Subordinated debt	219	107
Unsecured listed bonds	1 312	842
Call deposits	62	115
Fixed deposits	346	199
Negotiable certificates of deposit	28	22
Interest on short-term facilities	451	230
Fair value and foreign exchange gains and losses from financial assets and liabilities	303	281
Other interest	20	10
Total	**2 741**	**1 806**

In accordance with the Bank'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 2017 is R58 million (2016: 166 million gain).

20. Operating costs

Rmillion	2017	2016
Advertising and marketing costs	109	57
Amortisation of intangible assets (refer note 9)	24	13
Audit fees	13	11
Bank charges	168	83
Card transaction costs	51	29
Collection costs	210	82
Depreciation on property and equipment (refer note 8)	110	52
Direct selling and commissions	23	9
Information technology costs	123	41
Profit on disposal of property and equipment	12	(1)
Impairment of brand	-	45
Rental and maintenance costs	218	107
Costs related to property rentals	188	97
Other rental and maintenance costs	30	10
Printing, stationery and courier costs	37	23
Professional fees	132	32
Staff costs	1 222	560
Basic remuneration	861	403
Incentives	202	79
Contribution to provident fund	98	47
Commission paid to sales agents	8	13
Executive directors' and prescribed officers' remuneration (refer note 38)	53	18
Basic remuneration	33	11
Incentives	20	7
Non-executive directors' fees (refer note 38)	4	2

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Telephone, fax and other communication costs	73	43
Other expenses	75	35
Total	**2 604**	**1 223**

21. Indirect and direct taxation

Rmillion	2017	2016
Indirect charge per the statement of total comprehensive income	56	44
Direct charge per the statement of total comprehensive income: SA normal taxation	62	66

21.1. Direct taxation

Rmillion	2017	2016
Current taxation	**330**	**187**
Current year	352	187
Prior year	(22)	-
Deferred taxation	**(268)**	**(121)**
Current year	(273)	(121)
Prior year	5	-
Direct taxation charge per the statement of total comprehensive income	**62**	**66**

21.2. Direct tax rate reconciliation

%	2017	2016
Effective rate of taxation	25.7	(4.0)
Impairment of goodwill	-	33.4
Impairment of intangible asset	-	0.8
Non- deductible expenses	(5.1)	-
Learnerships	1.3	-
Tax impact on buy- back of liabilities	(6.4)	-
Prior year under/(over) provision	7.0	-
Other	0.4	(0.5)
Capital gains subject to CGT rate	-	(1.7)
Standard rate of South African taxation	**28.0**	**28.0**

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22. Cash generated by operations

Rmillion	2017	2016 as restated
Profit/(Loss) before tax	**240**	(1 633)
Adjusted for:		
Indirect taxation: VAT	56	44
Increase in impairment of advances	2 459	362
Impairment of goodwill and brand (refer note 9)	-	1 992
Amortisation of intangible assets (refer note 9)	24	13
Depreciation (refer note 8)	110	52
Profit on disposal of property and equipment	12	(1)
Gain on the bond buy backs	(16)	(251)
Fair value movements on derivative instruments	303	281
Fair value adjustments on liabilities	81	25
Movement in accruals	14	146
Movement in deferred fees and other accruals related to advances	-	(18)
Movement in other interest income and expense accrual	(24)	(12)
Movement in interest expense accrual	591	694
Total	**3 850**	**1 695**

23. Cash received from lending activities and cash reserves

Rmillion	2017	2016 as restated
Interest income (adjusted for non-cash items)	6 516	2 687
Non-interest income (adjusted for non-cash items)	1 526	771
Total	**8 042**	**3 458**

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

Rmillion	2017	2016
Interest paid (adjusted for non-cash items)	1 760	806
Remuneration and incentives paid to employees and directors	1 129	487
Other operating expenses paid	1 314	664
Total	**4 203**	**1 957**

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25. Direct taxation paid

Rmillion	2017	2016
Movement in current tax asset	149	(100)
Direct taxation charged to statement of total comprehensive income (refer note 21)	62	66
Deferred tax portion of amount charged to statement of total comprehensive income	268	121
Total	**479**	**87**

26. Risk management

The nature of the Bank'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, in terms of its MOI 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, capital and compliance 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 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 has approved the terms of reference of each of these subcommittees during the current financial period.

The MRC is responsible for managing the risk and profitability strategies of the Bank. 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 which is chaired by a non-executive director.

The role of the ALCO is to manage the Bank'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 Bank'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 Bank strategy and appetite related to the ALCO risk within the Bank'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:

- Market risk
    - Interest rate risk (note 26.2.1)
    - Currency risk (note 26.2.2)
- Liquidity and funding risk (26.3)
- Capital adequacy and
- Regulatory (and Legal) risks in the ALCO context.

26.1. 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 Bank's primary focus is the underwriting of unsecured loans and accordingly, credit risk features as a dominant financial risk within the Bank.

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

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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 Bank 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 Asset and Liability Management Committee ("ALCO") any matters or issues identified in the validation process of the ICAAP or Treasury models.

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

- Advances
- Financial assets (other than advances)

Advances
The Bank'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 Bank. All of the Bank's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base expose the Bank to systemic credit risk. The Bank mitigates this risk by applying the Bank's application scorecard, a set of business rules, affordability assessments and queue verifications (fraud mitigation tools). The Bank'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 R200,000 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 R120,000, with repayment percentages ranging from 5% to 100%. By its nature, the carrying amount at year end for unsecured loans and credit cards represents the Bank's maximum exposure to credit risk. The Bank does have insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers.

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 Bank employs its own credit risk model affordability calculation, based on a repayment to income ratio model. The Bank 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 Bank 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 identification document, proof of address and finger biometrics, to validate the customer against Home Affairs;
- The customer's 3 month income, monthly living expense, declaration of financial obligations, wage frequency, employer and bank details are capture;
- Electronic Credit Bureau data; 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 approval / decline of an offer to the customer. It is a precautionary step taken to try and pick up early on underlying risk by flagging

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certain triggers known to carry 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. In other cases the queue is for checking on the completeness and accuracy of the documentation received and information captured.

Credit monitoring
The Bank 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 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 Bank'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 and acts as early warning indicators which the credit management team actively manages. 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 bank uses various debit strike platforms and each allows the Bank with different striking capabilities and options. The Bank 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 collection is unsuccessful, arrears follow up is performed initially through the call centre.
The Bank 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.

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 Bank conservatively applies the principle of objective evidence and views "one cent-one day" late payment as objective evidence of impairment.

The Bank 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).

The categories used to identify impairment are as follows:

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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 Bank 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 Bank'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 Bank 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.

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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.

The estimate related to the payment recency of the advances subject to the write-off was changed in the current financial period. Advances greater than CD 4 and where payments have not been received for 5 months (previously 6 months) are now subject to write off. The change resulted in an additional write off to the value of R614 million and a release of the impairment to the value of R515 million. The net impact on the profit or loss was R99 million.

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. IFRS requires that assets and liabilities acquired from the old African Bank, including the advances book, are recognised at fair value at acquisition. The advances book thus has to be reflected net of existing old African Bank credit risk impairment provisions. In order to provide sufficient information about the way the credit risk is managed by the Bank, 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.

26.1.1. Credit quality of advances per IAS 39 requirements

26.1.1.1. Credit quality of the performing book*

Rmillion	Loan 2017	Credit card 2017	Total 2017	Loan 2016	Credit card 2016	Total 2016
Performing Book – CD 0						
Low risk	7 606	1 609	9 215	7 240	1 563	8 803
Medium risk	2 811	398	3 209	2 368	555	2 923
High risk	1 152	261	1 413	1 589	360	1 949
Total	**11 569**	**2 268**	**13 837**	**11 197**	**2 478**	**13 675**

**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.*

26.1.1.2. Arrears analysis

Rmillion	Loan 2017	Credit card 2017	Total 2017	Loan 2016	Credit card 2016	Total 2016
Financial assets that are neither past due nor specifically impaired						
CD 0:	11 569	2 268	13 837	11 197	2 478	13 675
Past due and specifically impaired						
CD 1 to CD 3	1 535	1 594	3 129	1 391	1 477	2 868
CD 4 and higher	3 105	786	3 891	3 026	989	4 015
Total credit exposure	**16 209**	**4 648**	**20 857**	**15 614**	**4 944**	**20 558**
Total impairments						
Incurred but not reported (IBNR)	(366)	(61)	(427)	(173)	(16)	(189)
Portfolio specific impairment	(535)	(326)	(861)	(124)	(22)	(146)
Specific impairment	(536)	(216)	(752)	(24)	(3)	(27)
Deferred administration fees	(74)	-	(74)	(85)	-	(85)
Net advances	**14 698**	**4 045**	**18 743**	**15 208**	**4 903**	**20 111**

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Rmillion	Loan 2017	Credit card 2017	Total 2017	Loan 2016	Credit card 2016	Total 2016
Impairment as % of gross advances						
CD 0	3.16%	2.69%	3.08%	1.55%	0.65%	1.38%
CD 1- 3	34.87%	20.46%	27.53%	8.91%	1.49%	5.09%
CD 4 and higher	17.27%	27.46%	19.33%	0.79%	0.30%	0.67%
Total impairment as a % of total gross advances	**8.87%**	**12.97%**	**9.78%**	**2.06%**	**0.83%**	**1.76%**
Reconciliation of allowance account						
Balance at the beginning of the year	321	41	362	-	-	-
Impairment raised	1 780	755	2 535	321	41	362
Bad debt (write-offs)/recovery	(669)	(188)	(857)	-	-	-
Balance at the end of the year	**1 432**	**608**	**2 040**	**321**	**41**	**362**

26.1.1.3. 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.

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

2016	Loans	Credit Cards	Total
IBNR Provision			
Effect of a decrease in emergence period by 1 month	(132)	(61)	(193)
Portfolio Specific Impairment			
Effect of reduction of cash flows by 1%	12	16	28
Specific Impairment			
Effect of reduction of cash flows by 1%	24	8	32

26.1.1.4. Concentration Risk

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

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The following tables break down the Bank'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'000 00	% of total carrying value
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	57 582	9.02%	4 998	34.01%
Total	**638 590**	**100%**	**14 698**	**100%**
2016				
<5	358 927	32.46%	1 677	11.03%
5 -10	149 941	13.56%	672	4.42%
10 - 20	183 556	16.60%	1 540	10.13%
20 - 50	217 111	19.64%	3 712	24.41%
50 -100	128 490	11.62%	4 354	28.63%
>100	67 679	6.12%	3 253	21.38%
Total	**1 105 704**	**100.00%**	**15 208**	**100.00%**

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'000 000	% of total carrying value
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	40	0%	3	0.08%
Total	**851 389**	**100%**	**4 046**	**100%**
2016				
<5	251 500	31.74%	674	13.75%
5 -10	229 050	28.90%	864	17.62%
10 - 20	202 149	25.51%	1 504	30.68%
20 - 50	101 357	12.79%	1 580	32.23%
>100	8 374	1.06%	281	5.72%
Total	**792 430**	**100.00%**	**4 903**	**100.00%**

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

26.1.2.1. Advances analysis

Rmillion	2017	2016
	Disclosures based on the pre-acquisition gross value of advances*	
Gross advances	26 513	27 638
Deferred administration fees	(14)	(39)
Gross advances after deferred administration fees	**26 499**	**27 599**
Loan	21 011	21 215
Credit card	5 488	6 384
Balance of the impairment provisions at the end of the year	**7 756**	**7 488**
Balance of impairment provisions at the beginning of the year	7 488	-
Impairment provision acquired	-	9 139
Impairment provisions raised	5 145	1 536
Bad debt (write-offs)	(4 877)	(3 187)
Net advances	**18 743**	**20 111**
Exposure to credit risk		
Net advances	18 743	20 111
Conditionally revocable retail loan commitments	750	822
Maximum exposure to credit risk	**19 493**	**20 933**

The recoveries on the entire written off book amounted to R537 million (2016: R194 million).

26.1.2.2. Arrears analysis

Rmillion	Loan 2017	Credit card 2017	Total 2017	Loan 2016	Credit card 2016	Total 2016
Financial assets that are neither past due nor specifically impaired						
CD 0:	11 743	2 289	14 032	12 115	2 827	14 942
Past due and specifically impaired						
CD 1 to CD 3	1 788	1 769	3 557	2 040	1 949	3 989
CD 4 and higher	7 494	1 430	8 924	7 099	1 608	8 707
Total credit exposure	**21 025**	**5 488**	**26 513**	**21 254**	**6 384**	**27 638**
Total impairments						
Incurred but not reported (IBNR)	(559)	(82)	(641)	(589)	(134)	(724)
Portfolio specific impairment	(792)	(501)	(1 293)	(819)	(453)	(1 272)

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Specific impairment	(4 962)	(860)	(5 822)	(4 598)	(894)	(5 492)
Deferred administration fees	(14)	-	(14)	(39)	-	(39)
Net advances	**14 698**	**4 045**	**18 743**	**15 208**	**4 903**	**20 111**
Impairment as % of gross advances						
CD 0	4.76%	3.58%	4.57%	4.87%	4.83%	4.86%
CD 1- 3	44.30%	28.31%	36.35%	40.17%	22.72%	31.54%
CD 4 and higher	66.21%	60.12%	65.24%	64.78%	55.60%	63.08%
Total impairment as a % of total gross advances	**30.03%**	**26.29%**	**29.25%**	**28.26%**	**23.20%**	**27.09%**

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 and loans to affiliate companies are placed with reputable counterparties.

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

The Bank uses international swaps and derivatives association (ISDA) documentation for the purposes of netting derivatives. These master agreements as well as 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 Bank's derivative asset positions. See note 31 for further details.

Trade receivables and loans to affiliate companies are evaluated on an entity by entity basis. The Bank limits the tenure and size of the debt to ensure that it does not pose a material risk to the Bank. For further information refer to Note 6 and Note 7 respectively. At balance sheet date the international long-term credit rating, using Moody's rating was as follows for cash and cash equivalents, regulatory deposits and sovereign debt securities as well as derivative assets:

Assets 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**	**8 864**	**-**	**12 332**	**-**	**-**

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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
2016							
Cash and cash equivalents							
Cash deposits - ZAR	2	12 480	3 000	-	12 480	-	-
Cash deposits - Foreign denominated	2	382	382	-	382	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	3	397	397	-	397	-	-
Bonds	3	466	466	-	466	-	-
Deposits with SARB	3	374	374	-	374	-	-
Derivatives							
Derivative assets	4	2 230	1 037	-	2 230	-	-
Total		**16 329**	**5 656**	**-**	**16 329**	**-**	**-**

26.2. 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 Bank has a low market risk appetite. Forex risk appetite is zero but with the current position, the Bank has an unmatched exposure over the term of the foreign denominated debt and therefore the risk appetite is medium. Forex risk is actively managed.

26.2.1. 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 Bank has interest rate risk arising in its financial assets, from its holdings in 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 Bank's most significant financial asset is its fixed rate advances portfolio.

For the purposes of IFRS 7, the Bank is not exposed to interest rate risk on the fixed rate advances portfolio, since neither the carrying amount nor the future cash flows will fluctuate because of changes in market interest rates. The Bank seeks to achieve funding that is at a similarly fixed rate as that of the advances portfolio. In doing so, the Bank achieves a fixed cost of lending.

It is not always feasible to raise fixed rate funding and therefore the Bank has a mix of fixed and variable rate funding instruments. Variable rate funding instruments expose the Bank to interest rate risk for the purposes of IFRS. The Bank therefore 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.

In doing so, and with a view to matching variable rate risk between assets and liabilities, the Bank is mindful that it is exposed to variable rate risk through its loan and credit card portfolio.

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 Bank's assets and liabilities; and
- yield curve risk, which includes the changes in the shape and slope of the yield curve.

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The ALCO is mandated to monitor and manage these risks in adherence to the Bank's risk appetite and meets on a monthly basis to analyse the impact of interest rate risk on the Bank 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.

Given the extent of the risk and the current risk mitigants, a more sophisticated (e.g. value-at-risk) analysis is not considered necessary.

Interest rate sensitivity analyses
Two separate interest rate sensitivity analyses for the Bank 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 balance sheet date.

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Re- pricing profile

Re- pricing profile 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 group 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	-	620
Bonds and other long-term funding	4 638	4 916	20	2 151	5 296	364	-	17 385
Subordinated bonds, debentures and loans	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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Re- pricing profile 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
2016								
Assets								
Cash and cash equivalents	7 112	2 750	3 000	-	-	-	-	12 862
Regulatory deposits and sovereign debt securities	656	207	-	-	-	374	-	1 237
Derivative assets	168	36	2 026	-	-	-	-	2 230
Net advances	5 496	758	3 064	3 774	7 019	-		20 111
Accounts receivable and other assets	-	-	-	-	-	126	106	232
Loans to group companies	296	-	-	-	-	-	-	296
Property and equipment	-	-	-	-	-	-	553	553
Intangible assets	-	-	-	-	-	-	49	49
Deferred tax asset	-	-	-	-	-	-	121	121
Total assets	**13 728**	**3 751**	**8 090**	**3 774**	**7 019**	**500**	**829**	**37 691**
Liabilities and equity								
Short-term funding	2 052	16	10	-	-	81	-	2 159
Derivative liabilities	4	-	-	-	-	-	-	4
Creditors and accruals	-	-	-	-	-	1 227	59	1 286
Current tax	-	-	-	-	-	-	100	100
Bonds and other long-term funding	7 911	7 690	23	1 209	7 210	529	(259)	24 313
Subordinated bonds, debentures and loans	1 485	-	-	-	-	53	(10)	1 528
Ordinary shareholder's equity	-	-	-	-	-	-	8 301	8 301
Total liabilities and equity	**11 452**	**7 706**	**33**	**1 209**	**7 210**	**1 890**	**8 191**	**37 691**
On balance sheet interest sensitivity	**2 276**	**(3 955)**	**8 057**	**2 565**	**(191)**	**-**	**-**	**-**

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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 Bank's portfolio, an increase in interest rates as described above would result in a corresponding net decrease of R74 million (2016: net increase R31 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)
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)
Loans to group companies	23	23	JIBAR	-
Total assets	**16 401**	**11 669**		**180**
Financial liabilities				
Derivatives	5	5	**JIBAR**	-
Subordinated bonds and loans	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)**
2016				
Financial assets				
Credit card advances	4 903	6 639	REPO	192
Cash and cash equivalents	12 862	12 862	JIBAR	180
Regulatory deposits and sovereign debt securities	1 237	447	CPI	15
Derivatives	2 230	2 595	CPI/JIBAR	(10)
Loans to group companies	296	296	JIBAR	5
Total assets	**21 528**	**22 839**		**382**
Financial liabilities				
Derivatives	4	-	JIBAR	-
Subordinated bonds and loans	1 528	1 485	JIBAR	(29)
Bonds and other long term funding	24 313	17 130	CPI/JIBAR	(281)
Short-term funding	2 159	2 159	JIBAR	(41)
Total liabilities	**28 004**	**20 774**		**(351)**
Net effect on the statement of total comprehensive income				**31**

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26.2.2. Foreign currency risk management

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the Bank arises as a result of holding foreign currency denominated borrowings and foreign currency in cash.

The Bank'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:

Financial Liabilities

Rmillion	Foreign currency USD/CHF 2017	ZAR carrying amount 2017	Foreign currency USD/CHF 2016	ZAR carrying amount 2016
Financial liabilities				
Foreign denominated bonds (USD)	(276)	(3 731)	(276)	(3 793)
Foreign denominated bonds (CHF)	(159)	(2 220)	(162)	(2 290)
Total liabilities		**(5 951)**		**(6 083)**
Financial assets				
Short-term deposits and cash (USD)	7	101	19	266
Short-term deposits and cash (CHF)	10	143	8	116
Interbank deposits (USD)	222	3 007	-	-
Government bonds (USD)	75	1 015	-	-
Foreign currency swaps (USD)	-	-	260	3 571
Foreign currency swaps (CHF)	168	2 345	193	2 728
Effect of foreign currency hedges		**6 611**		**6 681**
Net open position - USD	28	391	3	44
Net open position - CHF	19	268	39	554

Currently the Bank uses cross-currency swaps, foreign currency cash, fixed deposits and South African government bonds denominated in foreign currency to manage and economically hedge its foreign currency risk. The principal terms of these swaps are currently not similar to those of the foreign denominated notes the Bank currently has in issue and therefore there is a mismatch as indicated above. The Bank'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 Bank holds CHF and USD in cash, fixed deposits and government bonds to offset a certain portion of the forex exposure. This is actively managed.

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 Bank's portfolio, a 10% increase in exchange rates, and its related impact on the forward discount curve, would result in a net increase of R68 million (2016: net increase R 61 million) in net income (before tax).

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Sensitivity analysis

Rmillion	Carrying value at end of year	Amount exposed to market risk	Currency	Profit or loss impact (pre-tax)
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
2016				
Financial assets				
Short-term deposits and cash (USD)	266	266	USD	27
Short-term deposits and cash (CHF)	116	116	CHF	12
Cross-currency swaps (USD)	1 374	3 571	USD	357
Cross-currency swaps (CHF)	326	2 728	CHF	273
Total	**2 082**	**6 681**		**669**
Financial liabilities				
Foreign denominated bonds (USD)	(3 792)	(3 792)	USD	(379)
Foreign denominated bonds (CHF)	(2 291)	(2 291)	CHF	(229)
Total	**(6 083)**	**(6 083)**		**(608)**
Net effect on the statement of total comprehensive income				**61**

26.2.3. Other Price risk management

The Bank has a low market risk appetite. For this reason, the Bank 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.

26.3. Liquidity risk

Liquidity risk is defined by the RCMC as the risk that the Bank 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 Bank 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 primarily the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as monitoring indicators.

The following tables analyse the Bank’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 balance sheet.

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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 Bank. It is unusual for the Bank 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 Bank and its exposure to changes in interest rates.

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 and 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 group 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, debentures and loans	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)**	**-**	**-**

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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 and liabilities	Total
2016							
Assets							
Cash and cash equivalents	7 112	2 750	3 000	-	-	-	**12 862**
Regulatory deposits and sovereign debt securities	202	194	-	-	841	-	**1 237**
Derivative assets	168	-	1 374	652	36	-	**2 230**
Net advances	1 092	1 555	6 670	3 774	7 020	-	**20 111**
Accounts receivable and other assets	126	-	-	-	-	106	**232**
Loans to group companies	296	-	-	-	-	-	296
Property and equipment	-	-	-	-	-	553	553
Intangible assets	-	-	-	-	-	49	49
Deferred tax asset	-	-	-	-	-	121	121
Total assets	**8 996**	**4 499**	**11 044**	**4 426**	**7 897**	**829**	**37 691**
Liabilities and equity							
Short-term funding	2 146	3	10	-	-	-	2 159
Derivative liabilities	4	-	-	-	-	-	4
Creditors and accruals	1 227	-	-	-	-	59	1 286
Current tax	-	-	-	-	-	100	100
Bonds and other long-term funding	176	177	179	4 001	20 039	(259)	24 313
Subordinated bonds, debentures and loans	53	-	-	-	1 485	(10)	1 528
Ordinary shareholder's equity	-	-	-	-	-	8 301	8 301
Total liabilities and equity	**3 606**	**180**	**189**	**4 001**	**21 524**	**8 191**	**37 691**
Net liquidity gap	**5 390**	**4 319**	**10 855**	**425**	**(13 627)**	**-**	**-**

Conditionally revocable retail loan commitments totalling R750 million (2016: R822) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts.

The following table represents the Bank'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 Bank can be required to pay and is not necessarily the date at which the Bank 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.
Various options of managing the liquidity gap appearing beyond 24 months are being pursued by the ALCO.

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Assets and 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
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 and debentures	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**
2016								
Financial liabilities								
Short-term funding	2 159	2 159	9	18	-	-	-	2 186
Derivative instruments	4	-	-	-	4	-	-	4
Promissory notes and NCD's	4 900	108	103	219	1 522	3 621	930	6 503
Fixed deposits and other long term funding	3 886	43	81	151	2 437	1 979	3	4 694
Bonds listed	15 198	174	337	571	1 750	12 589	3 597	19 018
Bonds unlisted	329	-	5	-	9	360	-	374
Subordinated bonds and debentures	1 528	55	56	113	212	671	2 612	3 719
Total	**28 004**	**2 539**	**591**	**1 072**	**5 934**	**19 220**	**7 142**	**36 498**

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

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

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for

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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 Bank currently measure and present derivative assets and derivative liabilities at fair value, all other financial instruments are measured and presented at amortised cost. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Fair value for disclosure
For instruments measured and presented at amortised cost, in determining the fair value for disclosure purposes, the Bank uses its own valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain funding loans for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of appropriate discount rate.

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

General
Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, 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 Bank has modelled the expected future cash flows by extrapolating the most recent observed cash flows on the advances book.
Amortised cost and fair value are both based upon present value of future cash flow techniques, however the following significant differences exist between the impairment (amortised cost) and fair value methodologies:

- 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 Bank expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection.

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

27.2. Valuation framework

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

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

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

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the reporting date, 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
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**
2016				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	2 230	-	2 230
Total	**-**	**2 230**	**-**	**2 230**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	4	-	4
Total	**-**	**4**	**-**	**4**

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27.3. 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)
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**
2016				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	632
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	(39)
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	6

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

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
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 group 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, debentures and loans	-	1 520	-	1 520	1 530
Total	**-**	**22 745**	**452**	**23 197**	**23 220**
2016					
Financial assets					
Government bonds	-	470	-	470	466
Treasury bills and debentures	-	397	-	397	397
Deposits with South African Reserve Bank	-	374	-	374	374
Net advances	-	-	20 056	20 056	20 111
Loans to group companies	-	-	296	296	296
Total	**-**	**1 241**	**20 352**	**21 593**	**21 644**
Financial liabilities					
Short term funding	-	2 159	-	2 159	2 159
Unsecured bonds (listed on JSE)	-	9 556	-	9 556	9 444
Unsecured bonds (listed on foreign stock exchange)	-	5 781	-	5 781	5 754
Unsecured long- term loans	-	8 783	-	8 783	8 786
Unlisted bonds	-	330	-	330	329
Subordinated bonds, debentures and loans	-	1 535	-	1 535	1 528
Total	**-**	**28 144**	**-**	**28 144**	**28 000**

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

- Cash and cash equivalents;
- Accounts receivables and other assets;
- 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.

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

Certain master netting arrangements entered into by the Bank 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 Bank 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 Bank'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
2017						
Assets						
Derivative financial instruments	748	-	748	-	(547)	201
Liabilities						
Derivative financial instruments	5	-	5	-	-	5
2016						
Assets						
Derivative financial instruments	2 230	-	2 230	(4)	(2 059)	167
Liabilities						
Derivative financial instruments	4	-	4	-	-	4

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[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.

29. Capital management

Capital adequacy risk is the risk that the Bank will not have 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 Bank, 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 Bank'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 Bank's operations within the parameters of the risk appetite set by the RCMC.

Refer to the table in Annexure B for the Bank's capital adequacy requirements and position as at 30 September 2017.

Internal capital management
Internal capital adequacy is defined as the Bank'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 Bank'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 Bank'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;
- on an annual basis to review and sign-off the Bank's Internal Capital Adequacy Assessment Process, prior to the submission to the RCMC, the Board and the SARB; 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.

It should be noted that there are no debt covenant requirements attached to any liabilities within the Bank.

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30. Operating lease commitments – property

Rmillion	2017	2016
Payable within one year	145	115
Payable between one and five years	193	119
Total	**338**	**234**

None of the Bank's leases have a variable portion (contingent rentals). Refer note 20 for disclosure of lease premiums paid.

31. Unutilised facilities

The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2017 was R750 million (2016:R822 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, commencing 4 April 2016.

32. 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.

The following table analyses the financial assets and financial liabilities in the balance sheet per class and category of financial instrument to which they are assigned. An estimate of the fair value per class of the financial instrument is also provided.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

32.1. Analysis of financial assets

Rmillion 2017	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	6 862	-	-	-	6 862	6 862	-
Regulatory deposits and sovereign debt securities	3	410	4 312	-	-	4 722	3 220	1 502
Derivatives	4	-	-	748	-	748	707	41
Net advances	5	18 743	-	-	-	18 743	5 579	13 164
Accounts receivable and other assets	6	114	-	-	105	219	219	-
Current tax		-	-	-	49	49	49	-
Loans to group companies	7	23	-	-	-	23	23	-
Property and equipment	8	-	-	-	494	494	-	494
Intangible assets	9	-	-	-	75	75	-	75
Deferred tax asset	10	-	-	-	389	389	-	389
Total assets		**26 152**	**4 312**	**748**	**1 112**	**32 324**	**16 659**	**15 665**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

32.2. Analysis of financial assets (continued)

Rmillion 2016	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	12 862	-	-	-	12 862	12 862	-
Regulatory deposits and sovereign debt securities	3	374	863	-	-	1 237	396	841
Derivatives	4	-	-	2 230	-	2 230	1 542	688
Net advances	5	20 111	-	-	-	20 111	7 863	12 248
Accounts receivable and other assets	6	126	-	-	106	232	232	-
Loans to group companies	7	296	-	-	-	296	296	-
Property and equipment	8	-	-	-	553	553	-	553
Intangible assets	9	-	-	-	49	49	-	49
Deferred tax asset	10	-	-	-	121	121	-	121
Total assets		**33 769**	**863**	**2 230**	**829**	**37 691**	**23 191**	**14 500**

Rmillion	2017	2016
Statement of total comprehensive income effect of financial instruments by category		
Interest income recognised – loans and receivables	**6 375**	2 657
Interest income recognised – held-to-maturity instruments	**172**	59
Total	**6 547**	**2 716**
Included above is interest income earned on impaired assets (advances)	**581**	**20**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

32.3. Analysis of financial liabilities

Rmillion	Notes	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
2017							
Short-term funding	11	4 305	-	-	4 305	4 305	-
Derivatives	4	-	5	-	5	5	-
Creditors and accruals	12	564	-	56	620	620	-
Bonds and other long-term funding	13	17 385	-	-	17 385	-	17 385
Subordinated bonds, debentures and loans	14	1 530	-	-	1 530	-	1 530
Total liabilities		**23 784**	**5**	**56**	**23 845**	**4 930**	**18 915**
2016							
Short-term funding	11	2 159	-	-	2 159	2 159	-
Derivatives	4	-	4	-	4	4	-
Creditors and accruals	12	1 227	-	59	1 286	1 286	-
Current tax liability	10	-	-	100	100	100	-
Bonds and other long-term funding	13	24 313	-	-	24 313	-	24 313
Subordinated bonds, debentures and loans	14	1 528	-	-	1 528	-	1 528
Total liabilities		**29 227**	**4**	**159**	**29 390**	**3 549**	**25 841**

Rmillion	2017	2016
Statement of total comprehensive income effect of financial instruments by category		
Interest expense recognised for financial liabilities at amortised cost	2 439	1 525
Interest expense recognised for financial liabilities at fair value	303	281
Total	**2 742**	**1 806**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

33. Retirement and post-retirement benefits

The Bank contributes to a provident fund which is governed by the Pension Funds Act, 1956, and is in the nature of 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 Bank 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 Bank provident fund.
The contributions made during the year amounted to R98 million (2016:R47 million).

34. Related party information

The Bank's holding company is African Bank Holdings Limited. The Bank entered into an arm's length revolving loan facility agreement with its holding company. Information related to the facility is disclosed in note 7 of these financial statements.

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

Detailed remuneration disclosures for the directors as well as key management personnel are provided in the notes 20 and 38 of these financial statements.
There were no material transactions with directors other than emoluments as disclosed in note 20 and note 38.

35. Events after the reporting date

African Bank Limited entered into a joint venture arrangement with MMI Strategic Investments Proprietary Limited to provide unsecured loans to customers of the MMI group. The joint venture commenced operations during October 2017.

There were no other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Bank annual financial statements, which significantly affects the financial position at 30 September 2017 or the results of its operations or cash flows for the year then ended.

36. Long- term incentive scheme

In the current financial year the Bank has introduced a new long-term incentive scheme to its employees.

The long-term incentive scheme is subject to individual and company 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 will be based on the profit before tax for the financial year immediately preceding the due date of each payable amount. Should the 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. Please refer to the note 20 for additional disclosure related to the incentive scheme.

37. Reclassifications and changes in disclosure

37.1. Presentation of the indirect and direct taxes paid on the face of the cash flow.

Previously, indirect and direct taxes paid during the period were shown as a single line in the statement of cash flows. It is now presented as two separate lines.

37.2 Presentation of the tax rate reconciliation.

Additional information was provided in the note 21 regarding the nature of reconciling items.

37.3 Reclassification of the adjustments related to the acquired book on the face of the statement of cash flows and in the related notes.

In order to improve presentation and comparability of the amounts included in cash flows from operating activities the Bank made a decision to reclassify the adjustments related to the acquired book accounting and disclose them as part of the movement in gross advances. In 2016 adjustments related to the acquired book accounting was presented as cash receipts from lending activities.
After further consideration presentation of these adjustments as movement in advances was considered more relevant and reliable.
The impact of the reclassification is disclosed below:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

Statement of cash flows

Rmillion	September 2016 as previously disclosed	September 2016 after reclassification
Cash flows from operating activities		
Cash generated from operations	**2 663**	**1 695**
Cash received from lending activities and cash reserves	4 426	3 458
Recoveries on advances previously written off	194	194
Cash paid to clients, funders, employees and agents	(1 957)	(1 957)
Increase in gross advances	(391)	577
Decrease in regulatory deposits and sovereign debt securities	2 559	2 559
Increase in customer deposits	28	28
Direct taxation paid*	(87)	(87)
Indirect taxation paid*	(44)	(44)
Net cash inflow from operating activities	**4 728**	**4 728**

*Previously these amounts were disclosed as a single line

Note 23 "Cash generated by operations"

Rmillion	September 2016 as previously disclosed	September 2016 after reclassification
Loss before tax	(1 633)	(1 633)
Adjusted for:		
Indirect taxation: VAT	44	44
Increase in impairment of advances	362	362
Impairment of goodwill and brand (refer note 9)	1 992	1 992
Amortisation of intangible assets (refer note 9)	13	13
Depreciation (refer note 8)	52	52
Profit on disposal of property and equipment	(1)	(1)
Gain on the bond buy backs	(251)	(251)
Fair value movements on derivative instruments	281	281
Fair value adjustments on liabilities	25	25
Non- cash items related to income on acquired book	943	-
Movement in accruals	146	146
Movement in deferred fees other accruals related to advances	8	(17)
Movement in other interest income accrual	(12)	(12)
Movement in interest expense accrual	694	694
Total	**2 663**	**1 695**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

Note 24 "Cash received from lending activities and cash reserves"

Rmillion	September 2016 as previously disclosed	September 2016 after reclassification
Interest income (adjusted for non-cash items)	3 655	2 687
Non-interest income (adjusted for non-cash items)	771	771
Total	**4 426**	**3 458**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

38. Directors' and prescribed officers' remuneration

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

All amounts in R	Date appointed	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
				2017					2016		
B Maluleke	28/07/2015	627 750	150 250	778 000	-	778 000	-	-	-	-	-
G Raubenheimer	03/07/2015	3 412 869	419 406	3 832 275	2 302 963	6 135 238	1 587 441	198 060	1 785 501	1 093 906	2 879 407
B Riley	24/06/2015	4 153 500	29 000	4 182 500	4 875 000	9 057 500	1 935 002	-	1 935 002	-	1 935 002
Total		**8 194 119**	**598 656**	**8 792 775**	**7 177 963**	**15 970 738**	**3 522 443**	**198 060**	**3 720 503**	**1 093 906**	**4 814 409**

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

All amounts in R	Date appointed	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
				2017					2016		
G Jones	04/04/2016	2 669 278	446 534	3 115 812	1 763 644	4 879 456	1 260 340	184 879	1 445 219	881 821	2 327 040
V Millican	04/04/2016	2 551 964	295 552	2 847 516	1 611 205	4 458 721	1 182 313	139 500	1 321 813	1 805 602	3 127 415
L Miyambu	04/04/2016	2 819 912	313 324	3 133 236	1 780 377	4 913 613	1 306 453	146 412	1 452 865	890 188	2 343 053
M Ramalho	04/04/2016	2 079 591	245 266	2 324 857	617 500	2 942 357	799 063	95 550	894 613	650 000	1 544 613
A Ramosedi	04/04/2016	2 139 850	734 140	2 873 990	1 473 079	4 347 069	1 211 707	215 783	1 427 490	736 539	2 164 029
G Roussos	04/04/2016	3 240 103	394 429	3 634 532	2 054 283	5 688 815	1 377 495	174 938	1 552 433	1 027 141	2 579 574
P Swanepoel	04/04/2016	2 717 468	370 564	3 088 032	1 706 834	4 794 866	1 224 413	170 627	1 395 040	853 416	2 248 456
H Venter	04/04/2016	2 410 189	449 546	2 859 735	1 694 398	4 554 133	1 116 063	212 751	1 328 814	805 602	2 134 416
Total		**20 628 355**	**3 249 355**	**23 877 710**	**12 701 320**	**36 579 030**	**9 477 847**	**1 340 440**	**10 818 287**	**7 650 309**	**18 468 596**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2017

Non-executive directors' remuneration

All amounts in R	Date appointed to board	Date of resignation	Paid by the Bank	Paid by other entities within the group	Total	Date of resignation	Paid by the Bank	Paid by other entities within the group	Total
			2017				2016		
LL von Zeuner (Chairman)	24/06/2015	N/a	836 675	147 648	984 323	N/a	359 998	40 002	400 000
SL Mc Cloghrie	28/07/2015	N/a	521 569	92 042	613 610	N/a	189 997	10 003	200 000
SK Mhlarhi	06/07/2016	N/a	403 390	71 186	474 576	N/a	59 375	3 125	62 500
B Maluleke*	28/07/2015	N/a	249 363	44 005	293 368	N/a	249 375	13 125	262 500
IS Sehoole	28/07/2015	N/a	575 776	107 608	683 384	N/a	249 374	13 126	262 500
L Stephens	02/07/2015	N/a	552 616	103 521	656 137	N/a	237 500	12 500	250 000
PJ Temple	29/04/2016	N/a	314 343	61 472	375 815	N/a	112 502	12 498	125 000
FJC Truter	07/08/2015	N/a	615 114	108 549	723 663	N/a	273 124	14 376	287 500
Total			**4 068 846**	**736 031**	**4 804 876**		**1 731 245**	**118 755**	**1 850 000**

**B Maluleke was appointed as an executive director on 3 July 2017.*

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.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATIONS
for the year ended 30 September 2017

Annexure A: Adoption of new standards and interpretations effective for the current and future financial years

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 Bank for the year ended 30 September 2017.

2. New and revised IFRSs in issue but not yet effective
The Bank 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 Bank 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 Standard introduces a new framework for accounting and reporting for financial instruments.	Refer impact assessment below	This standard is effective for years commencing on or after 1 January 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.	The Bank's revenue streams which are expected to be affected by this standard consist of fees, commissions and other sundry income. The Bank is still assessing the impact of IFRS 15.	This standard is effective for years commencing on or after 1 January 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 Bank.	This standard is effective for years commencing on or after 1 January 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 impact of IFRS 17 is still being assessed by the Bank.	This standard is effective for years commencing on or after 1 January 2021

3. 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

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATIONS
for the year ended 30 September 2017

consists of the following key areas which represent changes from that of IAS 39:

- classification and measurement of financial instruments;
- hedge accounting; and
- new impairment model for financial instruments.

IFRS 9 is required to be adopted prospectively for the financial periods starting from 1 January 2018 with the exception of the IFRS 9 hedge accounting requirements where the current treatment is permitted until the IASB issues a standard on macro hedge accounting. 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 Bank's opening retained earnings for the 2019 financial year.

IFRS 9 permits an entity to either restate comparative financial results, subject to no hindsight being applied, or to adopt the requirements prospectively for 2019 financial year. Consistent with the industry practice, the Bank's approach will be to not restate the comparative financial statements.

While the Bank's 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.

IFRS 9 expected credit losses impairment model will have an impact on the Bank's financial results, risk metrics and regulatory capital requirements.

The Bank 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 2017, the Bank was focusing on the implementation of the key data, modelling and process milestones. The bank has completed the development of the expected credit loss models which include the determination of significant increase in credit risk and forward-looking methodologies.

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

ANNEXURE B: CAPITAL ADEQUACY RISK
for the year ended 30 September 2017

Capital adequacy requirements:

Rmillion	2017 Unaudited	2016 Audited
On-balance sheet assets	32 331	37 691
Off-balance sheet items	1 415	1 061
Total risk exposure	33 746	38 752
Total risk weighted exposure	**28 112**	**26 059**
Primary (Tier I)		
Share capital	10 000	10 000
Primary reserves (less statutory deductions)	(1 596)	(1 789)
Total	**8 404**	**8 211**
Secondary (Tier II)		
Subordinated debt instruments	1 485	1 485
General allowance for credit impairments	280	278
Total	1 765	1 763
Total qualifying capital and unimpaired reserve funds	**10 169**	**9 974**
Total capital to risk weighted assets	%	%
Primary	29.90	31.51
Secondary	6.28	6.77
Total	**36.17**	**38.27**

ANNEXURE C: OPENING STATEMENT OF FINANCIAL POSITION AS AT THE TRANSACTION EFFECTIVE DATE 4 APRIL 2016

The opening Statement of Financial Position for the Bank post acquisition

Rmillion	4 April 2016
Assets	
Cash and cash equivalents	20 065
Regulatory deposits and sovereign debt securities	3 796
Derivatives	5 312
Net advances	20 907
Accounts receivable and other assets	188
Loans to group companies	113
Property and equipment	498
Intangible assets	105
Goodwill	1 947
Total assets	**52 931**
Liabilities and equity	
Short-term funding	4 611
Derivatives	18
Accounts payable and other liabilities	449
Bonds and other long-term funding	36 308
Subordinated bonds, debentures and loans	1 545
Total liabilities	**42 931**
Ordinary share capital	5
Ordinary share premium	9 995
Total equity (capital and reserves)	**10 000**
Total liabilities and equity	**52 931**

ANNEXURE D: ACRONYMS, ABBREVIATIONS AND CORPORATE INFORMATION
for the year ended 30 September 2017

ACRONYMS AND ABBREVIATIONS

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

ABHL	African Bank Holdings Limited
ABL	African Bank Limited
ALCO	Asset and liability committee
CHF	Swiss Franc
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
IM	Information Memorandum
JIBAR	Three months Johannesburg interbank agreed rate
JSE	Johannesburg stock exchange
LTIP	Long-term incentive plan
MOI	Memorandum of Incorporation
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
Tier I	Primary capital
Tier II	Secondary capital
USD	United States Dollar
ZAR	South African Rand

ANNEXURE D: ACRONYMS, ABBREVIATIONS AND CORPORATE INFORMATION
for the year ended 30 September 2017

CORPORATE INFORMATION

Company Secretary
Bruce Unser

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

Registered office
59 16th Road
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