African Bank Holdings Limited

Consolidated Annual Financial Statements

30 September 2016

African Bank

African Bank Holdings Limited

Audited
Consolidated
Annual Financial Statements

30 September 2016

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

Registration number: 2014/176855/06

AFRICAN BANK HOLDINGS LIMITED
Registration number: 2014/176855/06

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

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African Bank

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements, comprising the statement of financial position at 30 September 2016, 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 71 of 2008 of South Africa.

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

The directors have made an assessment of the Group and 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 consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework. These consolidated and separate annual financial statements have been audited in terms of Section 20(1) of the Companies Act 71 of 2008.

Approval of the annual financial statements

The annual financial statements found on pages 1 to 87 were approved by the board of directors on 23 November 2016 and are signed on its behalf by:

B Riley
Executive Director

G Raubenheimer
Executive Director

Midrand
23 November 2016

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

AFRICAN BANK HOLDINGS LIMITED
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 30 September 2016

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act 71 of 2008, I certify that, in respect of the year ended 30 September 2016, 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

23 November 2016

For the year ended 30 September 2016

AUDIT COMMITTEE REPORT

The audit committee presents its report for the financial year ended 30 September 2016 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.

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

Name	Attendees African Bank (under curatorship) 7 December 2015	 11 February 2016	Members African Bank Holdings Limited 17 May 2016	 02 August 2016
Members				
F J C Truter (Chairman)	√	√	√	√
I S Sehoole	√	√	√	√
L Stephens	√	√	√	√
In Attendance				
B Riley	√	√	√	√
G Raubenheimer	√	√	√	√
By Invitation				
L L von Zeuner				√

Mr. S K Mhlarhi was appointed to the board on 20 July 2016 and to the audit committee on 1 October 2016.
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 2016, 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;
  - through the chairman, 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.

AUDIT COMMITTEE REPORT *(continued)*

Functions of the audit committee *(continued)*

- 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, and the formulae applied by the group in determining charges for and levels of impairment;
  - 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 auditors' 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 is busy implementing changes under a restructuring programme to ensure adequate performance of the function;
  - based on the above, nothing has come to the attention of the audit committee to indicate 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 chief audit officer, chief compliance officer, the chief risk officer, the chief money laundering 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;
  - reviewed and approved the annual compliance mandate and compliance plan.

- 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 appropriateness of the experience and expertise of Gustav Raubenheimer CA(SA) CFA as the CFO and concluded that it is appropriate;
  - considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate.

AUDIT COMMITTEE REPORT *(continued)*

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

22 November 2016

For the year ended 30 September 2016

DIRECTORS' REPORT

The directors present their report to the shareholders, together with the audited annual financial statements of African Bank Holdings Limited ("the company") and the audited consolidated annual financial statements of the company and its subsidiaries ("the group") for the financial year ended 30 September 2016.

Nature of the business

African Bank Holdings Limited is a an unlisted public company registered as a bank controlling company under the Banks Act, 94 of 1990, as amended, which operates within the Republic of South Africa. Its main business is holding its investment subsidiaries, namely African Bank Limited and African Insurance Group Limited. The Group provides 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 ordinary par value shares at R0.01 each
(2015: 1 000 ordinary no par value shares and 100 000 000 unclassified no par value shares without any specified associated preferences, rights, limitations or other terms in respect of which the board must determine the associated preferences, rights, limitations or other terms prior to issuing such shares.)

500 000 000 shares were issued during the current year (2015: 1 share). At 30 September 2016, the issued ordinary share capital totalled 500 000 000 (2015: 1) shares at par value of R0.01 each representing R5 million (2015: R1). During the current financial year, the company had repurchased one previously issued share (2015: Nil).

Financial results

The financial results for the Group and separate company for the year ended 30 September 2016 are set out on pages 1 to 87 of these annual financial statements. The Group reported a net loss after tax of R1 678 million for the 2016 financial year
(2015: net profit/loss after tax of R Nil).

Borrowing powers

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

The total borrowings of the Group at 30 September 2016 are R28 billion (2015: Nil). Full details of the borrowings are shown in notes 11, 13 and 14 to the consolidated annual financial statements.

Events after the reporting date

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 Group made additions to its capital assets of R109 million (2015: R Nil) during the financial year.

Going concern

The directors have satisfied themselves that the Group and the separate 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 Group and the separate company operates and it has the necessary skills to continue operations. On this basis the directors consider that the Group and the separate 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.

DIRECTORS' REPORT *(continued)*

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 (2015: R Nil).

Directors and changes in directors

The following changes in directorate have taken place during the 2016 financial year end up to the 23 November 2016:

Appointments:

PJ Temple was appointed on 29 April 2016
SK Mhlarhi was appointed on 6 July 2016

Resignations:

There were no resignation during the period.

African Bank Holdings Limited board of directors

Independent non-executive directors

LL Von Zeuner (Chairman)
SL McCloghrie
B Maluleke
SK Mhlarhi
IS Sehoole
L Stephens
PJ Temple
FJC Truter

Executive directors

G Raubenheimer
B Riley

Company secretary and registered office

Bruce Unser was appointed as a company secretary of African Bank Holdings Limited on 12 October 2015. His business and postal address is the registered office of the company which is set out on page 87 of these annual 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 (refer to note 40).

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

During the financial year no material contracts were entered into in which directors and officers of the Group and the separate company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group.

DIRECTORS' REPORT *(continued)*

Special resolutions by African Bank Holdings Limited

Special resolution 1 passed on 9 October 2015: Resolved that the company name is changed to African Bank Holdings Limited;

Special resolution 2 passed on 2 December 2015: Resolved that the 100 000 000 (one hundred million) unclassified no par value shares of the Company, be and are hereby classified as 100 000 000 (one hundred million) ordinary no par value shares, having the same rights, limitations and other terms as ordinary shares as set out in the memorandum of incorporation of the Company for the ordinary shares.

Special resolution 3 passed on 2 December 2015: Resolved that the authorised share capital of the Company comprising 100 001 000 (one hundred million and one thousand) ordinary no par value shares be increase to 2 000 000 000 (two billion) ordinary no par value shares by the authorisation and creation of a further 1 899 999 000 (one billion eight hundred and ninety nine million nine hundred and ninety nine thousand) ordinary no par value shares

Special resolution 4 passed on 2 December 2015: Resolved that in accordance with the provisions of section 79(1)(a) read with section 79(4) of the Banks Act, read with section 6(1) of Schedule 5 to the Companies Act (in terms of which it is prohibited for a bank controlling company to have no par value shares), the Company's authorised share capital comprising 2 000 000 000 (two billion) ordinary no par value shares be and is converted into ordinary shares having a par value of R0.01, such that the authorised share capital of the Company shall comprise 2 000 000 000 (two billion) ordinary shares having a par value of R0.01 each.

Special resolution 5 passed on 12 January 2016: Resolved to replace of MOI.

Special resolution 6 passed on 2 February 2016: Resolved that, subject to the relevant Transaction Agreements becoming unconditional in accordance with their terms and conditions, the Company is authorised to allot and issue

(a) the shares contemplated in, and in accordance with the terms and conditions of, the New HoldCo Capitalisation Agreement to the Consortium; and

(b) the shares contemplated in, and in accordance with the terms and conditions of, the Equity Settled Subscription Agreement to African Bank.

Special resolution 7 passed on 2 February 2016: Resolved that, subject to the relevant Transaction Agreements becoming unconditional in accordance with their terms and conditions and being implemented,

(a) the directors of the Company be and are hereby authorised to ensure that, at all times during the existence of the Tier 2 Notes, the Company has sufficient authorised but unissued ordinary shares available to meet the Company's obligations (contingent or otherwise) under the terms of the Tier 2 Notes and, where required to achieve this, to increase the authorised share capital of the Company on one or more occasion; and

(b) the directors of the Company be and are hereby authorised, to the extent required in terms of the provisions of section 41(3) of the Companies Act, to allot and issue such number of ordinary shares in the authorised but unissued share capital of the Company as are required pursuant to and for the purposes of any conversion of the Tier 2 rights of all ordinary shares immediately prior to such issue.

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 SHAREHOLDERS OF AFRICAN BANK HOLDINGS LIMITED

We have audited the consolidated and separate financial statements of African Bank Holdings Limited set out on pages 11 to 84, which comprise the statements of financial position as at 30 September 2016, and the statements of total comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of African Bank Holdings Limited as at 30 September 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 September 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
Director: Thomas Magill
Registered Auditor
Johannesburg

28 November 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 September 2016

Rmillion	Notes	2016	2015
Assets			
Cash and cash equivalents	2	12 864	-
Statutory assets	3	1 237	-
Derivatives	4	2 230	-
Net advances	5	20 111	-
Accounts receivable and other assets	6	232	-
Investment in insurance contracts	7	314	-
Property and equipment	8	553	-
Intangible assets	9	49	-
Deferred tax	10	121	-
Total assets		**37 711**	-
Liabilities and equity			
Short-term funding	11	2 159	-
Derivatives	4	4	-
Creditors and other liabilities	12	1 286	-
Current tax	10	99	-
Bonds and other long-term funding	13	24 313	-
Subordinated bonds, debentures and loans	14	1 528	-
Total liabilities		**29 389**	-
Ordinary share capital	15	5	-
Ordinary share premium	15	9 995	-
Reserves and accumulated losses		(1 678)	-
Total equity (capital and reserves)		**8 322**	-
Total liabilities and equity		**37 711**	-

African Bank

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the year ended 30 September 2016

Rmillion	**Notes**	**2016**	2015
Interest income on advances	16	2 065	-
Credit impairment charge	18	(362)	-
Interest after impairment		**1 703**	-
Other interest income	16	642	-
Interest expense and similar charges	19	(1 809)	-
Net interest income after impairment		**536**	-
Non-interest income	17	782	-
Remeasurement of insurance contracts	7	33	-
Operating costs	20	(1 223)	-
Gains on debt buy back	22	251	-
Indirect taxation: VAT	21	(44)	-
Operating profit		**335**	-
Goodwill impairment	22	(1 947)	-
Loss before taxation		**(1 612)**	-
Taxation	21	(66)	-
Loss for the year		**(1 678)**	-

Attributable to:			
- Owners of African Bank Holdings Limited		(1 678)	
Total comprehensive loss for the year *		**(1 678)**	-

*The group has no other comprehensive income for the year under review

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2016

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2014	-	-	-	-
Total comprehensive profit for the year	-	-	-	-
Ordinary shares issued	-	-	-	-
Balance at 30 September 2015	-	-	-	-
Total comprehensive loss for the year	-	-	(1 678)	**(1 678)**
Ordinary shares issued	5	9 995	-	**10 000**
Balance at 30 September 2016	**5**	**9 995**	**(1 678)**	**8 322**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 September 2016

Rmillion	Notes	2016	2015
Cash flows from operating activities			
Cash generated from operations	23	**2 658**	-
Cash received from lending activities and cash reserves	24	4 421	-
Recoveries on advances previously written off		194	-
Cash paid to clients, funders, employees and agents	25	(1 957)	-
Increase in gross advances		(391)	-
Decrease in statutory assets	3	2 559	-
Increase in customer deposits		28	-
Indirect and direct taxation paid	26	(132)	-
Net cash inflow from operating activities		**4 722**	-
Cash inflow from investing activities			
Acquisition of a business under a business combination	39	10 065	-
Acquisition of property and equipment (to maintain operations)	8	(107)	-
Acquisition of intangible assets (to maintain operations)	9	(2)	-
Investment in insurance arrangement	7	(281)	-
Net cash inflow from investing activities		**9 675**	
Cash flows from financing activities			
Long term funding redeemed		(9 394)	-
Net short term funding redeemed		(1 771)	-
Share capital issued for cash	15	10 000	-
Net cash outflow from funding activities		**(1 165)**	**-**
Increase in cash and cash equivalents		**13 232**	-
Cash and cash equivalents at the beginning of the year		**-**	-
Effect of exchange rate changes on cash and cash equivalents		(368)	**-**
Cash and cash equivalents at the end of the year	2	**12 864**	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

1. General information

African Bank Limited ("ABHL" or "the company) is a public company incorporated in the Republic of South Africa. ABHL is an unlisted registered bank controlling company under the Banks Act, Act 94 of 1990. The shares in ABHL are privately held by the South African Reserve Bank (50.00%), the Government Employees Pension Fund (25.00%), FirstRand Bank Limited (6.55%), The Standard Bank of South Africa Limited (5.95%), Absa Trading and Investments Solutions (Proprietary) Limited (4.95%), Nedbank Limited (4.10%), Investec Bank Limited (2.45%) and Capitec Bank Limited (1.00%). (Percentage indicates per cent holding)

The company's 100% held subsidiary African Bank Limited on 4 April 2016 entered into the restructuring transaction of the entity formerly known as African Bank Limited (in curatorship). That entity has formally changed its name to "Residual Debt Services Limited (in curatorship)".

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

The company also holds 100% of the issued share capital of African Insurance Group Limited. Its main business is holding an investment in a cell captive structure provided by Guardrisk Insurance Company Limited ("Guardrisk").

ABHL and its subsidiaries constitute the African Bank Holdings group of companies ("the Group"). The Group's main business is providing unsecured personal loans.

The registered office and principal place of business of the Group is disclosed 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 consolidated annual financial statements.

1.2 Critical accounting judgements and key sources of estimation uncertainty

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

Estimates, judgements and assumptions made predominantly relate to impairment provisions for loans and advances (note 5), determining the useful lives, residual values, depreciation and amortisation methods and impairment for property and equipment (note 8) and intangible assets (note 9). Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

The following are the critical judgements and key estimation uncertainties that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated annual financial statements.

1.2.1 Going concern

As stated in the directors' responsibility section, the annual consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

1.2.2 Impairment of advances

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

Impairment allowances are calculated using the accounting policy as described in note 1.8.4. In determining the impairment allowance, the timing and amount of the expected cash flows are the most significant judgements applied by the Group. Historical loss rates, probability of default 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.

Refer to note 27 for a detailed analysis of the impairment of advances, specifically the concentration of advances and sensitivity around the estimation of impairments of advances.

1.2.3 Goodwill and intangible asset impairment

On the effective date the Group, via its subsidiary, African Bank Limited ("the Bank"), acquired the operational assets under the restructuring transaction. The operational assets included a range of fixed assets, immovable property, leases, intellectual property, information technology, business and operational functions and systems and specified operational contracts (including derivative instruments). As consideration for the assets acquired, the Group assumed retail deposit obligations, operational liabilities and issued a range of debt instruments. The restructuring transaction gave rise to the resultant recognition of goodwill and the brand intangible asset as part of the business combination accounting.

As indicated to the market in the offering memorandum, the value of the net assets and the Top Up cash amount was agreed between the Group and the Curator, so as to afford the Bank a reasonable prospect to achieve a Common Equity Tier 1 Capital ratio of 28%. ("the CET Target"). The provisional forecast indicated that the Group would likely have to impair the goodwill post the effective date of the transaction due to these terms.

In line with the Group's stated accounting policy, the recoverable amount of goodwill was tested at the financial year end. The goodwill impairment testing requires that the recoverable amounts of cash-generating units ("CGU") to which goodwill has been allocated be calculated as either the higher of value-in-use or fair value less cost to dispose.

For purposes of the impairment testing, the fair value less cost to dispose was determined to be higher than the value in use. The fair value was determined on the present value technique and management applied significant judgment and used subjective assumptions in calculating the fair value less cost to dispose. The key assumptions to which the value is most sensitive to are set out below:

- The number and value of new loans granted to new and existing customers;
- The expected repayment of loans granted and losses incurred in terms of bad debt;
- The costs associated with the operating activities of the bank, such as maintaining the branch network and telephony infrastructure;
- The funding strategy and management of treasury assets and liabilities.

There are a number of variables within the calculation that are subject to fluctuations that are outside of the control of management and for which significant judgement is applied and is subject to uncertainty.

1.2.3 Goodwill and intangible asset impairment (*continued)*

By its nature, estimating future cash flows requires a significant amount of judgement and reflects the management' s view of future business prospects at the time of the assessment. At acquisition date, it was assumed that in addition to those product offerings required as a condition of the banking licence granted to the African Bank Limited the Group would initially provide substantially the same product offering as the legacy African Bank. At assessment date, the Group took only this into consideration.

These cash flows are limited to only the banking assets and liabilities acquired under the restructuring transaction and do not relate to the insurance business initiated by the group or any banking assets subsequently generated

The cash flow projections used have been approved by the board of directors and a 5 year forecasting period was applied. Where available forecasts fall short of the 5 year forecasting period, nominal growth in line with inflation has been assumed at 6% per annum

As the CGU being evaluated comprises an integrated funding structure, the discount rate used to discount the future expected cash flows was based on an attributable cost of equity. The discount rate used in the impairment calculation was 18.9%.

The fair value less cost to dispose was classified as level 3 in accordance with the fair value hierarchy. The assumptions used in the forecast were based available historical information, taking expert management opinion and experience into consideration. In assessing the impairment of the goodwill, these assumptions were evaluated for reasonable probable shifts and in these cases full impairment was still required and therefor these evaluations are not disclosed.

The same factors discussed above were utilised for the impairment calculation for the brand intangible asset, as the goodwill and the brand intangible asset are inter related to each other.

The total initial carrying value of the goodwill and the brand intangible was R1 947 million and R45 million respectively. The value of the goodwill and the brand intangible asset recognised at acquisition date were fully impaired in the current period and therefore an expense of R1 992 million was recognised.

1.2.4 Classification of statutory assets

Contained within Statutory Assets (Note 3) are treasury bills, treasury debentures and bonds. The Group has elected to classify these financial assets as held-to-maturity upon initial recognition. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost. The fair value of these assets is presented in the fair value hierarchy – see note 30.

1.2.5 Current and deferred taxation

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

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.

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1.2.6 Fair value estimation

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 three levels of the fair value hierarchy are defined as follows:

- Level 1: Quoted market prices.
  Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation technique using observable inputs.
  Inputs that are observable for assets or liabilities, either directly (prices) or indirectly (derived from prices).
- Level 3: Valuation technique using significant unobservable inputs.
  Inputs into the valuation model for assets or liabilities, which are based on unobservable market data and are entity specific.

The only financial instruments measured at fair value are derivatives. The fair value of derivatives was categorised as level 2 and note 30 includes the assumptions used as well as a sensitivity analysis.

Level 3 requires significant management judgement regarding the inputs and subsequent determination of the items fair value. Refer to note 30 for details of the significant judgements applied by the Group in determining the fair values for purposes of disclosure of advances measured at amortised cost.

1.3 Significant accounting policies

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

1.3.1 Statement of compliance

The consolidated 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 and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the requirements of the Companies Act.

1.3.2 Basis of preparation

The Group’s consolidated 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.

Functional and presentation currency

The consolidated annual financial statements are presented in the currency of the primary economic environment in which the entity operates. The consolidated annual financial statements are presented in South African Rand, which is the Group’s functional currency. All monetary information and figures have been rounded to the nearest million rand (R million), unless otherwise stated.

1.4 Consolidation

1.4.1 Subsidiaries

Subsidiaries are all companies and structured entities over which the group has control. The Group has control over an investee when the Group is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether control exists the Group considers all existing substantive rights that result in the current ability to direct relevant activities. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

The Group will consolidate a structured entity when the substance of the relationship between the Group and the structured entity indicates that the Group controls the structured entity. Currently the Group does not hold any investments in structured entities.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.4.2 Business combination

The acquisition method of accounting is used to account for all business combinations meeting the definition of a business. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purpose of providing a return. It is presumed that a business exists if goodwill is present in the acquired set of assets and activities. Evidence to the contrary would need to overcome this presumption. The consideration transferred for the acquisition comprises the:

- fair values of the assets transferred
- liabilities incurred to or assumed from the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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 Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Contingent consideration is classified either as equity, financial asset or a financial liability. Such amounts classified as a financial assets or financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

1.4.3 Non-controlling interest

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the Group's equity. Non-controlling interests may initially be measured at either fair value or the non-controlling interests' proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the Group will apply the measurement on an acquisition by acquisition basis.

Subsequently the non-controlling interests are measured at the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity of the subsidiary since the acquisition date.

Non-controlling interests are treated as equity participants of the subsidiary company. The Group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as transactions with equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

Currently the Group does not have non-controlling interests as all subsidiaries are wholly owned.

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 Group 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. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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, useful lives and residual values 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.

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1.5.3 Goodwill

Goodwill is measured as described in note 1.2.3 Goodwill on acquisitions is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or Groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

1.5.4 Derecognition of intangible assets

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. Upon derecognition, 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

Property and equipment are tangible items that are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used for longer than one year.

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.

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1.7 Impairment of non-financial assets

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

Goodwill is tested annually for impairment and/or when an indicator for impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.8 Financial instruments

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

All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

The Group has classified its financial assets into the following categories:
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

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

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

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:

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

  Financial instruments classified as held for trading

  This category includes instruments that are held for held for trading. Currently only derivatives are included in this category. The fair value gains and losses from changes in fair value on derivatives are taken to finance costs and similar charges in the consolidated statement of total comprehensive income as these derivatives are used to economically hedge the Group's borrowings for interest rate risk.

  Financial instruments designated at fair value through profit or loss

  The Group can elect on the date of initial recognition, to designate a financial asset or financial liability at fair value if in doing so it would reduce an accounting mismatch, is being managed on a fair value basis or includes a non-closely related embedded derivative that would otherwise require bifurcation. The fair value gains and losses from changes in fair value are taken to 'other gains or losses' in profit or loss. The Group currently does not hold any financial assets or financial liabilities in this category.

- Held-to-maturity financial assets

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were 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.

- Loans and receivables

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

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

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

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

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1.8.2 Subsequent measurement *(continued)*

- Available-for-sale financial assets

  Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. Gains and losses arising from changes in fair value are recognised directly in equity, until the asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Interest income is excluded from the fair value gains and losses which are recognised in other comprehensive income. The Group currently does not hold any financial assets in this category.

- 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

1.8.4.1 Assets carried at amortised cost

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

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower is over-indebted;
- 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, including:
  - adverse changes in the payment status of borrowers in the Group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying less than the minimum monthly amount); or
  - national or local economic conditions that correlate with defaults on the assets in the Group (e.g. an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the borrowers in the Group).

1.8.4 Impairment of financial instruments *(continued)*

1.8.4.1 Assets carried at amortised cost *(continued)*

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. 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 consolidated statement of total comprehensive income. .

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

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

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

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

- Provision for IBNR (incurred but not yet reported)
- Portfolio specific impairments;
- Specific impairments; and
- Written off portfolio.

1.8.4.1.1 Provision for IBNR

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

1.8.4.1.2 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.

1.8.4.1.3 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 Impairment of financial instruments *(continued)*

1.8.4.1 Assets carried at amortised cost *(continued)*

1.8.4.1.4 Written off portfolio

A write off is effected against the allowance account when the debtor is deemed to be impaired and not recoverable. Loans and receivables for which no cash has been received for 6 months are considered to be fully impaired. Any cash subsequently recovered from the debtor is recorded as bad debt recovered and included in the credit impairment charge in the consolidated statement of total comprehensive income.

1.8.4.2 Available-for-sale financial assets – debt instruments

Available-for-sale financial assets – debt instruments are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but on or before the reporting date, that have a negative impact on the future cash flows of the asset. If an impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument is reclassified from other comprehensive income to profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

1.8.4.3 Available-for-sale financial assets – equity instruments

Available-for-sale financial assets – equity instruments are considered to be impaired if a significant or prolonged decline in fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from other comprehensive income to profit or loss. The impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in revaluation reserve in equity.

1.8.5 Derecognition of financial instruments

1.8.5.1 Financial assets

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

A transfer of the financial assets requires that the Group 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 derecognition 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.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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1.8.5 Derecognition of financial instruments *(continued)*

1.8.5.2 Financial liabilities

The Group derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Where the Group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in gains or losses on bond buy backs in the consolidated statement of total comprehensive income.

1.8.6 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including interest rate swaps and cross currency swaps.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

1.8.7 Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value through profit or loss.

1.8.8 Hedge accounting

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

1.8.9 Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

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1.9 Investment in insurance contracts

Insurance contracts are defined as those contracts or agreements containing significant insurance risk. Significant insurance risk arises if an insured event could cause the holder of the insurance contract to pay significant additional benefits as envisaged at the inception of the contract. Such contracts remain designated as insurance contracts until all rights and obligations are extinguished or expire.

The group has entered into a cell captive agreement arranged by Guardrisk, a licensed insurance company. The cell captive is a ring-fenced insurance business established to serve not only the insurance needs of the customers of African Banking Limited ("the Bank"), such as credit life policies and funeral policies but to provide insurance products to individuals who are not customers of the Bank. The cell captive agreement effectively represents an investment in a separate class of shares in Guardrisk, which entitles the group to participate in the insurance cover offered in terms of the cell captive agreement. The participation is restricted to the results of the insurance business which is placed with Guardrisk as the licensed cell captive insurer.

The cell captive arrangement transfers significant insurance risk (of the policies issued to customers by the cell captive insurer) from the cell captive insurer to the group by requiring the group to maintain the solvency of the cell captive structure. The cell captive arrangement therefore meets the definition of an insurance contract contained in IFRS 4 'Insurance contracts'. The transfer of the insured risk from the cell captive structure to the group also exposes the group to credit losses arising from defaults on the advances to customers

The cell captive is disclosed as a non-current asset in the statement of financial position as "Investments in Insurance Contracts". The cell captive provides the group with the ability to underwrite the insurance risks of the customer to their loans and funeral policies, via the long-term insurer. The customer is responsible for paying the premium. For credit life cover, the customer cedes the credit risk policy underwritten by the insurer as security on their loans to the loan provider.

The results of the insurance business are determined in accordance with the shareholders agreement. In accordance with IFRS4, these underwriting activities are determined on an annual basis whereby the earned premiums are recognised as income and the incurred cost of claims, commission and related expenses are recognised as expenses.
The results of the cell captive arrangement are presented on a net basis in the statement of financial position as either a net receivable from, or net payable to, the insurance group as an Investment in Insurance Contracts.

Movements during the year, which are included in the net returns of the investment in insurance contracts, comprise the following:

- Premiums written relate to business written during the period on the credit life risk of unsecured loans with the purpose of covering any credit life claims on these advances as well as premiums written for funeral cover;
- Claims incurred comprise claims and related expenses paid in the period and changes in the provisions for claims incurred but not reported and related expenses, together with any adjustments to claims from prior years;
- Movements in unearned premiums represent the portion of premiums written during the period that relate to unexpired terms of the insurance policies in force at the reporting date, generally calculated on a time apportionment basis; and
- Movements in claims outstanding relate to the costs of settling all claims arising from events that have occurred up to the reporting date.

Commissions and other costs that vary with, and are related to, securing new and renewing existing insurance contracts are expensed to the consolidated statement of total comprehensive income at the point they are incurred. African Bank Limited additionally earns a binder fee and an outsourcing fee for providing underwriting services to the cell captive. Claims incurred comprise claims that are paid in the year and changes in the accruals for outstanding claims, including accruals for claims incurred but not reported and any other adjustments to claims from the previous year.

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1.10 Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits as well as call and current accounts with financial institutions that have a maturity of less than three months from date of acquisition.

For purposes of the consolidated 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 “statutory assets”.

1.11 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

1.11.1 Onerous contracts

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be derived by the Group under such contract.

1.12 Equity

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

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

1.12.1 Share capital and share premium

Shares issued by the Company 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 Company.

1.12.2 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.

1.13 Revenue

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

1.13.1 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.

1.13.2 Rendering of services

When the transaction involves the rendering of services and the outcome can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

1.13.2.1 Non-interest income

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

Fee and commission income –

- Commission from insurers: on percentage of completion of the service rendered which is determined as premiums are paid over.
- Life insurance commission: as policies are issued to members by life insurers.
- Administration fees: on an accrual basis when the service is rendered.
- Collection fees: where performing collection services on behalf on third parties

1.14 Taxation

1.14.1 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.

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for the year ended 30 September 2016

1.14 Taxation *(continued)*

1.14.2 Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred).

1.14.2.1 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.

1.14.2.2 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 purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is charged or credited in 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 deferred taxation is also dealt with in equity.
The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

The deferred taxation related to the fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited to other comprehensive income, and accumulated in equity is also credited or charged to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the Group considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 set off 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.

1.15 Borrowing costs

The Group does not have qualifying assets against which borrowing costs are to be capitalised against. All borrowing costs are therefore recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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1.16 Leases

Where the Group is the lessee, leases are classified as finance leases or operating leases at the inception of the lease.The Group does not have any leases where it is the lessor.

1.16.1 Operating leases

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

1.16.2 Finance leases

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. The lease payments are allocated between the liability and interest to achieve a constant interest rate on the liability outstanding. The interest is recognised in profit or loss over the lease period. The property or equipment acquired is depreciated over the useful life of the assets, unless it is probable that the Group will not take ownership of the asset, in which case it is depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

1.17 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in South African rand (the functional currency); by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

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.

Cash flows arising from transactions in a foreign currency are recorded in the functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

1.18 Employee benefits

1.18.1 Post employment benefits

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

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

1.18 Employee benefits *(continued)*

1.18.2 Short term benefits

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

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

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

1.19 Contingent liabilities and commitments

1.19.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Group; or
- the Group has a present obligation that arises from past events but it is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

1.19.2 Commitments

Items are classified as commitments where the Group has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2016

		2016	2015
2	**Cash and cash equivalents**	**Rm**	Rm
	Call deposits (1)	3 277	-
	Rand denominated	2 895	-
	Foreign denominated	382	-
	Short notice deposits (2)	3 633	-
	Other notice deposits (3)	5 827	-
	Current accounts (4)	127	-
		12 864	-

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

Foreign denominated call deposits consist of foreign currency which the Group 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 28). The call deposits can be withdrawn on demand.

(2) Short notice deposits are deposits with SA banks bearing interest at market related rates, which can be withdrawn within 32 days or less.

(3) Other deposits are deposits with SA banks bearing interest at market related rates, which are withdrawable on 33 to 173 days notice with an average interest rate of 6.68%.

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

Maximum exposure to credit risk: R12 864 million (2015: Rnil)

See note 27 Credit risk management for ratings of counterparties.

		2016	2015
3	**Statutory assets**	**Rm**	Rm
	Listed	**863**	-
	Treasury bills and debentures (1)	**397**	-
	Bonds (2)	**466**	-
	Unlisted		
	Deposits with South African Reserve Bank (3)	**374**	-
		1 237	-

These assets have been pledged with the South African Reserve Bank in terms of the Banks Act and regulations thereto. The statutory assets are not available for day-to-day operations.

(1) Treasury bills and debentures had interest rates of 7.65% and 6.9% NACQ.

(2) The inflation linked bond has an interest rate of CPI plus 2.75% NACS.

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

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

Maximum exposure to credit risk: R1 237 million (2015: Rnil)

See note 27 Credit risk management for ratings of counterparties

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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4 Derivatives

*The Group had no derivatives in 2015	Assets Over the counter		Liabilities Over the counter	
	Notional	Carrying amount at fair value	Notional	Carrying amount at fair value
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

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 Group's derivative activities give rise to open positions which the Treasury Division manage consistently to ensure they remain within acceptable risk levels. The Group uses interest rate swaps and currency swaps to economically hedge against changes in cash flows of certain variable rate debt. The objective is to mitigate against changes in future interest cash flows resulting from the impact in changes in market interest rates.
The Group 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.

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 Group's derivatives that settle on a net basis included:
- Inflation linked swaps
- Interest rate swaps

The Group's derivatives that will be settled on a gross basis include:
- Cross currency interest rate swaps

The tables below analyses the Group'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 Group's derivatives are subject to collateral requirements (see note 31), 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. The amounts disclosed in the table are the contractual undiscounted cash flows and will not tie back to the statement of financial position.

Derivatives settled on a net basis 2016	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
Financial assets						
Inflation linked swaps	168	-	326	36	-	530
Financial liabilities						
Interest rate swaps	-	-	4	-	-	4

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4 Derivatives *(continued)*

Derivatives settled on a gross basis 2016	**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**
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

	Total 2016	Total 2015
Gross advances	20 558	-
Deferred administration fees	(85)	-
Gross advances after deferred administration fees	**20 473**	**-**
Impairment provisions	(362)	-
	20 111	**-**

Analysis of gross advances by book		
Lending books	**20 473**	-
Loan	15 529	**-**
Credit card	4 944	**-**
Total gross advances	**20 473**	**-**

Impairment provisions		
Balance of impairment provisions at the beginning of the year	**-**	-
Impairment provisions raised (note 18)	**362**	**-**
Bad debt (write-offs)	**-**	**-**
Written off (gross)	**-**	**-**
Recovered	**-**	**-**
Balance of impairment provisions at the end of the year	**362**	**-**

Exposure to credit risk		
Net advances	**20 111**	**-**
Conditionally revocable retail loan commitments	**822**	**-**
Maximum exposure to credit risk	**20 933**	**-**

Refer to note 27 for more information on credit risk management, credit quality and credit concentration risk.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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6 Accounts receivable and other assets

	2016 Rm	2015 Rm
Financial		
Sundry receivables (1)	126	-
Non- financial		
Prepayments (2)	106	-
Total	**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 as well as prepaid rentals make up the prepayment balance at reporting date.

7 Investment in insurance contracts

African Insurance Group Limited Cell No. 00124

Initial investment	281	
Re-measurement of investment in insurance contracts	33	
Carrying value as at 30 September	**314**	-

Re-measurement of investment in insurance contracts	-	
At 1 October	-	
Net premiums earned	**33**	-
Premium earned	1 104	-
Claims costs	(385)	-
Investment income	24	-
Fees and commission paid	(226)	-
Actuarial movements	(440)	-
Taxation	(44)	-
Distributions paid to cell shareholders	-	-
At 30 September	**33**	-

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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7 Investment in insurance contracts *(continued)*

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

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

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

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality and morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected. In the extreme, actual claims and benefits may exceed the liabilities. The risk is mitigated to an extent through the addition of compulsory and discretionary margins, specifically where there is evidence of moderate or extreme variation in experience and the extensive use of reinsurance.

8 Property and equipment

Property and equipment	2016 Rm			2015* Rm		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	56	(8)	48	-	-	-
Information technology equipment	218	(30)	188	-	-	-
Motor vehicles	1	-	1	-	-	-
Leasehold improvements	30	(11)	19	-	-	-
Land and buildings (owner-occupied)	300	(3)	297	-	-	-
Total	**605**	**(52)**	**553**	-	-	-

Reconciliation of the carrying amounts of property and equipment 2016	Carrying value at beginning of year	Additions	Additions through business combination	Depreciation	Disposals	Carrying value at end of year
Furniture	-	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**

*The Group did not hold any property and equipment in 2015

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9 Intangible assets Rm	Cost 2016	Accumulated amortisation and impairment 2016	Carrying value 2016	Cost 2015*	Accumulated amortisation and impairment 2015*	Carrying value 2015*
Software	62	(13)	49	-	-	-
Brand	45	(45)	-	-	-	-
Goodwill	1 884	(1 884)	-	-	-	-
Total	**1 991**	**(1 942)**	**49**	-	-	-

Reconciliation of the carrying amounts of intangible assets 2016 Rm	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	-	-	1 884	-	(1 884)	-	-
Total	-	2	1 989	(13)	(1 929)	-	49

The goodwill recognised through a 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.
The Goodwill and Brand intangible assets were fully impaired in the current year.

*The Group did not hold any intangible assets in 2015

10 Current and deferred tax	2016 Rm	2015* Rm
Current tax liability	(99)	-
Deferred tax asset	121	-

10.1 Deferred tax asset 2016	Opening balance Rm	Deferred tax impact of items recognised in profit or loss Rm	Recognised in other comprehensive income Rm	Closing balance Rm
Temporary differences	-	121	-	121
Deferred administration fees on advances	-	11	-	11
Provisions	-	29	-	29
Impairment for credit losses	-	101	-	101
Other	-	(20)	-	(20)
Total	-	121	-	121

*The Group did not carry any deferred tax or current tax assets in 2015

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

		2016 Rm	2015 Rm
11	**Short-term funding**		
	Call deposits - other	**2 059**	-
	Other short term funding	**100**	-
		2 159	-

Call deposits with monthly coupon payments have interest rates varying from 3.75% to 5.77% NACM.

		2016 Rm	2015 Rm
12	**Creditors and other liabilities**		
	Financial		
	Advances with credit balances	20	-
	Cash payable to Residual Debt Services Limited (in curatorship)	731	-
	Sundry payable and accruals	254	-
	Premium accruals payable to Guardrisk	91	-
	Accruals related to payroll	131	-
	Non-Financial		
	Provision for straight lining of leases	6	-
	Leave pay accrual	53	-
		1 286	-

		2016 Rm	2015 Rm
13	**Bonds and other long-term funding**		
	Unsecured bonds (listed on JSE)	9 444	-
	Unsecured bonds (listed on foreign stock exchanges)	5 754	-
	Unsecured long-term loans	8 786	-
	Unlisted bonds	329	-
		24 313	-

Bonds and other long-term funding with a nominal value of RNil (2015: Nil) are payable within the next 12 months based on their original contractual maturity dates.

13.1 Unsecured bonds listed on JSE

	Face value 2016 Rm	**Interest accrued 2016 Rm**	**Unamortised discount 2016 Rm**	**Net liability 2016 Rm**	Net liability 2015 Rm
Unsecured bonds (listed on JSE)*	**9 361**	**282**	**(199)**	**9 444**	-

*Comprises bonds listed on African Bank's DMTN Programme registered on the JSE's interest rate board.

Fixed rate bonds					
– Ranging from 9.5% to11.5%	780	30	7	817	-
JIBAR linked bonds					
– Ranging from JIBAR + 199bpts to JIBAR + 400 bpts	4 686	57	(32)	4 711	-
Inflation linked bonds					
– Ranging from 3.2% to 5.75%	3 895	195	(174)	3 916	-
	9 361	**282**	**(199)**	**9 444**	-

*The bonds maturities range from earliest redemption on 24 May 2018 and latest redemption on 5 June 2022.

13.2 Unsecured bonds listed on foreign stock exchanges

	Face value 2016 Rm	Interest accrued 2016 Rm	Foreign currency translation 2016 Rm	Unamortised discount 2016 Rm	Net liability 2016 Rm	Net liability 2015 Rm
Unsecured bonds listed on foreign stock exchanges*	**5 966**	**116**	**(426)**	**98**	**5 754**	-
USD denominated bonds						
-ranging from 6% to 8.125%						
-all bonds maturing in 2020	3 593	77	(243)	37	3 464	-
CHF denominated bonds						
-ranging from 4% to 5.5%						
-bonds mature between 2019 and 2022	2 373	39	(183)	61	2 290	-
	5 966	**116**	**(426)**	**98**	**5 754**	-

*The bonds maturities range from earliest redemption on 18 March 2019 and latest redemption on 22 April 2022.

13.3 Unsecured long- term loans

	Face value 2016 Rm	Interest accrued 2016 Rm	Unamortized discount 2016 Rm	Net liability 2016 Rm	Net liability 2015 Rm
Promissory notes	4 557	66	(23)	4 600	-
Negotiable certificates of deposits	308	3	(11)	300	-
Fixed deposits	3 817	57	(98)	3 776	-
Other long term funding	110	-	-	110	-
	8 792	**126**	**(132)**	**8 786**	-

Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 8.35% to 12.23% NACQ, NACS and NACA. These notes have various maturities, ranging from 16 April 2018 to 1 December 2024. Promissory notes with a nominal value of RNil million (2015: Nil) are payable within the next 12 months based on their original contractual maturity dates.

Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.15% to 8% NACQ, NACS and NACA. These deposits have various maturities, ranging from 14 April 2018 to 23 September 2028. Fixed deposits with a nominal value of RNil million (2015: Nil) are payable within the next 12 months based on their original contractual maturity dates.

13.4 Unlisted bonds

Unlisted bonds	Face value 2016 Rm	Interest accrued 2016 Rm	Foreign currency translation 2016 Rm	Unamortised discount 2016 Rm	Net liability 2016 Rm	Net liability 2015 Rm
USD denominated bonds with an original face value of USD25.6 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.	**377**	**4**	**(26)**	**(26)**	**329**	-

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14 Subordinated bonds, debentures and loans	Face value 2016 Rm	Interest accrued 2016 Rm	Unamortised discount 2016 Rm	Net liability 2016 Rm	Net liability 2015 Rm
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.	**1 485**	**53**	**(10)**	**1 528**	-

15 Share capital and share premium	2016 Number of shares	2016 Rm	2015 Number of shares	2015 Rm
Authorised				
Ordinary no par value shares	**-**	**-**	1 000	-
Unclassified no par value shares	**-**	**-**	100 000 000	-
Ordinary shares of R0.01 each	**2 000 000 000**		-	-
Issued				
Ordinary shares at par value of R0.01 each	**500 000 000**	**5**	1	-
Ordinary share premium		**9 995**		-
		10 000		-

During the year the Company had repurchased one previously issued share and issued 500 000 000 shares (2015: 1). The Company has 1 500 000 000 unissued ordinary shares.

16 Interest income	Rm 2016	Rm 2015
Interest income on advances	**2 065**	-
Interest on advances	1 994	-
Loan origination fees	34	-
Service fee	37	-
Other interest income	**642**	-
Interest received on cash reserves	592	-
Sundry interest income	50	-
	2 707	-

In accordance with IAS 18, loan origination and monthly service fees are considered an integral part of the loan agreement and accordingly are amortised to the statement of total comprehensive profit or loss over the contractual life of the loan using the effective interest rate method, with the unamortised portion of the fees recorded as deferred administration fees contained within net advances.

17 Non-interest income		
Credit card fees	204	-
Binder and outsourcing arrangements fees	197	-
Collection fees	379	-
Other income	2	-
	782	-

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		Rm 2016	Rm 2015
18	**Credit impairment charge**		
	Increase in impairment provisions (refer note 5)	362	-
	Recoveries on advances previously written off	-	-
		362	
19	**Interest expense and similar charges**		
	Subordinated debt	**107**	-
	Unsecured listed bonds	**842**	-
	Call deposits	**115**	-
	Fixed deposits	**199**	-
	Negotiable certificates of deposit	**22**	-
	Interest on short-term facilities	**230**	-
	Interest expense and similar charges from financial instruments at fair value through profit or loss	**281**	
	Other interest	**13**	-
		1 809	-

In accordance with the Group's policy the total funding costs are included in the interest expense and similar charges. Such funding costs may include fair value gains/losses on the derivative instruments.

		Rm 2016	Rm 2015
20	**Operating costs**		
	Advertising and marketing costs	57	-
	Amortisation of intangible assets (refer note 9)	13	-
	Audit fees	11	-
	Bank charges	83	-
	Card transaction costs	29	-
	Collection costs	82	-
	Depreciation on property and equipment (refer note 8)	52	-
	Direct selling and commissions	9	-
	Information technology costs	41	-
	Profit on disposal of property and equipment	(1)	-
	Impairment of brand	45	-
	Rental and maintenance costs	**107**	-
	Costs related to property rentals	97	-
	Other rental and maintenance costs	10	-
	Printing, stationery and courier costs	**23**	-
	Professional fees	**32**	-
	Legal fees	-	-
	Consultants and other professional fees	32	-
	Staff costs	**560**	-
	Basic remuneration	399	-
	Bonuses and incentives	78	-
	Contribution to provident fund	47	-
	Commission paid to sales agents	13	-
	Executive directors' and prescribed officers' remuneration (refer note 40)	**23**	-
	Basic remuneration	15	-
	Bonuses	8	-
	Non-executive directors' fees (refer note 40)	2	-
	Telephone, fax and other communication costs	43	-
	Other expenses	35	-
		1 223	-

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		Rm 2016	Rm 2015
21	**Indirect and direct taxation**		
	Indirect charge per the statement of total comprehensive income (refer note 21.1)	44	-
	Direct charge per the statement of total comprehensive income: SA normal taxation (refer note 21.2)	66	-
	Total taxation charge	**110**	-
	All-in tax rate (calculated as the total taxation charge per the statement of total comprehensive income expressed as a percentage of net income before any indirect and direct taxation) (%)	**(6.8%)**	-
21.1	**Indirect taxation**		
	Value-added tax (VAT)	44	-
	Indirect taxation charge per the statement of total comprehensive income	**44**	-
21.2	**Direct taxation**		
	Current taxation	**187**	-
	Current year	187	-
	Prior year	-	-
	Deferred taxation	**(121)**	-
	Current year	(121)	-
	Prior year	-	-
	Direct taxation charge per the statement of total comprehensive income	**66**	-

21	**Indirect and direct taxation (continued)**		
21.3	**Tax rate reconciliation**		
	Loss before taxation	**(1 612)**	-
		%	%
	Total taxation charge (direct and indirect) for the year as a percentage of the above	**(6.8)**	-
	Indirect taxation: value-added tax	2.7	-
	Effective rate of taxation	**(4.1)**	-
	Disallowed expenses	33.8	-
	Capital gains subject to CGT rate	(1.7)	-
	Standard rate of South African taxation	**28.0**	-

22	**Other gains and (losses)**		
	Gain on the bond buy backs	251	-
	Impairment of goodwill	(1 947)	-
		(1 696)	-

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	Rm 2016	Rm 2015
23 Cash generated by operations		
Loss before tax	**(1 612)**	-
Adjusted for:		
-Indirect taxation: VAT	44	-
-Remeasurement of insurance assets	(33)	
-Increase in impairment of advances	362	-
-Impairment of goodwill and brand (refer note 9)	1 992	-
-Amortisation of intangible assets (refer note 9)	13	-
-Depreciation (refer note 8)	52	-
-Profit on disposal of property and equipment	(1)	-
-Gain on the bond buy backs	(251)	-
-Fair value movements on derivative instruments	281	-
-Fair value adjustments on liabilities	25	-
-Non-cash items related to income on acquired advances	943	-
-Movement in accruals	146	-
-Movement in deferred fees	8	-
-Movement in other interest income accrual	(5)	-
-Movement in interest expense accrual	694	-
	2 658	-
24 Cash received from lending activities and cash reserves		
Interest income (adjusted for non-cash items)	3 650	-
Non-interest income (adjusted for non-cash items)	771	-
	4 421	-
25 Cash paid to clients, funders, employees and agents		
Interest paid (adjusted for non-cash items)	806	-
Remuneration, bonuses and incentives paid to employees and directors	487	-
Other operating expenses paid	664	-
	1 957	-
26 Indirect and direct taxation paid		
Movement in current tax asset	(99)	-
Indirect and direct taxation charged to statement of total comprehensive income (refer note 21)	110	-
Deferred tax portion of amount charged to statement of total comprehensive income	121	-
	132	

Risk management

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

The African Bank Holdings Limited ("ABHL") Risk and Capital Management Committee ("RCMC") is constituted as a Committee of the Board, 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 Credit and Capital Technical Committee ("CCTC") 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 CCTC 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 CCTC monitor these risks and report on a quarterly basis to the RCMC. The CCTC is supported by the Credit Management Structure headed by the Group Executive: Credit and Direct Marketing. (Refer note 27)

The role of the ALCO is to manage the Group's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks and other related risks ("ALCO Risks") in such a way as to maximise shareholder return within the risk parameters as defined by the Group's risk appetite framework set by the RCMC. The prime function of the ALCO is to monitor and provide guidance to the relevant executive mandated to manage the ALCO risks associated with those functions, being the Group Executive: Liability and Balance Sheet management, Treasury. The ALCO also has a further strategic function to recommend Group strategy and appetite related to the ALCO risk within the Group's overall risk appetite, to the RCMC.

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

- Interest rate risk (Note 28.1)
- Foreign currency risk (Note 28.2)
- Liquidity and funding risk (Note 29);
- Capital adequacy (Note 32);
- Market risks (Note 28.3); and
- Regulatory (and Legal) risks in the ALCO context.

27 Credit risk

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

Credit risk management

The prime objective and mandate of the CCTC 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 CCTC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process.

The CCTC is mandated by the RCMC to manage and monitor credit risk. The CCTC is supported by the Credit Management Structure headed by the Group Executive: Credit and Direct Marketing and the underlying credit sub-departments. The CCTC meet on a monthly basis and report to the RCMC on a quarterly basis.

The duties and responsibilities of the CCTC include:

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

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

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

- Advances
- Financial assets (other than advances)

Advances

The Group's principle 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 Group's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base expose the Group to systemic credit risk. The Group mitigates this risk by applying the Group's application scorecard, a set of business rules, affordability assessments and queue verifications (fraud mitigation tools). The Group's credit risk assessment process adheres to the requirements set out by the National Credit Act (NCA) and Financial Services Board.

The nature of the loan book is such that it is made up of smaller sized loans across a spectrum of economic sectors and provinces. Loans granted at origination range from a minimum of R500 to a maximum of R200,000 and repayment periods ranging from a minimum of 3 months to a maximum of 72 months. For credit cards, the lending facility ranges from 4 000 to 80 000, with repayment periods being extended up to a maximum of 18 months. By its nature, the carrying amount at year end for unsecured loans and credit cards represents the Group's maximum exposed to credit risk. The Group does have insurance cover to credit events arising from the death of customers; permanent and temporary disability and retrenchments.

27 Credit risk (continued)

Credit philosophy

The credit philosophy of the Group is to pay primary emphasis of the credit decision on the borrower's ability to service the loan. It is therefore critical to establish the customer's ability to service their loan instalments.

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

Credit risk assessment

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

- Physical identification of the customer via their 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 (Experian) data obtained;
- The captured details, the customer's bureau record, and the customers' historical performance on existing loans is used by the Application Scorecard to determine the customers' risk.
- The customer is then assessed against the business rules; and
- To mitigate against fraud, compliance and credit risk, the customer's completed application flows to the Queues.

Queues are a monitor that the Group uses for early Fraud detection, Compliance and Risk mitigation. A Queue is a process that follows 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 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 Group utilises various reporting and monitoring tools to engage in and control ongoing credit risk within the credit life-cycle. These include the following:

- Real time monitoring on application volumes, approval rates and processing quality;
- Credit efficiency reports;
- 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 Group's credit management team reviews exception reports produced by the reporting and monitoring tools on a daily, weekly and monthly basis, depending on the type of exception report produced by the credit monitoring system and acts as early warning indicators which the credit management team actively manages. The respective credit management team members report directly to the senior credit executive. Trends and early warning indicators identified are discussed at CCTC meetings and where necessary preventative action is initiated, if not done so already by the senior credit executive.

27 Credit risk (continued)

Collection and restructures

The collections function within the Group relates to the effective collections of any monies due and payable by the customer. Core to the collection function is the monitoring of the payment patterns of accounts and to encourage customers to pay their accounts timeously and pay their arrears in the shortest timeframe as possible. The Group uses various debit strike platforms and each allows the Group with different striking capabilities and options. The Group utilises the regulated non-authenticated early debit order system (NAEDOS) to collect instalments from customers. Deduction mandates are obtained from customers in their loan contracts and are made from their primary bank account (where the customer's salary is deposited).

Where collection is unsuccessful, arrears follow up is performed initially through the call centre.

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

External recovery

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

Impairments

The two product portfolios that carry credit impairment are the unsecured loan portfolio and the credit card portfolio. The same model methodology is applied against both 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 Group conservatively applies the principle of objective evidence and views "one cent-one day" late payment as objective evidence of impairment.

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

The categories used to identify impairment are as follows:

Contractual CD	Explanation of CD	Time buckets	Provision type
CD 0	Performing advances that are not past due and are within the contractual term. The advances in this category were never in default.	<30 days	IBNR
CD 1 – 3	Advances where between 1 and 3 instalment has been missed, or where instalments have been received after their contractual date of repayment.	31 – 90 days	PSI
>CD 4	Advances where 4 or more instalment has been missed	91 – 182 days	SI
>CD 6, Recency 6	More than 6 instalments have been missed and no payments have been received over the past 6 months	>182 days	Fully impaired

27 Credit risk (continued)

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 6 instalments have been missed and payments have not been received over the past 6 months, the entire advance is fully impaired and treated as if written off for accounting purposes.

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

In outline, the statistical analyses are performed on a portfolio basis as follows:

The impairment charge for IBNR provision for CD 0 advances:
- The impairment calculation utilises the results of the statistical analyses referred to above to estimate the proportion of assets in each portfolio that are likely to display objective evidence of impairment over the emergence period.
- Emergence period - also referred to as LEP (loss emergence period), represents the Group's estimate (for accounting purposes) of the average amount of time from the point at which a loss is incurred (but not yet identified) to the point at which the loss is observed and confirmed. The Group currently utilises a 90 day emergence period.
- In considering the occurrence of a loss event over the life of a loan, it is assumed that there is a constant risk of the loss event occurring at any point in the life of the loan.

The impairment charge for PSI and SI provision for CD 1 to >CD 4 advances:
- Advances are monitored on a product basis, with each month's advances being treated as a discrete portfolio, on which an analysis of the run-off of recoveries, in period buckets and ratified between default statistics, is performed in order to develop an historical base for statistics on probability of default (PD).
- These derived statistics, based on actual experience, are used in plotting default values on a model curve that reflects the risk profile of the portfolio.
- The expected amount outstanding when default occurs that is not subsequently recovered, or the loss given default (LGD), is taken into account in calculating the impairment allowance

For fully impaired/write offs:
Advances greater than CD 6 (and where payments have not been received for 6 months) are fully impaired and netted off against the impairment allowance account for specific impairment. Such write-off is recorded as impairment through a direct reduction of carrying value of the financial asset. Therefore, gross advances are reflected net of advances that have been written off.

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

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

Credit quality

Analysis of credit quality	**2016** Loan Rm	**2016** Credit card Rm	**2016** Total Rm
Performing Book – CD 0			
Low risk	**7 240**	**1 563**	**8 803**
Medium risk	**2 368**	**555**	**2 923**
High risk	**1 589**	**360**	**1 949**
Total	**11 197**	**2 478**	**13 675**

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

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27 Credit risk (continued)

	2016		
	Loan	Credit card	Total
Credit quality	Rm	Rm	Rm
Financial assets that are neither past due nor specifically impaired			
CD 0:	**11 197**	**2 478**	**13 675**
Past due and specifically impaired			
CD 1 to CD 3	**1 391**	**1 477**	**2 868**
CD 4 and higher	**3 026**	**989**	**4 015**
Total credit exposure	**15 614**	**4 944**	**20 558**
Total impairments			
Incurred but not reported (IBNR)	(173)	(16)	(189)
Portfolio specific impairment	(124)	(22)	(146)
Specific impairment	(24)	(3)	(27)
Deferred administration fees	(85)	-	(85)
Net advances	**15 208**	**4 903**	**20 111**
Impairment as % of gross advances			
CD 0	1.55%	0.65%	1.38%
CD 1- 3	8.91%	1.49%	5.09%
CD 4 and higher	0.79%	0.30%	0.67%
Total impairment as a % of total gross advances	2.06%	0.83%	1.76%
Reconciliation of allowance account			
Balance at the beginning of the year	-	-	-
Impairment raised (note 18)	321	41	362
Bad debt (write-offs)/recovery	-	-	-
Balance at the end of the year	**321**	**41**	**362**

Credit risk impacts

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.

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**

27 Credit risk (continued)

Concentration Risk

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

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

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

Loans

Average loan value (at inception) R'000	Number of loans	% of total number of loans	Carrying value (net of impairment) R'000 00	% of total carrying value
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 -200*	**67 679**	6.12%	**3 253**	21.38%
Total	**1 105 704**	100.00%	**15 208**	100.00%

*Maximum loan exposure is R200,000 per business practice rules

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
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%**
50 -100	**8 374**	1.06%	**281**	**5.72%**
Total	**792 430**	100.00%	**4 903**	**100.00%**

Financial assets (other than advances)

All financial assets other than advances are made up of cash and cash equivalents, statutory assets, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables and loans to affiliate companies are place with reputable counterparties.

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

The Group 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 mitigate for the Group's derivative asset positions. See note 31 for further details.

Trade receivables are evaluated on an entity by entity basis. The Group limits the tenure and size of the debt to ensure that it does not pose a material risk to the Group. For further information refer to Note 6.

27 Credit risk (continued)

Financial assets (other than advances) (continued)

At balance sheet date the international long-term credit rating, using Moody's rating was as follows for cash and cash equivalents, statutory assets and derivative assets:

2016	Notes	Total carrying amount	Single largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
Cash and cash equivalents							
Cash deposits – ZAR	2	**12 482**	**3 000**	-	**12 482**	-	-
Cash deposits – Foreign denominated	2	**382**	**382**	-	**382**	-	-
Statutory assets				-		-	-
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		**16 331**	**5 656**	-	**16 331**	-	-

28 Market risk

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

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

28.1 Interest rate risk management

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

The Group has interest rate risk arising in its financial assets, from its holdings in cash and cash equivalents, statutory assets, credit card advances and loans to affiliates which earn interest at a variable rate, however the Group's most significant financial asset it is fixed rate advances portfolio.

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

It is not always feasible to raise fixed rate funding and therefore the Group has a mix of fixed and variable rate funding instruments. Variable rate funding instruments expose the Group to interest rate risk for the purposes of IFRS. The Group 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 Group is mindful that it is exposed to variable rate risk through its loan and credit card portfolio.

28.1 Interest rate risk management (continued)

Risk measurement and management

The ALCO view interest rate in the banking book to comprise of the following:

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

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

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

Sensitivity and stress testing consists 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 Group are set out be in the table below, namely the re- pricing profile and the potential effect of changes in the market interest rate on earnings for floating rate instruments.

Re- pricing profile

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

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28.1 Interest rate risk management (continued)

Re- pricing profile

Re- pricing profile 2016	Demand and up to 1 month Rm	Greater than 1 month up to 3 months Rm	Greater than 3 months up to 12 months Rm	Greater than 12 months up to 24 months Rm	Greater than 24 months Rm	Non-interest sensitive items Rm	Non-financial instruments Rm	Total Rm
Assets								
Cash and cash equivalents	7 114	2 750	3 000	-	-	-	-	**12 864**
Statutory assets	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**
Investment in insurance contract	-	-	-	-	-	314	-	**314**
Property and equipment	-	-	-	-	-	-	553	**553**
Intangible assets	-	-	-	-	-	-	49	**49**
Deferred tax asset	-	-	-	-	-	-	121	**121**
Total assets	**13 434**	**3 751**	**8 090**	**3 774**	**7 019**	**814**	**829**	**37 711**
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	-	-	-	-	-	-	99	**99**
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	-	-	-	-	-	-	8 322	**8 322**
Total liabilities and equity	**11 452**	**7 706**	**33**	**1 209**	**7 210**	**1 890**	**8 211**	**37 711**
On balance sheet interest sensitivity	**1 982**	**(3 955)**	**8 057**	**2 565**	**(191)**	**-**	**-**	**-**

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28.1 Interest rate risk management (continued)

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

Sensitivity analysis based on a 200 basis point increase in interest rates

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

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Group's portfolio, a 200 basis point increase in interest rates would result in a corresponding net increase of R26 million (2015: Nil) in net income (before tax).

2016 Financial assets	Carrying value at end of year Rm	Amount exposed to market risk Rm	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax) Rm
Credit card advances	4 966	6 639	**REPO**	**192**
Cash and cash equivalents	12 864	12 864	**JIBAR**	**180**
Statutory assets	1 237	447	**CPI/JIBAR**	**15**
Derivatives	2 230	2 595	**CPI/JIBAR**	**(10)**
	21 297	**22 545**		**377**
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)**
	28 004	**20 774**		**(351)**
Net effect on the statement of total comprehensive income				**26**

28.2 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 Group arises as a result of holding foreign currency denominated borrowings and foreign currency in cash.
The Group's primary risk objective is to protect the net earnings against the impact of adverse exchange rate movements. ALCO is mandated to manage this risk by application of appropriate foreign currency derivatives or other appropriate strategies to ensure adherence to the Group's risk appetite.

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

Financial liabilities	**Foreign currency 2016 USD/CHFm**	**ZAR carrying amount 2016 Rm**	Foreign currency 2015 USD/CHFm	ZAR carrying amount 2015 Rm
Foreign denominated bonds (USD)	(276)	(3 793)	-	-
Foreign denominated bonds (CHF)	(162)	(2 290)	-	-
Total liabilities	**(438)**	**(6083)**		-
Short-term deposits and cash (USD)	19	266	-	-
Short-term deposits and cash (CHF)	8	116	-	-
Foreign currency swaps (USD)	260	3 571	-	-
Foreign currency swaps (CHF)	193	2 728	-	-
Effect of foreign currency hedges	**480**	**6 681**		-
Net open position - USD	**3**	**44**	-	-
Net open position - CHF	**39**	**554**	**-**	**-**

Currently the Group uses cross-currency swaps and foreign currency cash 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 Group currently has in issue and therefore there is a mismatch as indicated above. The Group's strategy going forward is to eliminate this mismatch through a variety of strategies including amongst others, entering into derivative transactions to which hedge accounting may be applied. In addition, the Group holds CHF and USD in cash 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 Group's portfolio, a 10% increase in exchange rates, and its related impact on the forward discount curve, would result in a net increase of R61 million (2015: R Nil) in net income (before tax).

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28.2 Foreign currency risk management (continued)

Sensitivity analysis

2016 Financial assets	Carrying value at end of year Rm	Amount exposed to market risk Rm	Currency	Profit or loss impact (pre-tax) Rm
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
	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)
	(6 083)	**(6 083)**		**(608)**
Net effect on the statement of total comprehensive income				**61**

The spot exchange rates used to convert the carrying value (outstanding capital, capitalised interest and unamortised discount) of the foreign currency liabilities were R13.73/USD (2015: No exposure) and R14.16/CHF (2015: No exposure).

28.3 Other Price risk management

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

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29 Liquidity risk

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

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

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

The matching and controlled mismatching of the maturities and interest rates of financial assets and liabilities are fundamental to the management of risk within the Group. It is unusual for the Group ever to be completely matched since the business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Assets and liabilities maturities as at 30 September 2016

	Demand and up to 1 month Rm	Greater than 1 month up to 3 months Rm	Greater than 3 months up to 12 months Rm	Greater than 12 months up to 24 months Rm	Greater than 24 months Rm	Non-financial assets and liabilities Rm	Total Rm
Assets							
Cash and cash equivalents	7 114	2 750	3 000	-	-	-	**12 864**
Statutory assets	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**
Investment in insurance contract	-	-	-	-	-	314	**314**
Property and equipment	-	-	-	-	-	553	**553**
Intangible assets	-	-	-	-	-	49	**49**
Deferred tax asset	-	-	-	-	-	121	**121**
Total assets	**8 702**	**4 499**	**11 044**	**4 426**	**7 897**	**1 143**	**37 711**
Liabilities and equity							
Short-term funding	2 146	3	10	-	-	-	**2 159**
Derivative liabilities	-	1	-	3	-	-	**4**
Creditors and accruals	1 227					59	**1 286**
Current tax						99	**99**
Bonds and other long-term funding	176	177	179	4 001	20 039	(259)	**24 313**
Subordinated bonds, debentures and loans	53	-	-	1	1 484	(10)	**1 528**
Ordinary shareholder's equity	-	-	-	-	-	8 322	**8 322**
Total liabilities and equity	**3 602**	**181**	**189**	**4 005**	**21 523**	**8 211**	**37 711**
Net liquidity gap	**5 100**	**4 318**	**10 855**	**421**	**(13 628)**	**-**	**-**

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29 Liquidity risk (continued)

Conditionally revocable retail loan commitments totalling R822 million (2015: Rnil) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts. The loans are advanced with a contractual repayment period of one month or less (see Note 5).

As indicated to the market in the offering memorandum, the value of the net assets and the Top Up cash amount was agreed between the Group and the Curator, so as to afford the Group a reasonable prospect of achieve its capital requirements as the Group grew its operations. Due to this Top Up cash amount, the Group is currently holding excess cash.

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

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

2016 Financial liabilities	Carrying amount Rm	Up to 1 month Rm	Greater than 1 month up to 6 months Rm	Greater than 6 months up to 12 months Rm	Greater than 1 year up to 2 years Rm	Greater than 2 years up to 5 years Rm	Greater than 5 years Rm	Total Rm
Short-term funding	**2 159**	2 143	9	18	-	-	-	**2 170**
Derivative instruments	**4**	-	-	-	4	-	-	**4**
Promissory notes and NCD's	**4 900**	108	103	219	1 522	3 621	930	**6 503**
Fixed deposits	**3 927**	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**
	28 045	**2 523**	**591**	**1 072**	**5 934**	**19 220**	**7 142**	**36 482**

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

30.1 Valuation models

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

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

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

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

30.1 Valuation models (continued)

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

Recurring fair values

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

Fair value for disclosure

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

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

General

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

Level 3 fair value disclosure – Advances

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

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

- Fair value includes all expected cash flows, whereas impairments under IAS 39 are limited to incurred loss events;
- The impairment cash flows are not reduced by the net insurance premiums the Group expects to pay across to insurance providers;
- The impairment cash flows are not reduced by expected cost of collection.

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

30.2 Valuation framework

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

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

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

30.3 Fair value measurements recognised in the statement of financial position

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

Rmillion	Level 1	Level 2	Level 3	Total
30 September 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**

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

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

2016 Assets	Valuation basis / techniques	Main assumptions*	Variance in fair value measurement	Effect on profit / (loss) (after tax) Rm
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**

30.5 Assets and liabilities for which fair value is disclosed*

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
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
Total	-	1 241	20 056	21 297	21 348
Liabilities					
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

*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.

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

IFRS requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

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

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31 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

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
2016						
Assets						
Derivative financial instruments	2 230	-	2 230	(4)	(2 059)	167
	2 230	**-**	**2 230**	**(4)**	**(2 059)**	**167**
2016						
Liabilities						
Derivative financial instruments	4	-	4	-	-	4
	4	**-**	**4**	**-**	**-**	**4**

[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.

32 Capital management

Capital adequacy risk is the risk that the Group 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 Group’s strategic focus is to maintain an optimal mix of available financial resources, while continuing to generate sufficient capital to support the growth of the Group’s operations within the parameters of the risk appetite set by the RCMC.

Refer to the table in Annexure B for the Group’s capital adequacy requirements and position as at 30 September 2016.

Internal capital management

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

32 Capital Management (continued)

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

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

- meeting minimum Basel III regulatory requirements and additional capital add-ons and floors as specified by the South African Reserve Bank ("SARB");
- ensure adequate capital buffers above the aforementioned criteria to ensure sustainability in both a systemic and idiosyncratic stress event as set out by the Group's risk appetite;
- test the Group's strategy against risk appetite and required capital levels;
- on an annual basis to review and sign-off the Group'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.

33 Operating lease commitments – property

	Rm 2016	Rm 2015
Payable within one year	115	-
Payable between one and five years	119	-
	234	-

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

34 Unutilised facilities

The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2016 were R822 million (2015: Nil).

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35 Analysis of financial assets and liabilities

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

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.

35.1 Analysis of financial assets

2016 Assets	Notes	Loans and receivables Rm	Held-to-maturity financial instruments Rm	Financial instruments at fair value through profit and loss Rm	Non-financial instruments Rm	Total Rm	Current	Non-current
Cash and cash equivalents	2	12 864	-	-	-	**12 864**	12 864	-
Statutory assets	3	375	862	-	-	**1 237**	396	841
Derivatives	4	-	-	2 230	-	**2 230**	1 542	688
Net advances	5	20 111	-	-	-	**20 111**	9 317	10 794
Accounts receivable and other assets	6	126	-	-	106	**232**	232	-
Investment in insurance contract	7	-	-	-	314	**314**	-	314
Property and equipment	8	-	-	-	553	**553**	-	553
Intangible assets	9	-	-	-	49	**49**	-	49
Deferred tax asset	10	-	-	-	121	**121**	-	121
Total assets		**33 476**	**862**	**2 230**	**1 143**	**37 711**	**23 738**	**13 973**

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35.1 Analysis of financial assets (*continued*)

2015	**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**
Assets								
Cash and cash equivalents	2	-	-	-	-	-	-	-
Statutory assets	3	-	-	-	-	-	-	-
Derivatives	4	-	-	-	-	-	-	-
Net advances	5	-	-	-	-	-	-	-
Accounts receivable and other assets	6	-	-	-	-	-	-	-
Current tax receivable	10	-	-	-	-	-	-	-
Investment in insurance contracts	7	-	-	-	-	-	-	-
Property and equipment	8	-	-	-	-	-	-	-
Intangible assets	9	-	-	-	-	-	-	-
Deferred tax asset	10	-	-	-	-	-	-	-
Total assets		-	-	-	-	-	-	-

Statement of total comprehensive income effect of financial instruments by category	**2016 Rm**	2015 Rm
Interest income recognised – loans and receivables	2 657	-
Interest income recognised – held-to-maturity instruments	50	-
	2 707	-
Included above is interest income earned on impaired assets (advances)	**20**	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

35.2 Analysis of financial liabilities

2016	Notes	Amortised cost Rm	Fair value Rm	Non-financial liabilities Rm	Total Rm	Current	Non-current
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	-	-	99	**99**	99	-
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
		29 227	**4**	**158**	**29 389**	**3 458**	**25 841**
2015							
Short-term funding	11	-	-	-	-	-	-
Derivatives	4	-	-	-	-	-	-
Creditors and accruals	12	-	-	-	-	-	-
Current tax liability	10			-	-	-	-
Bonds and other long-term funding	13	-	-	-	-	-	-
Subordinated bonds, debentures and loans	14	-	-	-	-	-	-
		-	-	-	-	-	-

Statement of total comprehensive income effect of financial instruments by category	2016 Rm	2015 Rm
Interest expense recognised for financial liabilities at amortised cost	**1 528**	-
Interest expense recognised for financial liabilities at fair value	**281**	-
	1 809	-

36 Retirement and post- retirement benefits

The Group 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 Group contributions, which are charged to the statement of profit or loss as they are incurred.

The defined contribution scheme is exempt from regular actuarial valuations as no actuarial shortfall is anticipated. It is compulsory for all permanent staff to belong to the Group provident fund.

The contributions made during the year amounted to R47 million (2015: Nil).

37 Related party information

There were no material transactions with directors other than emoluments as disclosed in note 20 and note 40.

38 Events after the reporting date

There were no matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group annual financial statements, which significantly affects the financial position at 30 September 2015 or the results of its operations or cash flows for the year then ended.

39 Business combination Summary of acquisition

39.1 Summary of acquisitions

On 4th April 2016 the Group commenced business 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) and the Bank has likewise changed its name from K2014176899 (South Africa) Limited to "African Bank Limited" and will henceforth trade under that name.

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

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.

The details of the acquisition are disclosed below.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

39.2 Asset acquired and liabilities recognised

Rmillion	2016
Assets acquired	
Cash and cash equivalents	10 065
Statutory assets	3 796
Derivative assets	5 312
Net advances	20 907
Accounts receivable and other assets	301
Property and equipment	498
Intangible assets	105
Total assets	**40 984**
Liabilities recognised	
Short-term funding	4 611
Derivative liabilities	18
Creditors and accruals	449
Bonds and other long-term funding	36 308
Subordinated bonds, debentures and loans	1 545
Total liabilities	**42 931**

39.3 Consideration for the acquired assets and goodwill arising on acquisition

Rmillion	2016
Consideration for the acquired assets	
Fair value of liabilities recognised at acquisition	**42 931**
Goodwill arising on acquisition	
Consideration for the acquired assets	42 931
Less: fair value of identifiable assets acquired	(40 984)
Goodwill arising on acquisition	**1 947**

39.4 Purchase consideration: cash inflow

Rmillion	
Cash consideration	-
Less: Cash of business acquired	10 065
Cash inflow	**10 065**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

40 Directors' and prescribed officers' remuneration

40.1 Basic remuneration, benefits and bonuses paid to executive directors

All amounts in R'	2016 Date appointed to board	2016 Salary	2016 Retirement, medical contributions and other	2016 Total cost to company package	2016 Annual cash bonus (note 1)	2016 Total	2015 Salary	2015 Retirement, medical contributions and other	2015 Total cost to company package	2015 Annual cash bonus (note 1)	2015 Total
G Raubenheimer	03/07/2015	1 587 441	198 060	1 785 501	1 093 906	**2 879 407**	-	-	-	-	-
B Riley	24/06/2015	1 935 002	-	1 935 002	-	**1 935 002**	-	-	-	-	-
		3 522 443	**198 060**	**3 720 503**	**1 093 906**	**4 814 409**	-	-	-	-	-

Note 1.

40.2 Basic remuneration, benefits and bonuses paid to prescribed officers

All amounts in R'	2016 Date appointed	2016 Salary	2016 Retirement, medical contributions and other	2016 Total cost to company package	2016 Annual cash bonus (note 1)	2016 Total	2015 Salary	2015 Retirement, medical contributions and other	2015 Total cost to company package	2015 Annual cash bonus (note 1)	2015 Total
G Jones	04/04/2016	1 260 340	184 879	1 445 219	881 821	**2 327 040**	-	-	-	-	-
V Millican	04/04/2016	1 182 313	139 500	1 321 813	1 805 602	**3 127 415**	-	-	-	-	-
L Miyambu	04/04/2016	1 306 453	146 412	1 452 865	890 188	**2 343 053**	-	-	-	-	-
M Ramalho	04/04/2016	799 063	95 550	894 613	650 000	**1 544 613**	-	-	-	-	-
A Ramosedi	04/04/2016	1 211 707	215 783	1 427 490	736 539	**2 164 029**	-	-	-	-	-
G Roussos	04/04/2016	1 377 495	174 938	1 552 433	1 027 141	**2 579 574**	-	-	-	-	-
P Swanepoel	04/04/2016	1 224 413	170 627	1 395 040	853 416	**2 248 456**	-	-	-	-	-
H Venter	04/04/2016	1 116 063	212 751	1 328 814	805 602	**2 134 416**					
		9 477 847	**1 340 440**	**10 818 287**	**7 650 309**	**18 468 596**	-	-	-	-	-

40 Directors' and prescribed officers' remuneration *(continued)*

40.3 Non-executive directors' remuneration

All amounts in R'	Date appointed to board	Date of resignation	Fees for services as directors 2016	2015
LL von Zeuner (Chairman)	24/06/2015		400 000	-
SL Mc Cloghrie	28/07/2015		200 000	-
SK Mhlarhi	20/07/2016		62 500	-
B Maluleke	28/07/2015		262 500	-
IS Sehoole	28/07/2015		262 500	-
L Stephens	02/07/2015		250 000	-
PJ Temple	29/04/2016		125 000	-
FJC Truter	07/08/2015		287 500	-
			1 850 000	-

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

African Bank Holdings Limited

Audited
Separate
Annual Financial Statements

For the year ended 30 September 2016

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

Registration number: 2014/176855/06

STATEMENT OF FINANCIAL POSITION
at 30 September 2016

R million	Notes	2016	2015
Assets			
Cash and cash equivalents	3	2	
Current tax asset	5	1	
Investment in subsidiary companies	2	4 216	
Total assets		**4 219**	-
Liabilities and equity			
Loan liabilities	4	296	-
Total liabilities		**296**	-
Ordinary share capital	6	5	-
Ordinary share premium	6	9 995	-
Reserves and accumulated losses		(6 077)	-
Total equity (capital and reserves)		**3 923**	-
Total liabilities and equity		**4 219**	-

STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the period ended 30 September 2016

R million	Notes	2016	2015
Interest income	7	3	-
Interest expense	8	(15)	-
Net interest expense		**(12)**	-
Impairment of investment in subsidiary	2	(6 065)	-
Loss before taxation		**(6 077)**	
Taxation	5	-	-
Loss for the period		**(6 077)**	-
Other comprehensive income		-	-
Total comprehensive loss for the year		**(6 077)**	-
Attributable to:			
- Owners of African Bank Holdings Limited		(6 077)	
Total comprehensive loss for the year *		**(6 077)**	-

***The company had no other comprehensive income for the year under review**

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2016

R million	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2014	**-**	**-**	**-**	**-**
Total comprehensive profit/(loss) for the period	**-**	**-**	**-**	**-**
Balance at 30 September 2015	**-**	**-**	**-**	**-**
Shares issued	5	9 995	-	**10 000**
Total comprehensive profit for the period	-	-	(6 077)	**(6 077)**
Balance at 30 September 2016	**5**	**9 995**	**(6 077)**	**3 923**

STATEMENT OF CASH FLOWS
for the year ended 30 September 2016

R million	Notes	2016	2015
Cash generated from operations			
Total comprehensive loss for the year		(6 077)	-
Provisional tax payment	5	(1)	
Adjusted for non-cash items			
Impairment of investment in subsidiary		6 065	
Cash outflow from operating activities		**(13)**	-
Cash (outflow) from investing activities		**(10 281)**	**-**
Investment in subsidiary companies		(10 281)	-
Cash inflow from financing activities		**10 296**	**-**
Ordinary shares issued	6	10 000	-
Loans received		296	-
Increase in cash and cash equivalents		**2**	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year	3	**2**	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

1. Summary of significant accounting policies

The annual financial statements of African Bank Holdings Limited are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Group other than note 1.4 which deals with consolidated financial statements.

2 Investment in subsidiary companies

The subsidiary companies' principal places of business is the Republic of South Africa.

Subsidiary	African Bank Limited	African Insurance Group Limited
Nature of business	Banking services	Insurance holding entity currently the shareholder in a cell captive arrangement
% ownership of ordinary shares held	100%	100%
% voting rights	100%	100%
Shares at carrying amount (R'm)		
As at 30 September 2015	-	-
Acquired at cost	10 000	281
Impairment	(6 065)	-
As at 30 September 2016	3 935	281

The investments in subsidiaries are tested for impairment as and when an indication of impairment is evident. Should subsequent impairment tests present evidence that previous impairments are not evident in part or in full anymore and the decrease in impairment can be related objectively to an event occurring after the initial impairment was recognised, the amount of the impairment decrease will be reversed and recognised in profit or loss.

African Bank Limited has fully impaired the goodwill and brand related intangible assets acquired in the business combination transaction concluded with Residual Debt Services Limited (in curatorship), refer note 1.2.3, note 9 and note 39 of the notes to the consolidated financial statements of African Bank Holdings Limited. This presented an indication of impairment of the investment in African Bank Limited.

In terms of IAS 36, an impairment test of the investment in African Bank Limited was conducted based on the recoverable amount of only the banking business as a cash generating unit and the investment in African Bank Limited has consequently been impaired by an amount of R 6 065 million.

	2016 Rm	2015 Rm
3 Cash and cash equivalents		
Money at call and short notice	2	-

The carrying value for cash and cash equivalents approximates the fair value. Money at short notice constitutes amounts withdrawable in 32 days or less.

4 Loan liabilities

Loan from African Bank Ltd	296	-
	296	

In January 2016 the company obtained a loan facility from the Residual Debt Services Limited (in curatorship). Residual Debt Services Limited (in curatorship)'s rights associated with this facility were transferred to African Bank Limited on 4 April 2016.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

5 Current tax

	2016 Rm	2015 Rm
Current tax asset	1	-
	1	-

Unrecognised deductible temporary differences and unused tax losses		
Unused tax losses for which no deferred tax assets have been recognised are attributable to no probable future taxable earnings due to the investment holding nature of the company.	12	-

6 Ordinary Share Capital

	2016		2015	
	Number of shares	**Rm**	Number of shares	Rm
Authorised				
Ordinary no par value shares			1 000	
Unclassified no par value shares			100 000 000	
Ordinary shares of R0.01 each	2 000 000 000			
Issued				
Ordinary shares at par value of R0.01 each	500 000 000	5	1	*
Ordinary share premium		9 995		*
Total		10 000		*
*R1 share capital in issue in prior period				

Effective 26 November 2015 the Memorandum of Incorporation was amended such that the authorized ordinary shares were converted from no par value shares to par value shares of 1 cent each and increased to 2 billion ordinary shares.

In March the company issued additional shares amounting to R10 billion in value. This was then used to capitalize a subsidiary African Bank Limited effective 4 April 2016.

The shares in the company are privately held by the South African Reserve Bank, the Government Employees Pension Fund, Absa Trading and Investments Solutions (Pty) Limited, Nedbank Limited, FirstRand Bank Limited, Investec Bank Limited, The Standard Bank of South Africa Limited and Capitec Bank Limited.

7 Interest income	**2016 Rm**	2015 Rm
Interest earned on cash and cash equivalents	3	-

8 Interest expense		
Interest incurred on loan liabilities	15	-

9 Related parties

The Company defines related parties as:

- (i) Subsidiaries;
- (ii) Entities that have significant influence over the group. If an investor has significant influence over the group that investor and its subsidiaries are related parties of the group.
- (iii) Key management personnel, being the African Bank Holdings Limited board of directors and the African Bank Holdings executive committee, including any entities which provide key management personnel services to the Group; and
- (iv) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner);
- (v) Entities controlled, jointly controlled or significantly influenced by an individual referred to in (iii)

There were no related parties’ transactions other than the loan from African Bank Limited detailed in Note 4.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

10 Post balance sheet events

Refer to note 38 of the consolidated financial statements of the Group for further details.

11 Directors' and prescribed officers' remuneration

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

All amounts in R'	Date appointed to board		Paid by ABHL	Paid by other companies within the group
Basic remuneration, benefits and bonuses paid to executive directors				
B Riley	24/06/2015		-	1 935 002
G Raubenheimer	03/07/2015		-	2 879 407
Fees for services as directors				
LL von Zeuner	24/06/2015		20 001	379 999
B Maluleke	28/07/2015		13 125	249 375
SL Mc Cloghrie	28/07/2015		10 003	189 997
S Mhlarhi	06/07/2016		3 125	59 375
IS Sehoole	28/07/2015		13 125	249 375
L Stephens	02/07/2015		12 500	237 500
PJ Temple	29/04/2016		12 500	112 500
FJC Truter	07/08/2015		14 375	273 125
Total			**98 754**	**6 565 655**

Refer to note 40 of the consolidated financial statements of the Group for further details.

ANNEXURE A: STANDARDS AND INTERPRETATIONS

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 Group for the year ended 30 September 2016.

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

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

IFRS/ IFRIC	Title and Details	Impact assessment	Effective date
The Group has not opted to early adopt any of the following standards and amendments to standards issued by the IASB.			
IFRS 10	**Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint ventures** The amendments affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.	Not applicable to the Group	The effective date has been postponed
IFRS 11	**Amendments to IFRS 11 – Joint arrangements** This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.	Not applicable to the Group	This standard is effective for years commencing on or after 1 January 2016
Amendments to IAS 1	**Amendments to IAS 1 – Presentation of financial statement** In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.	The amendment will result in additional disclosure. There will be no measurement impact.	This standard is effective for years commencing on or after 1 January 2016

ANNEXURE A: STANDARDS AND INTERPRETATIONS *(continued)*

Amendments to IAS 16 and IAS 38	**Amendment to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets** In this amendment the IASB has clarified that the use of revenue based methods to calculate the deprecation of an asset is not appropriate because revenue generated by an activity that includes that use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	Not applicable to the Group	This standard is effective for years commencing on or after 1 January 2016
Amendments to IAS 27	**Amendments to IAS 27 – Separate financial statements** In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	Not applicable to the Group	This standard is effective for years commencing on or after 1 January 2016
Amendments to IAS 12	**Amendments to IAS 12 – Income taxes** The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.	The Group is still assessing the impact of the amendment to IAS 12	This standard is effective for years commencing on or after 1 January 2016
Amendments to IAS 7	**Amendment to IAS 7 – Cash flow statements** The IASB issued an amendment to IAS 7 introducing additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.	The amendment will result in additional disclosure. There will be no measurement impact.	This standard is effective for years commencing on or after 1 January 2017
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. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer. IFRS 15 replaces the existing revenue standards and their related interpretations and applies to all contracts with customers except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments.	The Group is still assessing the impact of IFRS 15	This standard is effective for years commencing on or after 1 January 2018

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

IFRS 9	**IFRS 9 – Financial instruments**		
	The elements of the standard are discussed in detail below: - The classification and measurement of financial instruments under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments. - Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers the significant changes to the asset's credit risk and the expected loss that will arise in the event of default. - IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income. - the hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of costs of hedging.	The Group has initiated a process to determine the impact of the standard on the Group's statement of financial position and performance. Until the process has been completed the Group is unable to quantify the expected impact.	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 and requires the lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. 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. Lessor accounting has not.	The impact of IFRS 16 is still being assessed by the Group.	This standard is effective for years commencing on or after 1 January 2019
IFRS 5	**IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations**		
	This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.	This standard is effective for years commencing on or after 1 January 2016	Not currently applicable to the Group

African Bank

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *(continued)*
for the year ended 30 September 2016

IFRS 7	**Amendments to IFRS 7 – Financial Instruments: Disclosures** The amendments clarifies that the IFRS 7 disclosures in respect of offsetting are not required in the condensed interim financial report.	The amendment is not expected to have a material impact on the Group	This standard is effective for years commencing on or after 1 January 2016
Amendment to IAS 19	**Amendment to IAS 19 – Employee Benefits** The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.	The amendment is not expected to have a material impact on the Group	This standard is effective for years commencing on or after 1 January 2016
Amendment to IAS 34	**IAS 34 – Interim Financial Reporting** Amendments related to Improvements to IFRSs 2014 (disclosure of information elsewhere in the interim financial report)	The amendment is not expected to have a material impact on the Group	This standard is effective for years commencing on or after 1 January 2016

ANNEXURE B: AFRICAN BANK LIMITED CAPITAL ADEQUACY as at 30 September 2016

Capital adequacy requirements:

	2016 Rm
On-balance sheet assets	37 691
Off-balance sheet items	1 061
Total risk exposure	**38 752**
Total risk weighted exposure	**26 059**
Core Equity Tier I	
Share capital	10 000
Primary reserves (less statutory deductions)	(1 726)
Total	**8 274**
Tier II	
Subordinated debt instruments	1 485
General allowance for credit impairments	278
Non-qualifying capital	-
Total	**1 763**
Total qualifying capital and unimpaired reserve funds	**10 037**
Total capital to risk weighted assets	**%**
Core Equity Tier I	31.75
Tier II	6.77
Total	**38.52**

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

The opening Statement of Financial Position for the Group post acquisition

Rmillion	As at 4 April 2016
Assets	
Cash and cash equivalents	20 065
Statutory assets	3 796
Derivatives	5 312
Net advances	20 907
Accounts receivable and other assets	188
Investment in insurance contracts	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

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
CCTC	Credit and Capital Technical Committee
CHF	Swiss Franc
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	Johannesburg interbank agreed rate
JSE	Johannesburg stock exchange
LTIP	Long-term incentive plan
MOI	Memorandum of Incorporation
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
R000	Thousands of rand
RCMC	Risk and Capital Management Committee
USD	United States Dollar
ZAR	South African Rand

CORPORATE INFORMATION

Company Secretary
Bruce Unser

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

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