African Bank Limited

Annual Financial Statements
30 September 2020

African Bank
We are you

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

Registration number: 2014/176899/06. NCR Registration number NCRCP7638.
An Authorised Financial Services and Registered Credit Provider

African Bank Limited

(Registration Number 2014/176899/06)
for the year ended 30 September 2020
Annual Financial Statements

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The annual financial statements represent the financial position and financial results of African Bank Limited. African Bank Limited had an equity accounted joint venture with Momentum Metropolitan Lending (Pty) Ltd; which was dissolved during the prior reporting period and constituted a parent entity group of companies, as defined in terms of International Financial Reporting Standards in the prior reporting period. For comparative purposes, although the results for the prior reporting period included equity accounted results from the joint venture, African Bank Limited ("The Bank") does not constitute a parent entity group of companies for the current reporting period.

The directors are responsible for the preparation and fair presentation of the company annual financial statements, comprising the statement of financial position as at 30 September 2020, the statement of total comprehensive income, the statement of changes in equity and statement of cash flows for the year ended, the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, No. 71 of 2008 ("the Companies Act").

The directors' responsibility includes:

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

The annual financial statements represent the financial position and financial results of African Bank Limited. African Bank Limited does not have any other subsidiaries or associated companies and the annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation of the annual financial statements, as set out in note 1.1.2 to these financial statements.

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

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

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements found on pages 21 to 116 were approved by the board of directors on 25 January 2021 and are signed on its behalf by:

DocuSigned by:
Gustav Raubenheimer
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G Raubenheimer
Director

DocuSigned by:
Robert Hutchinson-Keip
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Robert Hutchinson-Keip
Director

Midrand

A signed copy of the annual financial statements is available for inspection at the registered office as specified in Annexure D to these financial statements.

CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, I certify that, in respect of the year ended 30 September 2020, the Bank 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.

DocuSigned by:
Maliga Chetty
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Maliga Chetty
Company Secretary

Midrand
25 January 2021

AUDIT AND COMPLIANCE COMMITTEE REPORT

PURPOSE OF THE AUDIT AND COMPLIANCE COMMITTEE

The Committee is constituted in terms of Section 94 of the Companies Act No. 71 of 2008 (the Companies Act), as amended, and in accordance with Section 64 of the Banks Act No. 94 of 1990 (the Banks Act). The main purpose of the Audit and Compliance Committee (AuditCom) 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 AuditCom consists of four members who are all independent non-executive directors. The Committee meets at least four times annually with additional meetings scheduled, as and when required, or at the request of the Board or Committee member or as often as deemed necessary to achieve its objectives as set out in its terms of reference.

The previous Chairman of the AuditCom, Mr F Truter, resigned from the Boards of African Bank Holdings Limited and African Bank Limited with effect from 30 November 2019 and accordingly resigned as Chairman of the AuditCom with effect from this date. Thereafter, the Board approved the appointment of Ms Louisa Stephens as a member of the AuditCom with effect from 1 October 2019 and she presided over the AuditCom meetings from 1 December 2019 when Mr Truter resigned. Ms Stephen subsequently resigned from the Boards of African Bank Holdings Limited and African Bank Limited with effect from 05 May 2020 and had accordingly resigned as a member of the AuditCom with effect from this date. In the interim and pending appointment of Mr Hutchinson-Keip as the Chairman of the AuditCom with effect from 7 July 2020, Mr Sydney Mhlarhi presided over the AuditCom meetings. Mr Hutchinson-Keip was a member of the AuditCom from 14 April 2020. The most recent change to the composition of the AuditCom was Mr Spyridon Georgopoulos, who was appointed to the Boards of African Bank Holdings Limited and African Bank Limited with effect from 18 August 2020 and a member of the AuditCom with effect from 28 August 2020.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
For the year ended 30 September 2020

AUDIT AND COMPLIANCE COMMITTEE REPORT

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

Name	14-Nov 2019	15-Nov* 2019	03-Dec* 2019	24-Jan* 2020	14-Feb 2020	31-Mar* 2020	7-May 2020	10-Jun* 2020	15-Jun* 2020	13-Aug 2020
Members										
Robert Hutchinson-Keip (Chairman): effective chair from 7 July 2020	-	-	-	-	-	-	√	√	√	√
Frans Truter [1]	√	√	-	-	-	-	-	-	-	-
Mike Field [2]	-	-	-	-	-	-	√	√	√	√
Sydney Mhlarhi	√	X	√	√	√	√	√	√	√	√
Happy Ralinala	√	√	√	√	√	√	√	√	√	√
Louisa Stephens [3]	√	√	√	√	√	√	-	-	-	-
Total attendance	4/4	3/4	3/3	3/3	3/3	3/3	4/4	4/4	4/4	4/4

*Special Meetings held

[1] Resigned as Chairman of AuditCom with effect from 30 November 2019

[2] Resigned as a member with effect from 31 August 2020

[3] Appointed on 1 October 2019 as a member, and presided over the AuditCom meetings from 1 December 2019 until 5 May 2020. Subsequent to Ms Stephens resignation, Mr Mhlarhi presided over the AuditCom meetings until the appointment of Mr Hutchinson-Keip as the Chairman on 7 July 2020.

√ Attended

X Not attended

- Not applicable

AUDIT AND COMPLIANCE COMMITTEE REPORT

The internal and external auditors attended and reported at all meetings of the AuditCom, as required. The Bank Chief Executive Officer, Bank Chief Financial Officer, Bank Chief Risk Officer, Bank Chief Internal Auditor and Bank Chief Compliance Officer attend all meetings by invitation. The Chairman of the Board, Mr T Dloti, has a standing invitation to all AuditCom meetings.

FUNCTIONS OF THE AUDIT COMMITTEE

Given the previous corporate governance failures and scandals within the South African business environment, the AuditCom continuously and critically assesses the adequacy of its terms of reference and the responsibilities included therein, with specific reference and consideration to the lessons which could be learnt from these events.

The AuditCom has approved the AuditCom terms of reference charter and has discharged the functions in terms thereof as set out below.

In respect of the external auditors and the external audit:

- evaluated and recommended for shareholder approval the appointment of PricewaterhouseCoopers Inc. as external auditors for the financial period ended 30 September 2020, in accordance with all applicable legal requirements;
- considered the appointment of PwC for shareholder approval at the February 2021 AGM;
- approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
- reviewed the audit process and evaluated the effectiveness of the external audit;
- obtained assurance from the external auditors that their independence was not impaired;
- considered the nature and extent of all non-audit services provided by the external auditors;
- approved proposed contracts with the external auditors for the provision of non-audit services; and
- confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.

In respect of the financial statements:

- confirmed the going concern principle as the basis of preparation of the annual financial statements;
- examined and reviewed the annual financial statements prior to submission and approval by the board;
- reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets;
- ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial period and the results of operations and cash flows for the financial period and considered the basis on which the Bank was determined to be a going concern;
- ensured that the annual financial statements comply with IFRS in all material respects;
- considered accounting treatments, significant unusual transactions and accounting judgments;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed and discussed the external auditor's audit report;
- noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal controls, content of the annual financial statements and related matters;
- consideration for the impact of Covid 19 on provisions , revenue recognition, going concern assessment and current and future Bank operations; and
- reviewed and considered approach adopted in defining audit materiality.

AUDIT AND COMPLIANCE COMMITTEE REPORT

In respect of internal control and internal audit:
- reviewed and approved the annual internal audit charter and audit plan;
- 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 the 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 the adequacy of the available internal audit resources and implemented changes under a restructuring programme to ensure adequate performance of the function;
- nothing has come to the attention of the AuditCom that indicates a material breakdown in internal controls, including internal financial controls, resulting in any material loss to the company for the year under review;
- over the course of the year, met with the Bank chief internal auditor, the bank chief compliance officer, management and the external auditors; and
- 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 Bank;
- monitored compliance with the Companies Act, the Banks Act and all other applicable legislation including governance codes;
- reviewed reports from internal audit, external auditors and compliance detailing the extent of this;
- noted that no complaints were received from the Bank's Sustainability, Ethics and Transformation Committee concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters;
- reviewed and approved the annual compliance mandate and compliance plan;
- reviewed any significant legal and tax matters that could have a material impact on the financial statements;
- reviewed the JSE Report Back on Pro Active Monitoring of Financial Statements and the Bank's Annual Compliance Certificate in respect of the listed debt securities;
- reviewed Risk Data Aggregation and Risk Reporting (RDARR) principles under the stewardship of the Chair of the Audit Committee via a external independent review; and
- satisfied itself that the Group and the Bank has met the requirements emanating from the principles contained in the King IV Report on Corporate Governance ("King IV") and are satisfied with the disclosures contained in the Groups Governance Report which appears on the Company's website (www.africanbank.co.za)/ (https://www.africanbank.co.za/en/home/corporate-info-governance-report/). The Bank applies the King Code on the same basis as African Bank Holdings Limited.

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

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

AUDIT AND COMPLIANCE COMMITTEE REPORT

KEY FOCUS AREAS FOR THE AUDIT COMMITTEE

During the year under review the AuditCom focused on the following key areas:

- Covid-19 impact on the Bank's reported results and operations;
- regulatory and Prudential authority matters;
- long term and short term liquidity of the Bank;
- finance department efficiency and optimisation;
- prior year restatements;
- transactional banking risk and control issues; and
- Income Tax and VAT matters.

INDEPENDENCE OF EXTERNAL AUDITORS

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

This non-audit work was in relation to the Bank's involvement in surveys performed by the audit firm and was limited solely to this function, with no strategic, executive or managerial input provided. The total fees paid to the auditors in this regard amounted to R171 000 (2019: R3 million).

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

The AuditCom has assessed and satisfied itself of Mr. Constantinos Natsas's experience and knowledge in terms of section 22 of the JSE Listing Requirements.

STATEMENT ON INTERNAL FINANCIAL CONTROLS, ACCOUNTING PRACTICES AND CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

Based on the work of the Bank'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 consolidated and 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 consolidated and company financial statements for approval by the Board.

This report was approved by the AuditCom and signed on its behalf by the chairman of the committee, Mr.Robert Hutchinson-Keip, on 25 January 2021.

DocuSigned by:
Robert Hutchinson-Keip
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Robert Hutchinson-Keip
Chairperson of the audit and compliance committee
25 January 2021

DIRECTORS' REPORT

The directors present their report to the shareholders, together with the audited group annual financial statements of the Bank for the financial period ended 30 September 2020.

NATURE OF THE BUSINESS

African Bank Limited is registered as a bank under the Banks Act, as amended, which operates within the Republic of South Africa. Its main business is providing unsecured personal loans and credit cards to formally employed South African residents, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the bank. The Bank also takes deposits from retail customers and has a transactional banking offering.

During the 2018 financial year, African Bank Limited invested in Momentum Metropolitan Lending (Pty) Ltd which African Bank Limited treated as an investment in a joint venture until African Bank Limited disposed of its interest in the legal entity Momentum Metropolitan Lending (Pty) Ltd in the prior reporting period, and in doing so dissolved the joint venture. In the prior period, African Bank Limited equity accounted its investment in its standalone entity account so as to present a parent entity group, as defined in terms of International Financial Reporting Standards ("the group"). During the current financial year, African Bank Limited is not considered to present a parent entity group.

African Bank Limited, does not have or had any other subsidiaries or associated companies and the bank annual financial statements are not presented on a consolidated basis. For more information, refer to the basis of preparation as set out in note 1.1.2 to the bank annual financial statements.

SHARE CAPITAL

The authorised share capital of the Bank is 2 000 000 000 ordinary par value shares of R0.01 each (2019: 2 000 000 000 shares ordinary par value shares of R0.01 each).

No shares were issued during the current or previous financial periods. At 30 September 2020, the issued ordinary share capital totalled 500 000 000 (2019: 500 000 000) shares at par value of R0.01 each representing R5 million (2019: R5 million). The Bank has 1 500 000 000 unissued ordinary shares (2019: 1 500 000 000).

HOLDING COMPANY

The Bank's holding company is African Bank Holdings Limited, which holds 100% of the Bank's issued ordinary par value shares.

FINANCIAL RESULTS

The financial results for the year ended 30 September 2020 are set out on pages 21 to 116 of these annual financial statements. The reported net loss after tax is R560 million for the 2020 financial period (2019: net profit after tax of R267 million).

International Financial Reporting Standards ("IFRS") 16 Leases, became effective for the Bank for the year ending 30 September 2020. The Bank applied IFRS 16 using the modified retrospective approach with effect from 1 October 2019 without restating comparative figures; as permitted by the standard's transition requirements. The application of IFRS 16 resulted in the Bank recognizing a lease asset and a lease liability and did not have a significant impact on the Bank's financial position.

The impact which the adoption of IFRS 16 is disclosed in notes 1.17.1 of these annual financial statements.

DIRECTORS' REPORT

BORROWING POWERS

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

The total borrowings of the Bank at 30 September 2020 are R16.9 billion (2019: R19.2 billion). Full details of the borrowings are shown in notes 12, 13 and 14 to the annual financial statements.

EVENTS AFTER THE REPORTING DATE

The Directors became aware on 20 October 2020, as per the legal requirements of the Labour Relations Act, that the Bank informed respective stakeholders that it is contemplating a restructure based on its operational requirements and is embarking on a s189A process that may impact 1269 employees of a total staff complement of 3728. Currently, the Bank is engaged in ongoing negotiations with unions and has offered voluntary severance packages to employees. The Bank expects that the number employees exiting the organisation to be significantly lower than the number impacted employees announced on 20 October 2020. The directors are not aware of any other material events occurring between the reporting date and the date of authorisation of these bank annual financial statements as defined in IAS 10 – Events after the reporting period.

GOING CONCERN

The directors have satisfied themselves that the Bank is in a sound financial position and that sufficient cash reserves and borrowing facilities are accessible in order to enable the Bank to meet its foreseeable cash requirements.

A core function of a bank is to facilitate financial liquidity by matching the requirements of its customers for funding to the funding provided by equity and debt investors. Invariably the maturity of the funding required and that of the funding provided is not equally matched, which gives rise to the required facilitation function performed by a bank. The consequent mismatch is inherent to the business of a bank and the resultant liquidity risk to which the Bank is exposed, and the mitigating policies and controls applied by the Bank, is disclosed in note 31 to these financial statements.

The Board took liquidity risk into account in its assessment that the Bank is a going concern. In the Board's opinion there is no material uncertainty regarding the Bank's ability to meet its obligations and to pay its debts as they become due in the ordinary course of business.

The Board's assessment is based on judgement applied to uncertain current and future events, which are significant. These uncertain current and future events are significant due to their impact on the Bank's ability to raise funding and generate cash and cash equivalents from assets held by the Bank.

The Board had to apply its mind and judgement on the impact COVID-19 may have on the going concern assessment of the Bank. Through its subcommittees, the Board assessed the Bank's budgets and cashflow forecasts in considering the Bank's going concern assumption with respect to the existing and expected future economic conditions in response to the COVID-19 pandemic. This included the impact such cashflows will have on the Bank's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks, as well as other related risks.

The recent conclusion of the shareholder backed liquidity facility (Refer to note 3) funding commitments will allow the Group to raise funding from the capital markets. An expected future profitable outlook, will enable the Group to continue operations for the foreseeable future. Based on the Board's assessment the going concern assumption basis continues to apply.
Despite the material changes in the markets in which the Bank operates, the Board is satisfied that it has the necessary skills to continue operations.

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

MAJOR CAPITAL EXPENDITURES

During the current period, the Bank made additions to its capital assets of R520 million (2019: R73 million). With R474 million being PPE (2019: R49 million) and R46 million for intangible assets (2019: R24 million). The additions in Capital Assets is largely driven by the adoption of IFRS 16 that accounted for the growth in Capital Assets.

DIRECTORS' REPORT

REGULATORY APPROVAL

As at the date of this directors' report, the directors are aware of a pending regulatory approval that does not impact the financial position and performance as detailed in the annual financial statements as at 30 September 2020.

DIRECTORS AND CHANGES IN DIRECTORS

The following changes in directorate have taken place during the 2020 financial period end up to 25 January 2021:

Appointments:

M Field was appointed as an independent non-executive director on 11 March 2020.
R Hutchinson-Keip was appointed as an independent non-executive director on 11 March 2020.
S Georgopoulos was appointed as an independent non-executive director on 18 August 2020.

Resignations:

SL McCloghrie resigned from the Board with effect from 22 November 2019.
MC Ngwenya Flanagan resigned from the Board with effect from 30 September 2020.
L Stephens resigned from the Board with effect from 5 May 2020.
FJC Truter resigned from the Board with effect from 30 November 2019.
B Riley resigned from the Board with effect from 30 June 2020.
B Maluleke resigned from the Board with effect from 26 January 2021.

African Bank Limited board of directors

Independent non-executive directors	Executive directors
T Dloti (Chairperson)	B Maluleke
SK Mhlarhi	G Raubenheimer
PJ Temple	
H Ralinala	
M Field	
R Hutchinson-Keip	
S Georgopoulos	

DIVIDENDS TO ORDINARY SHAREHOLDERS

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

COMPANY SECRETARY AND REGISTERED OFFICE

Maliga Chetty is the company secretary of the Bank. Her business and postal address is disclosed in Annexure D to these financial statements.

REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Details in respect of directors' remuneration and the Bank's incentive scheme are disclosed in the long term incentive note and the remuneration note (refer to note 37 and 41.)

DIRECTORS' INTEREST IN SHARES

The directors' have no direct or indirect interests in the issued share capital of the Bank.

APPOINTMENT OF DEBT OFFICER

Pursuant to paragraphs 6.39(a) and 7.3(g) of the JSE Limited Debt Listings Requirements (the Requirements), the Bank has appointed Gustav Raubenheimer as the Debt Officer with effect from 1 November 2020. The board has considered and is satisfied with the competence, qualifications and experience of the Debt Officer.

DIRECTORS' REPORT

AUDITORS

PricewaterhouseCoopers Inc. (PwC) has expressed its willingness to continue as auditors. The resolutions proposing its reappointment was submitted and passed at the annual general meeting held on 28 February 2020.

Mr. Constantinos Natsas, from PwC is the audit partner of the Bank.

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

SPECIAL RESOLUTIONS BY AFRICAN BANK LIMITED

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

INTEREST OF DIRECTORS AND OFFICERS IN TRANSACTIONS

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

Independent auditor's report

To the Shareholder of African Bank Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Bank Limited (the Company) as at 30 September 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

African Bank Limited's financial statements set out on pages 21 to 116 comprise:

- the statement of financial position as at 30 September 2020;
- the statement of total comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statement, which include a summary of significant accounting policies.

Basis for opinion

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

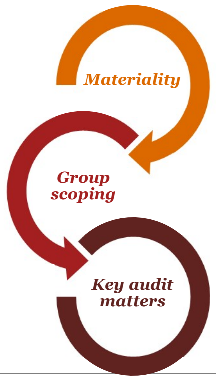
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall group materiality

- *Overall materiality: R100 million which represents 0.4% of total assets.*

Key audit matters

- *Credit impairment charge of the originated book advances; and*
- *Accounting for the purchased credit impaired asset post acquisition.*

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

Materiality

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

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

Overall materiality	*R 100 million.*
How we determined it	*The quantitative materiality threshold commonly applied when total assets is used as the benchmark is 1%. As the Company's profit is relatively low when compared to total assets, we applied a threshold of 0.5% to determine a materiality that is reflective of the operations of the Group as a whole. Despite agreeing with our basis for determining materiality, the Audit Committee requested that a lower threshold, which is equivalent to 0.4% of total assets be used, to satisfy the Audit Committee's audit reporting needs.*
Rationale for the materiality benchmark applied	*We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users and is an accepted benchmark.* *This is only the fourth year that the Company is operating, and it is therefore in a growth phase, where profits before taxation remain low and volatile. Given the relative immaturity of the Company and the volatility shown in profit before taxation, the users of the financial statements will continue to focus on the value of the advances book and the ability to recover the outstanding balances. Advances comprise a substantial portion of the Company's total assets.*

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Credit impairment charge of the originated book advances The Company's main business is to provide unsecured retail loans and credit cards, and as a result credit risk has a significant impact on the Company's business. As at 30 September 2020, the gross balance of the originated book advances, included within the net advances financial statement item, was R25.1 billion and the related impairment provision recognised was R8.6 billion (Refer to note 2 to the financial statements in this regard). The credit impairment charge on the originated book advances is a matter of most significance to our current year audit due to the following: • the degree of judgement and estimation applied by management in determining the credit impairment charge; and • the magnitude of the credit impairment charge recognised.	Using our economic, credit and actuarial expertise, we evaluated the Company's credit impairment charge methodology and models by independently reperforming the models in accordance with the requirements of International Financial Reporting Standard (IFRS) 9 - Financial Instruments and management's credit policy. We obtained an understanding and assessed the operating effectiveness of the relevant controls (using a combination of techniques such as enquiry, inspection, observation and reperformance) relating to the origination and approval of credit facilities, the subsequent monitoring and remediation of exposures and the evaluation of credit risk ratings. In assessing management's calculation of the ECL: • We recalculated ECL by taking into account management's criteria for purposes of SICR, applying the assumptions (including the

Key audit matter	*How our audit addressed the key audit matter*
In calculating the expected credit losses (ECL), the key areas of significant management judgement and estimation include: • Determining whether evidence exists that there has been a significant increase in credit risk ("SICR") since initial recognition of the financial instrument, by considering deterioration in reporting date Probabilities of Default (PDs) when compared to PDs estimated at the point of origination. This assessment includes consideration of the relative change in the remaining lifetime PDs and accounts where one or more instalments have been missed or received after contractual date of repayment. SICR is also deemed to have occurred where the account enters into debt counselling, or when instalments have been missed or received after the contractual date of payment. This determination also takes into account any impacts as a result of the Covid 19 pandemic. • Determining and weighting of cash flow recovery assumptions used in the Loss Given Default ("LGD"), to ensure that these recoveries are representative of economic conditions. This determination also takes into account any impacts as a result of the Covid 19 pandemic. • Determination of the write-off point. The Company considers it to be the point at which there is no reasonable expectation of further recovery. This is assessed by management by ensuring that the expected present value of post write-off recoveries is immaterial for accounts written-off in a financial year. This point is estimated based on account status and consecutive missed payments. • Determining and weighting of assumptions used in the forward-looking economic model. Three forward-looking scenarios are probability weighted by management to determine the ECL (upturn, downturn and a baseline scenario). These scenarios are then linked to PDs to derive a forward-looking ECL. • Determining and weighting of assumptions used in the forward-looking economic model which incorporated a less favourable outlook as a result of the Covid 19 pandemic and related lockdown with reduced economic activity. • Post model overlays (impairments that are recognised to cater for specific events which are not included in the impairment models, such as impacts of the Covid 19 pandemic and expected regulatory changes). The overlays include the expected impact on defaulted loan	comparison of PDs at reporting date and origination PDs) and data included in management's model. We noted no material differences. • We tested the performance of SICR thresholds applied and the resultant transfer rate of non-arrears accounts into stage 2. This included benchmarking of the volume of up-to-date accounts transferred to stage 2 to historic volumes of accounts that missed payments. These SICR thresholds were adjusted for any impacts as a result of the Covid 19 pandemic. • We recalculated the PD's used in management's impairment models, taking into account the Company's trends and recent experience adjusting for our judgemental assessment of the impact of these industry trends and experience. The PDs used took into account recent Company trends and experience. • We recalculated the recoveries used in management's LGD calculations and assessed any potential deterioration in these cash flows as a result of Covid 19 in assessing the LGD assumption. We adjusted for our judgemental assessment of the impact of these industry trends and experience. The LGDs used took into account recent Company trends and experience. • Through recalculation, we tested the inputs into the write-off calculation against the IFRS 9 write-off criteria, including the exclusion of post write-off recoveries from the LGD. We noted no material differences in our recalculation. • We considered the assumptions used in the forward-looking economic model, specifically around the forward-looking scenarios used, the macro-economic variables considered, as well as the macro-economic outlook. We compared these to our own economic outlook and independent market data, as well as to recent actual experience and found these to be comparable. • We used our actuarial and economic expertise to assess the performance and sensitivity of the forward-looking models in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results. • We assessed the reasonableness of event driven overlays raised by management, including overlays raised as a result of the Covid 19 pandemic, based on our understanding of the industry, emerging risks and regulatory changes. We

Key audit matter	How our audit addressed the key audit matter
recoveries due to the impact of the Covid 19 pandemic. *Refer to the critical accounting judgements and key sources of estimation uncertainty in note 1.16, notes 2 Net advances and 18 Credit impairment charge and the Credit risk section under note 29 to the financial statements.*	reperformed the overlay calculations performed by management. We also compared the overlays to our independent assessment of the Covid 19 impact. Based on these procedures, we accepted the overlays provided by management.
Accounting for the purchased credit impaired asset post acquisition On 4 April 2016, the Company acquired the unsecured lending business from Residual Debt Services Limited. As at 30 September 2020, the balance of the purchased credit impaired asset ("acquired advances"), included within the net advances financial statement item, was R 1.3 billion. The acquired advances were recognised at fair value at acquisition date. These loans and advances are accounted for on a portfolio basis as a single asset which has been classified as a purchased credit impaired asset. Subsequent to the acquisition, management considered whether adjustments are required to the amortised cost due to changes in the expected net cash recoveries. Where the revised expected cash flow estimates based on actual or anticipated cash flows and recoveries are lower/higher than expected, changes are recognised in the credit impairment charge. The Company uses a discounted cash flow methodology to measure the book at amortised cost using credit adjusted cash flows discounted at the credit adjusted effective interest rate. These cash flows may be revised based on actual cash flows. The accounting for the acquired advances is considered to be a matter of most significance to our current year audit of the financial statements due to the significant judgements and estimates that management has applied in determining the future cash receipts and adjustments applied to the purchased credit impaired asset. *Refer to note 1.5.7 to the financial statements for the disclosure and accounting treatment of the acquired advances book, and to the significant estimates and judgement note 1.16 to the financial statements.*	We assessed management's documented approach, principles and assumptions relating to the acquired book to assess alignment with IFRS 9 principles. In this regard we performed the following procedures: • We independently reperformed management's model calculations to assess whether the cash flow projections were correctly calculated in accordance with the documented methodology and noted no material exceptions. • We used our credit expertise to perform model back-testing, through the comparison of the projected cash flows on the last valuation date to actual cash flows for the period, in order to assess the accuracy of forecasted cash flows used in management's assessments. We noted no material exceptions in this regard. • We compared the expected acquired book amortised cost as at 30 September 2020 to the actual acquired book amortised cost as at this date, to evaluate the change in ECL that was required to be recorded as part of the favourable change in ECL adjustment. We noted no material exceptions. • We recalculated the favourable change in ECL adjustment which was then recognised in the credit impairment charge for disclosure purposes and noted no material exceptions.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "African Bank Limited Annual Financial Statements 30 September 2020", which includes the Directors' Report, the Audit and Compliance Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of African Bank Limited for 5 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: Costa Natsas

Registered Auditor

Johannesburg

25 January 2021

STATEMENT OF FINANCIAL POSITION

Rmillion	Notes	2020	2019 (Restated)	2018 (Restated)
Assets				
Cash and cash equivalents	4	2,029	5,038	7,221
Financial Investments	5	2,032	-	-
Regulatory deposits and sovereign debt securities	6	1,725	1,725	2,130
Derivatives	11	-	36	47
Net advances	2	17,636	19,846	19,101
Accounts receivable and other assets	9	200	230	213
Current tax		-	-	11
Loans to affiliated companies		-	-	51
Investments		-	-	15
Property and equipment and Right of use asset[1]	8	752	508	573
Intangible assets	10	115	81	72
Deferred tax assets	7	1,133	947	756
Total assets		**25,622**	**28,411**	**30,190**
Liabilities and equity				
Liabilities				
Current tax	7	83	83	-
Creditors and other liabilities[1]	15	751	737	648
Short-term funding	13	5,520	6,959	6,016
Bonds and other long-term funding	12	9,830	10,737	13,279
Subordinated bonds	14	1,523	1,533	1,530
Derivatives	11	113	-	-
Total liabilities		**17,820**	**20,049**	**21,473**
Equity				
Ordinary share capital	16	5	5	5
Ordinary share premium	16	9,995	9,995	9,995
Accumulated loss		(2,198)	(1,638)	(1,283)
Total equity		**7,802**	**8,362**	**8,717**
Total equity and liabilities		**25,622**	**28,411**	**30,190**

[1]The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to note 1.17.1.

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STATEMENT OF TOTAL COMPREHENSIVE INCOME

Rmillion	Notes	2020	2019 (Restated)
Interest income on advances	17	6,121	6,101
Credit impairment charge	18	(3,408)	(2,163)
Interest on advances after impairment		**2,713**	**3,938**
Other interest income	17	189	187
Interest expense and similar charges	19	(1,595)	(1,707)
Income from core income funds		24	-
Foreign exchange gain / (loss) recognised on translation		(105)	(82)
Fair value gains / (losses) losses from derivatives assets and liabilities		29	53
Net interest income after impairment		**1,255**	**2,389**
Non-interest income	20	682	815
Operating costs	21	(2,664)	(2,834)
Indirect taxation: VAT	22	(19)	31
Operating (loss)/profit		**(746)**	**401**
Share of gain of joint venture accounted for using the equity method		-	5
(Loss)/profit before taxation		**(746)**	**406**
Taxation	22	186	(139)
(Loss)/profit for the year		**(560)**	**267**
Attributable to:			
- Owner of African Bank Limited		**(560)**	**267**
Total comprehensive profit for the year		**(560)**	**267**

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

STATEMENT OF CHANGES IN EQUITY

Rmillion	Ordinary share capital	Ordinary share premium	Accumulated loss	Total
Balance at 30 September 2018 as previously reported	5	9,995	(1,218)	8,782
Net change due to corrections of prior period errors	-	-	(65)	(65)
Balance at 30 September 2018 (Restated)	5	9,995	(1,283)	8,717
Changes on initial application of IFRS 9	-	-	(622)	(622)
Balance at 1 October 2018 (Restated)	5	9,995	(1,905)	8,095
Total comprehensive profit for the year*	-	-	267	267
Balance at 30 September 2019 (Restated)	**5**	**9,995**	**(1,638)**	**8,362**
Total comprehensive (loss) for the year	-	-	(560)	(560)
Balance at 30 September 2020	**5**	**9,995**	**(2,198)**	**7,802**

*Including in the restated total comprehensive profit for the year 2019 is the net change of prior period errors of R50 million.

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STATEMENT OF CASH FLOWS

Rmillion	Notes	2020	2019
Cash flows from operating activities			
Cash generated from operations	23	4,553	4,225
Cash received from lending activities[3]	24	7,606	7,607
Interest from cash and financial investments	24	119	99
Recoveries on advances previously written off		688	788
Cash paid to funders	25	(1,178)	(1,463)
Cash paid to suppliers	25	(1,159)	(1,404)
Cash paid to employees and agents	25	(1,523)	(1,402)
Net increase in gross advances		(2,254)	(4,995)
Cash received from customers[3]		9,042	10,003
Advances disbursed to customers		(11,296)	(14,998)
Net increase/(decrease) in regulatory deposits and sovereign debt securities		77	549
Net increase in customer deposits		3,038	1,120
Transactional banking deposits raised		333	64
Direct taxation received / (paid)	26	-	5
Indirect taxation received / (paid)		107	(40)
Net cash inflow/(outflow) from operating activities		**5,854**	**928**
Cash flows from investing activities			
Acquisition of property and equipment		(57)	(49)
Acquisition of intangible assets		(46)	(24)
Loans redeemed by / (advanced to) affiliated companies		-	51
Net Investments disposed / (made) during the period		(1,937)	21
Disposal of MMI lending		-	21
Placements of financial investments (refer to note 5)		(2,551)	-
Withdrawals of financial investments (refer to note 5)		614	-
Net cash (outflow)/inflow from investing activities		**(2,040)**	**(1)**
Cash flows from financing activities			
Net long term funding raised / (redeemed)[1]		(6,579)	(3,326)
Long term funding raised	27	973	1,971
Long term funding redeemed	27	(7,552)	(5,297)
Net short-term funding raised / (redeemed)[1]		25	(41)
Short term funding raised	27	1,303	9
Short term funding redeemed	27	(1,278)	(50)
Principal payment of IFRS 16 lease liailities[2]		(81)	
Redemption of derivative instruments		178	64
Net cash outflow from financing activities		**(6,457)**	**(3,303)**
Increase/(Decrease) in cash and cash equivalents		(2,643)	(2,376)
Cash and cash equivalents at the beginning of the year		5,038	7,221
Effect of exchange rate changes on cash and cash equivalents		(365)	193
Cash and cash equivalents at the end of the year		**2,030**	**5,038**

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

[2] *The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to note 1.17.1 for the adoption of IFRS 16.*

[3] Interest received from customers is disclosed separately under cash received from lending activities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. General information

African Bank Limited ("ABL", "the Bank") is a public company incorporated in the Republic of South Africa, is registered as a bank under the Banks Act, Act 94 of 1990 and operates within the Republic of South Africa.

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

The Bank's main business is providing unsecured personal loans to primarily formally employed South African residents, whilst concurrently serving as an agent to provide consummate credit and life insurance cover to customers of the bank. The Bank also takes deposits from retail customers and has launched a transactional banking offering.

The Bank is a 100% owned subsidiary of African Bank Holdings Limited ("ABHL"). ABHL is an unlisted registered bank controlling company under the Banks Act. The shares in ABHL are privately held by the South African Reserve Bank (50.00%), the Government Employees Pension Fund (25.00%), FirstRand Bank Limited (6.55%), The Standard Bank of South Africa Limited (5.95%), ABSA Trading and Investment Solutions Proprietary Limited (4.95%), Nedbank Limited (4.10%), Investec Bank Limited (2.45%), and Capitec Bank Limited (1.00%). (Percentage indicates per cent holding)

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

1.1 Accounting Policies

1.1.1 Statement of compliance

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

1.1.2 Basis of preparation

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

Application of the going concern principle considering the impact of COVID-19

The Board (and its sub-committees) has assessed the Bank's budgets and cash flow forecasts in considering the Bank's going concern assumption with respect to the existing and expected future economic impact of COVID-19 pandemic. This included the impact projected cash-flows will have on the Bank's liquidity risk , funding risk, interest rate risk, regulatory and economic capital and market risks, as well as other related risks.

The assessment entailed the consideration of the adequacy of the Bank's capital and liquidity to meet its operations and strategies during the pandemic and in the foreseeable future. This was done by analyzing the impact of the macroeconomic outlook on the Bank's forecast growth in earnings and Balance Sheet management to determine the impact to the Bank's financial outlook and operations. Expected outcomes or scenarios were established, and tested for sensitivity. The assessment undertaken by the Bank noted above and recent funding commitments from shareholders demonstrate positive future outlook for the Bank. The going concern assumptionbasis continues to apply and is applicable.

1.2 Adoption of new standards and interpretations effective for the current and future financial periods

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

1.3 Significant accounting policies

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.4 Cash and cash equivalents

Cash and cash equivalents comprises of short-term deposits and fixed notice deposits as well as call and current accounts held with financial institutions. Cash and cash equivalents are measured at cost; which approximates fair value due to the short-term nature of these instruments. Cash and cash equivalents are classified as financial assets measured at amortised cost.

1.5 Financial instruments

The Bank recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument on the trade date or the settlement date.

The Bank has classified its financial assets into the following categories:
- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit or loss.

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

The classification of financial assets is based on both the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

No financial instruments are classified at fair value through other comprehensive income.

1.5.1 Initial measurement

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

1.5.2 Subsequent measurement

Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

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

A financial asset is measured at fair value through profit or loss when it does not meet the requirements to be measured at amortised cost. This category includes instruments that are classified as held for trading, the Bank's business model is not solely for the purpose of collecting principal and interest and/or are subsequently held for sale, as well as instruments that are used to eliminate accounting mismatch. Currently only derivatives and core income funds (included in the financial investments line) are classified as financial assets measured at fair value through profit and loss.

1.5.4 Financial liabilities at amortised cost

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

1.5.5 Financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following conditions hold true:
- the financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank currently measures the advances, the regulatory deposits and the sovereign debt securities, accounts receivable, other assets and cash and cash equivalents at amortised cost.

Regulatory deposits and sovereign debt securities

Contained within regulatory deposits and sovereign debt securities are treasury bills and government bonds. These financial assets are classified at amortised cost upon initial recognition. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity and to collect principal and interest. If the Bank were to change its business model for managing these financial assets i.e. a significant change in the Bank's operations demonstrable to external parties and this change results in the financial assets no longer meeting the requirements for measurement at amortised cost, the Bank is required to reclassify the entire category to fair value through profit or loss, or fair value through other comprehensive income. Accordingly, the investments would be measured at fair value through profit or loss, or fair value through other comprehensive income.

Advances

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

Advances are classified as 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. Fees that are considered to be integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the expected life of the loan using the effective interest rate method.

1.5.6 Effective interest method

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset/liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

1.5.7 Impairment of financial instruments

For financial assets classified and measured at amortised cost, the Bank measures and recognises an Expected Credit Loss ("ECL") at each reporting date as the impairment of an asset or group of assets, which includes assessing whether there has been a significant increase in credit risk since initial recognition and considers forward looking information. This assessment extends to the potential of further drawdown on credit cards (undrawn commitments).

In recognising the impairment allowance on the loans and advances, the Bank accounts for expected credit losses, and changes in the expected credit losses. The amount of the expected credit losses is updated at each reporting period to reflect the changes in the loans and advances credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

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

In determining the impairment allowance, the timing and amount of the expected cash flows as well as forward-looking macroeconomic information are the most significant judgements applied by the Bank. The assumptions underlying these judgements are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly to monitor and manage differences between expected credit loss estimates and the actual loss experience.

For purposes of measuring the expected credit loss for the advances, the Bank's loans and advances are separated into the Originated Book and the Acquired Book. The acquired book is classified as a purchased credit impaired asset.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Originated Book

This portfolio comprises loans and advances originated since inception of the Bank on 4 April 2016.

The Bank applies a conventional approach to the Originated Book and measures the loss allowance on advances at initial recognition at an amount equal to the expected credit losses over the subsequent 12 month period.

For advances for which credit risk has increased significantly since initial recognition, the loss allowance is measured in accordance with the classification of the underlying account at an amount equal to the lifetime expected credit losses. The loss allowance on the undrawn commitments is measured in accordance with the classification of the underlying account at an amount equal to the expected credit losses over either the subsequent 12 month period or the remaining lifetime.

Loans and advances are credit impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset or group of assets is credit impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank; and
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(Refer to note 29.5, which sets out the parameters considered in determining the grouping of advances for purposes of impairment.)

The amount of the loss is measured as the difference between the financial asset's carrying amount and the cash flows that the Bank expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

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

Where an impairment loss subsequently reverses, the net carrying amount of the advance is increased to the revised estimate of the cash flows that the Bank expects to receive by adjusting the impairment provision held. This is however limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

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

The Bank estimates the cash flows it expects to receive on a collective basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

For the portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit risks characteristics; which indicate the borrower's ability to pay in accordance with the contractually agreed terms.

For the purposes of collective impairment assessment, the impairment provisioning is divided into following categories:

<u>Stage 1:</u>

At initial recognition, the advance is classified as stage 1 and a 12-month expected credit loss is recognised. If the advance has not experienced a significant increase in credit risk ("SICR") since initial recognition, it is classified as stage 1. The credit loss recognised is a credit loss related to default events expected to occur within the next 12 months.

<u>Stage 2:</u>

If the advance has experienced a significant increase in credit risk since initial recognition but the advance is not credit impaired, it is classified as stage 2, and life time expected credit loss is recognised.

<u>Stage 3:</u>

If the advance has become credit impaired since initial recognition or was purchased as credit impaired, it is classified as stage 3, with expected credit loss measured and recognised on a lifetime basis.

Acquired Book

This portfolio comprises loans and advances acquired from the entity formerly known as African Bank Limited (in curatorship) and which had subsequently changed its name to “Residual Debt Services Limited” ("RDS").

These loans and advances are accounted for on a portfolio basis as a single asset and has been classified as a credit impaired purchased asset.

As per the above accounting policy, the Acquired Book was recorded upon initial recognition at the fair value of the estimated future cash receipts, discounted at the credit adjusted effective interest rate.

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

To the extent that the revised estimated future cash receipts are less than anticipated upon initial recognition, the carrying amount of the Acquired Book is reduced through the use of an allowance account and the amount of the impairment is recognised in the credit impairment charge line of the statement of comprehensive income.

Where an impairment loss subsequently reverses, the net carrying amount of the Acquired Book is increased to the revised estimate of the cash receipts that the Bank expects to receive by adjusting the impairment provision held. This is however limited to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is immediately recognised in profit or loss.

To the extent that the revised estimated future cash receipts are more than anticipated upon initial recognition, such favourable changes are recognised as a direct adjustment to the gross carrying amount of the assets and a corresponding gain is recognised as an impairment gain.

1.5.8 Written off portfolio

A write off directly reduces the gross carrying amount, constituting a de-recognition event, of the loans and advances when the Bank has no reasonable expectation of recovery of the financial asset in its entirety.
(Refer to note 29.6.6 for more information on the Bank’s assessment of reasonable expectation of recovery.)

Any cash received after an advance has been written off is treated as a recovery and recognised in the credit impairment charge line in profit and loss.

1.5.9 De-recognition of financial instruments

Financial assets

The Bank derecognises a financial asset (or group of financial assets including write off 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 substantially all the risks and rewards of ownership of the financial asset and the transfer qualifies for de-recognition.

Financial liabilities

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

1.5.10 Modification

If the Bank renegotiates or modifies the terms of the advance to customers, the Bank considers whether this is a substantial modification to the original terms, or if the modification is merely an attempt to recover the original contractual amounts outstanding as part of a distressed modification and hence the terms are not substantially different to the original terms.

Instances where the terms of an advance will be considered to be substantially different from the original terms, and therefore render a derecognition of the original advance are for loans which consolidated existing African Bank loans, also referred to as settlement readvances ("SRAs").

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For SRAs, the Bank derecognises the original advance and recognises a new advance by using the disbursed cash of the new advance to effectively settle the old advance. A new effective interest rate will be recalculated for the SRAs. The date of disbursement of the SRAs is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk is present.

The Bank considers instances where the new terms of the advance are not substantially different to the original terms as:
- advances that have been rescheduled (where there is an amendment to the original terms of the advance; formally agreed with the client, who is in arrears and has been engaged successfully through the collections channels); and
- advances that are undergoing debt counselling.

In instances where the new terms of the advance are not substantially different to the original terms, the Bank recalculates the gross carrying amount of the advance as the present value of the modified contractual cash flows, discounted at the loan's original effective interest rate with the change recognised directly in gross advances. The difference between the recalculated gross carrying amount and the gross carrying amount before the modification is recognised as a modification gain or loss included in the credit impairment charge line item in profit and loss. Refer to notes 18 and 29.10.1 for the disclosures of the modification gain or loss.

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

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

All derivatives are classified as and measured at fair value thorough profit and loss.

1.5.12 Hedge accounting
Currently the Bank does not apply hedge accounting per IFRS 9 or IAS 39, but does apply economic hedging principles.

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

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

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

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

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

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

Useful lives have been determined to be as follows:

Information technology equipment	Between 3 and 5 years
Office furniture and equipment	Between 6 and 8 years
Motor vehicles	4 years
Leasehold improvements	Over the shorter of the lease term or its useful life
Buildings (owner-occupied)	Useful life (limited to 50 years)
Land is not depreciated	

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

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

1.8 Impairment of non-financial assets

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

1.9 Leases

1.9.1 IFRS 16 - Applied from 1 October 2019

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a term (duration) of twelve months or less.

Leases: Statement of financial position

The Bank initially measures the lease liability at the present value of the remaining contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease. The rate implicit in the lease is not readily determinable, therefore, the Bank's incremental borrowing rate on commencement of the lease is used. The Bank's external funding rate and management judgement (based on market expectations and contractual lease terms), is the base on which the incremental borrowing rate is calculated. The carrying value of the lease liability also includes any penalties payable for terminating the lease; should the term of the lease be estimated on the basis of the termination option being exercised.

The Bank initially measures the right of use assets at cost, being the amount of the lease liability, reduced for any lease incentives received, and adjusted for previously recognised prepaid or accrued lease payments relating to that lease. The cost is increased with initial direct costs incurred and the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset.

Subsequently, the Bank applies the cost model to the measurement of the right-of-use assets and applies the non-financial assets impairment policy.

Derecognition

The Bank derecognises the right-of-use asset and lease liability when the Bank or lessor terminates or cancels a lease.

Leases: Income statement

A lease finance cost, determined with reference to the discount rate used in present valuing the remaining contractual payments due to the lessor over the lease term being the Bank's incremental borrowing rate, is recognised within interest expense over the lease period.

Subsequent to the initial measurement, the right-of-use assets are depreciated on a straight-line basis over the shorter of the remaining term of the lease or over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Derecognition
On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.

Leases of a low value or of a short-term are accounted for on a straight-line basis over the lease term
Leases of a short term and low value nature are expensed through the income statement. Accruals are recognised for lease premiums that have not yet been paid. These low value or short term leases are generally leases with contractual value of less R200 000 or lease term less than 12 months.

Payments made for these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When the leases are terminated before the lease term has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

Reassessment and modification of leases
If the Bank reassesses the terms of a lease contract by reassessing the probability of exercising an extension or termination option or modifies the terms of a lease without increasing the term of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term; which are discounted at the applicable rate at the date of reassessment or modification.

For reassessed lease terms, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. If the carrying amount of the right-of-use asset is reduced to zero, however, any further reduction in the measurement of the lease liability is recognised in profit or loss.

For lease modifications, an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term. For lease modifications that decrease the term of the lease, however, the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.

If the Bank modifies the terms of a lease resulting in an increase in term and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in term, the Bank accounts for these modifications as a separate new lease contract. This accounting treatment applies to short term leases for which the Bank would have elected the short-term lease exemption and the lease term is subsequently modified.

1.9.2 IAS 17 - Applied 30 September 2019

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.

1.10 Equity

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

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

1.10.1 Share capital and share premium

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

1.11 Revenue

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.11.1 Interest income

The Bank calculates interest revenue using the effective interest method. In applying the effective interest method per IFRS 9, the Bank considers the origination fees and service fees as an integral part of the effective interest rate of the exposure.

Origination fees are primarily based on the cost of granting the loan to the individual and are accounted for over the expected life of the loan using the original effective interest rate method.

Monthly service fees are charged to the customers on a monthly basis and are recognised as part of the effective interest rate over the effective 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.

Interest income on financial assets that are not credit impaired is recognised by applying the original effective interest rate to the gross carrying amount of such assets.

When financial assets are identified as credit impaired, whether purchased or originated, interest income is calculated by applying the credit-adjusted effective interest rate to the net carrying value, being the gross carrying value after deducting the impairment provision for expected credit losses.

Should the impairment status of financial assets of the originated book change from credit impaired to not credit impaired, interest income is again recognised by applying the effective interest rate to the gross carrying amount of such assets from the date at which the impairment status changed. With respect to the orignated book no retrospective adjustment is made for the period during which the financial assets were deemed to be credit impaired.

1.11.2 Non-interest income

Non-interest income consists of commission charged, collection fees as well as any other sundry income such as transaction fees and credit card fees. African Bank Limited additionally earns a binder fee and an outsourcing fee for providing underwriting services to the cell captive. The non-interest income is recognised as the performance obligation of the related service is performed at a point in time.

Non-interest income type	Point in time of performance obligation
Commission income, outsourcing and binder fees	When the premium is collected by the Bank or new business is generated by the Bank
Collection fees	When collections are made by the Bank on behalf of the client
Transactional fees and credit card fees	When transactions are made by the client

1.12 Taxation

1.12.1 Indirect taxation

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

1.12.2 Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax and is made up of current taxation and deferred taxation.

1.12.3 Current taxation

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

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity. The net amount of tax recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

1.12.4 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting and tax base that result in timing difference in recognition.

Deferred tax is recognised for all temporary differences. 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. The net deferred tax asset or liability is included as part of the receivables or payables in the statement of financial position.

1.12.5 Offsetting

Deferred income tax assets, deferred income tax liabilities, current tax asset and current tax liabilities are offset, if a legally enforceable right exists to offset if they relate to the same taxable entity and the same taxation authority.

1.12.6 Judgement and uncertainty

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Bank operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Uncertain tax positions are provided for in accordance with the criteria defined within IAS 12 Income Taxes and IFRIC 23.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets. As at the year end, the Group is of the view that there is no material uncertainty in relation to the recoverability of the deferred tax asset.

1.13 Foreign currency transactions and balances

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

1.14 Employee benefits

1.14.1 Post-employment benefits

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

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

1.14.2 Short-term benefits

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

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

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

1.14.3 Long-term benefits

Long-term benefits consist of long-term incentive scheme bonuses. All re-measurements are accounted for in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.15 Segment reporting

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

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

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

1.16 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies management is required to make judgements, estimates and assumptions which relate to impairment provisions for loans and advances that are not readily apparent from other sources. The estimates and associated assumptions are continually evaluated and management applies their knowledge of current events and actions that may be undertaken in the future but actual results may ultimately differ from estimates.

The principal considerations applied by management in making judgements, estimates and assumptions relate to Expected Credit Loss (ECL) provisions for loans and advances as well as to fair value estimates. Refer to note 29.6.

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

1.17 Effective standards, interpretations and amendments to published standards applied for the first time during the current financial period

1.17.1 IFRS 16

Introduction

In the current period, the Bank has adopted IFRS 16 Leases (IFRS 16) as issued by the IASB, with the effective date of 1 January 2019, replacing IAS 17 Leases (IAS 17) as well as the related Interpretations. At its core, IFRS 16 introduces a single lessee accounting model replacing the operating and financial lease requirements of the previous standard and interpretations. The principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from a contract that is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a specified period of time in exchange for consideration, on the statement of financial position. A lessee is required to recognise a right-of-use (ROU) asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value. The value is determined for a new asset, regardless of the age of the underlying asset being leased.

Adoption and transition

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

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

Practical expedients applied

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

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

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

Critical accounting estimates and judgements in applying IFRS 16

Extension and termination options

Extension options (or periods after termination options), if applicable, are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Also the Bank has to have an explicit right to renew and extend the term of the lease.

Impacts on the financial statements on transition

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

Rmillion	1 October 2019
Right-of-use asset	771
Lease liability	771

The value of the short term leases for which a straight line lease provision is held is R6 million

Summary of the financial impact of adoption of IFRS 16

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Net advances

Rmillion	2020	2019 (Restated)*
Gross advances	**26,383**	**27,007**
Originated book	25,097	24,914
Acquired book [1]	1,286	2,093
Deferred fees	(101)	(173)
Gross advances after deferred origination and administration fees	**26,282**	**26,834**
		-
Balance of impairment provision at the end of the year	**8,646**	**6,988**
Balance of impairment provision at the beginning of the year	6,988	3,994
IFRS 9 adoption	-	861
Impairment provisions raised	4,008	3,320
Impairment provisions raised on interest from stage 3 advances	785	545
Impairment provision released upon write-offs of underlying exposure	(3,135)	(1,732)
		-
Net advances	**17,636**	**19,846**
Undrawn irrevocable credit card commitments	667	683
Maximum exposure to credit risk	**18,303**	**20,529**

***Restatement: Correction of prior period error(s) (refer to note 40)**

	2019			
Rmillion	1 October 2018 restated	Modification loss restatement	Deferred Fee liability	Restated
Gross advances	**27,470**	**(463)**	**-**	**27,007**
Originated book	25,377	(463)	-	24,914
Acquired book[1]	2,093	-	-	2,093
Deferred fees	(204)	-	31	(173)
Gross advances after deferred origination and administration fees	**27,266**	**(463)**	**31**	**26,834**
Balance of impairment provision at the end of the year	**7,451**	**(463)**	**-**	**6,988**
Balance of impairment provision at the beginning of the year	3,994	-	-	3,994
IFRS 9 adoption	861	-	-	861
Impairment provisions raised	3,783	(463)	-	3,320
Impairment provisions held on interest from stage 3 advances	545	-	-	545
Impairment provision released upon write-offs of underlying exposure	(1,732)	-	-	(1,732)
Net advances	**19,815**	**-**	**31**	**19,846**
Undrawn irrevocable credit card commitments	683	-	-	683
Maximum exposure to credit risk	**20,498**	**-**	**31**	**20,529**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

*** Restatement: Correction of prior period error(s) (refer to note 40)**

Rmillion	2018 As previously presented	2018 Restatement	2018 Restated
Gross advances	**23,240**	**-**	**23,240**
Originated book	19,549	-	19,549
Acquired book[1]	3,691	-	3,691
Deferred fees	(68)	(77)	(145)
Gross advances after deferred origination and administration fees	**23,172**	**(77)**	**23,095**
Balance of impairment provision at the end of the year	**3,994**	**-**	**3,994**
Balance of impairment provision at the beginning of the year	2,040	-	2,040
Impairment provisions raised	3,718	-	3,718
Impairment provisions held on interest from stage 3 advances	115	-	115
Impairment provision released upon write-offs of underlying exposure	(1,879)	-	(1,879)
		-	-
Net advances	**19,178**	**(77)**	**19,101**
Undrawn irrevocable credit card commitments	715	-	715
Maximum exposure to credit risk	**19,893**	**(77)**	**19,816**

Modification of advances measured at amortised cost - Originated book

Rmillion	30-Sep-20 Amortised cost before modification	30-Sep-20 Net modification (gain)/loss	30-Sep-19 Amortised cost before modification	30-Sep-19 Net modification (gain)/loss
Debt Counselling	673	453	567	347

Modification of advances measured at amortised cost - Acquired book

Rmillion	30-Sep-20 Amortised cost before modification	30-Sep-20 Net modification (gain)/loss	30-Sep-19 Amortised cost before modification	30-Sep-19 Net modification (gain)/loss
Debt Counselling	74	(6)	37	(22)

[1] On acquisition, the Acquired Book's credit risk was included in measuring the fair value on acquisition, as the book was considered to be credit impaired at initial recognition. The Acquired Book is thus, under IFRS 9, classified as purchased credit impaired. The net carrying value is therefore included in the gross advances of the Bank, which is the net of the gross amount of the acquired balances, on a pre-acquisition basis, less the ECL anticipated upon initial recognition and the favourable adjustments from the revision of cash flows since acquisition.

During the current year the Bank re-estimated the projected cash flows that resulted in the inclusion of a terminal value of R69 million in the determination of the acquired book re-estimated amortised cost. The information was considered limited and not substantial enough to deviate from the original 5-year cash flow forecast in the prior year. Within 2019 the principle reason for a non-inclusion of terminal value being:

- *Data Constraints.*
- *Uncertainty regarding the timing of the impacts of Debi-Check and the Credit Amendment Bill (CAB).*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

In 2020, management has reasonable and supportable information to include cash flows beyond the 5-year horizon using a terminal value with the following being the principle consideration in including a terminal value:

- *Improvement in Data quality – With an increase in historical data becoming available on which to model behaviour for older accounts, materially decreasing the risk of a forecast error.*
- *Resilience of collections observed on the NPL book during the Covid-19 hard lockdown.- Covid-19 had a notable impact on collections on the performing loans (mainly the Originated book), there was significant resilience displayed by the NPL accounts, where a significant portion of the acquired book was allocated.*
- *More certainty on the timing and the impact of Debi-Check and the Credit Amendment Bill (CAB) – allows for more reliable prediction of impacts in the long run and inclusion of a terminal value calcualtion.*

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Net advances continued...

Refer to note 29 for more information on the management of credit risk and further analysis of the Advances.

Reconciliation of ECL and gross advances of Originated advances 30 September 2020
*** The below ECL movements depict the differential movements when exposures transfer to or from the different stages*
No movements are expected into or out of the stage reflected

	ECL					Gross advances				
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total
Rmillion		SICR	Arrears				SICR	Arrears		
Opening balance 1 October 2019 (Restated)	584	1,124	1,326	3,954	6,988	9,778	5,618	3,332	6,013	24,741
Changes due to movements in arrears profile of advances	**221**	**(215)**	**548**	**3,040**	**3,594**	**(1,229)**	**(2,506)**	**537**	**3,682**	**484**
Transfer from stage 1	-	218	468	632	1,318	-	1,097	1,200	992	3,289
Transfer from stage 2: SICR	103	-	361	690	1,154	1,760	-	925	1,083	3,768
Transfer from stage 2: Arrears	10	16	-	953	979	163	81	-	1,496	1,740
Transfer from stage 3	-	3	20	-	23	8	16	52	-	76
Transfer to stage 1	-	(349)	(64)	(5)	(418)	-	(1,760)	(163)	(8)	(1,931)
Transfer to stage 2: SICR	(64)	-	(32)	(10)	(106)	(1,097)	-	(81)	(16)	(1,194)
Transfer to stage 2: Arrears	(71)	(184)	-	(33)	(288)	(1,200)	(925)	-	(52)	(2,177)
Transfer to stage 3	(58)	(215)	(584)	-	(857)	(992)	(1,083)	(1,496)	-	(3,571)
Transfer to write off/ balance growth up to write-off	301	296	379	813	1,789	129	68	100	187	484
Changes due to changes in balances of advances	**(323)**	**(38)**	**(391)**	**(1,401)**	**(2,153)**	**(105)**	**1,247**	**(136)**	**(1,235)**	**(229)**
Change due to movement in balances of existing advances	(54)	(46)	(84)	292	108	(869)	(204)	(189)	575	(687)
Modifications (no de-recognition)	-	-	-	-	-	-	(3)	(5)	(208)	(216)
New advances [1]	138	506	357	327	1,328	2,714	2,540	850	492	6,596
Change due to de-recognition (other than write-off)	(96)	(146)	(82)	(130)	(454)	(1,639)	(734)	(210)	(204)	(2,787)
Change due to write-off [2]	(311)	(352)	(582)	(1,890)	(3,135)	(311)	(352)	(582)	(1,890)	(3,135)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Rmillion	ECL					Gross advances				
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total
		SICR	Arrears				SICR	Arrears		
Changes due to change in model assumptions	**(50)**	**1**	**89**	**177**	**217**	**-**	**-**	**-**	**-**	**-**
Changes due to changes in model assumptions	(50)	1	89	177	217	-	-	-	-	-
Closing balance 30 September 2020	**432**	**872**	**1,572**	**5,770**	**8,646**	**8,444**	**4,359**	**3,733**	**8,460**	**24,996**

[1] The ECL recognised on new advances originated during the reporting period (which are not included in opening balances) are raised based on the advances' ECL stage as at the end of the reporting period and are included within 'ECL on new advances'.

[2] The decrease in the advances as a result of the write-off is equal to the decrease in ECL, as advances are 100% provided for before being written off. The contractual amount outstanding on advances that were written off during the current reporting period that are still subject to enforcement activities is R3,135 million (refer credit impairment charges note 18).

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

Covid-19 has had a material impact on collection rates. This was, however, expected and as such, a substantial post model adjustment provision was raised, as published in the interim financial statements. Subsequently, the ECL models were calibrated to take the worsened behaviour observed between April 2020 and September 2020 into account, which increased the base ECL, whilst reducing post model adjustment related to Covid-19. Other notable impacts on the ECL included revisions to the assumptions around the severity of the impact of both DebiCheck and the Credit Amendment Bill. Refer to note 29.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Reconciliation of ECL and gross advances of Originated advances 30 September 2019 (Restated)

Rmillion	ECL					Gross advances				
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total
		SICR	Arrears				SICR	Arrears		
Opening balance 1 October 2018	478	1,054	1,219	2,104	4,855	7,463	6,038	2,857	3,046	19,404
Changes due to movements in arrears profile of advances	**266**	**(206)**	**302**	**2,172**	**2,534**	**(331)**	**(2,210)**	**92**	**2,721**	**272**
Transfer from stage 1	-	215	303	459	977	-	1,261	687	693	2,641
Transfer from stage 2: SICR	122	-	308	533	963	2,098	-	699	807	3,604
Transfer from stage 2: Arrears	10	15	-	761	786	170	86	-	1,151	1,407
Transfer from stage 3	-	1	14	-	15	8	4	32	-	44
Transfer to stage 1	-	(357)	(75)	(5)	(437)	-	(2,098)	(170)	(8)	(2,276)
Transfer to stage 2: SICR	(73)	-	(38)	(3)	(114)	(1,261)	-	(86)	(4)	(1,351)
Transfer to stage 2: Arrears	(40)	(119)	-	(21)	(180)	(687)	(699)	-	(32)	(1,418)
Transfer to stage 3	(40)	(137)	(509)	-	(686)	(693)	(807)	(1,151)	-	(2,651)
Transfer to write off/ balance growth up to write-off	287	176	299	448	1,210	34	43	81	114	272

Rmillion	ECL					Gross advances				
	Stage 1	Stage 2		Stage 3	Total	Stage 1	Stage 2		Stage 3	Total
		SICR	Arrears				SICR	Arrears		
Changes due to changes in balances of advances	**(134)**	**242**	**(133)**	**42**	**17**	**2,646**	**1,790**	**383**	**246**	**5,065**
Change due to movement in balances of existing advances	(30)	(51)	(27)	485	377	(291)	(341)	(11)	890	247
Modifications (no derecognition)	-	-	-	-	-	(1)	(6)	(54)	(402)	(463)
New advances [1]	292	725	459	424	1,900	4,969	3,652	1,174	666	10,461
Change due to de-recognition (other than write-off)	(100)	(222)	(127)	(79)	(528)	(1,735)	(1,305)	(288)	(120)	(3,448)
Change due to write-off [2]	(296)	(210)	(438)	(788)	(1,732)	(296)	(210)	(438)	(788)	(1,732)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Changes due to change in model assumptions	**(26)**	**34**	**(62)**	**(364)**	**(418)**	**-**	**-**	**-**	**-**	**-**
Change in ECL due to write-off policy change	45	55	66	82	248	-	-	-	-	-
Changes due to changes in model assumptions	(71)	(21)	(128)	(446)	(666)	-	-	-	-	-
Closing balance 30 September 2019	**584**	**1,124**	**1,326**	**3,954**	**6,988**	**9,778**	**5,618**	**3,332**	**6,013**	**24,741**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Net advances continued...

Reconciliation of ECL of Originated advances 30 September 2019 (As previously presented)*

Rmillion	Stage 1	Stage 2		Stage 3	Total
		SICR	Arrears		
Opening balance 1 October 2018	478	1,054	1,219	2,104	4,855
Changes in ECL due to movements in arrears profile of advances	**254**	**(227)**	**257**	**2,029**	**2,313**
Transfer from stage 1	-	223	291	489	1,003
Transfer from stage 2: CD0	135	-	296	569	1,000
Transfer from stage 2: Arrears	11	15	-	811	837
Transfer from stage 3	1	1	14	-	16
Transfer to stage 1	-	(371)	(72)	(6)	(449)
Transfer to stage 2: CD0	(81)	-	(37)	(3)	(121)
Transfer to stage 2: Arrears	(44)	(124)	-	(23)	(191)
Transfer to stage 3	(45)	(143)	(488)	-	(676)
Transfer to write off/ balance growth up to write-off	277	172	253	192	894
Changes due to changes in balances of advances	**(148)**	**233**	**(115)**	**77**	**47**
Change due to movement in balances of existing advances	(33)	(53)	(26)	517	405
New advances [1]	293	727	471	433	1,924
Change due to de-recognition (other than write-off)	(112)	(231)	(122)	(85)	(550)
Change due to write-off [2]	(296)	(210)	(438)	(788)	(1,732)
Changes due to change in model assumptions	**1**	**67**	**18**	**150**	**236**
Change in ECL due to write-off policy change	39	48	57	72	216
Changes due to changes in model assumptions	(38)	19	(39)	78	20
Closing balance 30 September 2019	**585**	**1,127**	**1,379**	**4,360**	**7,451**

** In the prior year, the gross advances reconciliation was not disclosed. As the application of IFRS 9 is improved, this disclosure is provided in the current year and for the restated note for the prior year for comparability.*

[1] The ECL recognised on new advances originated during the reporting period (which are not included in opening balances) are raised based on the advances' ECL stage as at the end of the reporting period and are included within 'ECL on new advances'
[2] The decrease in the advances as a result of the write-off is equal to the decrease in ECL, as advances are 100% provided for before being written off. The contractual amount outstanding on advances that were written off during the current reporting period that are still subject to enforcement activities is R1,732 million (refer credit impairment charges note 18).

Net ECL raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note 18).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. Contingent assets and liabilities

Contingent Assets

RDS indemnity

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 until April 2024. To support RDS, the SARB has provided an indemnity guarantee in respect of the guarantee provided by RDS to African Bank Limited. As at year-end, RDS had built up the cash reserves above the indemnity of R3 billion.

The indemnity guarantee provided by the SARB is in place for 8 years, having commenced on 4 April 2016 and expiring on 4 April 2024.

Contingent liabilities

Unutilised card facilities

The total unsecured unutilised credit facilities granted to African Bank credit card holders as at 30 September 2020 was R 667 million (2019: R683 million). The repricing profile of which is expected to be not more than one month.

Shareholder backed funding

In order to facilitate the Bank's successful re-entry into the domestic wholesale funding market, the Bank has entered into shareholder support and assistance arrangements with the Shareholders (the "Support Arrangements"). In terms of the Support Arrangements, the Shareholders have undertaken to provide certain support facilities to the Bank over a period of three years and four months, commencing 1 December 2020 and concluding on 31 March 2024 (the "Support Period"), in proportion to their shareholdings, up to a maximum cumulative amount of R8 billion over the Support Period.

Contingent Assets or liabilities

VAT

The ruling prescribing the VAT apportionment methodology applicable to African Bank Limited has expired and a new ruling pertaining to the current year has been applied for, however it is uncertain which method will be approved by the tax authority. The apportionment method to be approved by the South African Revenue Services (SARS), will affect the measurement of the indirect tax expense as well as the VAT recoverable or payable.

The matter is currently being considered by SARS and the bank expects a ruling to be issued to it confirming the apportionment method before the end of March 2021. The Bank considers the SARS apportionment ruling to be in its favour and has therefore not recognised a provision in relation to this matter. The potential refund due to the Bank where the ruling is favourable is approximately R29 million whereas if there were to be an adverse decision related to the apportionment method a total payment of between R82 million to R140 million would arise.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Cash and cash equivalents

Rmillion	2020	2019
Call deposits [1]	**1,969**	**4,997**
Rand	1,875	846
Foreign denominated	94	4,151
Current accounts[2]	**61**	**42**
Gross cash and cash equivalents	**2,030**	**5,039**
Non-cash adjustment: ECL[3]	(1)	(1)
Net cash and cash equivalents	**2,029**	**5,038**
Maximum exposure to credit risk	**2,029**	**5,038**

See note 29.12 for credit risk ratings of counterparties.

The Bank uses foreign currency denominated deposits to mitigate against risks arising from changes in foreign currency exchange rates where the Bank's debt is denominated in a currency other than the functional currency. Refer to note 30.2. for foreign exchange risk management. Refer to note 12 and 13 for debt denominated in a currency other than the functional currency.

[1] Rand Call deposits are held with SA banks and can be withdrawn on demand. Rand denominated call deposits bear interest at rates varying from 3.05% to 4.76% NACM (2019: from 6.10% to 6.50%).

Foreign denominated call deposits consist of foreign currency which the Bank uses to mitigate against the changes in cash flows arising from changes in foreign currency rates where the debt is denominated in a currency other than the functional currency.

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

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

5. Financial investments

Rmillion	2020	2019
Investment in core income funds[1]	**1,017**	-
Investments held at amortised cost[2]	**1,015**	-
Total[3]	**2,032**	-

[1] Investment in core income funds are with SA Banks and are unitised. These investments are held at fair value.

[2] Investments held at amortised cost are foreign investments that are unlisted and bear interest with an average interest rate of 1.72%.

[3] The maximum exposure to credit risk is deemed insignificant.

Reconciliation of financial investments

Rmillion	2020	2019
Investments in core income funds		
Opening Balance	-	-
Placement	**1,405**	-
Withdrawal	**(412)**	-
Income from investments	**24**	-
Closing balance	**1,017**	-
Investments held at amortised cost		
Opening Balance	-	-
Placement	**1,146**	-
Withdrawal	**(202)**	-
Foregin Currency Exchange Gain/(Loss)	**60**	-
Accrued income	**11**	-
Closing balance	**1,015**	-

6. Regulatory deposits and sovereign debt securities

Rmillion	2020	2019
Listed	**1,344**	**1,353**
Treasury bills [1]	805	285
Bonds [2]	539	1,068
Unlisted		
Deposits with South African Reserve Bank [3]	381	372
Gross regulatory deposits and sovereign debt securities	**1,725**	**1,725**
Adjustment: ECL [4]	-	-
Net regulatory deposits and sovereign debt securities	1,725	1,725
Maximum exposure to credit risk	**1,725**	**1,725**

See note 29.12 for credit risk ratings of counterparties

Regulatory deposits and sovereign debt securities with a carrying value of R1 140 million (2019: R1 118 million) are held by the South African Reserve Bank in terms of the Banks Act and regulations thereto, and are not available for day-to-day operations. The intention is to hold all treasury bills and bonds to maturity.

[1] Treasury bills have an interest rate of 4.3913% to 7.594% NACQ (2019: 7.1% and 7.52% NACQ).

[2] The inflation linked bond has an interest rate of CPI plus 2.75% NACS (2019: CPI plus 2.75% NACS). RSA Government, foreign denominated bonds had an interest of 6.88% NACS (2019: 6.88% NACS). Refer to note 30.2 for foreign exchange risk management.

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

[4] ECL is raised on credit risk arising from the counterparties with whom the deposits are held. The ECL amount is not being reflected due to rounding. All deposits are classified as stage 2. There were no movements between stages for these deposits during the reporting period.

7. Current and deferred tax

Rmillion	2020	2019
Current tax asset/(liability)	(83)	(83)
Deferred tax asset	1,133	947
Total	**1,050**	**864**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Current and deferred tax continued...

7.1 Deferred tax asset

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss	Closing balance
2020			
Temporary differences			
IFRS 9 transition adjustment	324	-	324
IFRS 16 Right of use asset	-	-	-
Provisions	116	(57)	59
Provision for Expected Credit Losses [1]	512	102	614
Prepayments	(12)	8	(4)
Tax impact from the buy-back of liabilities	7	(8)	(1)
Estimated tax loss [1]	-	141	141
Total	**947**	**186**	**1,133**

Rmillion	Opening balance	Deferred tax impact of items recognised in profit or loss (as previously presented)	Deferred tax impact of items recognised in profit or loss (restatement)	Closing balance
2019 (Restated)				
Temporary differences				
IFRS 9 transition adjustment	-	324	-	324
Provisions	89	27	-	116
Provision for Expected Credit Losses [1]	673	(269)	108	512
Prepayments	(4)	(8)	-	(12)
Tax impact from the buy-back of liabilities	(2)	9	-	7
Estimated tax loss [1]	-	31	(31)	-
Total	**756**	**114**	**77**	**947**

[1] The estimated current tax loss R141 million (2019: R0 million) included in the deferred tax asset is largely due to the operational losses and the adoption of IFRS 9 in the prior year. The recoverability of the deferred tax asset is assessed by the Bank on a regular basis. The deferred tax asset recognized by the Bank will be recovered through allowable tax deductions against taxable income in future financial periods.

In applying judgement in recognising deferred tax assets and the recoverability thereof, management has critically assessed all available information, including future business profit projections and past achievement thereof. This was done by considering a weighted average of 3 economic scenarios and taxable profits available over an extended period of 6 years. Due to the uncertain economic impacts of COVID-19, management performs the recoverability assessment of the deferred tax asset.

The net deferred tax asset of R1,133 million (30 September 2019: R947 million) relates mainly to credit impairment provisions and tax losses brought forward from the prior year. Management expects the tax loss to be utilised within the next two years. The growth in the deferred tax reported in prior year was mainly due to the adoption of IFRS 9; which was accompanied by legislative changes as a result of IFRS 9 in the Income Tax Act. Excluding the reporting and legislative changes the Bank would have reported taxable income for the prior period.

The restatement in modification resulted in the deferred tax ECL being restated. The estimated tax loss restatement is a result in the growth of the 2019 restated profit.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Property, equipment and right of use assets

	2020			2019 (Restated)			2019 (previously reported)		
Rmillion	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	36	(15)	21	41	(14)	27	95	(37)	58
Information technology equipment	298	(148)	150	324	(156)	168	350	(174)	176
Motor vehicles	3	(2)	1	3	(1)	2	3	(1)	2
Leasehold improvements	62	(37)	25	75	(44)	31	75	(44)	31
Land and buildings (owner-occupied)	301	(26)	275	301	(21)	280	301	(21)	280
Right of use assets	417	(137)	280	-	-	-	-	-	-
Total	**1,117**	**(365)**	**752**	**744**	**(236)**	**508**	**824**	**(277)**	**547**

Reconciliation of the carrying amounts of property and equipment 2020

Rmillion	Carrying value at beginning of year*	Additions[1]	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	27	7	(6)	(7)	21
Information technology equipment	168	50	(55)	(13)	150
Motor vehicles	2	-	(1)	-	1
Leasehold improvements	31	-	(6)	-	25
Land and buildings (owner-occupied)	280	-	(5)	-	275
Right of use assets[1]	-	417	(137)	-	280
Total	**508**	**474**	**(210)**	**(20)**	**752**

[1]Additions relating to right of use assets includes lease modifications of in terms of IFRS 16. At adoption the right of use assets value was R771 million, included subsequent to this is a modification that reduced the additions to R417 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Property, equipment and right of use assets continued...

***Restated: Reconciliation of the carrying amounts of property and equipment 2019 (refer to note 40)**

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	40	12	(11)	(14)	27
Information technology equipment	220	19	(64)	(7)	168
Motor vehicles	1	1	-	-	2
Leasehold improvements	27	14	(10)	-	31
Land and buildings (owner-occupied)	285	3	(6)	(2)	280
Total	**573**	**49**	**(91)**	**(23)**	**508**

***Restated: Reconciliation of the carrying amounts of property and equipment 2018 (refer to note 40)**

Rmillion	Carrying value at beginning of year	Additions	Depreciation	Disposals / write offs	Carrying value at end of year
Furniture and fittings	49	24	(6)	(27)	40
Information technology equipment	126	110	(14)	(2)	220
Motor vehicles	1	-	-	-	1
Leasehold improvements	27	16	(16)	-	27
Land and buildings (owner-occupied)	291	-	(6)	-	285
Total	**494**	**150**	**(42)**	**(29)**	**573**

9. Accounts receivable and other assets

Rmillion	2020	2019
Financial assets		
Sundry receivables [1]	98	140
Management fees	52	32
Insurance commisions	14	15
Other	32	93
Non-financial assets		
Prepayments [2]	102	90
Total	**200**	**230**
Maximum exposure to credit risk [3]	**200**	**230**

[1] 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 licenses and services, prepaid rentals as well as other prepayments make up the prepayment balance at the reporting date.

[3] The total accounts receivable and other assets represents the maximum exposure to credit risk. The ECL of the total amount is immaterial.

10. Intangible assets

	2020			2019		
Rmillion	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Software	192	(77)	115	162	(81)	81

Reconciliation of the carrying amounts of intangible assets 2020

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write offs	Carrying value at end of year
Software	81	46	(12)	-	115

Reconciliation of the carrying amounts of intangible assets 2019

Rmillion	Carrying value at beginning of year	Additions	Amortisation	Disposals / write-offs	Carrying value at end of year
Software	72	24	(15)	-	81

11. Derivatives

	Assets over the counter		Liabilities over the counter	
Rmil	Notional	Carrying amount at fair value	Notional	Carrying amount at fair value
2020				
Currency derivatives				
Swaps	-	-	2,094	(100)
Inflation linked derivatives				
Swaps	-	-	667	(13)
Total	**-**	**-**	**2,761**	**(113)**
2019				
Currency derivatives				
Swaps	1,010	36	-	-
Inflation linked derivatives				
Swaps	-	-	-	-
Total	**1,010**	**36**	**-**	**-**

The Bank 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 Bank uses inflation linked swaps to economically hedge against the changes in cash flows arising from changes in interest rates.

For accounting purposes the derivatives have not been formally designated as hedging instruments as defined by IFRS 9 and therefore all derivatives were classified as and measured at fair value through profit and loss as per IFRS 9.

For more information on the management of Market Risk, refer to note 30.

Derivatives settled on a net basis and gross basis

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

Some of the Bank's derivatives are subject to collateral requirements (see note 33), such as margin calls. Cash flows from those derivatives could occur earlier than the contractual maturity. Contractual maturities are assessed to be essential for an understanding of the timing of cash flows of all derivatives.

Derivatives continued...

Derivatives settled on a net basis	< 6 months	6 - 12 months	1 - 5 years	Total
2020				
Financial liabilities				
Interest rate swaps	**-**	**-**	**(13)**	**(13)**

Derivatives settled on a gross basis	< 6 months	6 - 12 months	Total
2020			
Financial liability			
Interest rate swaps			
Inflow	815	1,239	2,054
Outflow	(877)	(1,277)	(2,154)
Total	**(62)**	**(38)**	**(100)**
2019			
Financial assets			
Inflation linked swaps			
Inflow	1,059	-	1,059
Outflow	(1,023)	-	(1,023)
Total	**36**	**-**	**36**

12. Bonds and other long-term funding

Rmillion	2020	2019
Unsecured bonds (listed on JSE)	4,192	3,588
Unsecured bonds (listed on foreign stock exchanges)	638	3,057
Unsecured long-term loans	1,070	2,525
Retail long term funding	3,930	1,567
Total	**9,830**	**10,737**

All long term funding represents funding with a maturity of more than 12 months after year end.

Bonds and other long-term funding continued...

12.1 Unsecured bonds listed on JSE

Rmillion	Face value	Interest accrued [1]	Unamortised premium/ (discount) [2]	Reclassified to short term funding	Net liability 2020	Net liability 2019 [3]
Fixed rate bonds:						
With interest rate of 10.930%	235	6	(1)	-	240	123
JIBAR linked bonds:						
Ranging from JIBAR + 264bpts to JIBAR + 400 bpts	1,095	7	(3)	(152)	947	546
Inflation linked bonds:						
Ranging from 3.2% to 5.75%	3,010	35	(40)	-	3,005	2,919
Total	**4,340**	**48**	**(44)**	**(152)**	**4,192**	**3,588**

The bonds maturities range from earliest redemption on 03 June 2021 (which have been reclassified to short term as they will be settled in the next 12 months) and latest redemption on 03 December 2024.

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

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

[3] Included in the net liability for 2019 financial period is accrued interest of R44 million and unamortised discount of R83 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Bonds and other long-term funding continued...

12.2 Unsecured bonds listed on foreign stock exchanges

Rmillion	Face value	Interest accrued [1]	Foreign currency translation [2]	Unamortised premium / (discount) [3]	Reclassified into short term funding	Net liability 2020	Net liability 2019 [4]
USD denominated bonds: Ranging from 6% to 8.125% (all bonds maturing in 2020)	1,554	64	208	1	(1,827)	-	1,993
CHF denominated bonds: Ranging from 4% to 5.5% (bonds mature between 2019 and 2022)	1,038	25	191	7	(623)	638	1,064
Total	**2,592**	**89**	**399**	**8**	**(2,450)**	**638**	**3,057**

The bonds maturities range from earliest redemption on 19 October 2020 and latest redemption on 22 April 2022

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

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

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

[4] Included in the net liability for 2019 financial period is accrued interest of R90 million and unamortised premium of R34 million

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Bonds and other long-term funding continued...

12.3 Unsecured long-term loans

Rmillion	Face value	Interest accrued [1]	Unamortised premium / (discount) [2]	Net liability 2020	Net liability 2019 [3]
Promissory notes	770	5	1	776	805
Fixed deposits	274	20	-	294	1,720
Total	**1,044**	**25**	**1**	**1,070**	**2,525**

Promissory notes (includes R50m of negoitable certificate of deposit) consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.50% to 11.81% NACQ, NACS and NACA (2019: from 9.2% to 11.81% NACQ, NACS and NACA). These notes have various maturities, ranging from 26 July 2022 to 1 December 2024.

Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 7.49% to 15.06% (2019: from 7.45% to 15.06%). These deposits have various maturities, ranging from 24 June 2022 to 16 July 2026.

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

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

[3] Included in the net liability for 2019 financial period is accrued interest of R83 million and unamortised discount of R12 million.

12.4 Retail long term funding

Rmillion	Face value	Interest accrued	Net liability 2020	Net liability 2019[3]
Maturing in 12 to 24 months [1]	643	2	645	303
Maturing in 25 to 60 months [2]	3,273	12	3,285	1,264
Total	**3,916**	**14**	**3,930**	**1,567**

Retail funding consists of fixed deposits that have a zero, quarterly and semi-annual coupon payment instruments.

[1] Retail long term funding for this maturity profile bare interest ranging from 6.32% to 7.02% NACM, NACQ, NACA (2019: 8.60% to 9% NACM, NACQ, NACA).

[2] Retail long term funding for this maturity profile bare interest ranging from 7.02% to 9.58% NACM, NACQ, NACA (2019: 9% to 10.75% NACM, NACQ, NACA).

[3] Included in the net liability for 2019 financial period is accrued interest of R7 million.

13. Short-term funding

Rmillion	2020	2019
Wholesale funding	**3,460**	**6,052**
Notice deposits [1]	-	388
Negotiable certificates of deposits [2]	51	9
Fixed deposits [3]	777	122
Promissory notes [4]	28	589
Listed bonds [5]	2,604	4,944
Retail funding	**2,060**	**907**
Retail short term funding [6]	2,028	824
Other short term funding	32	83
Total	**5,520**	**6,959**

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

[1] Notice deposits have interest linked to Jibar.

[2] Negotiable certificates of deposit consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates of 8.625% NACS and NACA (2019: 7.15% to 7.62% NACS and NACA).

[3] Fixed deposits consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 3.65% to 11.15% NACQ, NACS and NACA (2019: 4.75% to 10.70% NACQ, NACS and NACA). The growth in the interest rate range is a result of long term funding moving into short term funding.

[4] Promissory notes consist of zero, quarterly and semi-annual coupon payment instruments, with interest rates varying from 6.808% to 9.20% NACQ, NACS and NACA (2019: 6.842% to 10.208% NACQ, NACS and NACA).

[5] Listed bonds to the total value of R2604 million (2019: R4 944 million) repayable within 12 months were reclassified from long term funding to short term funding based on the remaining contractual term.

[6] Retail short term funding consisted of retail deposits with interest rates varying from 5.13% to 6.32% (2019: 7.7% to 8.6%).

14. Subordinated bonds

Rmillion	Face value	Interest accrued [1]	Unamortised premium / (discount) [2]	Net liability 2020	Net liability 2019 [3]
Subordinated bonds	1,485	39	(1)	1,523	1,533

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

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

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

[3] Included in the net liability for 2019 financial period is accrued interest of R51 million and unamortised discount of R3 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. Creditors and other liabilities

Rmillion	2020	2019
Financial liabilities		
Advances with credit balances	15	15
Cash payable to Residual Debt Services Limited (in curatorship)	1	1
Sundry payable and accruals [1]	163	179
Premium accruals payable to Guardrisk	90	116
Accruals related to payroll [2]	113	348
Lease liability (refer note 15.1)	280	-
Non- Financial liabilities		
Provision for straight lining of leases	-	6
Leave pay accrual	89	72
Total	**751**	**737**

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

[2] Included in Accruals related to payroll is a provision for the long-term incentive scheme amounting to R83 million (2019: R118 million). Refer to note 37 for additional disclosure.

All creditors and other liabilities are to be settled in 12 months, unless otherwise disclosed.

15.1 Reconciliation of lease liability

Rmillion	2020	2019
Balance at 1 October 2019	771	-
Additions	12	-
Terminations and Modifications	(416)	-
Interest expense	71	-
Payments	(158)	-
Balance at end of period	280	-
Current	126	-
Non-current	154	-

16. Share capital

	Number of shares 2020	Number of shares 2019	Rmillion 2020	Rmillion 2019
Authorised				
Ordinary shares of R0.01 each	2 000 000 000	2 000 000 000	-	-
Issued				
Ordinary shares at par value of R0.01 each	500 000 000	500 000 000	5	5
Ordinary share premium			9,995	9,995
Total			**10,000**	**10,000**

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

The Bank has 1 500 000 000 (2019: 1 500 000 000) unissued ordinary shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17. Interest Income

17.1 Interest income on advances

Rmillion	2020	2019(Restated)
Interest on advances	5,506	5,547
Loan origination fees	218	233
Service fee	397	321
Total	**6,121**	**6,101**

17.2 Other interest income

Rmillion	2020	2019
Interest received on cash and cash equivalents	131	99
Sundry interest income [1]	58	88
Total	**189**	**187**

[1] Sundry interest income consists largely of interest on regulatory deposits and sovereign debt securities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. Credit impairment charge

Rmillion	2020	2019(Restated)
Originated book		
Net movement in impairment provisions [1]	873	1,588
Gross advances written off [3]	3,135	1,732
Modification (no derecognition) [2]	216	463
Acquired Book card cash allocation methodology change [4]	-	(228)
Net impairment charge	**4,224**	**3,555**
Post Write Off Recoveries [5]	(199)	(187)
Sub-total: Originated Book	**4,025**	**3,368**
Acquired Book		
Post Write Off Recoveries [5]	(442)	(560)
Favourable changes in ECL	(175)	(645)
Sub-total: Acquired Book	**(617)**	**(1,205)**
Total	**3,408**	**2,163**

[1] Net movement in impairment provisions represent the net movement in impairment provisions from the beginning of the financial year to the end and includes items detailed below (refer ECL recon under note 2). The prior year amount has been restated as it included losses recognised in profit and loss due to the modification of contractual terms of advances were derecognition was not applicable.

In the prior year, collection costs relating to the advances that are on book, against which an impairment provision is held were incorrectly included in the operating expenses line on the statement of comprehensive income. In the current year, these costs have been correctly included in the net movement in impairment provisions line under the credit impairment charge line item.

Included in the net movement in impairment provisions line is the adjustment of interest that should not be recognised, applied to the interest income recognised on credit impaired advances that are not purchased credit impaired; for which an impairment provision is held. In the prior year, the adjustment was separately disclosed. Comparatives have been restated.

[2] In the prior year, the modification (no derecognition) was included in the net movement in impairment provisions. The modification (no derecognition) has been split out in the current year and for the prior period for comparative purposes.

[3] Advances with this gross carrying value were written off during the financial year, resulting in a release of an equal amount of impairment provisions held being included in the above net movement in impairment provisions (refer ECL recon under note 2).

[4] The Bank in the prior year changed the method of allocating cash to outstanding card balances between the balance that was considered to be part of the acquired book and originated book. This resulted in a decrease in the ECL charge that had moved to the originated book with the affected card population.

[5] The Bank corrected a prior period error of not including collection cost with credit impairment charge, by adjusting impairment charge to reflect these cost and reducing operating costs. Refer to note 40 for the details on the restatement. The post write of recoveries before the collection costs reallocation was R688 million (Sep 2019: R788 million).

19. Interest expense and similar charges

Rmillion	2020	2019
Wholesale funding	**1,168**	**1,561**
Subordinated debt	197	216
Unsecured listed bonds	665	964
Call deposits	2	3
Fixed deposits	208	182
Negotiable certificates of deposit	5	-
Interest on promissory notes	91	196
Retail and other	**427**	**146**
IFRS 16 finance cost [1]	71	-
Retail funding [2]	344	143
Other interest [2]	12	3
Total	**1,595**	**1,707**

[1] The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to note 1.17.1 for the adoption of IFRS 16.

[2] Interest paid on retail funding was disclosed in other interest in the prior financial year and for the current year this has been reclassified into a separate line.

20. Non-interest income

Rmillion	2020	2019
Credit card fees	175	222
Binder and outsourcing arrangements fees [1]	149	157
Collection fees [2]	295	420
Transactional fees [3]	21	2
Commission on transaction fees [3]	31	7
Other income [3]	11	7
Total	**682**	**815**

[1] These fees are earned through the intermediary agreement held with Guardrisk for the premiums collected and new business generated by the Bank.

[2] Fees relates to fees charged to Residual Debt Services Limited (under curatorship) (RDS) of R295 million (2019: R420 million). Fees charged are determined on an arm's length basis and managed independently under supervision of the curator of that company. The fees charged to RDS are expected to decline as the book that is being collected upon runs down.

[3] Fees were included in other income in the prior financial year.

21. Operating costs

Rmillion	2020	2019(Restated)
Advertising and marketing costs	203	162
Amortisation of intangible assets (refer note 10)	12	15
Audit fees	18	13
Bank charges and strike costs[1]	136	140
Card transaction costs	83	43
Collection costs[2]	30	13
Depreciation on property and equipment (refer note 8)	210	91
Direct selling and commissions	46	38
Information technology costs	158	138
Travel cost[3]	12	16
Rental and maintenance costs	71	262
Costs related to property rentals[4]	26	216
Other rental and maintenance costs	45	46
Printing, stationery and courier costs	22	27
Professional fees	178	220
Staff costs	1,288	1,487
Basic remuneration	1,139	1,048
Employee benefits release	(27)	282
Contribution to provident fund	137	120
Commission paid to sales agents	4	6
Executive directors' and prescribed officers' remuneration (refer note 41)	35	31
Non-executive directors' fees (refer note 41)	6	6
Telephone, fax and other communication costs	86	84
Other expenses[3]	85	56
Write off of property plant and equipment	20	23
Total	**2,664**	**2,834**

[1] Included in the bank charges and strike costs line are costs paid for the platform on which advances are disbursed and collected.

[2] In the prior year, collection costs directly attributable to the originated book and all collection costs related to the acquired book were not reallocated to the credit impairment line. This has been corrected in the current year and comparatives have been restated. Refer to note 40.

[3] Cost disclosed in other expenses in the previous year

[4] Included in the costs related to property rentals is rentals from leases considered to be short term leases of R6 million. Due to the adoption of IFRS 16, a Right of Use Assets and Lease Liability has been recognised which has resulted in a significant decrease in the costs related to property rentals. The reflective charges are now included in interest expense and depreciation.

22. Indirect and direct taxation

Rmillion	2020	2019(Restated)
Indirect charge per the statement of total comprehensive income	19	(31)
Direct charge per the statement of total comprehensive income: SA normal taxation	(186)	139
Total taxation charge	**(167)**	**108**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Indirect and direct taxation continued...

22.1 Direct taxation

Rmillion	2020	2019 (Restated)
Current taxation	**-**	**88**
Current year	-	118
Prior year	-	(30)
Deferred taxation	**(186)**	**51**
Current year	(186)	27
Prior year	-	24
Direct taxation charge per the statement of total comprehensive income	**(186)**	**139**

22.2 Direct tax rate reconciliation

%	2020	2019 (Restated)
Effective rate of taxation	**24.9**	**34.2**
Non- deductible expenses	**1.9**	**(2.8)**
Donations	0.4	(0.8)
Fines and penalties	-	-
Learnerships	(0.1)	1.4
Share of loss of joint venture	-	0.4
Tax impact on property and equipment	0.2	(0.4)
Tax impact on buy-back of liabilities	1.4	(3.4)
Prior year under/(over) provision	-	1.5
Other	1.2	(4.9)
Standard rate of South African taxation	**28.0**	**28.0**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

23. Cash generated by operations

Rmillion	2020	2019(Restated)
(Loss) / Profit before tax	(746)	406
Adjusted for non-cash flow items:	**5,365**	**3,801**
Indirect taxation: VAT	19	(31)
Increase in impairment of advances	4,018	2,827
Amortisation of intangible assets (refer note 10)	12	15
Depreciation of property and equipment (refer note 8)	210	91
Write off of PPE and intangible assets	20	23
Foreign exchange differences (excluding cash balances)	105	82
Loss on the bond buy backs	3	-
Fair value movements on derivative instruments	(29)	(53)
Fair value adjustments on assets	(14)	(62)
Attributable (gain) / loss from joint venture	-	(5)
Movement in other interest income accrual	(105)	(90)
Movement in interest expense accrual	344	336
Non cash adjustments to interest on advances	845	661
Other adjustments on funding instruments	(84)	7
IFRS 16 finance cost[1]	77	-
Lease modification[1]	(56)	-
Adjusted for movement in working capital:	**(66)**	**18**
Movement in accruals	6	(13)
Movement in deferred fees and other accruals related to advances	(72)	31
Total	**4,553**	**4,225**

[1] The Bank has, as permitted by IFRS 16 Leases (IFRS 16), elected not to restate its comparative financial statements. Therefore, comparability will not be achieved due to the comparative financial information having been prepared on an IAS 17 Leases (IAS 17) basis. Refer to note 1.17 for the adoption of IFRS 16.

24. Cash received from lending activities and cash reserves

Rmillion	2020	2019
Interest income (adjusted for non-cash items)	6,894	6,816
Non-interest income (adjusted for non-cash items)	712	791
Subtotal	7,606	7,607
Interest from cash and financial investments	119	99
Total	**7,725**	**7,706**

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

Rmillion	2020	2019
Interest paid (adjusted for non-cash items)	1,178	1,463
IFRS 16 finance cost	77	-
Remuneration and incentives paid to employees and directors	1,523	1,402
Other operating expenses paid	1,082	1,404
Total	**3,860**	**4,269**

26. Direct taxation paid / received

Rmillion	2020	2019
Movement in current tax asset	-	(93)
Direct taxation charged to statement of total comprehensive income (refer note 22)	(186)	139
Deferred tax portion of amount charged to statement of total comprehensive income	186	(51)
Total	**-**	**(5)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. Reconciliation of long term and short term funding

Rmillion	Long term duration debt	Short term duration debt	Subordinated duration debt	Total
2020				
Balance at the beginning of the year	**9,170**	**6,052**	**1,533**	**16,755**
Long term tenure debt	**(3,270)**	**(2,598)**	**(10)**	**(5,878)**
Funding raised	973	-	-	973
Funding redeemed	(1,944)	(5,608)	-	(7,552)
Net movement in accruals & unamortised fair value adjustments	917	60	197	1,174
Reclassified to short term	(2,950)	2,950	-	-
Interest paid	(796)	-	(207)	(1,003)
Foreign exchange movement	530	-	-	530
Short term tenure debt	**-**	**6**	**-**	**6**
Funding raised	-	1,303	-	1,303
Funding redeemed	-	(1,278)	-	(1,278)
Interest paid	-	(19)	-	(19)
Total	**5,900**	**3,460**	**1,523**	**10,883**

	Long term duration debt	Short term duration debt	Subordinated duration debt	Total
2019				
Balance at the beginning of the year	**12,631**	**5,474**	**1,530**	**19,635**
Long term tenure debt	**(3,539)**	**752**	**3**	**(2,784)**
Funding raised	1,971	-	-	1,971
Funding redeemed	-	(5,297)	-	(5,297)
Net movement in accruals & unamortised fair value adjustments	1,346	-	219	1,565
Reclassified to short term	(6,049)	6,049	-	-
Interest paid	(1,141)	-	(216)	(1,357)
Foreign exchange movement	334	-	-	334
Short term tenure debt	**-**	**(96)**	**-**	**(96)**
Funding raised	-	9	-	9
Funding redeemed	-	(50)	-	(50)
Interest paid	-	(55)	-	(55)
Other movements	78	(78)	-	-
Total	**9,170**	**6,052**	**1,533**	**16,755**

The duration of the remaining term of the debt until repayment thereof is classified as short term if the repayment date is within 12 months of the reporting date.

The tenure of the debt is defined by the term until final and full repayment of the debt at inception thereof and is defined as long term if this term exceeds 12 months. Long term debt with a tenure of more than 12 months is reclassified as short term when the duration of the term until repayment is less than 12 months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Risk management

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

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

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

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

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

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

The role of the ALCO is to manage the Bank's liquidity and funding position, interest rate risk in the banking book, asset/liability mismatch, foreign exchange exposure risk, regulatory and economic capital and market risks, as well as other related risks ("ALCO Risks") in such a way as to maximise shareholder return within the risk parameters as defined by the Bank's risk appetite framework set by the RCMC. (Refer note 31).

The ALCO also has a further strategic function to recommend the strategy and appetite related to the ALCO risks within the Bank's overall risk appetite, to the RCMC.

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

- Credit risk (note 29)
- Market risk
  - o Interest rate risk (note 30.1)
  - o Foreign exchange risk (note 30.2)
- Liquidity and funding risk (note 31)
- Regulatory (and Legal) risks in the ALCO context (note 34)

28.1 Risk management in response to COVID-19

While the Bank's risk management structures objectives and mandates are those described above, in response to the fast paced developments of the impact of the COVID-19 pandemic to the economy, the frequency of reporting by the governance structures described above, increased in an effort to closely monitor the credit, market, and liquidity risks as well as regulatory (legal) risks (in the ALCO context) to which the Bank is exposed to.

29. Credit risk

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

29.1 Credit risk management

One of the principal objective and mandate of the MRC, is to approve all material credit related models including impairments, credit scoring, profitability and affordability, as well as all collection scorecards, the advanced IRB ("Internal Rating Based") model for Economic Capital, the ICAAP models and any other models designated as material models which are utilised in the Bank. The MRC oversees the recommendations for the changes identified as necessary to the credit and other risk policies from its oversight process.

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

The duties and responsibilities of the MRC include:

- the establishment of an inventory of the material models in use in the Bank and the management thereof,
  - o the validation of models as it deems necessary;
  - o the review of the models at least annually;
  - o 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; and
  - o being responsible for action to mitigate risk identified by any individual model.

The Bank's exposure to credit risk can be divided into two categories; which are considered to be its classes

- Financial assets other than advances (refer to note 29.12); and
- Advances.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

29.2 Nature and composition of the advances portfolio

The Bank's main business is to provide unsecured retail loans and credit cards to primarily formally employed individuals. The Bank primarily relies on collecting loan instalments directly from the customer's bank account via an electronic debit order or alternatively accepts electronic funds transfer and cash deposits from customers. Customers are assessed in full every time they apply for credit to determine if their credit profile remains acceptable in terms of the credit policies of the Bank. All of the Bank's business is conducted in the Republic of South Africa. The demographic credit characteristics of the customer base exposes the Bank to systemic credit risk.

The Bank mitigates this risk by applying the Bank's application scorecard, a set of business rules, affordability assessments and verification of items on a sample basis as a fraud mitigation tool. The Bank's credit risk assessment process adheres to the requirements set out by the National Credit Act ("NCA") and the Financial Sector Conduct Authority.

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 range from a minimum of R2,000 to a maximum of R250,000 at origination and repayment periods range from a minimum of 7 months to maximum of 72 months. For credit cards, the revolving credit facility ranges from R4,000 to R120,000 for new accounts and limit increases up to a maximum of R144,000 for existing card holders. The minimum contractual repayment is calculated using the outstanding balance of the facility and the percentages used ranges from 4,5% to 12,5%. These repayment percentages are depending on the credit limit of the customer. By its nature, the sum of the carrying amount at year end for unsecured loans, credit cards and any unutilised credit facilities represents the Bank's maximum exposure to credit risk for advances. The Bank has insurance cover against credit events arising from death, permanent or temporary disability and retrenchment of customers through a cell captive arrangement held indirectly by the Bank's holding company.

29.3. Impact on ECL of SICR sensitivity

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

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

The verification and inputs into the credit scoring system include:

- physical identification of the customer via their South African identification document, proof of address and fingerprint biometrics, to validate the customer against their details held at the Department of Home Affairs;
- the customer's 3 months income, monthly living expenses, declaration of financial obligations, wage frequency, employer and bank details;
- electronic credit bureau data; and
- the customers' historical performance on existing and previous loans is used to determine the customer's risk.

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

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

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Credit risk continued...

29.3 Credit monitoring

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

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

29.4 Collections and recovery

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

Where debit order collection is unsuccessful, arrears follow up is performed initially through call centers within the Bank. The Bank operates two types of payment arrangements to promote collection of repayments due– 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.

The Transfer Policy prescribes when an account will be moved 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 to outsourced collection agencies based on current internal business rules.

The Bank offers its customers, that are in good standing, voluntary customer support payment deferrals (referred to and known as choose your break ("CYB"))

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Credit risk continued...

29.5 Impairments

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

For detail on the impairment policies and the application thereof within the accounting standards under IFRS, refer to the following section.

Impairment policies and application

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the customer's ability to pay in accordance with the contractually agreed terms.

The Bank uses the Contractual Delinquency ("CD") classifications for the purpose of identifying the type of impairment to be calculated and for the grouping of assets into stages under IFRS 9, in conjunction with other SICR requirements.

Contractual Delinquency is defined as the total amount receivable to date less 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 process of rounding up results in a conservative CD measure and is a notable driver in the distribution of the advances between the various provision stage distributions.

The number and sequence of recent payments ("Recency") is also applied in estimating the expected credit loss ("ECL") and the point of write off.

The table below indicates the CD definitions and how classification into groups was determined and how CD is utilised to classify assets into the IFRS 9 stages.

Contractual Delinquency	Explanation of categorisation	Time buckets	IFRS 9 Stage
CD 0	Performing advances that are not past due and are within the contractual term.	<30 days	Stage 1 (no SICR)
CD 0 SICR	Performing advances that are not past due and are within the contractual term, but for which SICR has been identified.	<30 days	Stage 2
CD 1 - 3	Advances where between 1 and 3 instalment have been missed, or where instalments have been received after their contractual date of repayment.	31 - 90 days	Stage 2
>=CD 4	Advances where more than 3 instalments have been missed but that have not met write off requirements.	>=91 days	Stage 3
>CD 4 recency 8	More than 3 instalments have been missed and no payments have been received over the past 8 months		Written off

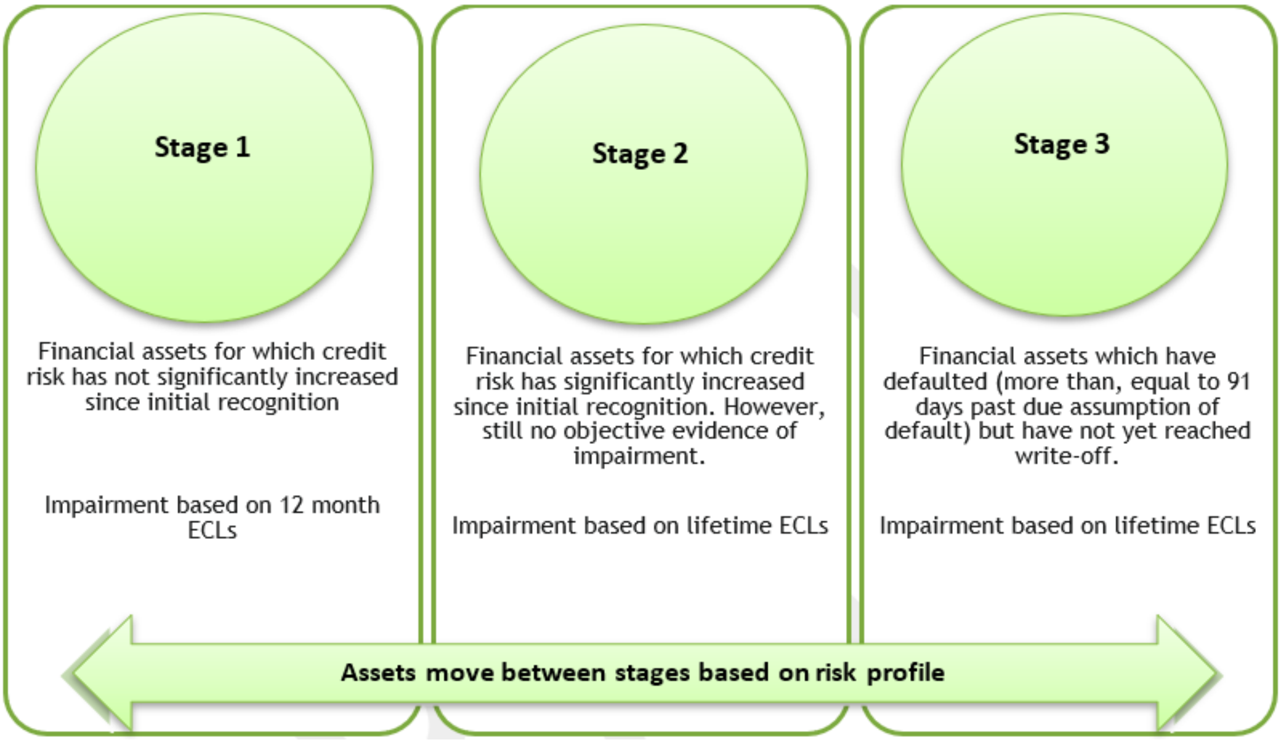
The advances within the Bank comprise a large number of small, homogenous assets. Statistical techniques are used to calculate impairment allowances collectively, based on historical default and recovery rates per category of CD. These statistical analyses use as primary inputs the extent to which accounts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

Credit risk continued...

29.6 Expected Credit Loss

29.6.1 Expected Credit Loss measurement

Below is a graphical representation indicating the respective stages for ECL measurement, the requirements for a financial asset to be included in the respective stages and the calculation of ECL in each stage. The Acquired Book is considered to be credit-impaired at initial recognition and classified in stage 3, with an ECL measured on a lifetime basis.



In measuring ECL, the following inputs are used by the Bank:

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

The PD represents the likelihood of default over a given time horizon; either over the next 12 months after the reporting period, or over the remaining life of an advance. PDs are estimated by considering the contractual term of the advance, and the estimated repayment rates. The estimation is made based on current conditions, and adjusted to take into account estimates of future conditions that will impact the PD.

The PD calculation is based on a statistical model with the aim to predict the future repayment performance of customers based on their arrears status, model segment and time on book ("age"). The prediction of future repayments is based on having had observed the client’s behaviour in transitioning from a repayment status in a given month to a repayment status in the following month (“roll rates”) over the last 12 months.

The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments, and expected drawdowns on committed facilities.

Credit risk continued...

The EAD is calculated by applying an amortisation structure to each advance. The structure includes the expected monthly repayment, as well as the projected monthly cumulative repayment status probabilities and the cash flows associated with every repayment status.

The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

LGD is an estimate of the loss expected to arise on default. LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is on a discounted cash flow basis. The LGD is expressed as a percentage, being the loss expected to arise on default as a fraction of the exposure at the time of default.

In the process of determining the lifetime ECL for advances in Stage 2 and 3, the PD, EAD and LGD models are combined and losses are extrapolated to the point where incremental increases of the modelled lifetime no longer increase the total ECL calculated.

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Credit risk continued...

29.6.2 Significant increase in credit risk (“SICR”)

The Bank assesses financial instruments measured at amortised cost and subject to impairment requirements at each reporting date to determine whether evidence exists that there has been a significant increase in credit risk (SICR), since initial recognition of the financial instrument.

At each reporting date (“monthly”), all loans and advances exposures are assessed to determine whether there has been a significant increase in credit risk, in which case an impairment provision equal to the lifetime expected loss is recognised. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the impairment provision at an amount equal to the 12 month ECL.

The Bank offers its customers that are in good standing, voluntary customer support payment deferrals (referred to and known as choose your break ("CYB")). The offering of CYB to customers does not in itself, result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 to stage 2 in the credit impairment models i.e a move from a 12 month ECL to a lifetime ECL.

The SICR model also identifies accounts that should move back to stage 1 after having been predicted as stage 2 accounts at the point at which their risk profile improves and they no longer satisfy the criteria for stage 2.

An account will have had a significant increase in credit risk, if:

- The current point in time Probability of Default (PD) is significantly greater than the expected point in time PD as determined at origination. This means that at each reporting date, an account’s remaining lifetime PD will be compared to the expected remaining lifetime PD at origination. If the current PD is significantly higher, then the account will be moved to Stage 2 and the total remaining lifetime ECL will be used for impairment provisioning purposes.
- The relative change in the remaining lifetime PD is computed at each reporting date. This value is then compared to the relative change cut off value determined by the SICR model that identifies accounts that have had a significant increase in credit risk. The cut-off for allowable relative change in PD is calibrated so that the proportion of accounts that naturally move out of stage 1, within a 12 months period from that point of observation, is flagged as SICR. Each loan and credit card account is placed in an origination segment, based on similar risk characteristics. A relative PD change cut off value is then determined for each segment. At each reporting date, if the calculated relative change in PD is greater than the associated segment cut off, then the account is moved to Stage 2. The cut offs are determined by making use of the average relative change in PD of accounts that moved into Stage 2 while they were in Stage 1 over any 12 month window period and are then aggregated to a segment level.
- The account enters into Debt Counselling or high risk collection environment, even if their PD indicates no significant deterioration in risk.
- An account where any instalments have been missed or received after the contractual date of repayment.
- Any other product linked to the account is flagged as SICR, has a contractual CD > 0 or has been written off.

The Bank has set certain behaviour and advance granting score thresholds which are used to identify a significant increase in credit risk. These thresholds are dependent on the credit risk expectation at the point of origination, time on book, and an updated view of credit risk which includes forward-looking information.

The purpose of the behaviour score in the ECL model is to provide a measure of an existing customer’s propensity to default on a loan within 12 months. The behaviour score is calculated on an individual account level, taking into consideration the credit exposure and repayment behaviour of the customer at other credit providers. The behaviour score is updated for all advances at each reporting period.

The SICR thresholds and indicators are reviewed at least on an annual basis to ensure that the models are able to identify SICR throughout the lifetime of the loan.

Further to the above, the rebuttable presumption that SICR occurs when payments are more than 30 days past due is also applied.

Refer to note 29.9.3 for the impact on ECL of SICR sensitivity.

Credit risk continued...

29.6.3 Forward-looking information

IFRS9 requires that forward-looking economic information be included in the determination of SICR and ECL. This forward looking economic information is included in calculating the origination PD and all subsequent period PDs. The impact of historic macroeconomic conditions on the observed default rates, per client income group and product, was used to calibrate and model effects on the PD. The modelled relationships are used to incorporate the forward-looking information into the current risk expectations. This results in the forward-looking information impacting both the SICR evaluation applied in determining the stage allocation and the actual ECL calculation. The most influential macroeconomic factors include the inflationary pressure on food, fuel and the cost of public transport.

The forward-looking information is based on the Bank's economic expectations and industry expectations, as well as expert management judgement; over a planning horizon of at least 3 years. Economic scenarios utilised by the Bank are provided by an independent specialist on a quarterly basis, or more frequently if the current economic environment has experienced notable changes.

These scenarios are considered and approved by the Model Risk Committee, the Audit Committee and ultimately ratified by the Board.

The Bank utilises three forward-looking economic scenarios in the IFRS 9 model:

- a base/benign scenario;
- an upturn scenario indicating improved economic conditions; and
- a downturn scenario indicating a worsening economic environment.

These scenarios include predictions for both the economic variables which statistically show an impact on the advances portfolio at present and additional economic variables that may have an impact going forward.

These scenarios are probability weighted based on the likelihood of each coming to fruition and these probability weightings are also provided by the independent specialist and ratified by the Board. The ECL is ultimately a result of the weighted average of the ECL from each scenario, as weighted by each scenario's probability of occurrence.

Management has assigned a probability of 60% to the base/benign scenario, 25% to the downturn scenario and 15% to the upturn scenario for the 12 month forecast.

Refer to note 29.9.3 for the impact on ECL for forward looking information based on the above described scenarios and ascribed probability weightings.

Credit risk continued...

29.6.4 Credit risk disclosures

IFRS 7 requires an entity to provide disclosures of summarised quantitative and qualitative data about an entity's exposure to risks based on the information provided internally to key management personnel of the Bank.

As required by IFRS, and detailed in the Bank's accounting policy set out in note 1.5.1, the Bank measures all financial instruments at fair value plus transaction costs at initial recognition, except those carried at fair value through profit or loss, where transaction costs are recognised immediately through profit or loss. Subsequent to initial measurement, depending on the classification, financial instruments are measured at either amortised cost or fair value through profit or loss.

At initial recognition, the Acquired Book's fair value was calculated by including the anticipated ECLs and the asset was recognised net of the anticipated ECL's as a single, credit impaired portfolio. Subsequently the carrying value of this single portfolio is amortised over the period during which the cash receipts arising from the portfolio is expected to be recovered.

Where estimates of cash receipts are revised based on actual or anticipated cash collections, the carrying amount of the advances is adjusted by recalculating the present value of estimated future cash flows using the original effective credit adjusted interest rate applied in determining the fair value at acquisition. Any such adjustment to the carrying value of the gross advances is recognised as an impairment gain or loss.
(The specific accounting treatment applied to the Acquired Book is detailed in note 1.5.7)

For comparative purposes however, in addition to the above IFRS compliant treatment, management also considers and disclose a non-IFRS view of the gross advances and ECL of the Acquired Book, before application of the above acquisition related adjustments.

In order to provide sufficient information about the way the credit risk is managed by the Bank, the information in this section is presented on two bases:

- a non-IFRS basis that discloses the gross advances and impairment before the acquisition related adjustments linked to the acquired portfolio; as well as
- the IFRS compliant information.

29.6.5 Point of default

The Bank has aligned the determination of default with its existing internal credit risk management definitions and approaches. This is defined as the point at which an account has a CD greater than 3, which is greater than 90 days past due.

An account is considered to be in default when there is objective evidence of impairment.

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

- a breach of contract, such as a default or delinquency in the payment of interest or principal; or
- an 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.

An account is considered to no longer be in default, when it is not in arrears and is at a point of being able to be classified as CD3 or less.

Credit risk continued...

29.6.6 Write-off

A write off directly reduces the gross carrying amount of the loans and advances when the Bank has no reasonable expectation of recovery of the financial asset either in its entirety or a portion thereof and constitutes a de-recognition event.

The Bank's assessment of reasonable expectation of recovery is either at a single account level or at a collective portfolio level post the write-off point. The point of write-off is set where advances are in arrears more than 3 instalments due and no payment has been received in the preceding 8 months.

The modelling impact of applying the write-off criteria at a portfolio level is that no post write-off recoveries are included in the determination of the LGD. Any amounts recovered post write-off are recorded as bad debts recovered and set off against the impairment charge.

29.7 Credit risk management in response to COVID-19

In the current financial reporting period, a number of events transpired that solidified COVID-19 as a global pandemic that will impact global economic and capital markets. To curb the spread of COVID-19 within South Africa, the government declared a State of National Disaster and instituted a national lock-down starting on 26 March 2020; that restricted economic activity to only essential services as defined in the Disaster Management Act. The restrictions were gradually lifted and as at the end of the reporting period, a level one lockdown was in effect. While the lockdown has been relaxed as at the year end, the full extent of the economic impacts was and is still in the process of unfolding.

The below describes management's risk management responses as well as the judgements in applying the accounting policies to and estimating the ECL in response to the economic consequences of COVID- 19. Management considered both quantitative and qualitative information in deriving post model overlays to supplement the model limitations in factoring the COVID-19 impacts in the ECL. Quantitative judgements include historical observations of changes in employer group performance in response to negative economic conditions and changes to cash flows as a result of negative economic scenarios. Qualitative judgements include management's sentiment and outlook on leading economic indicators such as: the SA GDP (Year on year growth %), various CPI indicators, consumer expenditure and their resulting economic scenarios impact.

Management has reduced the ECL by the actuarial adjustments (expected recoveries from the anticipated claims from the cell as the economic consequences of COVID-19 unravel), that have been measured and recognised in the cell captive as a result of COVID-19; to the extent that they will impact the ECL of the Bank.

29.8 Judgements

29.8.1 Significant increase in credit risk (SICR)

In considering the impact of COVID-19 to the ECL, the SICR population was recalculated based on the higher probability of defaults ("PD") as explained under the modelling assumptions below.

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

Credit risk continued...

29.8.2 Modelling assumptions

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

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

Management applied judgement by including an additional stress factor to the PD in considering the impact of COVID-19. The stressing of the PD included an extrapolation of the early risk emergence observed in the recent times, to estimate what proportion of the advances book would end up in CD1 in 12 months time. The remaining lifetime PD was stressed so that the resultant SICR movement was in line with management's expected proportion to move in the next 12 months. This exercise resulted in an increase in PD and an increase in ECL. The PD stress is continuously assessed by management and the MRC as more information about the impact of COVID-19 to the customers of the Bank becomes available.

Management applied the judgement of assigning a considerably higher weighting to the downturn forward looking macroeconomic scenario to the PD calculations relative to the weighted average forward looking macro- economic scenario described in note 29.6.3 above.

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

29.8.3 Event driven management credit estimates

Certain events/risks arise from time to time that may not be incorporated into the statistical forward looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by the MRC on a quarterly basis.
Consistent with the prior year, included in the determination of ECL is the expected impact of two forthcoming regulatory and legislative changes; namely the Credit Amendment Bill and DebiCheck (Authenticated Collections) from October 2021. The credit amendment act 7 of 2019, which has been enacted, but the required regulations setting out the application has not been published. Both these changes are expected to have an impact on the collection of cash flows on loans and advances. The estimated timing and nature of the impact will be reassessed as pertinent information on the proposed legislative and regulatory changes becomes available.

DebiCheck will have an impact on the collection of the cash flows on advances with accounts that move primary bank accounts and change debit order dates. Should the account holder fail to electronically confirm the updated debit order, the Bank could fail to collect the agreed upon instalment on the agreed upon date. The expected implementation date for DebiCheck is 31 October 2021 and ECL for this is R 328 million (30 Sep 2019: R594 million). The management judgement applied in deriving the DebiCheck post model adjustment includes the assumption as to when the implementation of DebiCheck is expected to have an impact on the Bank's collections.

The Credit Amendment Bill will allow a client who earns less than R7 500 per month and has total debt outstanding of R50 000 to apply for debt relief through the administration channels not yet fully clarified by the bill. This will impact the Bank's collection of cash flows from clients who meet these criteria. The expected implementation date for the Credit Amendment Bill is currently uncertain. The Bank's ECL for this event is R164 million (30 Sep 2019: R279 million). The management judgements applied in deriving the Credit Amendment Bill post model adjustment includes the assumption around the expected take up by the Bank's clients, the qualifying population, the potential interest loss on take-up and implementation date.

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Credit risk continued...

29.9 Credit quality of advances per IFRS requirements

On acquisition, the Acquired Book's credit risk was included in measuring the fair value on acquisition, as the book was considered to be credit-impaired at initial recognition. The Acquired Book is thus, under IFRS 9, classified as purchased or originated credit impaired. The net carrying value of the Acquired Book, as included in the gross advances of the Bank, is the sum of the gross amount of the acquired advances, less the estimated ECL at initial recognition, plus the subsequent favourable adjustments from the revision of cashflows since acquisition. (Information using the gross advances and impairment before the acquisition related adjustments linked to the acquired portfolio is presented in note 29.10)

29.9.1 Arrears analysis

Rmillion	30-Sep-20	30-Sep-19 (Restated) - Refer to note 2	30-Sep-19 (As previously presented)
Stage 1	8,532	10,072	10,072
Stage 2	8,185	9,186	9,243
Stage 3	9,666	7,749	8,155
Total credit exposure	**26,383**	**27,007**	**27,470**
Total ECL	**(8,646)**	**(6,988)**	**(7,451)**
Stage 1	(433)	(584)	(588)
Stage 2	(2,446)	(2,451)	(2,504)
Stage 3	(5,767)	(3,953)	(4,359)
Deferred fees	**(101)**	**(173)**	**(204)**
Net advances	**17,636**	**19,846**	**19,815**

29.9.2 Impairment as % of gross advances

Rmillion	30-Sep-20	30-Sep-19 (Restated) - Refer to note 2	30-Sep-19 (As previously presented)
Stage 1	5.1%	5.8%	5.8%
Stage 2	29.9%	26.7%	27.1%
Stage 3	59.7%	51.0%	53.5%
Total impairment as a % of total gross advances	**32.8%**	**25.9%**	**27.1%**

Reconciliation of ECL

Balance at the beginning of the year	6,988	3,994	3,994
IFRS 9 adoption	-	861	861
Impairment provision held for stage 3 advances	785	545	545
Impairment provision raised (note 18)	4,008	3,320	3,783
Impairment provision released in respect of bad debt write-offs (note 2)	(3,135)	(1,732)	(1,732)
Balance at the end of the year	**8,646**	**6,988**	**7,451**

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Credit risk continued...

29.9.3 Credit risk sensitivity

The tables below illustrate the impact on ECL from changes in SICR and forward looking information.

The impact on the full stage 2 ECL if the behavioural or initiation scores cut-off is stressed by 5%.

Impact on ECL of SICR sensitivity 30-Sep-20	Up Decrease*	Base	Down Increase*
Shifting of SICR threshold by 5% (Rmillion)	(55)	-	728
% change on total SICR ECL (%)	(2.2 %)	0.0 %	29.9 %
30-Sep-19			
Shifting of SICR threshold by 5% (Rmillion)	(301)	-	351
% change on total SICR ECL (%)	(11.8%)	0.0 %	13.8 %

* By shifting the SICR threshold up, less advances will be expected to move into stage 2 and thus a decrease in ECL is expected. The opposite will hold true if the SICR threshold is shifted down.

The Impact on ECL of forward looking information based on the probability weighted impact of all 3 scenarios.

Impact on ECL of forward looking information sensitivity 30-Sep-20	Rmillion	% change in ECL
100% downturn scenario	36	0.31%
100% base/benign scenario	19	0.16%
100% upturn scenario	(135)	(1.15%)
30-Sep-19		
100% downturn scenario	113	1.65%
100% base/benign scenario	(32)	0.47%
100% upturn scenario	(108)	1.58%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

29.10 Credit quality of advances based on the pre- acquisition gross value of advances

These disclosures are based on the pre-acquisition gross value of advances and related expected credit loss provisions. These disclosures do not comply with the current IFRS requirements which required the purchased or originated credit impaired book to be disclosed at the fair value on acquisition date and thereafter at amortised cost. This disclosure has been included for informational purposes only.

29.10.1 Advances analysis

Rmillion	2020	2019*
Gross advances	**28,328**	**29,734**
Acquired	3,231	4,820
Originated portfolios	25,097	24,914
Deferred fees	(101)	(173)
Gross advances after deferred origination and administration fees	**28,227**	**29,561**
Balance of impairment provisions at the end of the year	**10,591**	**9,715**
Balance of impairment provisions at the beginning of the year	9,715	8,300
IFRS 9 adoption	-	825
Impairment provisions raised	3,604	2,236
Impairment provisions held on interest from stage 3 advances	785	545
Impairment provision released upon write-off of underlying exposure	(3,513)	(2,191)
Net advances	**17,636**	**19,846**
Conditionally irrevocable credit card commitments	667	683
Maximum exposure to credit risk	**18,303**	**20,529**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

*** Restatement: Correction of prior period presentation error**

Rmillion	2019			
	As previously presented	Modification	Deferred fee liability	Restated
Gross advances	**30,200**	**(463)**	**(3)**	**29,734**
Acquired	4,823		(3)	4,820
Originated portfolios	25,377	(463)	-	24,914
Deferred fees	(207)	-	34	(173)
Gross advances after deferred origination and administration fees	**29,993**	**(463)**	**31**	**29,561**
Balance of impairment provisions at the end of the year	**10,178**	**(463)**	**-**	**9,715**
Balance of impairment provisions at the beginning of the year	8,300	-	-	8,300
IFRS 9 adoption	825	-	-	825
Impairment provisions raised	2,699	(463)	-	2,236
Impairment provisions held on interest from stage 3 advances	545	-	-	545
Impairment provision released upon write-off of underlying exposure	(2,191)	-	-	(2,191)
Net advances	**19,815**	**-**	**31**	**19,846**
Conditionally revocable credit card commitments	683	-	-	683
Maximum exposure to credit risk	**20,498**	**-**	**31**	**20,529**

*** Restatement: Correction of prior period presentation error**

	2018		
Rmillion	As previously presented	Deferred fee liability	Restated
Gross advances	**27,524**	**22**	**27,546**
Acquired*	7,975	22	7,997
Originated portfolios	19,549	-	19,549
Deferred fees	(46)	(99)	(145)
Gross advances after deferred origination and administration fees	**27,478**	**(77)**	**27,401**
Balance of impairment provisions at the end of the year	**8,300**	**-**	**8,300**
Balance of impairment provisions at the beginning of the year	7,756	-	7,756
Impairment provisions raised	3,966	-	3,966
Impairment provisions held on interest from stage 3 advances	115	-	115
Impairment provision released upon write-off of underlying exposure	(3,537)	-	(3,537)
Net advances	**19,178**	**(77)**	**19,101**
Conditionally revocable credit card commitments	715	-	715
Maximum exposure to credit risk	**19,893**	**(77)**	**19,816**

** The adjustment to the acquired book gross advances relates to the deferred fee liability of the acquired book had it been disclosed at a pre-acquisition basis.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

29.10.2 Arrears analysis

Rmillion	30-Sep-20	30-Sep-19 (Restated) - Refer to note 2	30-Sep-19 (As previously reported)
Stage 1	8,532	10,075	10,078
Stage 2	8,187	9,205	9,264
Stage 3	11,609	10,454	10,858
Total credit exposure	**28,328**	**29,734**	**30,200**
Total ECL	**(10,591)**	**(9,715)**	**(10,178)**
Stage 1	(433)	(587)	(588)
Stage 2	(2 449)	(2 470)	(2 527)
Stage 3	(7,709)	(6,658)	(7,063)
Deferred fees	**(101)**	**(173)**	**(207)**
Net advances	**17,636**	**19,846**	**19,815**
Impairment as % of gross advances			
Stage 1	5.1%	5.8%	5.8%
Stage 2	29.9%	26.8%	27.3%
Stage 3	66.4%	63.7%	65.0%
Total impairment as a % of total gross advances	**37.4%**	**32.7%**	**33.7%**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

29.11 Credit concentration risk of advances

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

Although the Bank is exposed only to unsecured loans and credit cards, the Bank's credit risk portfolio is well diversified across industries and provinces and actively monitors exposure to each industry.

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

Loans

Average loan value (at inception) R'000	Number of loans	% of total number of loans	Carrying value R million	% of total carrying value
2020				
<5	39,244	6.2%	51	0.3%
5 - 10	159,165	25.0%	422	2.9%
10 – 20	112,458	17.7%	778	5.3%
20 - 50	127,430	20.0%	1,984	13.4%
50 -100	110,513	17.3%	3,740	25.3%
100 - 200	77,869	12.2%	5,992	40.6%
200 - 250*	10,303	1.6%	1,804	12.2%
Total	**636,982**	**100%**	**14,772**	**100%**
2019				
<5	32,222	4.3%	42	0.3%
5 - 10	173,422	23.3%	558	3.4%
10 – 20	147,280	19.8%	963	5.8%
20 – 50	168,958	22.7%	2,646	16.0%
50 -100	132,651	17.8%	4,644	28.1%
100 - 200	84,666	11.4%	6,930	42.0%
200 - 250*	4,216	0.6%	720	4.4%
Total	**743,415**	**100%**	**16,503**	**100%**

*Maximum loan exposure is R250 000 (2019: R250 000) per business practice rules

Credit risk continued...

Credit cards

Average loan value (at inception) R'000	Number of loans	% of total number of loans	Carrying value R million	% of total carrying value
2020				
<5	210,517	26.93%	61	2.1%
5 - 10	276,311	35.35%	302	10.5%
10 - 20	179,474	22.96%	698	24.4%
20 - 50	100,728	12.89%	1,201	41.9%
50 -100	13,717	1.75%	527	18.4%
100 - 200*	937	0.12%	75	2.6%
Total	**781,684**	**100%**	**2,864**	**100%**
2019				
<5	261,957	28.97%	91	2.7%
5 - 10	324,224	35.86%	404	12.2%
10 - 20	199,512	22.07%	888	26.8%
20 - 50	104,979	11.61%	1,361	41.1%
50 -100	12,936	1.43%	510	15.4%
100 - 200*	531	0.06%	58	1.8%
Total	**904,139**	**100%**	**3,312**	**100%**

**Maximum credit card exposure is R200 000 (2019:R200 000) per business practice rules*

29.12 Financial assets other than advances

Financial assets other than advances are made up of cash and cash equivalents, financial investments, regulatory deposits and sovereign debt securities, derivative assets and trade receivables. All financial assets other than advances, excluding trade receivables, are placed with counterparties who have a formal local currency credit rating of no less than investment grade.

Financial assets such as cash and cash equivalents, financial investments, sovereign debt securities and derivative assets are considered to have low credit risk at the end of the reporting period for purposes of determining whether there has been an significant increase in credit risk (SICR) since initial recognition for purposes of calculating expected credit losses in terms of IFRS 9. The counterparties have been assessed to have a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and or business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparties to fulfil their contractual cash flows obligations. These financial assets are therefore considered to be stage 1.

The Bank maintains cash and cash equivalents and short term investments with various financial institutions and in this regard, it is the Bank’s policy to limit its exposure to any one financial institution.

For investment in the regulatory deposits and sovereign debt securities the Bank uses Fitch Ratings’ South African National Rating scale credit rating as the basis to determine if there has been a significant increase in credit risk (SICR). An investment will be considered to have SICR (i.e. a transfer from stage 1 to stage 2) if there has been a downgrade of two notches or more by the rating agency since inception of the investment . A move back to stage 1 would only be considered once the rating is similar/the same as at the rating at inception.

Cash deposits are placed only with banks which have an approved credit limit, which credit limits are reviewed annually by the ALCO and recommended for approval by the RCMC. The Bank uses international swaps and derivatives association (“ISDA”) documentation for the purposes of netting derivatives. These master agreements and associated credit support annexes (“CSA”) set out accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds. CSA's are used as a credit risk mitigation mechanism for the Bank’s derivative asset positions. See note 32 for further details. Trade receivables, are not rated and are evaluated on an entity by entity basis The Bank limits the tenure and size of the debt to ensure that it does not pose a material risk to the Bank. For further information refer to note 9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

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

Assets Rmillion	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2020							
Cash and cash equivalents							
Cash deposits - ZAR	4	1,936	1,384	-	-	1,936	-
Cash deposits - Foreign denominated	4	94	88	-	-	94	-
Financial investments							
Investment in core income funds	5	1,017	558	-	-	1,017	-
Fixed deposits - foreign denominated	5	1,015	988	-	-	1,015	-
Regulatory deposits and sovereign debt securities							
Treasury bills	6	805	805	-	-	805	-
Bonds	6	539	539	-	-	539	-
Bonds - Foreign denominated	6	-	-	-	-	-	-
Deposits with SARB	6	381	381	-	-	381	-
Derivatives							
Derivative assets	11	-	-	-	-	-	-
Total		**5,787**	**4,743**	**-**	**-**	**5,787**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit risk continued...

Assets Rmillion	Notes	Total carrying amount	Largest exposure to a single counter-party	Aaa to A3	Baa1 to Baa3	Below Baa3	Not rated
2019							
Cash and cash equivalents							
Cash deposits - ZAR	4	846	622	-	622	-	-
Cash deposits - Foreign denominated	4	4,151	4,146	-	4,146	-	-
Regulatory deposits and sovereign debt securities							
Treasury bills and debentures	6	285	286	-	286	-	-
Bonds	6	530	530	-	530	-	-
Bonds - Foreign denominated	6	538	537	-	537	-	-
Deposits with SARB	6	372	372	-	372	-	-
Derivatives							
Derivative assets	11	36	36	-	36	-	-
Total		**6,758**	**6,529**	**-**	**6,529**	**-**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30. 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 of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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

30.1. Interest rate risk management

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

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

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

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

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

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

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

30.1.1 Re-pricing profile

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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

Re- pricing profile 2020

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2020								
Assets								
Cash and cash equivalents	2,024	-	-	-	-	5	-	2,029
Regulatory deposits and sovereign debt securities	538	28	776	-	-	383	-	1,725
Derivative assets	-	-	-	-	-	-	-	-
Net advances	3,175	666	2,527	2,899	7,943	426	-	17,636
Accounts receivable and other assets	-	-	-	-	-	98	102	200
Financial investments	2,015	-	-	-	-	17	-	2,032
Property and equipment	-	-	-	-	-	-	752	752
Intangible assets	-	-	-	-	-	-	115	115
Deferred tax asset	-	-	-	-	-	-	1,133	1,133
Total assets	**7,752**	**694**	**3,303**	**2,899**	**7,943**	**929**	**2,102**	**25,622**
Liabilities and equity								
Short-term funding	2,617	933	1,844	-	-	126	-	5,520
Derivative liabilities	-	-	-	-	-	113	-	113
Creditors and accruals	15	-	-	-	-	647	89	751
Current tax	-	-	-	-	-	83	-	83
Bonds and other long-term funding	3,205	1,624	193	1,069	3,638	101	-	9,830
Subordinated bonds	1,484	-	-	-	-	39	-	1,523
Ordinary shareholder's equity	-	-	-	-	-	-	7,802	7,802
Total liabilities and equity	**7,321**	**2,557**	**2,037**	**1,069**	**3,638**	**1,109**	**7,891**	**25,622**
On balance sheet interest sensitivity	**431**	**(1,863)**	**1,266**	**1,830**	**4,305**	**-**	**-**	**-**

Market risk continued...

Re- pricing profile 2019

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-interest sensitive items	Non-financial instruments	Total
2019								
Assets								
Cash and cash equivalents	5,032	-	-	-	-	6	-	5,038
Regulatory deposits and sovereign debt securities	528	50	771	-	-	376	-	1,725
Derivative assets	-	-	-	-	-	36	-	36
Net advances	3,627	702	2,791	3,247	9,169	310	-	19,846
Accounts receivable and other assets	-	-	-	-	-	140	90	230
Property and equipment	-	-	-	-	-	-	508	508
Intangible assets	-	-	-	-	-	-	81	81
Deferred tax asset	-	-	-	-	-	-	947	947
Total assets	**9,187**	**752**	**3,562**	**3,247**	**9,169**	**868**	**1,626**	**28,411**
Liabilities and equity								
Short-term funding	1,380	2,468	2,963	-	-	148	-	6,959
Derivative liabilities	-	-	-	-	-	-	-	-
Creditors and accruals	15	-	-	-	-	644	78	737
Current tax	-	-	-	-	-	83	-	83
Bonds and other long-term funding	2,942	1,299	86	4,311	1,939	160	-	10,737
Subordinated bonds	1,482	-	-	-	-	51	-	1,533
Ordinary shareholder’s equity	-	-	-	-	-	-	8,362	8,362
Total liabilities and equity	**5,819**	**3,767**	**3,049**	**4,311**	**1,939**	**1,086**	**8,440**	**28,411**
On balance sheet interest sensitivity	**3,368**	**(3,015)**	**513**	**(1,064)**	**7,230**	**-**	**-**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk continued...

30.1.2. Interest rate sensitivity analyses

An interest rate sensitivity analysis for the Bank setting out the potential effect of changes in the market interest rate on earnings for floating rate instruments is presented in the table below.

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

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

The sensitivity analysis below is based on an increase in rates. Given the linear structure of the Bank's portfolio, an increase in interest rates as described above would result in a corresponding net increase of R235 million (2019: increase of R6 million) in net income (before tax).

Rmillion	Carrying value at end of year	Amount exposed to market risk	Index to which interest rate is linked	Statement of profit or loss impact (pre-tax)
2020				
Financial assets				
Credit card advances	2,864	3,866	REPO	113
Cash and cash equivalents	2,029	2,016	JIBAR	37
Financial Investment	2,032	1,012	REPO	20
Regulatory deposits and sovereign debt securities	1,725	537	CPI	10
Derivatives	-	-	CPI/JIBAR	-
Total assets	**8,650**	**7,431**		**180**
Financial liabilities				
Derivatives	113	667	JIBAR	2
Subordinated bonds	1,523	1,485	JIBAR	(29)
Bonds and other long term funding	9,830	4,722	CPI/JIBAR	94
Short-term funding	5,520	573	JIBAR	(12)
Total liabilities	**16,986**	**7,447**		**55**
Net effect on the statement of total comprehensive income				**235**
2019				
Financial assets				
Credit card advances	3,312	4,397	REPO	128
Cash and cash equivalents	5,038	5,038	JIBAR	38
Regulatory deposits and sovereign debt securities	1,725	528	CPI	11
Derivatives	36	-	CPI/JIBAR	-
Total assets	**10,111**	**9,963**		**177**
Financial liabilities				
Subordinated bonds	1,533	1,482	JIBAR	(29)
Bonds and other long term funding	10,737	4,304	CPI/JIBAR	(87)
Short-term funding	6,959	3,488	JIBAR	(55)
Total liabilities	**19,229**	**9,274**		**(171)**
Net effect on the statement of total comprehensive income				**6**

Market risk continued...

30.2. Foreign exchange risk management

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

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

30.2.1. Financial instruments denominated in foreign currency.

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

Rmillion	Foreign currency USD/CHF 2020	ZAR carrying amount 2020	Foreign currency USD/CHF 2019	ZAR carrying amount 2019
Financial liabilities				
Foreign denominated bonds (USD)	(109)	(1,828)	(250)	(3,789)
Foreign denominated bonds (CHF)	(69)	(1,254)	(114)	(1,737)
Total liabilities		**(3,082)**		**(5,526)**
Financial assets				
Short-term deposits and cash (USD)	-	6	151	2,295
Short-term deposits and cash (CHF)	5	88	122	1,856
Interbank deposits (USD)	61	1,015	-	-
Government bonds (USD)	-	-	35	537
Foreign currency swaps (USD)	49	815	70	1,062
Foreign currency swaps (CHF)	68	1,236	-	-
Total assets		**3,160**		**5,750**
Net open position - USD	**1**	**8**	**6**	**105**
Net open position - CHF	**4**	**70**	**8**	**119**

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

Market risk continued...

30.2.2. Sensitivity analysis based on 10% increase in exchange rates

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

Given the linear structure of the Bank's portfolio, a 10% increase in exchange rates, and its related impact on the forward discount curve, would result in a net increase of R10 million (2019: net increase of R23 million) in net income (before tax).

Sensitivity analysis

Rmillion	Carrying value at end of year	Amount exposed to	Currency	Profit or loss impact (pre-tax)
2020				
Financial assets				
Short-term deposits and cash (USD)	6	6	USD	1
Short-term deposits and cash (CHF)	88	88	CHF	9
Interbank deposits (USD)	1,015	1,015	USD	102
Government bonds (USD)	-	-	USD	-
Cross-currency swaps (USD)	815	815	USD	82
Cross-currency swaps (CHF)	1,236	1,231	CHF	124
Total	**3,160**	**3,155**		**318**
Financial liabilities				
Foreign denominated bonds (USD)	(1,828)	(1,828)	USD	(183)
Foreign denominated bonds (CHF)	(1,254)	(1,255)	CHF	(125)
Total	**(3,082)**	**(3,083)**		**(308)**
Net effect on the statement of total comprehensive income				**10**
2019				
Financial assets				
Short-term deposits and cash (USD)	2,295	2,295	USD	230
Short-term deposits and cash (CHF)	1,856	1,856	CHF	186
Interbank deposits (USD)	537	537	USD	54
Government bonds (USD)	1,062	1,062	USD	106
Cross-currency swaps (USD)	-	-	USD	-
Cross-currency swaps (CHF)	-	-	CHF	-
Total	**5,750**	**5,750**		**576**
Financial liabilities				
Foreign denominated bonds (USD)	(3,789)	(1,828)	USD	(379)
Foreign denominated bonds (CHF)	(1,737)	(1,255)	CHF	(174)
Total	**(5,526)**	**(3,083)**		**(553)**
Net effect on the statement of total comprehensive income				**23**

The spot exchange rates used to convert the carrying value (outstanding capital, capitalised interest and unamortised discount) of the foreign currency liabilities were R16.70/USD (2019:15.17/USD) and R18.17/CHF (2019: 15.21/CHF).

30.3. Other price risk management

The Bank has a low market risk appetite. For this reason, the Bank does not typically trade in any marketable securities or hold any sovereign debt marketable securities (see note 6) until maturity and is therefore not exposed to price risk associated with these marketable securities.

31. Liquidity risk

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

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

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

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

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

In order to address the refinancing requirements in the subsequent periods, management has successfully engaged shareholders of African Bank Holdings Limited and finalised a shareholder backed liquidity support arrangement in the current reporting period; which is expected to provide material liquidity support over the next few years. The arrangement is expected to provide liquidity support while the Bank continues to develop and roll out the diversified business model.

To ensure that the Bank is able to meet its obligations and to pay its debts as they become due, the Bank further more implemented a number of initiatives, which includes the establishment of a significant retail funding portfolio, listing an Euro Medium Term Note (“EMTN”) program.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

31.1. Maturities profile of discounted assets and liabilities

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2020							
Assets							
Cash and cash equivalents	2,029	-	-	-	-	-	2,029
Regulatory deposits and sovereign debt securities	381	28	779	537	-	-	1,725
Derivative assets	-	-	-	-	-	-	-
Net advances	1,099	1,135	4,630	2,903	7,869	-	17,636
Accounts receivable and other assets	98	-	-	-	-	102	200
Financial investments	2,032	-	-	-	-	-	2,032
Property and equipment	-	-	-	-	-	752	752
Intangible assets	-	-	-	-	-	115	115
Deferred tax asset	-	-	-	-	-	1,133	1,133
Total assets	**5,639**	**1,163**	**5,409**	**3,440**	**7,869**	**2,102**	**25,622**
Liabilities and equity							
Short-term funding	2,947	556	2,017	-	-	-	5,520
Derivative liabilities	63	-	37	-	13	-	113
Creditors and accruals	285	45	110	143	79	89	751
Current tax	-	-	83	-	-	-	83
Bonds and other long-term funding	184	25	214	3,804	5,603	-	9,830
Subordinated bonds	39	-	-	-	1,484	-	1,523
Ordinary shareholder’s equity	-	-	-	-	-	7,802	7,802
Total liabilities and equity	**3,518**	**626**	**2,461**	**3,947**	**7,179**	**7,891**	**25,622**
Net liquidity gap	**2,121**	**537**	**2,948**	**(507)**	**690**	**-**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Rmillion	Demand and up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 12 months	Greater than 12 months up to 24 months	Greater than 24 months	Non-financial assets / liabilities	Total
2019							
Assets							
Cash and cash equivalents	5,038	-	-	-	-	-	5,038
Regulatory deposits and sovereign debt securities	372	50	776	-	527	-	1,725
Derivative assets	-	36	-	-	-	-	36
Net advances	1,094	1,245	5,222	3,257	9,028	-	19,846
Accounts receivable and other assets	140	-	-	-	-	90	230
Property and equipment	-	-	-	-	-	508	508
Intangible assets	-	-	-	-	-	81	81
Deferred tax asset	-	-	-	-	-	947	947
Total assets	**6,644**	**1,331**	**5,998**	**3,257**	**9,555**	**1,625**	**28,411**
Liabilities and equity							
Short-term funding	464	1,457	5,038	-	-	-	6,959
Creditors and accruals	318	211	1	32	103	72	737
Current tax	-	-	83	-	-	-	83
Bonds and other long-term funding	139	23	109	4,478	5,988	-	10,737
Subordinated bonds	52	-	-	-	1,481	-	1,533
Ordinary shareholder’s equity	-	-	-	-	-	8,362	8,362
Total liabilities and equity	**973**	**1,691**	**5,231**	**4,510**	**7,572**	**8,434**	**28,411**
Net liquidity gap	**5,671**	**(360)**	**767**	**(1,253)**	**1,983**	**-**	**-**

Irrevocable retail loan commitments totalling R667 million (2019: R683 million) are not included in the liquidity analysis. The commitments are a result of undrawn loan amounts should be bucketed in the up to 1 month bucket.

Liquidity risk continued...

31.2. Maturity profile of undiscounted liabilities

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

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

Liabilities maturities (undiscounted)

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2020								
Financial liabilities								
Short-term funding	5,520	2,745	1,465	1,712	-	-	-	5,922
Creditors and accruals	751	286	91	63	143	79	89	751
Current tax	83	-	83	-	-	-	-	83
Derivative instruments	113	64	77	9	20	(30)	-	140
Promissory notes and NCD's	776	2	31	33	108	803	-	977
Fixed deposits and other long term funding	4,224	16	82	106	839	4,605	25	5,673
Bonds listed	4,830	38	69	140	3,576	1,754	-	5,577
Subordinated bonds	1,523	41	43	85	151	582	1,658	2,560
Total	**17,820**	**3,192**	**1,941**	**2,148**	**4,837**	**7,793**	**1,772**	**21,683**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk continued...

Rmillion	Carrying amount	Up to 1 month	Greater than 1 month up to 6 months	Greater than 6 months up to 12 months	Greater than 1 year up to 2 years	Greater than 2 years up to 5 years	Greater than 5 years	Total
2019								
Financial liabilities								
Short-term funding	6,959	492	4,648	2,176	-	-	-	7,316
Creditors and accruals	737	318	211	1	32	175	-	737
Current tax	83	-	83	-	-	-	-	83
Promissory notes and NCD's	805	1	43	44	133	693	248	1,162
Fixed deposits and other long term funding	3,287	24	88	97	2,055	1,771	25	4,060
Bonds listed	6,645	113	54	222	2,892	4,551	-	7,832
Subordinated bonds	1,533	53	53	101	1,654	-	-	1,861
Total	**20,049**	**1,001**	**5,180**	**2,641**	**6,766**	**7,190**	**273**	**23,051**

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

32.1. Valuation models

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

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

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

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

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

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

Recurring fair values

The Bank currently measures and presents financial investments, derivative assets and derivative liabilities at fair value, whilst all other financial instruments are measured and presented at amortised cost. The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives such as swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

Fair value for disclosure

In determining the fair value for disclosure purposes of instruments measured and presented at amortised cost, the Bank uses its own valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include advances and certain funding loans for which there is no active market.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and selection of appropriate discount rate. Fair value estimates obtained from models include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

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

General

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

Level 3 fair value disclosure – Advances

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

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

- Fair value includes all expected cash flows, whereas impairments under IFRS 9 only consider ECL for the subsequent 12 month period for advances classified as stage 1;
- The impairment cash flows are not reduced by expected cost of collection unless if it is directly attributable;
- The discount rate used for purposes of estimating the fair value of advances is based on current market circumstances, whereas the discount rate used for ECL is based on the original effective interest rate, which is also adjusted for credit risk in the case of the Acquired Book, being classified as credit impaired at acquisition .

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

32.2. Valuation framework

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

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

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

32.3. COVID-19 impact to fair value measurement

The RCMC and its subcommitees has assessed the valuation techniques for fair value measurement of financial instruments in response to the market volatility that has resulted from COVID-19 on the fair value measurements of financial instruments.

When assessing the fair value measurement of financial instruments in the current reporting period, changes in valuation inputs were considered in terms of the impact they have on classification in the fair value hierarchy, and any transfers within the fair value hierarchy.

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

32.4. 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
2020				
Financial assets				
Recurring fair value measurement				
Financial Investments		1017		**1017**
Derivative instruments	-	-	-	-
Total	**-**	**1,017**	**-**	**1,017**
Financial liabilities				
Recurring fair value measurement				
Derivative instruments	-	113	-	113
Total	**-**	**113**	**-**	**113**
2019				
Financial assets				
Recurring fair value measurement				
Derivative instruments	-	**36**	-	36
Total	**-**	**36**	**-**	**36**

32.5. 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 at which the derivative instruments and core income funds are measured, which fair value is derived from observable inputs (level 2):

Rmillion	Valuation basis / techniques	Main assumptions	Variance in fair value measurement	Effect on profit / (loss) (after tax)
2020				
Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-
Investments measured at fair value	Discounted cash flows	Expected cash flows	1% reduction in expected cash flows	10
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	205
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	(21)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

2019

Assets				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	106
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-
Investments measured at fair value	Discounted cash flows	Expected cash flows	1% reduction in expected cash flows	-
Liabilities				
Cross-currency interest rate swaps	Discounted cash flow Forward rate	Discount rates Forward rate	10% in spot rate	-
Interest rate swaps	Discounted cash flow	Discount and risk free rates	100 bps	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

32.6. Assets and liabilities for which fair value is disclosed

Rmillion	Level 1	Level 2	Level 3	Total	Carrying value
2020					
Financial assets					
Government bonds	541	-	-	541	539
Treasury bills and debentures	-	808	-	808	805
Deposits with South African Reserve Bank	-	381	-	381	381
Net advances	-	-	19,155	19,155	17,636
Financial investments	-	-	1,015	1,015	1,015
Total	**541**	**1,189**	**20,170**	**21,900**	**20,376**
Financial liabilities					
Short term funding	-	3,469	2,060	5,529	5,520
Unsecured bonds (listed on JSE) *	-	4,041	-	4,041	4,192
Unsecured bonds (listed on foreign stock exchange) *	-	3,090	-	3,090	638
Unsecured long- term loans	-	1,004	3,930	4,934	5,000
Subordinated bonds*	-	1,473	-	1,473	1,523
Total	**-**	**13,077**	**5,990**	**19,067**	**16,873**
2019 (Restated)					
Financial assets					
Government bonds	516	542	-	1,058	1,067
Treasury bills and debentures	-	299	-	299	285
Deposits with South African Reserve Bank	-	372	-	372	372
Net advances **	-	-	20,918	20,918	19,846
Financial investments	-	-	-	-	-
Total	**516**	**1,213**	**20,918**	**22,647**	**21,570**
Financial liabilities					
Short term funding	-	5,198	907	6,105	6,959
Unsecured bonds (listed on JSE) *	-	3,537	-	3,537	3,588
Unsecured bonds (listed on foreign stock exchange) *	-	3,059	-	3,059	3,057
Unsecured long- term loans	-	2,594	1,567	4,161	4,092
Subordinated bonds*	-	1,537	-	1,537	1,533
Total	**-**	**15,925**	**2,474**	**18,399**	**19,229**

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

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

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

** In the prior year, the fair value of the net advances was incorrectly disclosed as R19,846 million. This value has been restated.

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

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

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

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

Rmillion	Gross amount of recognised financial assets[1]	Gross amounts of recognised financial liabilities offset in the statement of financial position[2]	Net amount of financial assets presented in the statement of financial position	Amounts not offset in the statement of financial position but subject to master netting arrangements[3]	Gross amount of collateral subject to netting arrangements[4]	Net amount
2020						
Assets						
Derivative financial instruments	-	-	-	-	-	-
Liabilities						
Derivative financial instruments	(113)	-	(113)	-	54	(59)
2019						
Assets						
Derivative financial instruments	36	-	36	-	62	98
Liabilities						
Derivative financial instruments	-	-	-	-	-	-

[1] *Gross amounts are disclosed for recognised assets and liabilities that are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.*

[2] *The amounts that qualify for offset in accordance with the criteria per IFRS.*

[3] *The amounts that do not qualify for offset in accordance with the criteria per IFRS.*

[4] *Cash collateral not offset in the statement of financial position subject to a master netting arrangement or similar agreement.*

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

34. Capital management

Capital adequacy risk is the risk that the Bank will not have sufficient capital 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 and supporting regulations, read together with specific requirements for the Bank, specify the minimum capital required to be held in relation to risk weighted assets. Ancillary regulatory requirements include the Basel III leverage ratio which is included in the scope of regulatory capital adequacy.

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

Refer to the table in unaudited Annexure B for the Bank's capital adequacy requirements and position as at 30 September 2020.

Internal capital management

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

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

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

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

RCMC is mandated to review and sign off the Bank's annual Internal Capital Adequacy Assessment Process ("ICAAP"), prior to submission to the Board and the SARB.

Capital management in response to COVID-19

The Prudential Authority through Directive 2/2020 provided the Bank with a capital relief by reducing the Pillar 2A add-on from 1% to 0% effective 1 April 2020. This resulted in the South African minimum capital requirement reducing from 11.5% to 10.5%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. Analysis of classification of financial assets and liabilities

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

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
2020							
Net advances	2	17,636	-	-	17,636	6,864	10,772
Cash and cash equivalents	4	2,029	-	-	2,029	2,029	-
Financial investments	5	1,015	1,017	-	2,032	2,032	-
Regulatory deposits and sovereign debt securities	6	1,725	-	-	1,725	1,188	537
Deferred tax asset	7	-	-	1,133	1,133	-	1,133
Property and equipment and Right of use asset	8	-	-	752	752	-	752
Accounts receivable and other assets	9	98	-	102	200	98	102
Intangible assets	10	-	-	115	115	-	115
Derivatives	11	-	-	-	-	-	-
Total assets		**22,503**	**1,017**	**2,102**	**25,622**	**12,211**	**13,411**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Rmillion	Notes	Amortised cost	Financial instruments at fair value through profit and loss	Non-financial instruments	Total	Current	Non-current
2019							
Cash and cash equivalents	4	5,038	-	-	5,038	5,038	-
Regulatory deposits and sovereign debt securities	6	1,725	-	-	1,725	1,198	527
Net advances	2	19,846	-	-	19,846	7,561	12,285
Deferred tax asset	7	-	-	947	947	-	947
Property and equipment	8	-	-	508	508	-	508
Accounts receivable and other assets	9	140	-	90	230	140	90
Intangible assets	10	-	-	81	81	-	81
Derivatives	11	-	36	-	36	36	-
Investments	5	-	-	-	-	-	-
Total assets		**26,749**	**36**	**1,626**	**28,411**	**13,973**	**14,438**

Rmillion	2020	2019
Statement of total comprehensive income effect of financial instruments by category		
Interest income recognised - Amortised cost	**6,310**	**6,288**
Interest income recognised for financial assets at fair value	**-**	**-**
Total	**6,310**	6,288
Included above is interest income earned on impaired assets (advances)	**925**	**593**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Rmillion	Notes	Amortised cost	Fair value	Non-financial liabilities	Total	Current	Non-current
2020							
Short-term funding	13	5,520	-	-	5,520	5,520	-
Derivatives	11		113	-	113	100	13
Creditors and accruals	15	662	-	89	751	440	311
Current tax liability	7	-	-	83	83	83	-
Bonds and other long-term funding	12	9,830	-	-	9,830	423	9,407
Subordinated bonds	14	1,523	-	-	1,523	39	1,484
Total liabilities		**17,535**	**113**	**172**	**17,820**	**6,605**	**11,215**
2019							
Short-term funding	13	6,959	-	-	6,959	6,959	-
Creditors and accruals	15	659	-	78	737	530	207
Current tax liability	7	-	-	83	83	83	-
Bonds and other long-term funding	12	10,737	-	-	10,737	271	10,466
Subordinated bonds	14	1,533	-	-	1,533	52	1,481
Total liabilities		**19,888**	**-**	**161**	**20,049**	**7,895**	**12,154**

Rmillion	2020	2019
Statement of total comprehensive income effect of financial instruments by category		
Interest expense recognised for financial liabilities at amortised cost	**1,595**	**1,707**
Interest expense recognised for financial liabilities at fair value	**76**	**29**
Total	**1,671**	**1,736**

36. Retirement and post-retirement benefits

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

The defined contribution scheme is exempt from regular actuarial valuations as no actuarial shortfall is anticipated. It is compulsory for all permanent staff to belong to the Bank provident fund. The contributions made during the year amounted to R137 million (2019: R120 million).

37. Long- term incentive scheme

In the 2017 financial period the Bank introduced a long-term incentive scheme to its employees.

The long-term incentive scheme is subject to individual and the holding company of the Bank's performance conditions at pay-out. Awards are settled or vest in three amounts over a period of 36 months in total, but in 12-month period allocations (12, 24 and 36 months) from the effective date of the award. Amounts that vest over the 36 months period are settled at the end of the 36 months.

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

In the 2019 financial period, the Bank introduced a long-term incentive scheme that will vest and be paid out after a three year period. Full payout will be based on a compounded annual growth rate (CAR) of at least 10% over the three years in net profit before tax and foreign exchange losses and an increase in the group valuation of at least 10%. All payouts are subject to Remcomm approval.

Rmillion	2020	2019
Opening balance	118	95
Long-term incentive liability recognised during the current financial period	(20)	29
Long-term incentive liability settled during the current financial period (relates to prior years deferrals)	(15)	(6)
Closing balance	**83**	**118**

38. Related party information

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

Detailed remuneration disclosures for the directors as well as key management personnel are provided in the notes 37 and 41 of these financial statements.

There were no material transactions with directors other than emoluments as disclosed in note 21 and 41.

38.1 Balances with related parties

R'000	2020	2019
Advances		
Key management personnel[1]	202	133
Deposits		
Entities that have control over the Group and its subsidiaries*	-	1,744,000
Key management personnel[2]	1,619	815
Commitments		
Ultimate owners of African Bank Limited[3]	**	-

[1] The amounts advanced to key management personnel consists of credit cards and other loans

[2] The amounts deposited by key management personnel are held in transactional accounts and retail savings accounts and are at market-related rates, terms and conditions.

[3] Refer to the commitment from shareholders in note 3.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Related party information continued...

38.2 Transactions with related parties are disclosed below

R'000	2020	2019
Interest income		
Key management personnel	94	42
Interest paid		
Entities that have control over the Group and its subsidiaries	135,000	83,000
Key management personnel	16	6

In the current reporting period, no contracts were entered into in which directors or key management personnel had an interest and which significantly affected the business of the Bank.

The directors had no interest in any third-party or company responsible for managing any of the business activities of the Bank.

39. Events after the reporting date

During October 2020 events transpired in the Bank that needed to be assessed with respect to whether they are adjusting or non-adjusting post balance sheet events as envisaged in IAS 10. The Bank announced and commenced consultations for a s189 process that may impact 1269 employees of a total staff complement of 3728. As at period end, no conclusions had been made internally and consultations had not advanced and an estimate of the value cannot be made to consider this event to be an adjusting post balance sheet event. Subsequently the Bank expects that the number employees exiting the organisation to be significantly lower than the number impacted employees announced on 20 October 2020.

Other than the above, there were no other matters or circumstances arising since the end of the financial period, not otherwise dealt with in the Bank annual financial statements, which significantly affects the financial position at 30 September 2020 or the results of its operations or cash flows for the year then ended.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Restatements

40.1 Monthly fee behavioural EIR prior period error

In the prior period, a correction was done to the 'interest income on advances' line in relation to the method that was used to amortise the service fees that are integral to the loan as required by IFRS 9. The prior year correction related to an incorrect calculation of the behavioural life to amortise the fees. The Bank processed both the 2019 year end and 2018 year end impacts of this service fee income correction in the 2019 financial statements as it deemed these amounts to be quantitatively and qualitatively immaterial. The total amount processed in the 2019 finacial statements was R179 million of which R117 million related to the 2018 financial period and R68 million related to the 2019 financial period.

The restatement is as a result of an investigation by the JSE where the JSE found the bank to be in breach of the Debt Listings Requirements with respect to the annual financial statements for the year ended 30 September 2019 on the basis that the JSE is of the opinion that the prior period error was in fact material. The finding is based on the JSE's view that African Bank Limited transgressed paragraph 7.4 read with 5.2 of the Debt Listings Requirements in that the Issuer's previously published annual financial statements did not comply with IFRS. The JSE noted that the manner in which the Bank corrected the prior period amounts by adjusting income of the 2019 financial period instead of restating the comparative amounts for the prior period or restating the opening balances of assets, liabilities or equity of the earliest prior period means that the 2019 financial statements did not fairly present the financial performance of the Bank.

The JSE directed the Issuer to restate its 2019 statement of financial position to correct what it deemed to be a material misstatement therein given the impact these adjustments have on the year on year trend analysis on ratios such as return on assets and return on equity. In the current year, the Bank reassessed the impact and applied adjustments of R77 million and R31 million to the 2018 and 2019 financial periods respectively.

This change is being reflected in these financial statements as an error. As required by IAS 8, an error is applied retrospectively and the earliest comparative period statement of financial position is presented. Refer to the restated statement of financial position and statement of comprehensive income below, as well as the following notes:

Note 2 - Net advances

Note 17.1 - Interest income on advances

Note 29.9 - Credit quality of advances per IFRS requirements

Note 29.10 - Credit quality of advances based on the pre- acquisition gross value of advances

40.2 Modification gain or loss correction of prior period accounting policy application and presentation error

In the prior period, in applying the IFRS 9 requirements for non-substantial modified contractual cash flows to advances, the Bank miclassified the modification gain or loss on the statement of financial position. The Bank incorrectly reflected the modification gain and loss of R463 million within its impairment provision in the statements of financial position as opposed to reflecting this modification gain/loss as a reduction to the gross carrying amount as required by IFRS.

IFRS 9 requires that management disclose the amortised cost before modification for the year, this was incorrectly disclosed in the prior year and corrected in the current year.

This correction has no impact to the Bank's net assets (including the Net advances) and profit for the year.

Refer to the restated Statement of financial position and statement of comprehensive income below, as well as the following notes:

Note 2 - Net advances

Note 29.9 - Credit quality of advances per IFRS requirements

Note 29.10 - Credit quality of advances based on the pre- acquisition gross value of advances

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Restatements continued...

40.3 Acquired and Originated book collection cost correction of prior period reclassification error

IFRS 9 requires that the impairment charge be shown net of costs that are deemed integral to the loan for recoveries and post write off recoveries. In addition, IFRS 9 requires that in calculating the amortised cost of the acquired book at acquisition, and in subsequent periods that the ECL includes the expected costs of collection that are considered in the recovery of cash flows in the event of a default.

In the prior year, these costs were classified in the statement of comprehensive income as operating expenses instead of part of the impairment charge. This classification error has been corrected in the prior periods as per the requirements of IAS 8, and has no impact on the Bank's net assets and profit for the prior years and the current year. A total of R147 million operating costs has been reallocated to the credit impairment charge.

Refer to the restated Statement of financial position and statement of comprehensive income below.

40.4 Property, plant and equipment correction of prior period error

In the prior year, the Bank was unable to verify the existence of certain items of property, plant and equipment but incorrectly did not derecognise the carrying value of these items. In the current year, the Bank has performed a detailed exercise of identifying assets and updating its fixed asset register and accounting records. This exercise has resulted in the identification of assets that cannot be verified which have subsequently been de-recognised in the current year and prior periods impacted. This error has been corrected in the prior periods impacted as per the requirements of IAS 8.

In the current period, the Bank changed the accounting policy to take property, plant and equipment of a low value i.e. below R7000 directly to expenses upon purchase. Refer to the restated Statement of financial position and statement of comprehensive income below, as well as the following note:
Note 8 - Property, equipment and right of use assets

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Restatements continued...

Restatements of Statement of Financial Position and applicable notes

Rmillion	Notes	2018 As previously presented	2018 Restatement	2018 Restated	2019 Previously presented (restated)	2019 Restatement	2019 Restated
Assets							
Net Advances	2	**19,178**	**(77)**	**19,101**	**19,815**	**31**	**19,846**
Gross advances		23,240	-	23,240	27,470	(463)	27,007
ECL		(3,994)	-	(3,994)	(7,451)	463	(6,988)
Deferred administration fee		(68)	(77)	(145)	(204)	31	(173)
Property, plant and equipment	8	**597**	**(24)**	**573**	**547**	**(39)**	**508**
Accumulated depreciation		**(183)**	**5**	**(178)**	**(277)**	**41**	**(236)**
Prior period error		**(5)**	**(24)**	**(29)**		**(15)**	**(15)**
Equity							
Accumulated loss		**(1,218)**	**(65)**	**(1,283)**	**(1,623)**	**(15)**	**(1,638)**

Restatements of Statement of Comprehensive Income and applicable notes

Rmillion	Notes	2019 As previously presented	2019 Restatement	2019 Restated
Interest income on advances	17	5,993	108	6,101
Credit impairment charge	18	(2,016)	(147)	(2,163)
Reallocation of costs included in the ECL related to collections				
Operating expenses	21			
Reallocation of costs included in the ECL related to collections		160	(147)	13
Depreciation		(96)	5	(91)
Write off of property, plant and equipment		(3)	(20)	(23)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

41. Director's and prescribed officer's remuneration

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

All amounts in R	Date appointed	Date resigned	2020 Salary	2020 Retirement, medical contributions and other	2020 Total cost to company package	2020 Short- term incentive [1]	2020 Total	2019 Salary	2019 Retirement, medical contributions and other	2019 Total cost to company package	2019 Short- term incentive [2]	2019 Total
B Maluleke	03/07/2017	-	4,674,596	531,400	5,205,996	1,953,604	7,159,600	4,410,000	502,000	4,912,000	2,166,667	7,078,667
G Raubenheimer	03/07/2015	-	4,245,236	536,692	4,781,928	2,078,396	6,860,324	4,005,000	502,000	4,507,000	2,531,258	7,038,258
Total			**8,919,832**	**1,068,092**	**9,987,924**	**4,032,000**	**14,019,924**	**8,415,000**	**1,004,000**	**9,419,000**	**4,697,925**	**14,116,925**

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

All amounts in R	Date appointed	Date resigned	2020 Salary	2020 Retirement, medical contributions and other	2020 Total cost to company package	2020 Short- term incentive [1]	2020 Total	2019 Salary	2019 Retirement, medical contributions and other	2019 Total cost to company package	2019 Short- term incentive [2]	2019 Total
P Futter	01/09/2018	-	3,606,120	412,680	4,018,800	1,644,352	5,663,152	3,402,000	390,000	3,792,000	-	3,792,000
V Millican	04/04/2016	-	3,438,817	400,091	3,838,908	1,672,151	5,511,059	2,990,272	414,137	3,404,409	2,000,076	5,404,485
L Miyambu	04/04/2016	-	3,406,255	383,473	3,789,728	1,682,042	5,471,770	3,213,443	357,049	3,570,492	4,069,538	7,640,030
CJ Moganwa	10/02/2020	21/07/2020	1,797,075	579,406	2,376,481	-	2,376,481	-	-	-	-	-
G Roussos	04/04/2016	-	3,930,304	448,700	4,379,004	1,884,156	6,263,160	3,707,824	423,980	4,131,804	2,263,764	6,395,568
K Setshogoe	01/11/2018	-	1,560,002	519,282	2,079,284	1,040,001	3,119,285	3,300,000	383,167	3,683,167	1,000,000	4,683,167
P Swanepoel	04/04/2016	-	3,406,371	476,505	3,882,876	1,522,663	5,405,539	3,096,699	431,777	3,528,476	2,034,031	5,562,507
Total			**21,144,944**	**3,220,137**	**24,365,081**	**9,445,365**	**33,810,446**	**19,710,238**	**2,400,110**	**22,110,348**	**11,367,409**	**33,477,757**

[1] These amounts represent payments to executive directors and prescribed officers paid during the 2020 financial year, but awarded and accrued for in prior financial years. R 540,293 was awarded in the 2018 financial year and paid in June 2020 and R 12,937,072 was awarded in the 2019 financial year and paid in December 2019.

[2] These amounts represent payments to executive directors and pre-scribed officers paid during the 2019 financial year, but awarded and accrued for in prior financial years.

[3] No bonuses were accrued or awarded during the 2020 financial period, following the issuance of the guidance note G4 of 2020 (G4/2020) by the Prudential Authority.

41.3. Long-term Deferred Incentives

Executive Directors' Long-Term Deferred Incentives

All amounts in R	2017 Award Vested Dec 2018	2017 Award Vested Dec 2019	2017 Award Vested Dec 2020	2018 Award Vested Dec 2019	2018 Award Vested Dec 2020	2018 Award Vested Dec 2021	2019 Award Vested Dec 2019	2019 Award Vested Dec 2020	2019 Award Vested Dec 2021
B Maluleke	165,720	165,720	165,720	833,333	833,333	833,333	540,090	540,090	540,090
G Raubenheimer	819,468	819,468	819,468	892,322	892,322	892,322	542,361	542,361	542,361

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Director's and prescribed officer's remuneration continued...

Prescribed Officers' Long-Term Deferred Incentives

All amounts in R	2017*			2018			2019		
	Award Vested Dec 2018	Award Vested Dec 2019	Award Vested Dec 2020	Award Vested Dec 2019	Award Vested Dec 2020	Award Vested Dec 2021	Award Vested Dec 2019	Award Vested Dec 2020	Award Vested Dec 2021
P Futter	-	-	-	-	-	-	548,117	548,117	548,117
V Millican	606,327	606,327	606,327	666,742	666,742	666,742	557,333	557,333	557,333
L Miyambu	669,990	669,990	669,990	729,557	729,557	729,557	518,753	518,753	518,753
G Roussos	773,067	773,067	773,067	717,631	717,631	717,631	594,075	594,075	594,075
P Swanepoel	660,324	660,324	660,324	700,698	700,698	700,698	484,866	484,866	484,866

**Notwithstanding that the above deferrals are still reflected as per the prior year, discussions are underway by RemCom with regards to the payment*

41.4. Long-term incentives

Executive Directors' Long-Term Incentive Awards

All amounts in R	2018		2019	
	Award	Vest December 2021	Award	Vest December 2022
B Maluleke	13,500,000	13,500,000	2,800,000	2,800,000
G Raubenheimer	12,301,596	12,301,596	3,200,000	3,200,000

Prescribed Officers' Long-Term Incentives Awards

All amounts in R	2018		2019	
	Award	Vest December 2021	Award	Vest December 2022
P Futter	-	-	9,000,000	9,000,000
V Millican	9,272,160	9,272,160	4,000,000	4,000,000
L Miyambu	10,057,716	10,057,716	-	-
G Roussos	7,736,712	7,736,712	-	-
P Swanepoel	6,608,400	6,608,400	-	-

Director's and prescribed officer's remuneration continued...

41.5. Non-executive directors' remuneration

All amounts in R	Date appointed	Date resigned	2020			2019		
			Paid by the Bank	Paid by other entities within The Group	Total	Paid by the Bank	Paid by other entities within The Group	Total
T Dloti (Chairman)	07/03/2019	-	1,309,724	327,431	1,637,155	625,741	156,435	782,176
M Flanagan	16/09/2019	30/09/2020	548,666	130,209	678,875	-	-	-
M Field	11/03/2020	-	292,906	73,227	366,133	-	-	-
S Georgopoulos	18/08/2020	-	53,988	13,497	67,485	-	-	-
M Harris	29/08/2018	21/02/2020	200,566	50,142	250,708	398,289	99,572	497,861
R Hutchinson-Keip	11/03/2020	-	390,373	97,593	487,966	-	-	-
SL Mc Cloghrie	28/07/2015	22/11/2019	94,149	23,537	117,686	487,925	140,279	628,204
SK Mhlarhi	06/07/2016	-	647,208	161,922	809,130	458,960	131,951	590,911
H Ralinala	23/05/2018	-	845,165	211,291	1,056,456	691,389	172,847	864,236
B Riley	25/05/2018	30/06/2020	233,739	58,435	292,174	1,570,192	100,881	1,671,073
L Stephens	02/07/2015	05/05/2020	475,518	135,631	611,149	719,065	234,331	953,396
PJ Temple	29/04/2016	-	787,925	219,262	1,007,187	630,343	181,586	811,929
FJC Truter	07/08/2015	30/11/2019	150,323	37,581	187,904	625,087	179,712	804,799
Total			**6,030,250**	**1,539,758**	**7,570,008**	**6,206,991**	**1,397,594**	**7,604,585**

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 incentive schemes and neither do they receive any other benefits from the Bank.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

1. New and revised IFRSs with an effect on the annual financial statements

Other than the Effective standards, interpretations and amendments to published standards applied for the first time during the current financial period as described in note 1.17 there are no amendments to Standards and Interpretations that have a material impact on the Bank for the year ended 30 September 2020.

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

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

IFRS reference	Title and Details	Impact assessment	Effective date
IFRS 17	*IFRS 17-Insurance contract* The IASB issued IFRS 17, which states a new approach of accounting for insurers IFRS 17 has a general model which requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. The standard also provides, a simplification, in the form of the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. Effectively, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.	The current cell captive arrangement via AIG has the potential that this arrangement would be subject to IFRS 17. The Bank will continue to assess the impact of IFRS 17 going forward. At this point, not applicable to the Bank.	This standard is effective for the Bank from 1 January 2023, subject to due process.
IAS 1 and IAS 8 (amendments)	*IAS 1 and IAS 8 (Amendments) definition of material.* The amendments clarify the definition and application of material and how it should be applied by including in the definition guidance that had previously featured elsewhere in the IFRS Standards. The amendments ensure that the definition of material is consistent across all IFRS Standards.	The amendment is not expected to have a significant impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2020.

ANNEXURE A: ADOPTION OF NEW STANDARDS AND INTERPRETATION

IFRS 9 & IFRS 7 (amendment)	*Interest rate benchmark reform* The amendment provide temporary reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.	The amendment is not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2020.
IAS 37 (amendment)	*IAS 37-Onerous contracts-costs of fulfilling a contract (amendment)* The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'direct related cost approach'; which include costs that relate directly to a contract and an allocation of costs directly related to contract activities. General and administrative costs are excluded unless they are explicitly chargeable to the counterparty to the contract.	The amendment is not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2022.
IAS 16 (amendment)	*IAS 16 - 'Property, Plant and Equipment' on Proceeds before Intended Use* The amendment prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	The amendment is not expected to have a material impact on the annual financial statements of the Bank.	The amendments are effective 1 January 2022.

African Bank Limited

(Registration Number 2014/176899/06)
Annual Financial Statements
For the year ended 30 September 2020

ANNEXURE B: CAPITAL ADEQUACY

Capital adequacy requirements:

Rmillion Unaudited	2020 Unaudited	2019 Reviewed
On-balance sheet assets	25,623	28,415
Off-balance sheet items	667	1,012
Total risk exposure	26,290	29,427
Total risk weighted exposure	**23,492**	**25,840**
Primary (Tier I)	-	
Share capital	10,000	10,000
Primary reserves (less statutory deductions)	(2,678)	(1,836)
Total	**7,322**	**8,164**
Secondary (Tier II)	-	
Subordinated debt instruments	1,485	1,485
General allowance for credit impairments	220	246
Total	1,705	1,731
Total qualifying capital and unimpaired reserve funds	**9,027**	**9,987**
Total capital to risk weighted assets	%	%
Primary	31.17	31.6
Secondary	7.26	6.7
Total	**38.43**	**38.29**

ANNEXURE C: ACRONYMS AND ABBREVIATIONS

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

ABHL	African Bank Holdings Limited
ABL	African Bank Limited
AIG	African Insurance Group Limited
ALCO	Asset and liability committee
CAR	Capital Adequacy Ratio
CHF	Swiss Franc
CFO	Chief Financial Officer
Companies Act of South Africa	Companies Act of South Africa, Act No 71 of 2008
COVID-19	Coronavirus
CPI	Consumer Price Index
DMTN	Domestic medium term note programme
EMTN	Euro medium term note programme
FSB	Financial Services Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
ICAAP	Internal Capital Adequacy and Assessment Process
IFRIC	IFRS Interpretations Committee of IASB
IFRS	International Financial Reporting Standards
IT	Information Technology
JIBAR	Three months Johannesburg interbank agreed rate
JSE	Johannesburg stock exchange
LTIP	Long-term incentive plan
MMIJV	MMI Joint Venture
MRC	Model Risk Committee
NACA	Nominal annual compounded annually
NACM	Nominal annual compounded monthly
NACQ	Nominal annual compounded quarterly
NACS	Nominal annual compounded semi-annually
NCA	National Credit Act
Rm / Rmillion	Millions of rand
RSA	Republic of South Africa
PSI	Portfolio Specific Impairment
SI	Specific Impairment
R000	Thousands of rand
RCMC	Risk and Capital Management Committee
RDS	Residual Debt Services Limited (under curatorship)
Tier I	Primary capital
Tier II	Secondary capital
USD	United States Dollar
VAT	Value Added Tax
ZAR	South African Rand

ANNEXURE D: CORPORATE INFORMATION

Company Secretary
Maliga Chetty

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

Registered office
59 16th Road
Midrand, 1685
South Africa

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

Website
www.africanbank.co.za